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EDITORIAL

On the occasion of the publication of “Megatrend Review,” Vol. 8, No. 2, 2011

This issue of the “Megatrend Review” periodical is devoted to problems related to the complex body of public policies that shape the most varied aspects of the social environment in the contemporary world. An understanding of the effects of public policies in Serbia over a longer period of time, and comparison with the corresponding practices of other countries form a basis for creating our social community’s overall social, economic, political and cultural progress. Recognizing the significance of the problems related to public policies, the editorial board of “Megatrend Review” has decided that the theme of this issue should be: “Public Policies in a Comparative and Historical Perspective.”

The majority of the works came about as a result of research within the framework of the project “Advancement of public policies in Serbia in the function of improving citizens’ social security and sustainable economic growth” (no. 47004), which is financed by the Ministry of Education and Science of the Republic of Serbia for the 2011-2014 period. As well, this issue includes a number of works dealing with the public policy domain that came about as a result of research conducted within the framework of other domestic and foreign scientific projects.

The editorial board of “Megatrend Review” would like to thank all the authors from Serbia, Venezuela, Slovenia, the Czech Republic and Croatia for their valuable contributions.

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THE NEW LATIN AMERICAN ECONOMY AND ITS PRIORITIES**

Summary

The basic intention of this paper is to analyze and explain key characteristics and developmental directions of the “new Latin American geoeconomics” and, parallel with that, to identify and assess its potentials and achievements in line with major tendencies in the regional and international framework. On the other side, the idea of the authors is to present the rich Latin American experiences and innovations in this domain to the broader scientific, expert or political public in Serbia, taking into account that these experiences have been insufficiently studied and, thus, unjustly underestimated.

Key words: “new Latin American economy,” South American geoeconomic space, regionalism

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1. Introduction

The authors’ starting hypothesis is based on a view that the dynamic course of the development of Latin American geoeconomics during the last decade of the 20th century, in addition to the deep neoliberal reforms, also required the conception and the modernization of many instruments of traditional economic cooperation and integration, including the concept of economic diplomacy. On the other hand, the beginning of the 21st century saw the fragmentation of the Latin American geoeconomic space, and that process – which is still in progress – had directed the divisions within the Latin American region in two directions:

- formation of a South American geoeconomic space with its own dynamic and development directions, with a tendency of further strengthening of

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** This paper is a part of research on Project no. 47004, financed by the Ministry of Science of the Republic of Serbia.

autonomy vis-à-vis the main power centers within the Western Hemisphere, as well as the world as a whole, and

- further strengthening of cooperation in the Central American and Caribbean zone, based on free trade principles and the Washington Consensus¹ – a tendency that reflects US interests in that part of Latin America after the failure of the initiative for a Western Hemisphere² trade union, the Free Trade Area of the Americas (Área de Libre Comercio de las Américas– ALCA).

In any case, from the Serbian, i.e., the Balkan perspective, it is very instructive to observe the positive experiences of the economic and the political development of Latin American countries and their mutual cooperation and integration. Namely, a key characteristic of the current Latin American economic-political practice has become the exceptional diversification of regional and inter-regional cooperation, which is achieving significant progress and results, in spite of fragmentation processes and the lingering effects of the world financial crisis on the global level. In that regard, it is sufficient to note that at the last Summit of the leaders of the European Union and Latin America and the Caribbean, held in Madrid on May 17-19, 2010, an almost total consensus was reached regarding important issues such as a common definition of instruments of global governance, a new financial architecture, adoption of global measures for preventing financial and other speculation, and joint efforts in solving global climatic, energy, migratory, security, trade and development problems. It is also important to stress that, for the first time during the past decade during which these summits were convened, the Latin American countries showed significantly better indicators in some segments than the European countries: in the first place, we are referring to the finan-

¹ The Washington Consensus is a document from 1990, produced in accordance with the instructions of the main international financial and economic power centers, and then recommended to Latin American governments as a model for the deep economic reforms that were carried out in the region. De facto, it is a classic neoliberal recipe based on the following measures: fiscal discipline, tax reform, interest rate liberalization, raising of international competitiveness, trade liberalization, privatization, deregulation, i.e., the complete deconstruction of the welfare state built during the 1960s and 1970s. For more information, consult: J. A. Ocampo, "Más allá del Consenso de Washington," *Economíaunam*, vol. 3, núm. 7, enero de 2007. This highly critical article of the Assistant to UN Secretary General for Economic and Social Affairs illuminates and analyzes many aspects of the neoliberal phase of the development of Latin American economies during the last decade of the 20th century, and is accessible at: <http://www.ejournal.unam.mx/ecu/ecunam7/ecunam0701.pdf>

² The "Western Hemisphere" concept appeared in the history of Latin American regionalism during the 19th century, pointing to the formation of the US hegemonic approach in that part of the American continent. Viewed ideologically, the Monroe Doctrine represents the legal framework for this political-economic and geostrategic initiative. For more detailed information, see: A. Glinkin, *Inter-American Relations - From Bolivar to the Present*, ED. Progress Publishers, Moscow, 1990.

cial situation in the Latin American region, the much higher economic growth rate, increased commercial exchange with the world, reduced unemployment rate, implementation of new, more efficient and more effective social policies, more successful positioning within the global economy, etc.³

In addition, our analysis of the declaration adopted at the Madrid Summit points to several more important changes in the international positioning of the Latin American and Caribbean region, as well as, before all, the fact that Brazil, Mexico and Argentina are full-fledged members of the G-20, that the Brazilian economy ranks 5th in the world, having surpassed those of France and Britain, while the Mexican economy is 10th and the Argentinean economy 27th.

These promising Latin American economic-financial indicators that were presented at the Madrid Summit, showed that the region's governments have drawn positive experiences from previous crisis cycles, i.e., that under the conditions of the current crisis, they have undertaken much more efficient measures – although the fact remains that most Latin American economies are still highly vulnerable and dependent on the main centers of economic and financial power, especially the US.

According to the World Bank, for the first time in their history the Latin American economies have found the appropriate strategy to respond to the challenges of a global crisis, showing strong indicators of economic growth based on increased raw material exports as well as internationally competitive industrial products. There are several factors that explain the relatively good economic performance in the region, such as a competitive currency policy, a well organized and functional financial and tax system, as well as a high degree of integration into globalized commercial flows. Namely, in the 21st century the Latin American region has shown potential for establishing pragmatic and varied connections and cooperation on both the regional and the inter-regional level. It should be added that the region no longer focuses just on Europe or the US, but that it has established close ties with Asia-Pacific countries and, especially, PR China, South Korea, Japan and the Russian Federation.

In short, there is no doubt that Latin America and the world at large are facing the biggest global crisis since the end of World War II. It is also likely that the effects of this crisis will directly influence the structure of the international

³ For example, Enrique Iglesias, Secretary General of the Ibero-American General Secretariat (SEGIB), stated before the Madrid Summit that Latin America is a part of the world that is no longer suffering direct effects of the difficult and prolonged world economic and financial crisis. He emphasized that its capacity in facing the crisis has shown that those countries should directly participate in the global process of seeking a solution to the current crisis. He added that Latin American economies would achieve a 6% growth rate in 2010. For example, Brazil's gross domestic product grew in 2010 by 7.5 percent compared to the previous year, reaching 2.23 trillion dollars in absolute terms. For more detailed information, see the official portal: EU-LAC Madrid Summit, 18 May 2010, European Commission External Relations, accessible at: http://ec.europa.eu/external_relations/lac/index_en.htm

financial market as well as the structure of industrial production in many countries. Namely, less dynamic and competitive manufacturing processes even in industrially highly developed countries will disappear, while in other countries, especially in Asian and some Latin American countries, significant development cycles will be taking place, along with progressive manufacturing and export diversification.⁴ In that sense, we should note that CEPAL⁵ and other specialized multilateral agencies are concluding that Latin America is coming out of the crisis, at a more dynamic tempo than expected. Among the fastest growing economies of the region, besides Brazil and Argentina, are Peru, Mexico, Colombia and Uruguay, while Venezuela will remain in the zone of negative GDP growth. However, despite these positive predictions, we should not neglect the fact that Latin America is greatly dependent on sales of raw materials, such as minerals, oil or food, while the prices of these export products become especially unstable in times of crisis.

In any case, Latin American economists explain the “success phenomenon” by starting from the fact that almost all the countries in the region have very efficiently implemented a series of neoliberally oriented macroeconomic measures over the last twenty years, and that the prices of the raw materials exported by the countries in the region have grown almost continually.⁶ All in all, it can be said that these are economies and markets undergoing a process of intense development, with a note that great progress was made in the macroeconomic and the financial sphere, while adoption of policies for solving accumulated social, educational or healthcare issues was for the most part delayed during these two decades of application of neoliberal recipes.⁷

⁴ For more detailed information on the challenges placed before the Latin American economies by the current global economic-financial crisis, see: G. Mognillansky, “América Latina: ¿Cómo abordar la crisis económica con visión de futuro?,” article accessible on the official CEPAL web site: http://www.eclac.cl/comercio/noticias/noticias/8/36278/crisis_vision_futuro_G_Mognillansky_jun_2009_v3.pdf

⁵ CEPAL – UN Economic Commission for Latin America and the Caribbean (*Comisión Económica para América Latina y el Caribe*).

⁶ For example, very important works have been produced by the prominent Latin American economists Ricardo French-Davis, the main regional advisor for CEPAL, José Antonio Ocampo, executive secretary of CEPAL, and Prof. Heriberto Tapia (“Globalización de la volatilidad financiera: desafíos para las economías emergentes” and “Tres variedades de políticas en Chile frente a la abundancia de capitales”), as well as Jaime Ros, “Del auge de capitales a la crisis financiera y más allá: México en los noventa,” etc.

⁷ A very interesting analysis of the economic situation in Latin America in 2010 was given by Omar Ricardo Gómez Castañeda, in: “Perspectivas económicas de Latinoamérica para el 2011,” accessible on the web site of the independent intellectual network “Red Pensar de Nuevo”: <http://pensardenuovo.org/perspectivas-economicas-de-latinoamerica-para-el-2011/>

2. Formation of a new Latin American geoeconomic space

It has become clear since the mid 1990s that globalization is appearing as a set of events that are difficult to analyze due to their conceptual and methodological unevenness, that is, incompleteness. The multitude of concepts, different approaches to the understanding or interpretation of the true essence of the phenomenon or its true effects and consequences on development and cooperation flows, have driven us to interpret globalization as a collection of serious questions – dilemmas or doubts about the future of mankind. And all this despite the huge progress of science, technology and information technologies. On the other hand, there is the consistent scholarly viewpoint that the future of mankind must be built on a civilizational concept and the harmonization of interests within the international community made up of numerous, mutually differing and interdependent multiethnic, multi-religious or multicultural entities (factors). If we take into account these realities in our consideration, it will be possible to understand and objectively analyze the various aspects of the present, i.e., find appropriate solutions for the key dilemmas of the modern world, whose development can take the direction of either anarchical and conflicting or consensual-cooperative interdependence.⁸

A debate has been initiated almost simultaneously in Latin America and in other parts of the world regarding the role of geopolitics in the era of globalization. The essence of the debate can be reduced to the view that traditional geopolitics, as a scholarly discipline, is being transformed into a “new geopolitics” that will be able to analyze and interpret changes on the global level. Namely, the geopolitics of the Cold War bipolar world reflected a conflict between two ideologies and all the divisions stemming out of that conflict: political, economic, security, cultural, etc. Symbolically, with the fall of the Berlin Wall, globalization as a new, complex process that unifies the world in almost all spheres of human activity has gained in strength, which gave rise to the beginning of a fundamental study of the phenomenon of the transformation of geopolitics from the old to the new. However, the rapid development of economic, financial, political and IT cooperation and integration has opened up space for an identification of a new paradigm of the geoeconomic linking of the world, i.e., initiated a discussion on the importance of geoeconomics as a scholarly discipline and of the relationship between geoeconomics and geopolitics in the era of globalization.⁹ In short, it seems that, at the beginning of the 21st century, a state’s sources

⁸ S. S. Pajović, “Particularidades de la inserción internacional de América Latina – Un contrapunto con los Balcanes,” *Nueva Sociedad*, No. 214, marzo-abril de 2008, pp. 95-103.

⁹ Recently the Megatrend Review published a study by Prof. Blagoje Babić, in which he extensively deals with various aspects of geoeconomics as a scientific discipline, its development and influence on contemporary international relations. It is interesting to note that Ernest Georgievich Kochetov, one of the most well known Russian geoeconomists and the author of several important works in that field, has defined and introduced the concept

of power are no longer its territory and natural resources in the classical sense: instead, we are witnessing a qualitatively new synthesis of the potential of a given territory with an active, functional and agile economic-trade policy of a given state government. Namely, we are witnessing the appearance of new actors in the process of realization of foreign policy goals – before all companies, banks, private foundations, specialized agencies and institutes, corporations and other economic-financial actors. If we look at geoeconomics from that standpoint, we can make a simplified conclusion that it reflects a state's ability to pragmatically realize its own strategy of economic-financial presence or domination on the local (regional) as well as the global space. Practice has shown that the said strategy represents a framework for the establishment of new hegemonies and the replacement of classical wars with economic-trade rivalries and competitions.¹⁰

However, it seems important to note that the already complex globalization phenomenon is accompanied by a strong parallel process on the regional level. This trend of regionalization of the universal system of relations also encompasses very important political, economic and cultural interactions that transformed into an unstoppable trend and dynamic of cooperation and integration at the end of the 20th century. For example, in the case of Latin America we can speak of the shaping of a new political-economic map of the region, which directly reflects the said transformations and cooperation trends. In addition, we can see that, differently from globalization, which is taking place on the global level – through the connection of the interests of the main world economic and financial power centers and geographic regions that gravitate towards the said hegemonies – the process of regionalization is advancing intensively in various geographic areas (regions). Its main characteristics are: higher or lower levels of success, unevenness of results and the fact that its participants are underdeveloped and developing countries as well as new global powers in the making, such as, for example, Brazil within the Latin American framework.¹¹

On these bases, several important steps were taken in Latin America during the last decade of the 20th century in the segment of integrations: a new concept of subregional integration was established and consolidated (Mercosur), numerous free trade agreements were signed (Bolivia and Chile, Mexico and Chile,

of “globalistics” as a scientific discipline, while also engaging in significant theoretical considerations. For more detailed information about geoeconomics and its significance, see: B. Babić, “Geoekonomija – stvarnost i nauka,” *Megatrend revija*, Vol. 6, No. 1, 2009, pp. 31-38.

¹⁰ Prof. Anđelko Milardović, Director of the Center for Political Research in Zagreb, published a very interesting study in which he dealt precisely with these issues of the present and the challenges it is posing. For more detailed information on geopolitics and its relationship with geoeconomics in the era of globalization, see: A. Milardović, “Geopolitika u doba globalizacije,” accessible at: www.cpi.hr/download/links/hr/9213.ppt

¹¹ I. Ivanovic, “The BRIC countries from Brazilian perspective,” *The Review of International Affairs*, No. 1136, October-December 2009.

etc.), progress was made in the Andean region, where the process of integration had been facing great difficulties but has since been redefined and transformed into the Andean Community of Nations (CAN). Such an intense dynamic was continued with the signing of a free trade agreement between Chile and CAN and Chile and Mercosur, new ideas and programs in the process of the integration of the Central American countries (SICA)¹² and the new, higher form of integration in the Caribbean (ACS).¹³ All these were indicators of a rapid formation of a totally new Latin American geoeconomic space, within which subregional integrations and free trade zones are growing in strength.

As well, it is important to emphasize that, almost at the same time, we saw the establishment of the North American Free Trade Area (NAFTA), in which Mexico was an equal participant, followed in 1994 by the launching of Washington's ambitious strategy of a "Western Hemisphere" trade union, in the form the initiative known as the Free Trade Area of the Americas (ALCA). During the last decade of the 20th century, all these initiatives were indicating that Latin American regionalism was being additionally strengthened with principles of free trade, open economy, greater international competitiveness, stable Western-type democracy, and good relations with the US. Still, the definite failure of ALCA at the 2005 Mar del Plata Summit was a harbinger of important political, ideological as well as geoeconomic and geostrategic changes, which are definitely leading

¹² SICA – System of Central American Integration (*Sistema de Integración Centroamericana – SICA*) was founded in 1993. An important moment for the renewal of cooperation in Central America was a document entitled "Luxembourg Cooperation Agreement" (*Acuerdo de Cooperación de Luxemburgo*), signed in 1985. It allowed intensification of all forms of cooperation, especially economic, with the then European Community (EC). Prior to that, in 1990, within the Contadora Group peace process (the so-called *Esquipulas*), a meeting was held in the city of Antigua (Guatemala) between presidents of Central American countries. It was agreed that the process of subregional integration should be restructured, strengthened and that its institutional framework should be redefined. Finally, all the negotiations and initiatives carried out at the subregional level secured the consensus for the signing of the Tegucigalpa Protocol (*Protocolo de Tegucigalpa*) on December 13, 1993, thus securing the legal basis for the establishment of the System of Central American Integration (SICA).

¹³ ACS – (*Association of Caribbean States*) was founded in 1994. Namely, during the said period, the Caribbean community (CARICOM) launched a series of initiatives for the revival and elevation of the integration process in that subregion. It is known that the goals of CARICOM are focused on economic integration, as well as the formation of a broader political framework for the establishment of a Caribbean community. Consequently, at the conference of the chiefs of states or governments of the CARICOM member countries (1992) the idea of establishing the ACS was supported, and the organization was officially established on July 24, 1994, in the Colombian city of Cartagena de Indias. The ACS was joined by 25 countries, of which 14 were members of CARICOM, 5 of MCCA, 3 of the "Group of Three," in addition to Cuba, Panama and the Dominican Republic. The main goals of the group can be summed up as follows: promotion of integration and cooperation in the Caribbean, preservation of the subregion's cultural identity and harmonization of development issues.

to strong fragmentation within the framework of the traditional concept of Latin American regionalism.¹⁴

This tendency can be best understood by carrying out a fundamental study of the motives for launching the Initiative for the Integration of Regional Infrastructure in South America (*Iniciativa para la Modernización y Desarrollo de la Infraestructura Regional Sudamericana* – IIRSA), founded in 2001, and the establishment of the Union of South American Nations (*Comunidad Sudamericana de Naciones* – UNASUR), in the Peruvian city of Ayacucho on December 9, 2004.

IIRSA made its appearance in the international relations of South American countries as a totally new forum for dialogue and cooperation, primarily oriented towards the harmonization of development policies in the area of regional infrastructure. The essence of this initiative is indicative of the geostrategic and geoeconomic orientation of the new integration process and, for the first time, its clear South American subregional spatial location. Withal, the concept of regional infrastructure is viewed multidimensionally, encompassing the sectors of transport, telecommunications and energy sources, as well as the distribution of electrical energy and other energy sources at the disposal of the twelve South American countries. In practice, IIRSA is indicative of the strategic importance that the governments of the said countries have attached to questions of infrastructure development as a basis for a more successful realization of integration processes. Also emphasized is the necessity of a more quality inclusion in the world's globalized cooperation flows, for the purpose of a better international positioning of South American economies.¹⁵ It is also important to stress that the defined framework of this initiative assumes full coordination with existing financial institutions in the region, such as: Andean Development Corporation (CAF), Inter-American Development Bank (IDB) and the La Plata River Basin Financial Development Fund (FONPLATA). Finally, it was agreed that precise cooperation mechanisms in the area of infrastructure would be established with IIRSA, in order to solve the many problems caused by the sub-continent's unfavorable demographic characteristics, as well the disastrous aftermaths regularly left behind by natural catastrophes (earthquakes, the climatic “Niño” or “Niña” effects). It is thought that the successful realization of IIRSA's goals will contribute to the faster integrative linking of that part of Latin America and a sta-

¹⁴ S. S. Pajović, “El siglo XXI: la conformación de la nueva geoeconomía Latinoamericana,” *Revista del CESLA*, No. 13, T. 2, CESLA Universidad de Varsovia, 2010, pp. 439-454.

¹⁵ For example, in the Manaus Declaration, adopted on September 14, 2004, at the VIII meeting of the foreign ministers of the member countries of the Amazon Cooperation Treaty Organization (*Organización de Cooperación Amazónica* – OTCA), it was said that the cooperation of the Amazon Basin countries, together with the activities of IIRSA, contributes to the gradual formation of a South American community of nations. Within that framework, special significance was given to IIRSA, whose goals are directly linked to the achievement of a higher degree of physical integration as a prerequisite for the strengthening of all types of cooperation and integration in that part of Latin America.

ble economic development based on the adopted complex model of sustainable development.¹⁶

On the other hand, there is no doubt that the establishment of UNASUR has huge geopolitical significance for the future of Latin America, regardless of the fact that this is an initiative that still has to be elaborated both in terms of content and institutions. At the base of this integration project is the plan of unifying Mercosur (Argentina, Brazil, Paraguay and Uruguay) and CAN (Bolivia, Ecuador, Colombia, Peru and Venezuela) and of providing for the active participation of Chile, Suriname and Guyana within it. After the project was initiated, even the governments of Mexico and Panama expressed interest in joining it. The significance of the formation of UNASUR lies in the fact that it concerns a territory – geographic space with an area of 17,819,100 km², spreading from the Caribbean to Tierra del Fuego. This is a space with great natural riches and energy resources, and it is currently estimated that South America has a population of 361 million, or 6% of the total world population. Viewed from a geostrategic and geoeconomic perspective, this region will be of great importance for the future of mankind over the next one hundred years, as it contains 27% of the world's total freshwater potentials, about 8 million km² of forests and natural gas and oil reserves. In accordance with the said characteristics, the newly established UNASUR will become the world's third economic bloc, behind the EU and NAFTA, and will take the lead in the area of production and export of food products.

In short, it is thought that the further strengthening and elaboration of this project, besides its economic aspects, will contribute to the overall strengthening of political stability in this part of Latin America. The fact that Suriname and Guyana have joined this process is indicative of the pronounced inter-cultural, pragmatic and flexible nature of this idea, as the South American cultural space will finally be unified and enriched with the English and Dutch cultural and linguistic specificities. It is important to note the fact that, looking at the long term, UNASUR assumes not only the achievement of integration in the area of physical infrastructure, energy, finance, culture and information, but also the finding of common solutions for the problems of poverty, marginalization and security.¹⁷

¹⁶ The model of the suggested sustainable development assumes, besides the harmonization of the economic development level of the UNASUR and IIRSA member countries, the harmonization of political-constitutional frameworks, social policies and legislations, as well as questions of the cultural autonomy and social integration of the autochthonous population and of ecology.

¹⁷ It is thought that the initiation and development of cooperation and integration within the UNASUR institutional framework will help resolve many of the border problems in that part of Latin America, the main being: Chile–Bolivia–Peru, Venezuela–Colombia, Venezuela–Guyana and Ecuador–Peru.

At the beginning of the 21st century, some other very important strategic and ideological movements occurred within the framework of Latin American regionalism, having direct influence on the directions of regional geoeconomic development. Namely, the launching of the Bolivarian Alliance for the Peoples of Our America (*Alianza Bolivariana para los Pueblos de Nuestra América - ALBA*) deeply changed the concept of integration, through the adoption of new principles, mechanisms and bases of cooperation: solidarity and complementarity. ALBA is the first integration model in the history of Latin American integrations that functions on these principles, that is, represents an alternative offered by the Venezuelan revolutionary regime to neoliberalism and the neoliberal development model that had been strictly applied in the recent economic history of that part of the world. At the same time, ALBA is strategically the most important element of the regional policy of official Caracas, directed at the countries of the Caribbean, Central and South America. In addition, it should also be born in mind that the launching of ALBA represented an official and direct challenge to the neoliberal concept of “Open Regionalism in Latin America,”¹⁸ which represented a legal framework for the renewal and redefinition of Latin American integrations during the 1990s. In any case, in the history of integrations the concept of “open regionalism” was mentioned for the first time in discussions about the development of regional cooperation and integrations in the Asia-Pacific region, especially on the eve of and after the establishment of APEC (*Asia Pacific Economic Cooperation*) in 1989. However, from the Venezuelan perspective, the model of open regionalism in Latin America was deepening structural asymmetry and economic and financial dependence. In accordance with this, ALBA is a process

¹⁸ The open regionalism concept appeared at the beginning of the 1990s. Namely, CEPAL was seeking to clarify and then conceptually direct the newest integration tendencies in Latin America, in the light of NAFTA, the transformation of the Andean Pact into the Andean Community of Nations, Mercosur and individual experiences – especially those of Chile – in the consequent application of the neoliberal policy of trade liberalization. The concept is based on the view on the necessity of conceiving a new model of development for the Latin American countries, to which CEPAL had devoted the following three important documents: “Transformation of Production and More Equitable Distribution” (1990), “Sustainable Development: Production Transformation” (1991) and “Open Regionalism in Latin America – Economic Integration in the Service of Production Transformation and More Equitable Distribution” (1994). CEPAL explains this concept as a process that comes about as a result of the growing interdependence of Latin American countries, which is also stimulated by market forces, and a series of specific agreements of intergovernmental character formed during that time for the purposes of forming various free trade zones in the region. In practice, the concept was de facto conceived as a process that seeks to harmonize regional interdependencies stemming – on one side – from trade preferential agreements and, on the other, from the policy of market opening and trade liberalization. These clarifications tell us that the concept of open regionalism differs from the process of trade liberalization and indiscriminate export promotion, as it contains integration mechanisms and relies on geographic advantages (proximity) and cultural unity.

of inter-regional integration,¹⁹ the opposite of the neoliberal concept of free trade of the Americas (ALCA), and based on, among other things, the following:

- promotion of the fight against poverty;
- preserving the autonomy and identity of Latin America;
- continuous transfer of technology to underdeveloped member countries and the supply of appropriate technical aid;
- the priority position of national companies when choosing public suppliers;
- fight against monopolies, together with the application of efficient mechanisms for the control of purchasing tenders;
- introduction of differentiated treatment of the economies of ALBA member countries towards the goal of opening possibilities for the faster development of the underdeveloped economies within ALBA;
- establishment of state monopolies of public interest in order to prevent the excessive influence of foreign capital;
- a new concept of “people’s democracy” that would allow broader social participation.

Taking into account the depth, range and significance of the newest geo-economic and geopolitical changes within Latin America, as well as the characteristics of the current process of the defragmentation of the classical concept of Latin American regionalism based on a common historical and civilizational heritage, and the model of economic and political development, integration and cooperation, we can identify multiple instructive experiences for many countries, including the Balkan countries. This observation refers, before all, to the segment of political and economic transition, modernization of the state and state administration, especially the ministries of foreign affairs and foreign economic affairs, the introduction of a contemporary, functional and flexible strategy of adjustment and inclusion in transnational production processes and, generally, in contemporary globalizing economic and political cooperation flows.²⁰

¹⁹ The authors of this paper are suggesting that ALBA can be viewed as a process of inter-regional integration that unites ideologically similar regimes located in different sub-regions: Central and South America and the Caribbean.

²⁰ The authors of this article would like to note that many Central and East European countries studied and analyzed Latin American experiences in that domain during their time of transition. Chilean experiences were especially significant due to the fact that continuous economic growth, a stable social situation and very successful and varied inclusion in transnational production and trade flows were secured. For example, during a ten-year period, the Center for Latin American Studies (CESLA) of Warsaw University coordinated a very important scientific-research project entitled “Diálogo Interregional entre Europa Centro-Oriental y América Latina”. A similar effort was made in the former FR Yugoslavia in relation to the Balkan region, within the Center for the Study of Spain and Ibero-America (CEEI) of the Institute of International Politics and Economics. Unfortunately, the project did not secure sufficient state support, and the initiative remained within its initial bounds. For more detailed information on the relations of this part of Europe and

All these changes have produced a new international projection of Latin America, which has become globally recognizable as a dynamic, open and flexible partner characterized by a strengthened political pluralism and increasingly stable democratic development, which does not shirk from giving priority to its own individual and regional specificities in the domain of political development, democratic conceptions, human and minority rights, etc. Finally, in the existing regional and international balance of power, with its changed geopolitical and socioeconomic scenarios, in which new regional leaderships have been either manifested or strengthened, including – for the first time in the history of independent Latin America, the appearance of a new global power (Brazil)²¹ – regional interdependence has taken on a new dynamic and has allowed the implementation of radical reforms on the ideological and foreign policy planes, all of which has resulted in a process of fragmentation of classic Latin American regionalism, i.e., the formation of a “South American regionalism” as a new and agile actor in regional and global relations. This process is based on respect for the new geopolitics and the ideological principles upon which today’s world functions, as well as the need to find an adequate solution for the region’s internal problems. The significance of these conclusions gains additional currency when we consider the fact that the concept of globalization and interdependence implies a most varied phenomenology of international cooperation and that, precisely because of this, it is becoming unavoidable if we seek fast, efficient and pragmatic inclusion into the international community and contemporary cooperation flows.

On the other hand, the instructiveness of Latin American experiences gains further significance from our perspective due to the fact that, after almost two decades of applied neoliberal policies in the region and a multitude of negative effects that have been produced in practice, a serious analysis of the success level of that development model is now being undertaken. For example, it has turned

Latin America, see: S.S. Pajović, *Prioridades en las relaciones entre RF de Yugoslavia (Los Balcanes), España y América Latina*, Ed. Centro de Estudios de España e Iberoamérica (CEEI), Belgrado, 1998.

²¹ Brazil is an undoubtedly significant actor in international affairs. Latin America’s more recent history has been marked by periods of Brazil’s domination over the entire continent or periods of battle for the establishment of such domination (such a period is also the present period, in which many actors such as Venezuela, Argentina, Chile, the US and some alliances are indirectly challenging such leadership on the part of the largest Latin American state). Differently from Russia, India and China, with which it is often compared, Brazil has the fortune of being surrounded by weaker and smaller states, of having a developing liberal democracy, being in the vicinity of the US, possessing the last remaining rainforest (ecopower), energy potentials and a huge population and territory, undergoing technological advance, not exhausted by wars, a winner in almost all international-legal disputes, a fascinating exporter, the leading Mercosur country, member of the G-20 (developing countries), member of BRIC, but also facing great problems in the domain of microeconomic reforms, the creation of a more adequate tax system and equalization and increase of annual growth.

out that regional economies are mostly overly dependent on the international financial market and that only a limited number of countries from the region have succeeded in achieving a positive trade balance, giving them the ability to generate sufficient financial resources to pay off net debts in the capital transaction balance. That is a direct consequence of overindebtedness, due to which the region is mostly dependent on foreign capital inflows for the covering of deficits and raising the level of economic diversification, efficiency and growth. In accordance with that, we may conclude that a structural dependence on the international financial market has been created in Latin America.²²

Furthermore, the negative consequences of the application of the ideas of the neoliberal school are especially evident in the social sphere, particularly in regard to issues of poverty and marginalization. The problem of poverty has reached drastic proportions and, according to CEPAL data for 2002, the number of poor in the region was slightly more than 222 million (44% of the total population of Latin America). The solution to the problem of poverty in the Latin American region has become a multidimensional challenge for governments and all the integration models alike, as it assumes not only a solution to the problem of a lack of basic resources for the life and survival of a great number of people but also to the problems of socio-economic marginalization and ethno-linguistic discrimination.

Argentina, Brazil, Chile, Mexico and Venezuela had already begun to carry out reforms at that time, and were soon followed by other countries. The accent was placed on adopting laws and legal norms that would ease the position of the poor in society, help them with basic needs that they could not satisfy and, finally, reduce the number of those living in extreme poverty. Brazil led the way in these efforts, having adopted a number of acts by 1991 that regulate the position of the most vulnerable population groups. Among other things, the reform also included decentralization, special programs, civil populace and NGO participation, budget stabilization, monitoring, evaluation, and related things. The Brazilian government went a step further and founded specialized organizations that would finance these activities in various spheres of social recovery (FAT, FUNDEF, FNDE, FNS, FNAS, NFFEP).²³

²² According to a CEPAL document published in April 2006, entitled "Foreign Investment in Latin America and the Caribbean 2005" (*La inversión extranjera en América Latina y el Caribe 2005*), foreign direct investment in that period equaled 68 billion US dollars, or 11% more than in 2004. It is interesting to note that the largest transnational banks that operate in the region are BSCH and BBVA (Spain) and Citicorp (USA). For more details, see: <http://www.cepal.org/cgi-bin/get>.

²³ FAT – Fund for Worker Protection, FUNDEF – Fund for Aiding the Development of Primary Education and Educational Personnel, FNDE – Fund For National Educational Development, FNS – Fund for National Health, FNAS – National Fund for Social Aid, NFFEP – National Fund for Poverty Eradication.

Brazil's results in solving the problems of hunger and poverty are well known. The "Without Hunger" program created in 2003 and coordinated by José Graziano da Silva, combined urgent actions with structural measures for securing food. That was the starting point for all other policies that would be carried out in the following years. Income transfer programs such as "Bolsa Familia"²⁴ – which helps a quarter of the populace – combine provision of food and access to education and healthcare with measures for local development stimulation, especially in rural areas.²⁵ Accordingly, on the international scene Brazil is actively advocating a more balanced and socially more equal global order. Its approach is primarily based on the establishment of an equal partnership with developing and developed countries throughout the world.

Still, the problem that burdens Brazil the most, other than the challenges of continual growth, is certainly dealing with the catastrophic legacy of inequality of wages²⁶ and of educational opportunities. Since Brazil is a democratic state, programs for reducing inequality are popular at election time, and they have begun to show some very important results. Inequality per capita in household income was substantially reduced between 2001 and 2004, and the trend has continued. According to the *Gini* coefficient used to measure income inequality, concentration in Brazil fell by 4% in the space of four years. More simply put, the poorest Brazilians' income per capita grew at the "Chinese rate" of 9% per year. Demographic trends are giving Brazil much more space for new gains over a fifty year period, according to projections by Goldman-Sachs. With a fall in the birth rate, the Brazilian Institute for Geography and Statistics has estimated that Brazil's population will stabilize at 260 million in 2050, as the sixth population in the world after India (1.5 billion), China (1.3 billion), USA (400 million), Pakistan (350 million) and Indonesia (300 million).

In that sense, it should be stressed that constant growth in GDP per capita as well as the undertaken social reforms have given good results in the fight for poverty reduction in the region. Namely, the continual growth of GDP per cap-

²⁴ During the election campaign, the new president of Brazil, Dilma Rousseff, especially insisted on the continuation of the programs of hunger and poverty eradication – *Fome Zero* and *Bolsa Familia* – which have, between 2002 and today, through donations, stimuli, stipends, microcredits, building of schools, water cisterns and affordable natural gas prices, improved the lives of millions of the poorest Brazilians.

²⁵ The stimulation of families to engage in agriculture was of essential importance for the success of social policy in Brazil. Family farms produce 70 percent of the food consumed in the country and represent 10 percent of Brazil's gross social product. These results would not be possible without research in the area of agriculture, agrarian reform and land ownership, technical help and access to credits and insurance, among other things. With the help of all this, 32 million Brazilians (more than 16 percent of the populace) no longer live in poverty.

²⁶ The income of the 10% highest social segments is 26 times greater than that of the lowest segment, which makes up 40% of the total population. Brazil has the largest wealth inequalities among all the world's large nations.

ita between 2003 and 2007 (slightly over 3%) enabled a larger number of Latin American countries to reduce unemployment and absolute poverty levels. At the same time, the system of GDP distribution was also improved, which, according to CEPAL, enabled almost 15 million residents of Latin America to exit the category of poverty, and 10 million to leave the category of absolute poverty. In any case, state reforms, new socially responsible policies and, especially, stable economic growth, have helped bring this very important change that characterizes the current political, economic and social situation in the region.²⁷

Taking all this into account, it is obvious that the consistent application of neoliberal principles as economic inevitabilities has noticeably reduced the space for planned state intervention that would bring improved economic development and preserve internal economies as a prerequisite for better social policies. Reforms and measures undertaken in that domain could be of great significance for our country and, more broadly, the Balkan region. Besides, we would like to point out that the social insurance reform in Poland was carried out after the example of Chile's experience, with certain adaptations suited to Polish circumstances and legacies in that sphere.

While researching for this paper, the authors consulted the well known Polish Latin American expert and diplomat (1961–2004) Prof. Lech Miodek, who received his doctorate from the Universidad de Santiago and is now a professor at the Center for Latin American Studies (CESLA) of Warsaw University (since 2004). In addition, Prof. Miodek was also the Polish president's foreign policy advisor from 1990 to 1994. Basically, Prof. Miodek conducted direct consultations with José Piñera, the creator of Chile's Pension Fund, his associates and Chilean experts in that area and, based on these experiences, and with some logical adaptations, the first proposal for the Polish Pension Fund was made during the first phase of the period of political-economic transition.²⁸

Finally, it can be observed that one of the more important factors that had a favorable influence on Latin American countries' accelerated development in that period was the existence of well trained, young and ambitious technical personnel, especially in the new sectoral production processes managed by a high quality managerial establishment. Precisely the fact that Latin America has capable, young and educated managerial personnel at its disposal, mostly educated in the US and the EU countries, has ensured the flexible and compatible functioning of the modernized economy under the highly fluctuating condi-

²⁷ For more details on the various aspects of poverty in Latin America, see the CEPAL document: "Panorama Social de América Latina – Síntesis: 2007," accessible at: http://www.eclac.org/publicaciones/xml/5/30305/PSE2007_Sintesis_Lanzamiento.pdf

²⁸ For more details, see the work of Dr. Miodek, "Chile – treinta años del nuevo sistema previsional – dinamismo del mercado de pensiones. Europa – una gran oportunidad para hacer las reformas"; the text is available in its working version and is held by the documentation fund of the *César Vallejo* Library of the Sector for Latin America and the Caribbean of the Graduate Faculty for International Economics of Megatrend University.

tions of the globalized world economy and in the somewhat less complex local labor markets.

3. The new South American geoeconomics: scope and prospects

The development of Latin American regionalism at the end of the 20th and the beginning of the 21st century has shown that the countries of that region have succeeded in securing good international positioning, while some have even managed to become very influential international actors of global significance. This phenomenon is a product of the mostly positive experiences gained during a multilayered and multi-phased state, economic and social modernization process, in the broadest sense. An important segment of that process has also been the modernization of the diplomatic services and the foreign ministries in general, whose basic task has become to conceive a strategy of regional and international positioning and reaffirmation of the South American geoeconomic space in the making. It was possible to notice this tendency as early as the mid 1990s, when an all-encompassing reorganization of the said ministries and the diplomatic services in general was initiated, along with, especially, a conception of a modern and agile economic diplomacy as an important instrument of successful international economic cooperation, business and market entrance on the regional and global levels.

In Latin American countries' external activity, the basic accent is placed on economic diplomacy and organized appearance on non-traditional markets. The prerequisite for such a deep transformation was good personnel and expert planning in accordance with national priorities, which were gradually becoming increasingly economic-trade and culturally oriented. This strategy began to bear fruit during the 1990s, in the form of the modern, quality and functional work of Latin American diplomats throughout the world, as they successfully promoted their countries' and the region's economic-trade and cultural potentials. In practice, this meant that the embassy was transforming into what could be called the country's referral center, which meant not only the provision of an economic service but also dynamic and comprehensive cultural and tourist promotion. Besides the embassy and the diplomatic personnel, other participants in this process are representatives of specialized promotional agencies, chambers of commerce, companies, specialized institutes, universities, private foundations, etc. Taking the example of Peru, we can see that, already in mid 1996, a deep structural and organizational change took place within the Ministry of Foreign Affairs, with the goal of improving the Ministry's functioning and securing a high level of foreign communication. A special place within the Ministry was

given (the number of directorates had been reduced to five) to the Directorate for Economic Affairs.²⁹

Similar reforms were carried out in Mexico, Brazil, Chile and other Latin American countries. In the case of Chile, we would especially like to emphasize the success of the strategy of developing relations with countries and groups from different parts of the world and the positioning on the markets of the Asia-Pacific region, the European Union, North America, Middle East and North Africa. The so-called “Chilean Miracle,” i.e., the process of revival from a relatively undeveloped country to one of the leaders in the region, would not have been possible without political and economic stability and constant economic growth, as well as the successful application of the concept of economic diplomacy. This concept officially became a mission priority for the Ministry of Foreign Affairs at the beginning of the 1990s, as a reflection of the national strategy of inclusion in transnational production processes, export specialization and cultural presence in new markets. On that path, Chile signed a series of bilateral and multilateral free trade agreements and such a strategy has proven quite successful.³⁰ Parallel with this, it should be stressed that, as early as the 1980s, Chile had begun a process of opening towards other countries and economic groups, on an individual basis. This trend additionally accelerated after the democratic changes in that country (1990) and the onset of rapid development of international cooperation, foreign investment growth, and tourism, along with accelerated development in the media and communication areas. The essence of the Chilean concept of economic diplomacy was the government policy to, by way of the specialized *ProChile*³¹ agency, promote the image of an innovative, responsible and stable developing country, with the accent being placed on improving exports and eliminating trade barriers in order to facilitate and increase bilateral and multilateral trade exchange. The basic elements of this campaign were: a strong economy, social justice, stable democracy, a good healthcare and

²⁹ The authors of this research also had at their disposal minutes from talks held in Lima in 1997, between the then Minister of Foreign Affairs, Prof. Francisco Tudela Van Bruge, and Ricardo Márquez, Vice-President of the Republic in charge of international economic affairs. An analysis of this documentation shows the essence of the reforms, a clear setting of geoeconomic priorities and projections (the Asia-Pacific region, especially) and a desire to conceive the most modern strategy for the appearance of Peru's economy in the new conditions on the international market. The entire project was supported by the newly established specialized PromPerú agency – the Government Commission for the Promotion of Peru (*Comisión de Promoción del Perú para la Exportación y el Turismo*). It is interesting to note the launching at the time of the broad national and international campaign *Marca Perú*. For more details on the features of the *Marca Perú* campaign, see: <http://www.peru.info/#brand>

³⁰ F. Tressler, “Bases de la Política Exterior Chilena en la década de las noventa,” in: *Diplomacia*, N° 77, Academia diplomática de Chile, octubre-diciembre de 1996, pp. 35-40.

³¹ <http://rc.prochile.cl/>

educational system, unemployment and poverty reduction and, especially, fight against corruption.³²

Brazil's experiences in this domain are especially significant, as it was precisely during the said period of intense modernization of the Latin American development model that Brazil achieved substantial results both internally and, especially, on the international level, where its new, strengthened global perception and projection was formed. There is no doubt that diplomacy is one of the fundamental factors of Brazil's national identity, and that its diplomacy with a recognizable national identity distinguishes it from most other states. Brazil is one of the group of "emerging powers," unique in its way of behavior in the system of global relations. A viewpoint has formed, backed by genuine deeds, that Brazil satisfies its interests and goals primarily through diplomatic actions. Its national diplomatic system is integratively organized, allowing it to deal successfully with so-called inter-site issues and problems. Organized in this way, the national diplomacy contributes to the preservation and strengthening of the country's diplomatic brand. The key factor of both the institutional culture of the Brazilian Ministry of Foreign Affairs and its so-called informal foreign policy ideology lies in the decisive role of diplomats and diplomacy in the origins, survival and strengthening of the Brazilian state. Brazil's national hero is not a military leader, a rebel or a ruler, as is the case with most states. The country's national hero is José Maria da Silva Paranhos, Jr., 1st Baron of Rio Branco.³³ As a result, diplomacy has been accepted and placed at the foundation of the winning and preservation of Brazil's sovereignty, its building of relations with the leading powers of the international community, its peaceful resolution of conflicts with neighbors, participation in international flows through the formation of multilateral institutions, and regulatory global conferences and international regimes, i.e., in the constitutionalization of the international and the global order. Diplomacy continues to be Brazil's key in securing external conditions favorable for the country's development needs, which are changing under the strong influ-

³² Chile's index of corruption is the lowest in Latin America (7.2), and is much more favorable in comparison with European Mediterranean countries. Uruguay is next, with an index of 6.9. In the report of *Transparency International*, Chile is ranked 21st among 178 classified countries. According to this report, Spain ranks 30th, while Hungary, the Czech Republic, Greece, Italy and the US rank far behind Chile. For more details on corruption in Latin America, especially South America, see: <http://www.emol.com/noticias/nacional/detalle/detallenoticias.asp?idnoticia=443538>.

³³ Rio Branco was one of the most influential diplomats during the last years of the monarchy, and minister of foreign affairs from 1902 to 1912. He established the modern organization of the national diplomatic system and Brazil's diplomatic service. He contributed to Brazil's winning of thirty arbitration disputes in its favor. He rightly predicted the US rise to power and turned to that country rather than continuing Brazil's traditional reliance on Britain. This change brought Brazil its first successes in diplomatic resolutions of territorial disputes, and guided it in the resolution of its remaining border disputes with its neighbors.

ence of the processes of globalization and internationalization, which are being pushed by the US throughout the world, including the region of Latin America.

The Brazilian Ministry of Foreign Affairs seeks to present itself as the carrier of a clearly defined set of conceptions regarding the world and Brazil's place in it. As a result, this ministry appears to be firmly connected with a worldview and the conducting of activities within it, and is classified among a group of ministries such as the Canadian ministry, which are considered to be the creators and the best advocates of the idea of their states as middle powers. With such a relationship between the informal foreign policy ideology and the Ministry of Foreign Affairs, Brazil and Canada substantially differ from a country such as, for example, the US. The Itamaraty (as the Ministry of Foreign Affairs is often popularly referred to) seeks to give support to subregional executive multilateralism, i.e., presidential diplomacy, taking the lead role in advocating the values of multilateralism.

The first conference of South American presidents was convened in September 2000 by Brazilian President Fernando Henrique Cardoso, with the intention of creating a new space in the subregion for dealing with issues of interest for the states and peoples of South America. Cardoso's administration deliberately sought to represent this event as less significant than it really was, striving to take the leadership in a discreet, moderate, Brazilian way. One of the summit's results was the ambitious IIRSA program, aimed at promoting new transcontinental highways and gas pipelines – in a way that might, perhaps, bring Brazil into a somewhat more privileged position, especially in the sphere of energy. What was even more significant for Brazil itself was the fact that the program provided attractive political coverage for the affirmation of Brazil's regional leadership, using economic integration as a motto.³⁴

Cardoso's successor, President Luiz Inácio Lula da Silva, was Brazil's first leftist-oriented president, the leader of the Workers' Party, and the first president who grew up in poverty. Lula deepened the strategy of developing close ties with Brazil's immediate neighbors in South America, initiated by his predecessor. However, his political style was something totally new in the history of Brazil and Latin America. He successfully used his decades of labor union and party experience. On the basis of his political credibility, he became one of the most influential political figures in the region and the world. For example, less than two weeks upon coming into office, the new president used his first foreign visit to proclaim Brazil's leadership in the region and announce that his country was prepared to "assume weight and responsibility" on the world scene, and the burden of neighboring countries' recognition of Brazil as the "natural leader."

³⁴ For more details on the regional priorities of Brazil's foreign policy, see: I. Ivanovic, "The BRIC countries from Brazilian perspective," *The Review of International Affairs*, No. 1136, October-December 2009.

4. Main characteristics of South American geoeconomics

In brief, it may be concluded that in the first phase of modernization – at the end of the 1980s and during the 1990s – a viewpoint matured among all the countries of the region regarding the necessity of undertaking urgent measures in order to secure inclusion in international globalized economic flows. This was to be accomplished by maintaining macroeconomic balance and launching sectoral programs, which were at the time the only path to modernization and the transformation of production structures, while acting in accordance with the view that better use of the potentials of the regional integration process would allow faster economic recovery and expansion of trade. Besides, these countries were compelled to rapidly innovate or overcome traditional concepts and models of economic integration, inclusion in international relations and of excessive state interventionism in the economic and social spheres as one of the chief obstacles for the liberalization of trade flows and foreign capital inflows. In accordance with these neoliberal development principles, special significance was given to the private sector and the privatization process in general, along with economic planning, balancing of relations between the internal and external markets and, especially, the role and potentials of the agricultural sector in the development of the countries in the region. The new economic development model also assumed an accelerated transition towards open market economies, trade and financial liberalization, competitive currency policies, foreign investment stimulation and the privatization of the inherited cumbersome and uncompetitive state sector.³⁵

One of the basic elements of this development strategy was the enormous wealth of natural resources and Latin America's comparative advantage in that sense relative to other regions in the world. Namely, the region's natural resources are considered to be quite competitive internationally, including the yet-to-be-precisely-determined rich oil reserves, but also the agricultural and mining sectors. At the same time, along with the use of methods of "geographic specialization," which assumes rapid inclusion in profitable transnational production processes and planned appearance and positioning in new, non-traditional markets, there has also been an acceleration in industrial development, based on the restructuring and modernization of the production process. Our conclusion is that the results of these changes have been positive, especially in the area of exports, which are becoming more diversified, progressively including, in addition to traditional regional export articles (raw materials), semi-finished goods, component parts of certain complex products, and finished complex high-tech products.³⁶

³⁵ Ricardo.

³⁶ G. Gereffi, "New Patterns of Industrial Integration in World Economy: Evidence from Latin America and East Asia," paper presented at the seminar "The Changing Global Context for U.S.-Latin American relations," *Diálogo Interamericano*, Aspen Institute, 1993.

For example, Brazil's economic-technological development over the last twenty years has shown great advances in mastering and putting into production the latest high technologies. In the first place, we are referring to the aircraft industry, which is already among the world's most developed, followed by the automobile, computer-IT and complex electrical appliance industries. A second great advance has been made in the energy sector. It is well known that only 11% of Brazil's electricity is drawn from fossil fuel combustion. An incredible 83% of the country's electricity comes from water power, while 27% of total energy consumption (including vehicles) comes from renewable fuels from biomass, especially ethanol. Third, Brazil is the world leader in the production of ethanol, and the technology necessary for its processing and export, which is extremely important at a time when global oil prices are constantly growing, especially after the conflict in Libya. Moreover, Brazilian ethanol is much "greener" and cleaner than that produced by the United States, and the inputs that it uses, especially the energy, are up to four times more efficient. It should also be mentioned that the first international summit devoted to planet Earth was held in Rio de Janeiro in 1992, which initiated the process leading to the Kyoto Protocol on climate changes (1997), which Brazil ratified in 2002. In addition, the success of Brazil's international positioning is greatly influenced by the country's huge natural resources and, in that context, its importance is undoubted especially when it comes to the protection of rainforests and the preservation of the world's biodiversity. At the same time, we would like to stress Brazil's years of experience in the industrial production and distribution of biofuels as a factor that directly influences the progressive diversification of cooperation in this field with industrially developed and developing countries.³⁷ All this is indicative of the possibility of Brazil's assumption of one of the central roles in the evolution of the fight against climate changes.

On the other hand, Argentine-Brazilian capacities in the domain of peacetime use of atomic energy should not be underestimated, either. These two South American states launched their own national programs of scientific research in this field during the 1950s, when they adopted national plans for the development of nuclear technology, despite the highly unfavorable conditions of the bipolar world and the rivalry between the US and the USSR. It is important to stress that Argentina and Brazil were ruled at that time by populist and nationalistically oriented military regimes, which additionally impeded development

³⁷ It is well known that the transition to ethanol consumption in Brazil has been quite successful. At the same time, the country is the world's largest ethanol producer. Almost 80% of the raw material comes from the Piracicaba agricultural region northwest of São Paulo. In Brazil, ethanol is produced from sugar cane. The use of ethanol began in 2003, with the production of the first biofuel for vehicles or motors, under the name of *flexi-fuel*. Currently, more than one half of Brazilian automobiles use ethanol. Twenty years of research were invested in this program, even though the price of a barrel of oil at that time was 20 dollars.

in that sector. According to the adopted strategy, nuclear power plants were built in both countries with the aid of Canadian nuclear technology and know-how, scientific-research institutes were established and national strategies of nuclear energy use for peacetime purposes were precisely defined.³⁸

Chronologically viewed, until the end of the 20th century, the directions and forms of economic activity and growth within the bounds of the Latin American economy and integrations were guided by the principles of the export-led-growth model, which was a conceptual derivative of the Washington Consensus. This situation only partially reduced external vulnerability to the volatility of the international economy. On the other hand, the accelerated signing of numerous international trade agreements secured a relatively stable position for certain regional groups on the international market, including the markets of highly developed countries. However, although the model was showing a dynamic tendency of growth of negotiation potential, i.e., achieving noticeable international expansion, it was obvious that the defense mechanisms were insufficiently defined and additionally threatened by the very process of accelerated and highly diversified inclusion in global cooperation flows. Additionally, we would like to stress that Mexico concluded a record 43 free trade agreements during that period, on three different continents (America, Asia, Europe), taking second place in that area on the global level.³⁹

Regardless of the achieved and positively evaluated initial results within the Open Regionalism in Latin America during the 1990s, it was obvious that social issues were completely neglected and that this fact was seriously threatening the political stability of several key states in the region: Venezuela, Bolivia, Ecuador, and Nicaragua. At the base of this crisis situation was the necessity of redefining the neoliberal development model itself, the functioning of the political system, democracy, political party programs and the goals and contents of the integration process. It was becoming increasingly apparent that the neoliberal reality of

³⁸ In brief, this was the time when the CANDU nuclear reactors were imported, based on Canadian atomic technology developed in the late 1950s. It is also important to know that this type of reactor was also successfully commercialized in South Korea, China, India, Romania and Pakistan. On the other hand, on the basis of CANDU technology, India succeeded in developing its own nuclear bomb in 1974, which led to a break in cooperation with other developing countries, including Argentina and Brazil. In any case, Argentine-Brazilian nuclear development during the 1970s was seen as one of the most advanced, equal to that of India or China. For more details, see: S. S. Pajović, "Canada and nuclear power issues in Latin America," paper presented at the V International Conference of Canadian Studies, Megatrend University and Serbian Association for Canadian Studies, Belgrade, April 2011.

³⁹ On the main directions of the development of integrations in Latin America since the beginning of the 21st century, see: J. A. Sanahuja, "Regionalismo e integración en América Latina: balance y perspectivas," *Pensamiento Iberoamericano*, No. 0, 2^a Edición, 2007. The paper is accessible at: <http://www.pensamientoiberoamericano.org/b/sumarios/>

most Latin American countries had discounted the costs of the urgent solution of social inequalities, marginalization, poverty, narco-trafficking and delinquency.

The appearance of new formulas and methodologies for solving complex social problems in Latin America generated a rich intellectual debate, with an emphasis on the essence of Western-style democracy and the functioning of its institutions in crisis circumstances. Generally speaking, the debate was oriented toward the question of whether democracy, in the sense of “procedure” or “ways” for the people of one country to elect their government legally, transparently and freely, was achievable under conditions of poverty and socio-economic and political marginalization. Regardless of the pronounced negative connotations accompanying the applied neoliberal development model, most intellectuals advocated the strengthening and further development of democracy as an important precondition for the harmonious coexistence of nations. The starting element of this approach is based on the existence of a broad political and ideological consensus that allows a high level of tolerance and respect for all regional specificities – such as the example of former Peruvian president Alberto Fujimori and the specific Peruvian socio-political and economic experience during his rule.⁴⁰ Namely, President Fujimori’s view was that the traditional model of Western democracy and parliamentarism and the political party system were not able to provide answers to the main problems of Peruvian society. Drastic political reforms were undertaken, including constitutional reform, which caused sharp debates and divisions within the Organization of American States (OAS), the Andean Community, the Rio Group and all the other regional and international organizations, in regard to Fujimori’s authoritarian way of rule and non-traditional approach to democracy, development issues and the solution of accumulated social problems. In essence, it was the matter of his insistence on the achievement of national interests and the preservation of sovereignty, which was more important for his political option than compatibility with traditional democratic institutions.

On top of this, the Brazilian and Latin American political scene saw the appearance of the legendary labor union leader Luiz Inácio Lula da Silva. His assumption of the Brazilian presidency in 2002 was accompanied by debates concerning his ideological profile, since he was the first leftist to achieve a presidential victory in the entire history of Brazil, as the head of the opposition Workers’ Party (Partido de Trabalhadores – PT). With the appearance of Hugo Chávez Frías and Evo Morales in Venezuela and Bolivia, respectively, the phenomenon of non-traditional political leadership that reflects different ideological and eth-

⁴⁰ Alberto Fujimori is the son of Japanese emigrants that settled in Peru in 1934. His first appearance on Peru’s political scene occurred in 1989, when he founded the “Cambio 90” political movement and, a bit later on, scored a presidential election victory over the famous Peruvian writer, Mario Vargas Llosa. His victory was explained by the desire of Peru’s broadest masses to break with the elitist political tradition, i.e., to turn once more to populism as a political formula that opposes social marginalization.

nic sectors of society definitely marked the beginning of a new phase in South America's political development. In essence, these are political platforms based on respect for national specificities and the solution of profound social problems and marginalization, inherited from times when the neoliberal development concept was being faithfully applied. All these changes were indicative of the deep crisis of the neoliberal development model and the practical institution of the so-called concept of "relativized democracy."⁴¹ In short, a complex ideological problem had appeared in practice, one which could be simplified through the formulation of the dilemma: "direct democracy" vs. "representative democracy."

All this gives us cause to conclude that democratic development in South America has been deeply reformed and that, for the first time in the history of that part of Latin America, so-called leftist regimes control almost 60% of the region's population. This drastic change can be understood and interpreted solely as a result of the crisis of the Washington Consensus, which obviously reached its final limits in the period between 1997 and 2002, producing unimaginably deep socio-economic problems and various forms of inequality, including ideological ones – for the first time since the fall of bipolarism in international relations. All this has had a direct influence on the process of formation of the South American geoeconomic concept and structure, within which different political and ideological actors are cohabiting: Chavismo in Venezuela,⁴² Morales' Indigenismo in Bolivia, the new Sandinismo in Nicaragua or the so-called new populism in Argentina, Brazil, Uruguay or Paraguay.⁴³

5. Instead of a conclusion: several observations

Having in mind all the political, economic, ideological and security changes that have taken place in Latin America at the end of the 20th and the beginning of the 21st century, it can be concluded that its geostrategic and geoeconomic scenario has been rapidly modified, in accordance with the dynamics, modality and priorities of changes of a socio-political, economic and ideological nature. Thus, the formation of a new South American geoeconomic space should be viewed as a multi-layered formation process that is geographically clearly located and stems from various experiences achieved in the previous development phase

⁴¹ A. Martuscelli, "Crisis alimentaria, respuesta política," *Política Exterior*, Vol. XXII, No. 125, 2008, pp. 79-95.

⁴² Fr. González, "¿El Gobierno de Chávez es comunista, neoliberal o populista?," *Cuadernos de Estudios Latino-Americanos*, No. 2, Ed. Universidad Fernando Pessoa, Oporto, Portugal, 2006.

⁴³ On the political challenges facing South America, see: C. Malamud, "Populismo de Derecha versus Populismo de Izquierda," *Infolatam*, 16 de octubre de 2006. The work is accessible at: <http://siguientepagina.blogspot.com/2008/11/populismo-de-derecha-versus-populismo.html>

of faithful application of the neoliberal concept of Open Regionalism in Latin America. The key moment in these transformations was the failure of ALCA and the view of the majority of South American states that integration processes within South America should be strengthened and modified. This political decision assumed the initiation of new integrative trends in that part of the Latin American region, which were occurring in parallel with already existing initiatives, but on the basis of totally different ideological principles.

After the failure of ALCA, differently from most South American countries, the Central American and Caribbean countries were targeted by the American strategy of establishing bilateral free trade agreements. In practice, official Washington exchanged the previously unsuccessfully applied multilateral strategy of establishing a continental free trade area with a new, bilaterally-oriented strategy, strengthening such agreements with Mexico, Central America, the Dominican Republic and Panama. The same strategy was also applied in negotiations with Colombia, Peru and Ecuador. However, upon closer analysis of these bilateral agreements, it can be seen that they differ in content, scope and goals. For example, Central America was seen as the site for industrial assembly plants (electronics, vehicles or clothing) due to the proximity of the American market while, in the case of three South American countries (Ecuador, Peru and Colombia), the accent was placed on the export of the most strategically important natural resources for the American economy. Finally, it is important to point out some additional details of these arrangements, before all the insistence on accepting the obligation of carrying out the most urgent possible privatization of healthcare.

All in all, it can be said that the failure of ALCA initiated, in South America, the last phase of geoeconomic fragmentation of Latin America and the launching of unifying geoeconomic trends in the South American part of the continent. In practice, we are talking about a strategy of harmonizing the interests, aims and scopes of the complex parts of the South American integrational structure, along with an intense group projection on the international plane. This tendency is based on the existence of and pragmatic respect for ideological dichotomy regarding models of socio-economic and social development. Illustrative in that sense is the stance of the most important South American countries, headed by Brazil, Argentina and Venezuela, which consider that the integration process is multi-dimensional and that it should be based on comparative advantages and the sustainability of economic development, i.e., the understanding and solution of social and ecological problems in the region. This profound conceptual change also assumes a further strengthening of unity in that part of Latin America, especially in terms of the main directions of development and equitable harmonization of views in that domain.

De facto, the creation of UNASUR secured the necessary institutional framework for political cooperation and harmonization while, in the economic-integrational sense, the dynamic of the realization of agreed goals is facilitated by the

excellently conceived, although quite complex integrational geoeconomic structure that unifies the space of Mercosur, CAN, IIRSA, ALBA, OAS in Amazonia and the La Plata River Basin. In any case, it has been shown that South America is an increasingly solid economic-political bloc with huge natural and production potentials, promising rates of economic growth and recovery, and good cooperation in the area of social, cultural, scientific-technological, educational, energy and political issues, including joint harmonization in the domain of foreign policy and global political activity. As an open economic-political bloc, by way of UNASUR, South America is projecting an impressive potential and capacity for achieving successful international protagonism: the region ranks first in the world in the production and export of food products, the South American GDP grew, in only three years of UNASUR's existence, from 1.2 trillion to 2.3 trillion US dollars (in 2007), Brazil and Argentina are full-fledged members of the G-20, while Brazil has in the meantime also become a very important global actor and a member of BRIC.⁴⁴

Finally, it can be concluded that there is an entire series of elements that could very positively influence and guide this new geoeconomic and political bloc. We are here referring to, in the first place, the current strong political consensus and harmonized stance regarding the aims and priorities of South American integration, and its position within the framework of Latin American regionalism and global flows in general. Several issues will be of decisive importance for the future of UNASUR and the entire South American region, before all the following dilemmas: will the leftist regimes continue to support this process; how will Brazil, as the largest state, achieve its role of regional leader; will the institutional framework of UNASUR follow the integration flows; or how will UNASUR's international activity progress in relations with other parts of Latin America, the US, the EU, China, Russia and the Arab and the African countries.

A separate question, which has already caused great interest among scholars, is the eventual rivalry between Brazil and the Bolivarian Republic of Venezuela regarding the leadership role in South America. In that sense, certain differences have already become manifest, even in the domain of the concept, principles and mechanisms of integration (ALBA). In addition, these two countries have different foreign policy traditions and priorities, which still does not have to represent a large obstacle in the future in the formation of a recognizable and credible South American foreign policy protagonism or engagement. Namely, Brazil's foreign policy is guided by global interests while respecting regional ones, along with a reliance on huge natural and human potentials, political stability, economic progress, a globally recognized military potential and substantial diplomatic experience. The Bolivarian revolution dramatically changed Venezuela's

⁴⁴ A. C. Baspineiro, "Se hace Suramérica al andar, VVAA," *Revista de la Integración: La Construcción de la integración suramericana*, Secretaría General de la CAN, No. 1, julio de 2008, pp. 6-11.

foreign policy during the first ten years of this process and established new priorities in accordance with the ideological principles of the project itself – regionally within the space of ALBA, and globally, through the strengthening of relations with Arab and African oil exporting countries (OPEC), China, Russia, India, South Africa and Iran. Its interests in the Arab world are currently much reduced thanks to the events in Libya and the instability in Iraq. Furthermore, analyses point to the fact that the potentials of Venezuela's foreign policy are much smaller compared to those of Brazil, regardless of the fact that it is one of the leading exporters of oil and oil derivatives in the world. This primarily refers to its internal political and economic instability, as well as its lower military and diplomatic capacity. Additionally, due to the fact that Venezuela's foreign policy is openly anti-American and anti-neoliberal, security issues inside South America have reached boiling point on several occasions, thanks to the high level of conflict between Venezuela and Colombia. The potentials of Brazilian leadership are also reflected in the fact that all the UNASUR member states supported its initiative for the establishment of a South American Security Council (2008) as a UNASUR body for consultation, cooperation and coordination in that domain. Regardless of the said clear differences in the domain of foreign policy activity, it is considered that there no deeper differences will develop between Venezuela and Brazil in the near future, as both countries are expressing interest in the formation of a multipolar world and can, within the framework of this strategic orientation, achieve a mutually acceptable degree of consensus.

Brazil has doubtlessly become a country that can finally look to the future, and this strategically important transformation has left the door wide open for diplomatic activities of a global character. Mercosur and close cooperation with Argentina are the foundations of the achieved progress. Brazil is intensely working on strengthening the integration of South America as a region, and the moment has never been better, because all the governments are democratically elected and ready to cooperate efficiently on the basis of adopted social programs. However, what most distinguishes Brazil from the other Latin American countries is its readiness, creativity and increasingly significant political engagement on the global plane. Of course, the most prominent among these initiatives is the India-Brazil-South Africa Forum (IBSA), which joins three multi-ethnic democracies from three regions of the world: Asia, South America and Africa. This coalition is successfully coordinating its actions within the World Trade Organization (WTO), G-20 and other international forums and organizations in a functional and instrumental way. For example, the actions of IBSA have been especially noted within the WTO, making it into a more democratic and less American-European club in which consensus policy had been created through the imposition of views upon the rest of the world.

Parallel with this, Brazil has intensely undertaken the development of strategically important relations with other African countries, so it is no surprise that

Brasilia is presently the capital city with the largest number of African embassies and Brazil the country with the largest number of ambassadors in Africa.⁴⁵

A very important element of the realization of Brazil's global strategy is the development of cooperation with PR China, both bilaterally and through BRIC. China is also Brazil's second-ranked trade partner. In addition, it should be said that Brazil and China are cooperating on the ambitious project of technological exchange for the Chinese-Brazilian *Earth Resources Satellite* (CBERS).

In short, there is no doubt that Brazil has achieved an extremely high level of interaction with the rest of the world, which is a precedent in the political history of the country as well as of Latin American countries as a whole. It is important to stress that this strategic transformation did not happen at the expense of Brazil's traditional partners, i.e., its devotion to the development of integrations in South America, especially the Mercosur space, or its relations with the EU. On the contrary, in 2007 Brazil became the first South American country to become an EU strategic partner. The institutionalization of the strategic partnership with the EU established a continual political dialogue and defined higher forms of economic cooperation. As for its relations with the US, the presidents of Brazil and the US have met on several occasions, with the goal of advancing bilateral, regional and global cooperation.

Brazil's appearance on the international scene is in many ways different from that of the fast-developing Asian economies with which it is often compared. Namely, Brazil is a state with a credible, constantly developing democratic system without large internal social and political conflicts. It is also important to stress that it has renounced the use of its nuclear potentials for military purposes, which separates it strategically from the other BRIC countries (Russia, India and China) and opens up new areas for global activity and protagonism. A careful analysis of Brazil's international activity leads to a conclusion that it is now a country strongly devoted to the transformation of international decision-making into a democratic and transparent process, which is a policy that promises to gain broader support among the countries in the region. In that light should also be evaluated the efforts of Brazilian diplomacy to reform the UN and

⁴⁵ In the course of President Lula's two mandates, Brazil successfully carried out its strategic opening toward Africa. The basis of this new alliance are economic, financial and cultural cooperation, as well as the striving to present Brazil as Africa's sincere ally. This strategic approach has allowed Brazil to achieve a significant scope of cooperation in the areas of technology, energy, and investments, as well as to help in the reduction of poverty and hunger on that continent. Viewed historically, there are several elements that make the connection between Brazil and Africa a strategic alliance: for example, almost one half of Brazil's population is of African descent (descendants of slaves imported during the colonial period), African culture is an organic part of Brazilian culture (music, dance and the mix of religions and rituals), language, etc. These ties have been additionally strengthened and diversified through the Community of Portuguese Language Countries (*Comunidade dos Países de Língua Portuguesa* – CPLP). The CPLP member countries are: Portugal, Brazil, Angola, Cape Verde, Guinea-Bissau, Mozambique, São Tomé and Príncipe, and East Timor.

the Security Council, in order to make them into a more efficient and more representative body, one that would also represent developing countries. All these characteristics that have been manifested in Brazil's foreign policy activity on the regional South American as well as the global plane are showing that Brazil represents the de facto base of the South American geoeconomic space, in its status as the greatest economic, political and military power of Latin America. In accordance with this, the authors' conclusion is that the future of all integration processes in South America, as well as the continent's international positioning will depend on the degree of harmonization between Brazil's regional and global foreign policy strategy and the pragmatism of Brazil's political elite and those of Argentina, Chile and, especially, the Bolivarian Republic of Venezuela.

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ECONOMY OF VENEZUELA IN 2010: INSTRUMENTS OF NATIONAL POLITICAL GOALS

Summary

This paper presents the economic situation of Venezuela in 2010, reviewing its development over an entire decade in which a number of policies were implemented in accordance with the project named "Socialism of the 21st Century." On the basis of this, we conclude that the realization of this political project has been a priority compared to other spheres of activity of Venezuelan society (for example, the economic one). We also stress the importance of the current year, when parliamentary elections are to be held, which could deepen or change the existing political direction of the Bolivarian Republic of Venezuela.

Key words: *Socialism of the 21st century, politics, economy, parliamentary elections, scenarios, Venezuela*

JEL classification: P26, E61

1. Introduction

During the past decade, Venezuela has been the subject of an important transformation, which is the result of a political project begun in 1988, when Lieutenant-Colonel Hugo Chávez Frias became Prime Minister, having previously participated in the presidential elections, as well as the unsuccessful coup attempt of 1992. Since its initiation, the project has undergone certain changes, which can be seen in various documents of the *MBR 200* and *MVR*¹ movements, and which can be presented in three phases or periods.

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¹ The Bolivarian Revolutionary Movement (Movimiento Bolivariano Revolucionario 200 – MBR 200) is a political movement that began in 1985, in the ranks of the Venezuelan

- 1998-2002: Initial phase of the project's implementation, in which, without concealing its socialist goals, the project progressed with the support of the private national, as well as the international economic sectors.
- 2002-2007: Amidst unemployment in practically all sectors of civil society and massive layoffs from the PDVSA (the state-owned oil company, the carrier of the majority of exports and national income), the project began the phase of expanding the role of the state in the economy, through a process of nationalization.
- 2007-present: During the last phase, the process has been radicalized and accelerated, and its directives have remained clearly defined in the PPS 2007-2013, authored by the current president of the Bolivarian Republic of Venezuela.

This work is based on the last phase of development and seeks to define the future look of the Venezuelan economy. The last period refers to 2010, and is especially interesting, since the parliamentary elections are analyzed from a political perspective, while the system's inability to satisfy the needs of the populace is observed from the economic standpoint. Finally, the contradictory aspects of the project in relation to Venezuela's tradition are presented from the socio-cultural standpoint.

The possibility of a change in this reality, based on the growing dissatisfaction of Venezuelan society regarding the project that was initiated a decade ago has necessitated a special analysis regarding the prospects of Venezuela's development. This makes 2010 into a critical year, and the entire situation is at a crossroads – either heading in the direction of a deepening of the process, or in the direction of its end.

It is also important to point out that, in the political sense, 2010 is a very important year, having in mind the parliamentary elections in September of that year, the year when the absolute majority that makes up the Government allowed the National Executive Body to act with total freedom and support, obediently accepting its initiatives and decisions.

2. Economic performance

When it comes to Venezuela's balance and economic prospects in 2010, it is necessary to consider the structural characteristics of the future process of national economic development, as a set of elements of irreversible influence which, together with changes in the environment, should integrate itself into the dynamic of cooperation and development of a globalizing world.

military, and which attempted a coup d'état in 1992. It was later transformed into the Fifth Republic Movement (Movimiento V República – MVR).

A special analysis of the national context imposes the need for examination from various angles. At the end, on the basis of an evaluation based on a crossing of characteristics, we opt for a specific direction. Thus, on one side, the economic, we have the productive, commercial, variable, monetary, financial and industrial elements, while on the other side we have political, social and ethical elements, which are of key importance. All these elements are crossed, in order to draw conclusions and define projections.

2.1. Global environment

The global economic situation is suggesting that the most critical phase of the financial crisis that began at the end of 2007 has been overcome, together with its recessionary influence in the course of 2009. The year 2010 is promising moderate economic growth, which is giving hope. In that sense, a change of the institutional structure in all its parts and forms is still necessary, in order to ensure systemic stability. Towards that purpose, a restructuring of the international financial architecture would be very important, where aspects such as the reserve model, the role of global financial institutions, transparency and financial supervision, new financial mechanisms and instruments and the role of surplus and deficit nations in world trade would be the basic variables of evaluation.

On the regional levels, we can observe the following:

- **United States.** Predictions are that in 2010 the US GDP will grow in intervals of 2 to 3 percent in real conditions, taking into account a 1.5 percent inflation rate. The positive picture of the economic situation in North America is confirmed by a look at the construction and the manufacturing sector, the labor market dynamic, and a review of consumption and indices of business confidence. These factors are based on a monetary policy of gradual borrowing in 2010. Interest rate growth can affect and destroy the bond market, which would lower investor confidence on the stock markets.
- **Europe.** Although to a lesser extent than the United States, Europe is also showing signs of growth in 2010, despite the recessionary or generally stagnant picture it is presenting. The differences between the nations in the region should be pointed out. Germany is experiencing growth, while Spain, Ireland, Greece and Italy are showing deflationary tendencies. All this is giving difficulties to the European Central Bank and, since interest rates are at their historic minimums, a restrictive monetary policy would deepen the interregional imbalance.
- **Asia.** The Asian giants are still movers of the global economy, with predicted GDP growth rates of 10% for China and 8% for India, which shows

that the global crisis has not hit them. On the other hand, Japan will have a hard time in overcoming stagnation.

- China's growth is still reliant on exports, but it is also ensured by variables for which predictions for 2010 are positive: strengthening domestic demand, development of the real estate sector, private consumption and investor confidence. These factors will generate a 2.5% inflation rate. The recovery of the global economy will leave effects on raw materials prices; however, they will not affect economic growth. This gives China's economy a specter of possibilities for maintaining its position as a global strategic factor. The Chinese economy's favorable situation is making it an unavoidable player in the making of a new financial global structure, where it can insist on the possible role of the yuan-renmimbi as a global reserve currency.

- India is returning to its monetary policy, which is expected to strengthen in 2010, through an increase in interest rates, which are currently at a historical minimum (1%), while the industrial sector is registering 9.5% growth.

- **Latin America.** Except for Venezuela, the main economies in this region have overcome the recessionary phase that affected them starting with the third quarter of 2008. The recovery of the global economy offers positive prospects for Latin America, especially having in mind the fact that the effects of the recession were milder relative to other regions. Also, although mild, the growth in the prices of raw materials represented a sufficient inflow to allow the region to earn positive grades. These positive trends in the current account should be managed intelligently, because if they translate into support for debt under conditions of rising interest rates, this could lead the region into a renewed debt tragedy at the beginning of 2011, when restrictive monetary policies would be applied.

It is important to stress the significant differences between the countries of the region, i.e., the fact that the expectations regarding Chile, Mexico and Brazil are much more promising than those regarding Colombia, Peru, Panama and Costa Rica, and even more so Argentina, Venezuela and Ecuador.

3. Venezuela's economy – the basic key data

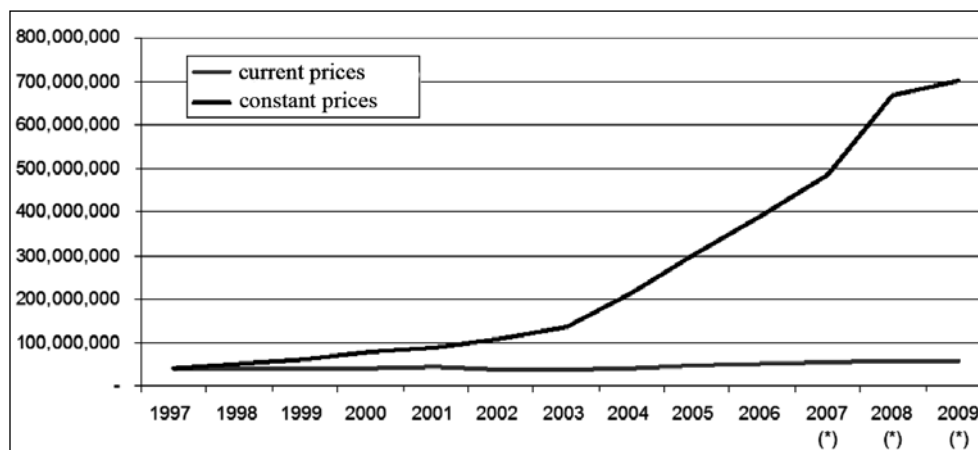
Venezuela is a country of friendly people, with a population of around 30 million, living over a territory of one million square kilometers. It has been blessed with a diversity and abundance of natural resources – gold, iron, oil, diamonds, forests and great rivers. Venezuela has a variable and mild climate in its jungles, mountains, beaches and plains. Strategically, it is located in the north

of South America, near the world's largest markets. Venezuela entered the 21st century in a state of unrest, as a consequence of a century marked by oil exploitation, a rentier system, imperfect democracy and an unequal distribution of wealth in society.

The first part of the century has been marked by the slogan "Socialism of the 21st Century," which represents an economic framework that would allow the participation of sectors with an unfavorable position in the distribution of national wealth. However, its potential for mobilizing the citizenry gradually dissipated and their will has begun to turn into disappointment and frustration. The unfavorable circumstances, as a result of poor economic activities, mistaken policies, inappropriate compensatory mechanisms and ideological discrimination, have turned into a populist-military experiment that is offering the vulnerable majority unfulfilled promises.

Below we will present a set of economic variables that give a picture of the microeconomic activity and the situation in 2010. Official data show that the country's production level, in constant conditions, has practically stagnated during the first decade of the 21st century, while increases in value are exclusively effects of prices.

Graph 1: *Current and constant GDP (1997=100, MM Bs.)*



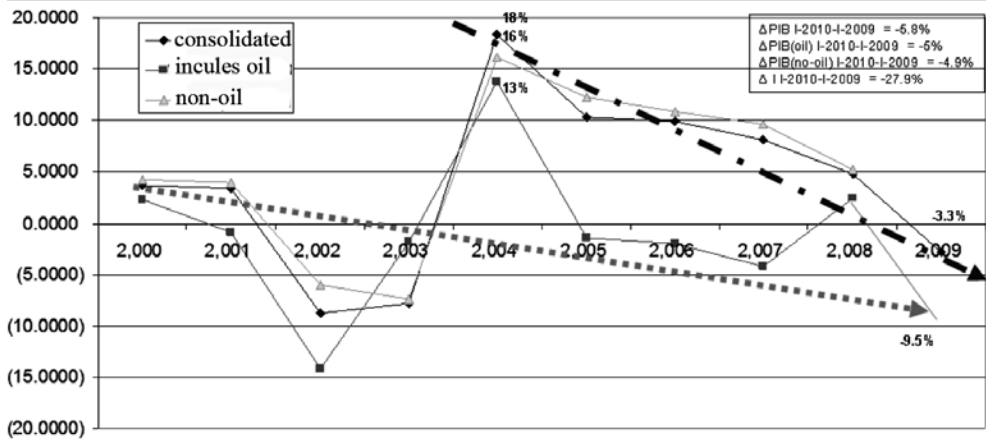
Source: Central Bank of Venezuela

The data from 2009 are especially discouraging when it comes to production: the decline in the consolidated GDP was 3.3%, while the fall for oil, the country's basic export product, equaled 9.5%.

At the end of the first semester of 2010, according to the data of the Venezuelan central bank, the GDP had fallen by 5.8%, which was similar to the fall in the fourth quarter of 2009, showing a picture of declining economic activity

over four consecutive quarters. This is not a sign of an ordinary recession, but proof of a dying growth model. Especially worrying is the fall of the industrial sector, with consecutive contractions of around 10%, which reflects insufficient national supply, import dependence and inability to diversify exports, thus sentencing Venezuela's economy to mono-production.

Graph 2: Rate of GDP growth (consolidated, oil and non-oil related (1997=100))

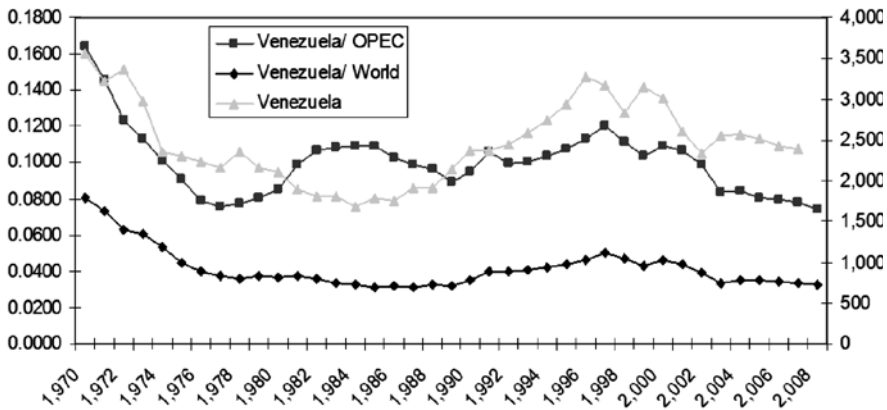


Source: Personal calculations based on data of the Venezuelan central bank

The above data show that a revision of the review of the performances of the consolidated product from 2004 is necessary, which is confirmed by the fact that the tendency was a declining one during the last five years and, if the values from 2003 and 2004 are left out (due to the oil industry strike and the national civil strike of 2002), a falling tendency is still observed, albeit less pronounced but quite negative during the entire decade. While insisting on the above presented facts, it is important to stress that the economic hardship in Venezuela is not a product of the global financial crisis from the end of 2007, and that the latest negative results that are being seen today do not stem from it alone.

To this should be added the dynamic of demand, reflected in a 6% fall in private consumption and a 28% fall in investments in the first quarter of 2010. At the same time, significant reductions in capital creation are putting into question the growth prospects of Venezuela's economy in the near future, to which should also be added the state's inability to absorb the labor force, which directly affects business conditions.

Graph 3: Development and significance of oil production in Venezuela 1970–2008



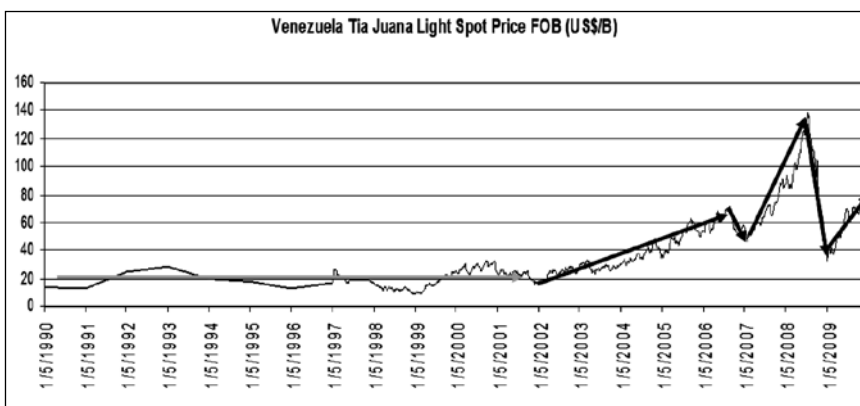
Source: EIA, <http://www.eia.doe.gov/ipm/supply.html>

Speaking of the oil industry, in 1970, Venezuela was producing 3,700b/d, while at present, although there is no consensus regarding the new values, according to the US Energy Information Administration (EIA), it produces 2,300b/d.

It is important to stress the scope of the growth of internal demand, which decreases the volume available for export, as well as recent agreements with neighboring states, whose terms of payment reduce the total value of payments, which make up less than one half of the total hard currency earned by the state.

In the same way, a revision of the data for the period between 1998 and 2009 shows a gradual fall in our country's share in the oil production of OPEC, of which Venezuela is not just a member, but a founder as well.

Graph 4: Oil price for Venezuela Tia Juana Light (USD/barrel)



Source: EIA, <http://www.eia.doe.gov/ipm/supply.html>

Naturally, the variable that needs to be examined is tied to the country's main export article, which has, regardless of recent fluctuations, had a growing tendency since the beginning of the century, as a result of the growth of the world economy and the product's relative scarcity.

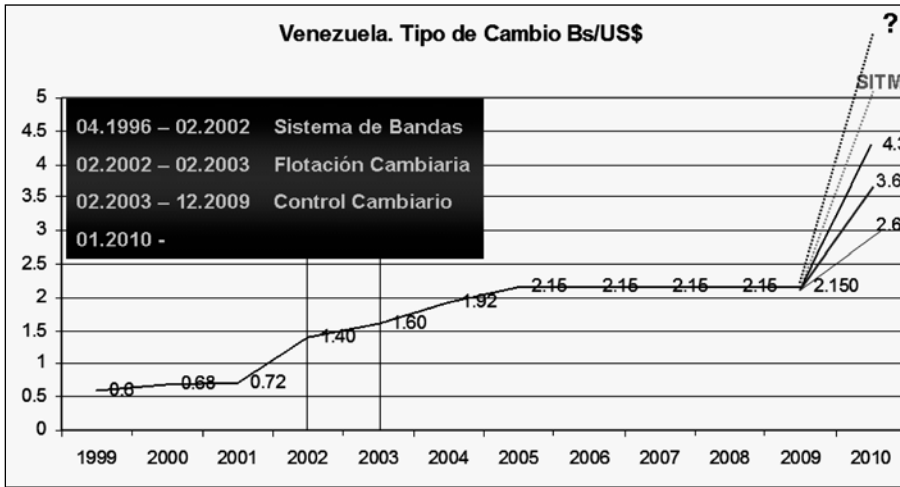
Venezuela has depended on oil exports, which means that the difference in the profitability of this activity compared to others in the country has made the type and scheme of currency exchange into elements of vital importance in the creation of positive and/or negative stimuli for national production.

Since the 1980s, Venezuela has tried various exchange policy schemes: fixed, floating, sliding, etc. – and even control. The latter has never been successful in terms of support, as it always represented an obstacle for adjustments that could have been made by the market or other mechanisms – which would have been gradual and less traumatic, at that. On the other hand, distortion would have been eliminated through strong adjustments that liberate prices. However, the poor results were not an obstacle for various governments to insist on their implementation.

The last Exchange Agreement, no. 14, published in the “Official Gazette” no. 39.342 of January 8, 2010, seems to retain the controls imposed in 2003 (with two successive devaluations in 2004 and 2005), but with a complex scheme: 2.60 Bs/USD for imports on the list (which covered, according to the Foreign Exchange Commission, CADIVI, 40% of total imports in 2009) and 4.30Bs/USD for others (which amounted to 60% of imports in 2009), which represents an adjusted devaluation of more than 65%. It should be stressed that the exchange incompatibility was evident from 2006, when the official exchange rate was 2.15 Bs/USD, which represented a strong jump in value as a result of internal inflation. However, out of political reasons, the exchange rate remained unchanged up to 2010.

At the same time that Exchange Agreement no. 14 was published, the participation of the Venezuelan central bank (BCV) on the securities market was announced, from which it may be concluded that the exchange control scheme was exchanged for a dual scheme, with different interest rates, two fixed and a third with regulated floatation.

Graph 5: Scheme and types of changes



Source: Central Bank of Venezuela

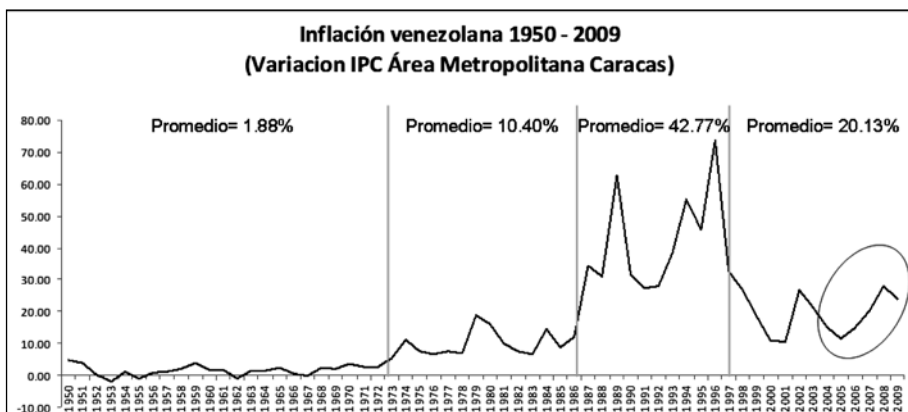
In accordance with the above, the said devaluation turned out to be insufficient, as the new exchange rates could not overcome the monetary imbalance, due to the abandonment of tax adjustment and the strengthening of the monetary policy, as well as because of the periodic inflows of foreign currency earned from oil at the beginning of 2010, which were not indicative of higher oil prices.

Later on, in May 2010, the foreign exchange market was closed, leaving the production sector with highly restricted access to foreign currency for imports, and individuals without any possibility to exchange their money for imports into foreign currencies. Soon after, the System of Foreign Currency Transactions (SITME) was formed, as a complement to the CADIVI system for purchasing foreign currency. SITME functions with the foreign currency held by private banks, which are by definition limited, meaning that the stability and the functioning of the new system will depend on new debt issuances on the part of the Venezuelan state.

For all these reasons, the variety of exchange rates in the Venezuelan economy complicates the production process, does not motivate investment and stimulates excessive speculation.

Venezuela's economy is not suffering the inflation rates of the 1980s and 1990s, maintaining them between 15% and 40% on the annual level. It is important to stress that global inflation is at very low levels, while the Latin American average is 5%, with imports playing the biggest role in this phenomenon.

Graph 6: Inflation



Source: Central Bank of Venezuela

It has been observed that, since 2005, inflationary pressure has begun to grow at a worrying rate, in spite of numerous imposed controls (price, interest rate and exchange rates) and random subsidies in the state's trading chain, which is why it has been suppressed at these levels. Perhaps the most worrying is the inflation suffered by the food sector, which has reached 50% and which, according to a national family budget survey from 2009, absorbs 33% of income, with the percentage rising in population sectors with less economic resources. For this reason, the inflation failure has become irreparable and resistant, seriously jeopardizing the family budget and, thus, Venezuelans' quality of life, especially that of the economically vulnerable part of the population.

While controls are being set, money is being injected into the economy, with a triple negative effect: rising prices, weakened support for the currency and weakened institutions, as well as the elimination of the Venezuelan central bank's autonomy.

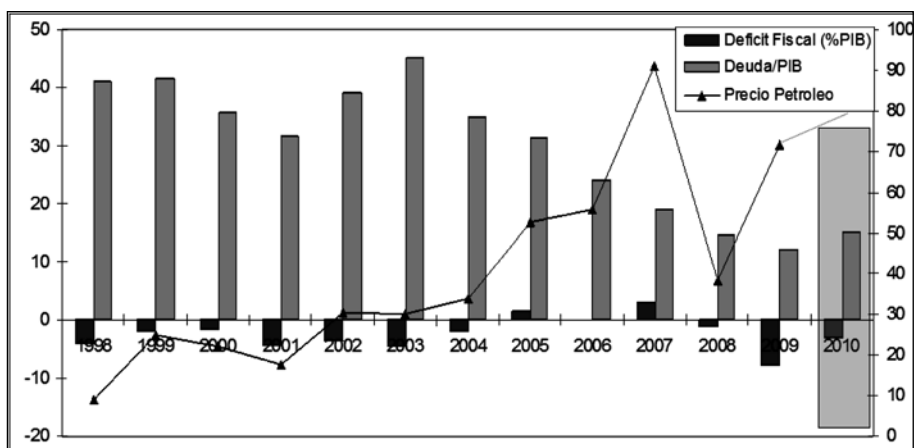
Table 1

| | Profits from currency exchange(*) | Foreign reserves(*) | Total(*) |
|---------------------|-----------------------------------|---------------------|--------------|
| 2001 | 1532 | | 1532 |
| 2002 | 1054 | | 1054 |
| 2003 | 2836 | | 2836 |
| 2004 | 3138 | | 3138 |
| 2005 | 2091 | 6000 | 8091 |
| 2006 | 901 | 4000 | 4901 |
| 2007 | | 6770 | 6770 |
| 2008 | | 1583 | 1583 |
| 2009 | | 19000 | 19000 |
| TOTAL | 11552 | 37350 | 48900 |
| (*) in millions USD | | | |

Since 2006, claiming that it possessed surplus foreign reserves, the Venezuelan central bank has performed transactions worth 37,350 million US dollars. If we add to this the transfers realized in the course of this decade on the basis of the concept of profit from currency exchange, the amount reaches almost 50,000 million US dollars. It may be supposed that transfers will reach 15,000 million US dollars in 2010, as a result of substantial profits from currency exchange due to devaluation and non-redeemable loans, which would go into the National Development Fund (FONDEN).

After a revision of the accounts of the national treasury, we can observe a growing dependence on periodic revenues such as the above-mentioned BCV transfers, PDVSA-distributed dividends and a dependence on implicit taxes (inflation). These tax schemes are symptoms of a fiscal deficit that has become chronic and which, despite higher oil prices, demands increased financing (between the first quarter of 2009 and the first quarter of 2010, the oil price rose from 38.6 USD/b to 70.6 USD/b, or by 83%). The projections for 2010 assumed a deficit of 7.4% of GDP, but due to the devaluation at the beginning of the year, it may be about 3.2% of GDP (10 billion USD).

Graph 7: Debt, oil prices and fiscal deficit



Source: Ministry of Planning and Finance

At the same time, the growing level of public sector borrowing is creating problems related to its ability to raise revenues, as well as public spending levels characterized by rigidity and ineffectiveness, all in the context of serious distortions in the market distribution mechanisms.

The government financing scheme over the last five years has stimulated debt placement on the internal market, to a large extent thanks to restrictions for access to external financial markets. However, 20,000 million USD of borrowing from China has been announced for the second half of 2010, along with an issuance of the national 2020 bonds worth 3,000 million USD, which will probably be accompanied by additional measures.

The borrowing from China is performed through the Chinese Development Bank, for a term of ten years, and represents the largest borrowing in Venezuela's history. Except for the sum, no other official information is known regarding the debt, but it is known that 50% will be paid in US dollars, and that Venezuela is obliged to secure 100,000 barrels of oil over 10 years.² The rest of the loan will be paid out in yuan, which is why Venezuela is obliged to purchase products from China.

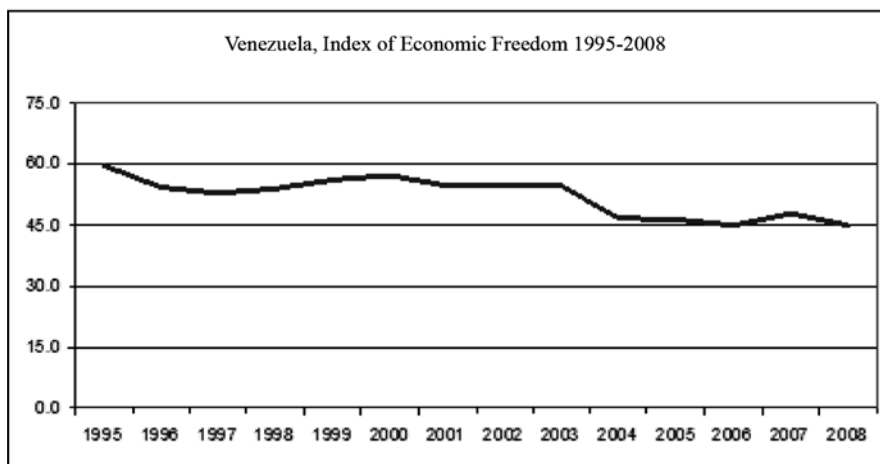
This debt assignment is taking place in a context when the PDVSA debt has significantly increased. At the end of 2009, foreign currency debt equaled 75,212 million USD, which was an increase of 25% relative to 2008. The financial debt of PDVSA at the end of 2009 reached 21,419 million USD, which is substantially more than the figure for 2008, when the total equaled 15,095 million USD. The rhythm of this borrowing was marked by a troubling tendency at a time when

² There is no information regarding the terms of the agreement, nor about the agreed oil prices.

oil production was falling, while the internal consumption of its derivatives was increasing (MENPET, 2009; PDVSA, 2009a, 2009b).

As for trade relations with other countries, a serious deterioration of the current account is apparent. The unusual growth in imports from 2003 stands out, growing to 45,000 million USD by 2008 and 31,664 million USD in 2009. At the same time, non-oil related exports fell from 7,200 million USD in 2005 to less than a third of that amount in 2009. If the balance in goods remains positive, it will be thanks to oil exports.

Graph 8: *International trade (in millions USD)*



Source: Central Bank of Venezuela

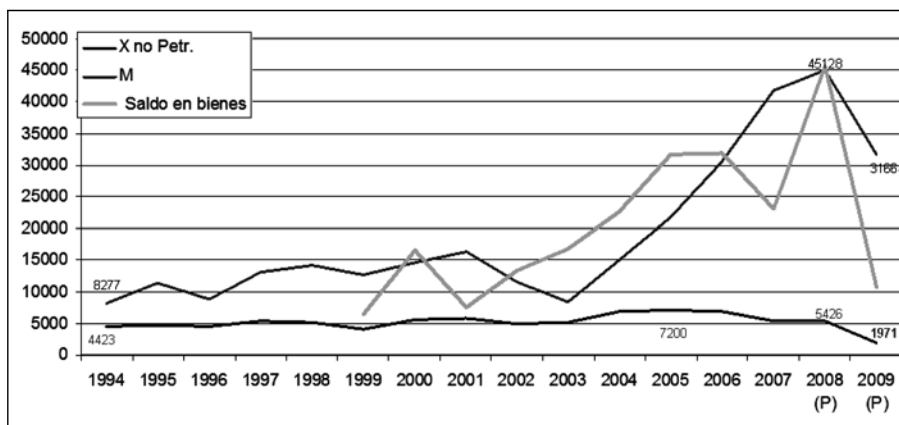
This situation has international ramifications, which is why risk evaluators have ranked the country much below its regional neighbors. Thus, for example, on June 18, 2010, *Venezuela-EMBI*³ had 1,134 points, which explains the fact that, in the last national debt issuance, the national 2020 bonds had a 12.75% coupon. In spite of the devaluation from the beginning of the year, there was a bit of success, having in mind the strengthened respect of the public sector for obligations of paying in the national currency.

Looking at traditional indicators, as well as the so-called light indicators, when it comes to economic freedoms, Venezuela ranks 148th in the world, and next to last in the Western Hemisphere. Since 1999, its position has worsened.⁴ Among the measures of freedom: trade, fiscal, monetary, investment, financial and labor, plus corruption indicators and property rights – each was below the world average.

³ Risk indicator for coupons issued by the US Treasury.

⁴ The Heritage Foundation, 2009.

Graph 9: Index of economic freedom for Venezuela



Source: Index of Economic Freedom, The Heritage Foundation, 2008

In addition, the entire series of indicators shows that the country has been undergoing a long and uninterrupted decline, which has had a negative impact on investments. Property rights have also worsened significantly, as an effect of nationalization, expropriation and invasion, which has also made the country's future recovery more difficult.

Figure 1: Various indicators. Venezuela

| Venezuela | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
| Chain-Linked | Rating (Rank) | Rating (Rank) | Rating (Rank) | Rating (Rank) | Rating (Rank) | Rating (Rank) | Rating (Rank) | Rating (Rank) |
| Summary Rating (Rank) ▶ | 6.33 (23) | 5.99 (38) | 5.41 (63) | 4.25 (116) | 5.59 (102) | 4.56 (126) | 4.49 (128) | 4.07 (128) |
| Area 1: Size of Government | 6.29 (22) | 6.86 (12) | 5.95 (47) | 6.13 (63) | 5.95 (76) | 4.91 (113) | 4.99 (109) | 4.56 (119) |
| Area 2: Legal Structure & Security of Property Rights | 6.11 (37) | 5.16 (56) | 5.60 (50) | 3.84 (104) | 3.75 (100) | 1.87 (127) | 1.72 (129) | 1.60 (128) |
| Area 3: Access to Sound Money | 7.40 (27) | 8.34 (22) | 4.74 (94) | 1.93 (113) | 5.56 (110) | 5.10 (123) | 5.64 (123) | 5.62 (125) |
| Area 4: Freedom to Trade Internationally | 7.25 (19) | 4.82 (63) | 6.50 (38) | 5.30 (100) | 7.13 (57) | 5.61 (106) | 5.35 (116) | 3.73 (126) |
| Area 5: Regulation of Credit, Labor, and Business | 4.73 (69) | 5.06 (59) | 4.30 (91) | 4.06 (109) | 5.56 (83) | 5.30 (110) | 4.85 (119) | 4.90 (121) |

Source: Gwartney et al. 2009, *Economic Freedom of the World 2009*, annual report, 2009.

All these microeconomic indicators point to the nation's extreme dissatisfaction, with the key elements being the fall in real income, lack of well paying jobs, chain of unreported work and the effects of that situation on social security.

Except for the investment in poverty reduction in the country, all this is a clear indicator of the necessity to reconsider public policies and their provisions.

It is also necessary to add to all this one more misfortune that has befallen the populace – the question of security. The last National Survey on citizen victimization and security perception, conducted by the National Institute for Statistics, which surveys citizens on their impressions regarding questions of civil and police security, offers worrisome results, which merely confirm what the media are reporting each day and give a feeling of insecurity and powerlessness before the violence experienced by the citizenry.

4. Political elements: the First Socialist Plan Simon Bolivar 2007-2013 and the domination of other spheres

From the standpoint of political practice, the last decade can be divided into three basic periods: 1998-2003, 2003-2007 and 2007-2013, the period characterized by the First Socialist Plan for Economic and Social Development, PPS (Nov. 2007). The Plan has set forth 7 principles:

- 1) New socialist ethics
- 2) Supreme social happiness
- 3) Leading revolutionary democracy
- 4) Productive socialist model
- 5) New national geopolitics
- 6) Venezuela: world energy power
- 7) New international geopolitics

Each principle or “mover” of the model is oriented toward socialism and the “socialist productive model,” which is oriented toward eliminating social divisions and satisfying needs above wealth production. It is also oriented toward the plan’s geopolitical success, with the energy legacy as the key component of its success.

In brief: the normative and ethical framework of PPS is socialism, which is opposed to capitalism and individual decision-making but retains the argument of national sovereignty gained through the vote. At the same time, it stresses the endogenous development model, relying on cooperatives and social production enterprises.

“The goal of the change should be to elevate the common elements, with the help of which a single community would be built, in place of solitary and selfish individuals prepared to impose their interests on it. It is to that entity – the community – that the entire power of individuals is delegated, resulting in the general will, so that the power of all is at the disposal of all. The established morals and communion are the guidelines of the members of the community, who –

although they have their own individual interests (individual wills) – in order to be moral, should be guided by justice, that is, by principles of equality – the only way to strengthen the collective political body – and freedom.”⁵

Also, it proposes a reduction of the importance of private companies and a change of terminology, from “private property” to “individual property.” On the basis of the above, and after the model has been applied, the following can be concluded:

it should be stressed that, although PPS does not call for the abolition of individual ownership, it has the effect of reducing its scope and share in Venezuela’s economy;

it defines the framework of the functioning of the political, economic and social sectors; at the same time, this defines the space for the activity of individuals and their property, in accordance with the general philosophy of socialist ethics.

To summarize, all this represents a weakening of property rights. However, it also contains various contradictions:

- Giovanni Sartori (1999) is of the view that “idealistic democracy” (socialism/communism) insists on the application of the mechanical elements of democracy (such as voting), while rejecting the glorification of the value and normative elements of “real democracy” or liberalism.⁶
- Democracy and oligarchy are **not** defended or strengthened in this way (according to Dahl, 1999) but, rather, the ***freedom of the new socialist man*** is established, which is a contradiction in itself.

When it comes to the relationship between politics and economics, the economic system becomes an instrument for the application of the political system and strengthens its contradictions:

- Control of the financial system, production of goods and a large part of the service sector (by way of legal regulations or control of prices and the stock exchange) is in opposition to the offered model of sovereign endogenous development.
- Gradual loss of independence, not only of government and institutions, but of the economic and the political system as well.⁷

⁵ H. Chavez Frías, *Proyecto Nacional Simón Bolívar. Primer Plan Socialista – PPS – de Desarrollo Económico y Social de la Nación 2007–2013*, 2007, p. 14.

⁶ G. Sartori, *¿Qué es la democracia?*, Buenos Aires, Taurus, 2003.

⁷ H. Koeneke, D. Varnagy, “Algunas consideraciones sobre los principales indicadores del capital social en los albores del siglo XXI venezolano,” *Revista Venezolana de Análisis de Coyuntura*, Vol. XIII, No. 1, Instituto de Investigaciones Económicas y Sociales Dr. Rodolfo Quintero – Facultad de Ciencias Económicas y Sociales, Universidad Central de Venezuela, Caracas, 2007, pp. 257-267.

- This is the most important part of the ideological principles established by Marx and Engels, whose application was proposed and carried out by Lenin, Trotsky, Mao and Castro in their own countries.

Among these contradictions, a set of elements that are considered to be “blockers” of the current political project can be identified, including:

- Inability of applying elements of equality in the system: the choice of benefits is determined by the authorities and through ideological “mimicry”.
- The progressive silencing of the media, in order to replace information with ideologization, prevents recognition of possible errors in the system, which might awaken the critical judgment of the relevant portion of the populace (“responsibility” and elections).
- Inability to increase the efficiency, effectiveness, productivity and integrity of the system: practically, only a single competent body – the government – determines the position of regulator, operator and client on the market.

When the “movers” and “blockers” of the proposed social system are weighed, and taking into account the economic plan, the internal sector could represent a base for positive expectations that would stimulate economic renewal and prevent the spending needs of the public sector from creating too many problems for the economy as a whole. In order to make this possible, changes are required in the government – private sector relationship, which would stimulate investors. In that sense, the political orientation has repelled investment and worsened the climate for attracting it.

The political situation has major economic influence. Within a very short time period and in accordance with this year’s election scenario, an increase in public spending is expected, which will fuel inflation and stimulate production. Decrees have already been issued to raise wages (March and September) and pay off the accumulated public debt, both of which fuel internal inflation and worsen the reductive influence of the fiscal deficit.

5. Scenarios

In an environment in which the contradictions of the model are apparent, where dissatisfaction is rising and political fragmentation is an ordinary phenomenon, the parliamentary elections of 2010 are becoming a critical moment for analyzing the country’s present and future. It is difficult to precisely predict the results of the interaction of all the unified forces, but we can create different future scenarios, based on specific behaviors of key variables.

Thus, looking to the future, the elements of the economic plan from the second paragraph can be schematically divided into two groups:

a. Elements stemming from international dynamics, representing external or exogenous elements.

Here, a possible alternative to the global environment is guided by sufficiently raised oil prices, but not by increased accuracy, as we have seen in recent years. This would raise oil prices above 80 USD/b, and the Venezuelan basket to 70 USD/b. International interest rates would rise in parallel, which would affect our debt servicing, both for existing and future debt.

b. Elements stemming from internal national dynamics, which are presently mostly concerned with dealing with the devaluation from the beginning of 2010.

The sum of the above elements produces economic behaviors, which offer two scenarios (marked by “E”) on the economic plane:

- E1: Stagnation: the Exchange Agreement allows a balance between fiscal accounts, with relatively low pressure on prices, while at the same time de-motivating imports, stimulating economic renewal and increasing national production, accompanied by a rise in official employment.
- E2: Worsening: The last Exchange Agreement deepens the national crisis, adding inflationary pressure to the expansionary public spending policy. In addition to destroying national productive power, internal demand is still compensated by imports. Also, the problems in the public services prevent progress in national production.

It is also important to emphasize the uncertainty component, which adds the political environment to the above, connected to the elections, where the following three situations are possible (“A”):

- A1: elections held on the anticipated date, with a large turnout and legitimacy of the event and the commission.
- A2: Elections held on the anticipated date, with low turnout and doubt regarding the legitimacy of the event and the commission.
- A3: Elections are not held on the anticipated date.

If we assume that the elections are held and the people accept the results announced by the commission (A1), we can define three different scenarios below. In the case of A2 and A3, a definition of future scenarios is meaningless, due to weakened election legitimacy (A2) or, in the worst case, the total illegitimacy of the democratic system (A3). In the case of A1, we have the following situations:

- P1: Absolute ruling majority: the ruling parties gain two-thirds of the seats in Parliament, retaining majority rule.

- P2: Simple majority rule of the ruling parties: the ruling parties gain between one half and two-thirds of the seats, and make up the Parliament together with the opposition parties.
- P3: Opposition majority: the ruling parties receive less than 50% of the seats in Parliament, while the opposition forms the parliamentary majority.

If we cross the economic scenarios (Es) with the political (Ps), we get six possible combinations.

1. P1[∧]E1: Economic stagnation, with the ruling parties forming an absolute majority.

Rooted “Chavismo”. Breaking up of the opposition. In this case, a repressive social system is created, characterized by economic stagnation, within which the deinstitutionalization of political institutions that should be independent is raised to a higher level, not only in words but in deeds. The opposition becomes a disintegrated and broken up minority that needs to regroup and conceive better strategies for the political future.

2. P1[∧]E2: Economic imbalance, with the ruling parties making up an absolute majority.

An unstable system as a consequence of repression. In this system, the previous scenario is augmented with disappointment due to the small economic benefits and privileges that only sectors loyal to the government can gain, at the expense of others and of society as a whole. Accordingly, with the ruling majority firmly holding power, as a characteristic of this scenario, large numbers of hidden enemies and traitors appear among the various groups seeking to gain favor with the president, while the people’s dissatisfaction is suppressed in order to retain power.

3. P2[∧]E1: Economic stagnation with a simple majority of the ruling parties.

Imbalance of the ruling parties’ political projects. Negotiations begin. In this scenario, it should be born in mind, as in the others without an absolute majority of the ruling parties, that there are more than three months between the date of the elections for the National Parliament and the convening of the new parliament. During that period, the parliamentary majority at the time of this writing, which is oriented towards the ruling parties, might pass laws and decrees that would jeopardize the formation of the majority necessary for the passing of certain laws (for example, a conditional majority and three-fifths for the constitution and sub-legal acts). The current scenario presents a situation in which, while retaining the status quo for the adoption of rulebooks, the ruling party fraction would have a need for some votes of the opposition fractions for the adoption of sub-legal acts and the constitution, where elements of financial gain would be included in the negotiation processes.

4. P2^E2: Economic imbalance with a simple majority of the ruling parties.

Political instability of “Chavismo.” In that case, the opposition parties would have the simple task of informing and showing the Venezuelan nation and the rest of the world that the economic failure is a consequence of the government’s incompetence and inadequate laws adopted by the ruling majority. In this scenario, as in the preceding one, the opposition’s political power would be almost useless; its basic function would be to spread information within (which is presently not always possible) regarding the ways of the functioning of the legislative body of President Chávez’ political and ideological project.

5. P3^E1: Economic stagnation with a resisting opposition majority.

Reinstitutionalization amidst conflict. An open scenario on the basis of the “Chavismo/opposition” strategies. In case the opposition, which resists President Chávez’ project, gains a parliamentary majority, it would mark the beginning of the fall of the said project, as well as the reinstitutionalization and regained independence of at least one political power center. This scenario is unpredictable in itself, as it would depend on a test of strengths between the ruling groups, including: organizing labor unions for or against the government, leadership of student movements, loyalty of the armed forces and the police, and other elements that are not usually considered in analyzing rule-of-law states, i.e., questions related to the police and other parallel armed forces.

6. P3^E2: Economic imbalance with a resisting opposition as a majority.

Highly charged system. This is a scenario in which the fall of the presidency is conceivable, based on the autonomy of the legislative body, taking into account the pressure of the people due to dissatisfaction and lack of fulfillment of basic needs, which is a characteristic of economic imbalance.

This group of 6 scenarios can generate several conclusions that will be presented below, provided that an intense and deep campaign on the importance of the right to vote is carried out.

- When the ruling parties retain the necessary majority vote in the parliament (over two-thirds of the seats), the opposition should reevaluate its strategy and political aims, and come up with a strategy of resisting the ruling parties from the opposition.
- When the ruling parties have a simple parliamentary majority (between one half and two-thirds of the seats), there would be a restoration of the political dynamic that would include negotiations between ruling and opposition parties, provided that the parliament whose mandate has expired does not change the provisions of the Constitution of the Bolivarian Republic of Venezuela regarding the majorities necessary for adopting various types of legislation.
- The gaining of more than 50% of the parliamentary seats on the part of the opposition is unlikely in 2010. That would happen only if “Chavismo” and President Chávez were to suffer a political debacle.

Cases in which election results would have little legitimacy or where there would be no elections at all, would push the political system into a situation where the regime would be strengthened and radicalized, with possible scenarios of violence in society, which we believe to be unlikely.

6. Concluding remarks

Studies have shown the existence of a series of relations between key variables. Thus, for example, they show a positive relation between economic growth, democracy and equality,⁸ between economic growth, investments, savings and financial strengthening. On the other hand, a negative correlation has been found to exist between economic dependence on natural resources and economic growth, dependence on natural resources and education and social inequality and political democracy. These are reasons for a revision of the indicators of other vital factors, such as the above-mentioned economic factors, for the purposes of evaluating our national development prospects.

Past experiences have shown that an analysis of the economic sector is insufficient for an evaluation of a society's prospects and future behaviors.⁹ In that sense, a nation's ability to create stability in action reduces risk possibilities and creates systems that stimulate reduction of inefficiency and promote productivity. Combinations of this characteristic should promote improvements in the sharing of profits, thus reducing inequality and poverty, and strengthen a nation's social capital creation within a free environment. Our goal as a society should be the establishment of a network of productive relationships based on mutual trust and confidence in political institutions, as written in this work.

Our country has abundant resources, which appears positive in the international economic situation. Generally, the global economy has not achieved substantial growth, with the exceptions of China (9.1%) and India. The developed countries grew by 2.1% in 2004, while developing countries grew by 4.5%, for a total global growth rate of 2.5%. The growth of the eastern nations, perceived as giants in terms of poverty in previous times, is based on the implementation of

⁸ S. Levy-Carciente, D. Varnagy, "Capital financiero y capital social en por del desarrollo sustentable," *Revista Politeia*, No 34-35, Instituto de Estudios Políticos, Universidad Central de Venezuela, Caracas, 2005, pp.181-198; D. Varnagy, *Capital social y aspectos relacionados con la cultura política del venezolano (1973-2000)*, Tesis Doctoral, Universidad Simón Bolívar, Caracas, 2003; Idem: "América Latina: Análisis de la construcción y de - construcción del Capital Social Contemporáneo con herramientas de la psicología" in: Pajovic, S. S. - Monserrat, L. M. (eds): *Europa Balcánica y los Países de la Cuenca del Mar Negro - MERCOSUR: Procesos de Transición, Concertación e Integración Económica, Política y Cultural*, Universidad Megatrend, Belgrado, 2007, pp. 221-238.

⁹ M. Weber, *Economía y Sociedad*, Fondo de Cultura Económica, Bogotá, 1997; P. Bourdieu, "Forms of capital," J. C. Richards (ed.): *Handbook of Theory and Research for the Sociology of Education*, Greenwood Press, New York, 1983.

policies oriented towards opening to the outside and economic growth, which will continue to stimulate growth in the prices of goods, including oil. The rise in fossil fuel prices causes natural fears regarding global growth, but it seems that the growth of the Far East has eliminated them, meaning that growth prospects for 2005 continued to be positive.

This situation should ensure a positive economic outlook in the short-term. In the meantime, an evaluation should be made regarding the national production structure, its future oil dependence and the role of various economic factors, with the goal of making it easier to deal with upcoming global changes in energy consumption. In the same way, this positive economic outlook should be based on a reactivation of non-oil sectors, whose main factor is the private sector, in order to renew the rates of development from the beginning of the 20th century, which have been jeopardized by the state's control over key production sectors, and the ignoring of global financial changes.

Economic growth cannot be separated from the political and the social planes, within which the importance of the principles of equality in wealth distribution, social resource training, democracy and political freedom should be unavoidable subjects of analysis. However, eventual renewal would not be successful in a climate of political instability or lack of security and judicial independence. The legislative body, the Parliament, has a decisive role in the establishment of the necessary prerequisites in this regard, which will become the bases for directing our state on the path of development, with the goal of regulating the social debt that is limiting us. This debt, as history has shown, has a greater chance of being regulated in democracy and freedom than in a restrictive system.

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SEPA PROJECT FOR THE IMPROVEMENT OF THE EUROPEAN ECONOMY^{**}

Summary

This paper discusses the importance of the implementation of elements of an integral payments system in the euro zone (Single Euro Payment Area – SEPA) for the creation of better business conditions, through the positive effects it will have on different participants. Since the achievement of this general goal assumes the harmonization and standardization of instruments and procedures in the payments system, we first analyze the basic conceptual grounds of the SEPA project itself, after which we discuss the standards and rules on which this project is founded and, finally, look at the expected potential effects on certain participants.

Key words: SEPA, payments system, direct debit, direct credit

JEL classification: E42, G21

1. Introduction

The need to form the Single Euro Payment Area (SEPA) appeared due to the negative effects of the incompatibility of individual national payment systems on the competitiveness of the European economy after the introduction of the euro as the single currency of the eurozone in 2002. As national payment systems had retained specific solutions conceived for the needs of their own users, differences in regard to the technologies, procedures, standards, types of services, bank tariffs and contents used in the regime of bank clearing and payments became more apparent. In such conditions, companies were compelled to keep

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separate accounts for doing business in different countries, while citizens were not able to conduct cross-border payments or purchase goods and services from a single account.

In order to eliminate the said shortcomings, an EU directive was brought in 2001, with the goal of equalizing tariffs for payment services (Reg. 2260/2001). However, the key problem was not overcome. Despite the introduction of TARGET, different instruments and standards continued to exist, companies were compelled to do business through different accounts in different countries, while citizens were faced with substantially higher fees for cross-border payments and cash withdrawals. As a result, the largest European banks and financial institutions formed a special expert body, the European Payments Council (EPC), whose task was to form a single, efficient and unobstructed payment system in the eurozone. Subsequently, the Council of Ministers for Economic and Financial Affairs (ECOFIN Council) adopted the Payment Services Directive (PSD) in 2007, with an implementation deadline of November 1, 2009.

The result of the above activities was the project of establishing a single euro-region payment system – SEPA, which would eliminate all the said shortcomings of the payment system.

The plan was for the SEPA project to be implemented by phases, from 2004 to 2011. The first phase (January 2004 to June 2006) encompassed the creation, conception and design of the payment system. The second phase (mid 2006 to December 31, 2007) was reserved for getting acquainted with, introduction and testing of the new SEPA instruments. The third phase (January 2008 to December 31, 2010) represented a transition to the new system. The fourth phase (from 2011) is to function as the phase of exclusive application of the SEPA payment system.

2. Basic conceptual premises and characteristics

The basic goal of the entire SEPA project is to turn the fragmented national euro-payment markets into a single, domestic market, which would in its ultimate realization phase allow the populace and businesses to perform payments throughout the area as easily and cheaply as at local level. It represents a development process that stimulates European integrations and, as such, is a key portion of the single European market of the EU. With its realization, cashless payments will be performed from a single account, under equal conditions and at all locations within the eurozone. All national and international payments should be able to be performed identically, easily, securely and economically.

In the function of securing conditions for the realization of its basic goal, SEPA should allow: 1. the elimination of national rules for payment and their replacement with a single set of rules that apply in the entire EU; 2. design of new standards for payment services in the area of credit transfers, direct debits and

card payments, which will be operational on all EU technological platforms; and 3. broad distribution of SEPA products in national and international payments, through marketing activities targeted at key stakeholders – general populace, business, public sector, banking and infrastructure providers.

The SEPA payment system is primarily intended for retail payments, i.e., small and micro-payments totaling under 50,000 euros. It is an integral (as it covers the entire eurozone), all-encompassing (as it covers all payments) and imperative system (because it obliges all participants to perform what the directive stipulates). Its application assumes the use of a single currency (euro), unified standards and business practices, a unified set of payment instruments, formation of an efficient infrastructure, a common legal, clearly regulated framework, and lower payment transaction costs.

The payment services directive gives the general plan for payments throughout the territory of the EU (not just the eurozone): 1) elimination of legal inhibitors to the establishment of a single eurozone for payment; 2) change from cash to electronic payments; 3) guaranteeing all service users the same degree of protection and legal security for all types of transactions; 4) granting rights for offering SEPA services to non-banking providers (supermarkets, money re-issuers, mobile telephone operators, internet service providers); 5) reducing the maximum execution time of electronic credit transfers to “D+1” by January 1, 2012; and 6) obligating all payment service providers to fulfill transparency and informativeness requirements regardless of whether they are applying only national payment products or new SEPA payment products.

A systemic approach to the single payment area has been realized through certain schemes to which common rules apply: 1. the Credit Transfer Scheme (introduced in 2008) and 2. the Direct Debit Scheme (introduced in 2009). These schemes identified the principles of processing and some standard issues (standards and procedures are found in the rulebooks) that allow users to receive and send eurotransfers anywhere in the eurozone; adoption of new frameworks for card payments, cash and clearing and settlement mechanisms. The SEPA infrastructure regulates the operative side of clearing and settlement, on the basis of introducing technological standards, technical infrastructure and legal regulations. The essential change lies in the separation of processing and infrastructure, which allows any infrastructure to support SEPA payments (under traditional conditions, clearing and settlement system providers that offered services to financial institutions were themselves responsible for the rules, procedures and standards of payment within national frameworks).

By the logic of things, the introduction of a single payment infrastructure requires the introduction of unified rules and standards for SEPA transactions. As the SEPA payment system incorporates various channels, mechanisms and instruments into its structure, each of its integrative parts rests on principles that are partly common and partly specific. The common characteristics possessed

by each of the SEPA project's subsystems are related to securing the efficient execution of all payments, while the specific characteristics are related only to certain subsystems or segments. In addition to ensuring the functioning of concrete subsystems, the specific standards should secure their functional networking and interoperability.

SEPA standards can be grouped into three categories: 1. standards related to message formatting; 2. standards related to the identification of banks and bank accounts; and 3. standards that identify originators and beneficiaries. These standards are necessary for joint payment processing, and ensure interaction and interoperability between the information systems that are prerequisite for automatic, electronic payment processing without human intervention and end-to-end STP integration.

It is doubtless that the systems will function exclusively electronically in the future, and it is expected that the way will be opened for the development of additional payment system services, such as e-invoicing and e-reconciliation. E-invoicing refers to the possibility of the seller directly sending electronic invoices to the buyer's bank, and their automatic payment after the bank's confirmation, on the basis of the seller's instructions, which were already incorporated into the invoice. E-reconciliation is the electronic settlement of debtor and creditor accounts in accordance with a period agreed by the participants. Also, it is expected that the integration of payment systems will open up space for the introduction of new payment technologies, some of which are still not predictable.

In the context of introducing new technologies, activities on the development of SEPA mobile payments are current. Mobile operators and SEPA payment institutions are working on establishing necessary standards and rules for the functioning of payments initiated by way of mobile channels. Key activities are being carried out in the area of developing standards for the initiation and reception for credit transfers and direct debit systems, while the most ambitious expectations concern the implementation of services that would replace the use of cash in daily transactions. The following stand out as mobile payment categories currently being given priority: 1) contactless SEPA card payments, 2) remote SEPA card payments (by mobile telephone) and 3) remote SEPA credit transfers.

3. SEPA rules and standards

The conceived standards are expressed in the form of a unitary scheme, and published as a book of rules for each separate segment of payment. The SEPA schemes referred to by the common rules are the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD). Besides the SEPA schemes (SCT and SDD transactions, to which the common rules refer), the domain of the SEPA project also encompasses the SEPA framework (for payment cards, cash and the clearing and

settlement mechanism) and the SEPA infrastructure (technological standards, technical infrastructure and legal regulations).

1. The unified scheme for executing credit transfers (SEPA Credit Transfer –SCT) is an interbank payment scheme that sets the rules, procedures and standards for credit transfers from accounts within the framework of the single EU payment area. It represents the first historical step in the launching of the SEPA project, initiated in January 2008. The rights and obligations of the participants are defined by a rulebook and accompanying implementation guide published by the European Payments Council.

These arrangements include the ability of customers to conduct payments in excess of available funds (within a set value and time limit) and the use of credit cards as instruments issued for that purpose. The rulebook stipulates a common level of services and a time frame within which financial institutions must execute these operations.

The basic features of payment transfers within this segment are:

- the SEPA mechanism is universally accessible, i.e., it must be available to each individual customer;
- approval of credit to the account on the basis of a credit transfer order encompasses the entire allowed sum on the account;
- no limit of payment sum if it is within the allowed SEPA framework;
- deadline for execution of the transfer order is three working days;
- rules of payment are separated from the infrastructure and technology used for processing (does not depend on them);
- IBAN and BIN are used to identify accounts;
- an all-encompassing set of norms for action in case of rejects or returns for credit transfers has been set.

It is considered that the unified credit transfer scheme brings many benefits in the domains of functionality, ease of use and cost efficiency. Payments are realized without any deductions, as fees are charged exclusively by the originator's bank. It is thought that the time saving is the most important part (the debtor's bank is obliged to transfer funds to the beneficiary's bank within two working days from receiving payment instructions and, starting from January 2012, within one working day). Also, this scheme recognizes various additional services that participants may offer to their customers with the goal of creating added value, under the condition that these services must not endanger the scheme's operability or create barriers for the competition.

2. The unified scheme for executing direct debits (SEPA Direct Debit –SDD) offers a set of rules and procedures for payments initiated by the creditor on the basis of previously received authorization from the debtor. It was launched

in November 2009 in the form of two models. The first model was conceived as a basic direct debit scheme, and the second as the SEPA B2B direct debit scheme. The rules (SDD mechanism) define the level of service and the shortest time frame within which financial institutions must be capable of functioning in the role of executors of debit payment orders.

Conceptually, both schemes assume the same procedural sequence of steps, while the distinction appears in the right to refund, obligation of authentication and responsibility of mandate preservation. First, with the basic scheme, the debtor can request a refund, while with the B2B scheme, he is not authorized to do so. Second, according to the general rules, with the basic scheme the bank must automatically debit the debtor's account for each order received for payment, while with the B2B scheme, it must receive individual confirmation from the debtor before executing the mandate for each individual payment order (due to the sum and the lack of a refund option). Third, with the basic scheme the mandate is held by the debtor or creditor, and the bank can offer this as an added service, while with the B2B scheme the bank is obliged to hold the mandate, as well as all its customer's additional instructions for the processing of each individual payment order.

The purpose of introducing the basic SDD scheme is to create a mechanism that will allow the common functioning of this way of payment, both in domestic and international relations, throughout European space – simply, reliably, efficiently and cost-effectively. The procedure of functioning as based on the creditor's right to initiate payment from the debtor's specific account on the basis of a mandate (authorization by which the debtor gives approval to the creditor to initiate this transfer of funds from his account). The mandate itself can appear in a paper or electronic version, but always in a strictly defined form that meets legal requirements.

The basic characteristics of the SDD payment mechanism are:

- application throughout the eurozone (which means that direct payment can be promptly executed to any beneficiary with a euro account);
- can also be used for one-time and consecutive payments;
- maximum time limit for executing payments is five working days for the first payment, and two working days for subsequent consecutive payments;
- rules for transfer of payment orders and payment execution are separate, do not depend on the infrastructure, types of processing equipment and types of institutions;
- IBAN and BIN are used to identify accounts;
- an all-encompassing set of norms for action in case of rejection or return of credit transfer orders has been established.

The B2B SDD scheme is based on the general characteristics of the basic direct debit scheme, with the addition of specific characteristics related to B2B

transactions. It has been implemented with the aim of satisfying the special needs of corporate sector participants, which are not relevant for basic scheme users. Transactions are also initiated through the creditor bank, on the basis of a mandate, but it is required that the debtor and his bank agree on the manner of verification that shall be applied for each individual payment (as distinct from the basic scheme), in order to secure a higher level of security. Certainty in planning and managing company cash flows is increased by specifying the exact payment date, while the processing of all payments from a single account and the speed and simplicity of the payment processing itself reduce the possibility of late payment and avoid the negative consequences that result from such oversights.

The payment processing itself does not essentially differ from the one applied within the basic scheme framework. The creditor sends an announcement to the debtor, who signs the mandate and, upon receiving from him the signed mandate, initiates payment through his bank. However, in this case, the debtor's bank must receive confirmation of transaction approval from its customer, the debtor, and only thereafter it debits the debtor's account and executes payment. The rules allow the debtor to completely prohibit all debits from his account on the basis of issued mandates and to demand denial of payment before the clearing process, without obligation of informing the bank regarding the reasons for his decision. The debtor does not have the right to demand a refund for any authorized transaction, while all disputed and negotiable issues connected with direct payment are regulated outside of this scheme.

Both the models of SDD schemes have been designed so as to allow their evolution and the addition of new characteristics in accordance with future business needs. In that context we have the appearance of the optional e-mandate service, which is formed by using electronic channels and allows the total elimination of paper administration, together with the inclusion of new actors, routing service providers and validation service providers. Routing service providers allow the creditor's bank to access the validation service provided by the debtor's bank. The validation service provider, on the basis of cooperation with the debtor's bank, secures information about the validity of the debtor who initiates an e-mandate through electronic channels and routing services offered by the creditor's bank.

3. Unified SEPA Card Payment (SCP) rules are still not developed to a level needed for them to be included in the rulebook, but are defined in the SCF, SEPA Card Framework. The European Payments Council also performed a systematization of all requests in the SEPA Cards Standardization Volume – Book of Requirements in December 2009. It encompasses: 1) card services, 2) receiving technologies and the receiving environment, 3) methods of verifying card holders and authentication methods, and 4) functions.

The aim of such a card payment framework is to allow European customers the ability to use a single card for payment and cash withdrawals over the entire EMU area, in a simple, economic and convenient way.

The basic characteristics of the SCP system are:

- ability to use a single card for payment in the entire euro zone;
- ability for card users and merchants to execute payment transactions through common participation and in a consistent way;
- cheaper services based on the ability of processor producers to mutually compete and offer services in all the eurozone countries.

It is expected that, with the application of the said rules, the card market will become more cost-effective, competitive and reliable. The separation of the brand from processing and the introduction of standardized receiving terminals represents a challenge for issuers and providers.

4. Unified rules for executing cash payments (SEPA cash) regulate the Single Euro Cash Area. The basic aim of the rules is to raise the efficiency, reliability and competitiveness of cash transactions. The rules do not apply to citizens and companies, but only to professional cash distributors – primarily banks as the key pillar of the euro system.

The goal of introducing unified rules for cash payments is the achievement of significant savings in the process of money handling, on the basis of the best practices of transport, packaging and distribution, parallel with the process of migration from cash to SEPA instruments. This eliminates the obstacles for raising the level of cost-effectiveness and efficiency of cash payment, which exist under conditions in which cash distribution services are organized at national levels.

5. Rules for the operativity of the clearing infrastructure (SEPA infrastructures) concern institutions that operatively process payment orders and instruments between financial-banking institutions of different countries. The SEPA project anticipates the formation of a single European institution for the processing of all euro transfers. The Pan-European Automated Clearing House (PE-ACH) functions as the forerunner of such a pan-European agency. It encompasses 97 banks that perform transfers from the originating account, although the framework itself was designed so as to acknowledge the existence of bilateral, group or regional agreements that will perform operational tasks in coordination with the Euro Banking Association (EBA). Each of these banking structure systems of various states is faced with the following demands: 1) that the system's operational power reaches each individual bank in the eurozone and 2) that the rules of the SEPA system's functioning are separated from the processing technique and do not depend on it.

4. Expected economic effects and prospects

The basic benefits of introducing a single system of payment in the eurozone should be manifested in the increased competitiveness of the European economy as a result of the presence of a simple, efficient and cost-effective system of payment. Viewed by individual participants (consumers, commerce, companies and banks), the expected positive effects reveal significant specificities.

The European Central Bank and the European Commission performed separate studies for the 2007-2012 period in order to determine the said effects. The first study was limited to examining the influence on European banking, while the second was much broader, examining the influence on actors that offer payment services as well as on users on the demand side.¹

The European Central Bank studies made estimates on the basis of four potential scenarios that could, in essence, represent the developmental phases of SEPA. These were: 1) the baseline scenario – the phase in which SEPA is not functioning, and the effects of its introduction are evaluated from that standpoint; 2) the coexistence of payment schemes scenario, in which, due to the functioning of different national rules, SEPA cannot attain the necessary critical mass; 3) the ideal SEPA world scenario – the phase in which the advantages of SEPA schemes are totally utilized, and the old payment systems no longer exist; and 4) the e-SEPA scenario, the phase of paperless electronic payments.

The results of these analyses basically point to the conclusion that, for the banking sector, the possibility of lowering costs thanks to automatization and dematerialization and of increased earnings thanks to the creation of additional products will be of key importance.

The analysis in the European Commission study is based on a quantification of direct effects (prices, operational costs, investments) under conditions of different potential behaviors of participants on the supply side (passive or active approach) and the demand side (acceptance or rejection), as well as on various combinations of participant behavior. On that basis, the following potential scenarios were conceived: 1) the passivity scenario (All Tied Up), in which there is no interest either on the supply side or on the demand side; 2) the active supply scenario (Supply Push), in which banks and other payment institutions are proactively offering SEPA payment products to participants, but are rejected by the latter; 3) the active demand scenario (Demand Pull), in which participants expect benefits from the application of SEPA payment products and apply pressure on their banks to introduce them – but the banks remain passive; and 4) the true SEPA scenario (SEPA Big Time), characterized by a mutually positive approach to the application of SEPA products, as well as to banks and other payment institutions that offer SEPA payment products to participants that accept them and expect benefits from their use. An estimate of results on the basis

¹ See: Campgemini, *SEPA: potential benefits at stake*, 2007.

of the net effects of necessary investments, accompanying operative costs and accompanying bank charges is performed for each potential scenario.

On the basis of the quantitative indicators of the different scenarios of both the studies, it is possible to draw conclusions about the basic characteristics of the economic effects of introducing the SEPA payment system on individual participants and the economic system as a whole.

1. With the initiation of the SEPA project, European banking is entering a process of fundamental business reform, which requires, in the first place, the redesign of all payment processes in accordance with the SEPA characteristics, and then of many other processes and relations as well. This new environment will carry both opportunities and threats for them. In the early phase, capital investments often cannot be accompanied by benefits, which means that effects that are highly beneficial in the long term may be quite unfavorable in the short term. In that sense, the banking sector is faced with four types of challenges: 1) the reengineering of business processes in the direction of harmonization with the new legal and market structure of existing processing systems (card-based transactions, credit transfers and direct payments); 2) adaptation of existing national infrastructures for the clearing and settlement of high and low value payments; 3) survival in a competitive battle with all European banks that have been allowed to offer products and services outside of national boundaries; and 4) determining the answer to the question of whether or not it pays to compete in the takeover of certain functions (e.g., is it more rational to take the payment processor function themselves or to leave that task to other institutions, while focusing on the development of added value services).

Banks and other payment institutions have multiple bases for feeling positive effects from the functioning of the SEPA system. It is considered that, under conditions of an integrated payment area, banks gain the possibility of offering their services throughout the eurozone and that this can contribute to their increased mobility as well as intensify their mutual competition. Thus, individual banks are given greater possibilities of competing over a broader geographic area with better quality services and lower prices. As a result, business conditions on the macro plan would be equalized.

In an integrated payment area, banks would be able to design advanced products through which they could offer added value to their customers. In order to come into life, the new services must be transparent, respect SEPA regulations and the European Council must be informed of their coming into use. The range of potential advanced new products is broad. At this moment, especially significant are the following services: e-invoicing, e-reconciliation, online e-payment, e-confirmation and initiation of payments by way of mobile devices.

2. It is considered that infrastructure providers will be significantly affected by the SEPA system just by the fact that their business is being expanded to an international level that demands synchronization of their operative activity with

unified technical standards. This assumes the elimination of the national limitation of the scope of their services and the raising of their competitiveness to an international level. In the previous period, national payment system rules and standards were most often developed by infrastructure providers, while the products offered by banks were based on thus defined foundations/schemes. Such processing systems functioned only within national limits. With the introduction of the SEPA system, common unified schemes began to be applied for all euro-payments. As a result, banks and payment services have become less dependent on national providers which, in order to survive, must now satisfy the newly imposed business principles.

Also, many institutions that were once their traditional customers could now, through development on the global level, evolve into their competition.

3. The general effect of the SEPA system on companies should be reflected through an increase in one's own cost-effectiveness and efficiency on the basis of the possibilities of the great simplification of the ways and mechanisms of managing one's own payments. The key segments of the SEPA system that are relevant for this sector are credit transfers and direct debits/payments. The change that should be the basis of these possibilities is related to the introduction of a single account for all inflows and outflows, regardless of the national relation. This would eliminate the shortcomings of the previous solution, by which companies had to operate by way of separate accounts for domestic and foreign payments and, in case they had foreign affiliates, through separate accounts for each of them. A higher level of cost-effectiveness and efficiency would be achieved with the development of added payment system services, such as e-invoicing and e-reconciliation. It is estimated that a switch from cash to electronic payments would bring savings of about 28 billion euros per year, while a switch to e-invoicing would bring added savings of between 50 and 100 billion euros.

However, the corporate sector's relationship with the SEPA system is revealing a seemingly paradoxical situation, reflected in companies' insufficient acceptance of SEPA. Analysis in the European Commission study shows that this resistance can have long-term negative effects on the success of the entire project. The intensity of resistance varies between multinational companies, corporations and small and middle enterprises.

Multinational corporations already possess established positions on the global market and have been, thus, already compelled to develop their own efficient operative solutions in the domain of payments. That is why these changes are not bringing significant novelties to their business models, regardless of the fact that they would be able to reduce complexity, costs and risks in payment processes. In addition, even the said benefits are not assured for the corporations because they depend on the services that the banks will offer and the price at which they will be offered, on the one hand, and the changes in procedures and organization that will be demanded of them, on the other. An entirely separate

issue is estimating the tempo at which individual countries will switch to the SEPA mechanisms and eliminate the old ones, the mutual consistency of individual national plans and the cost pressures on them as the users.

For the small and medium enterprises that concentrate on local and national markets, SEPA opens up radical new possibilities, along with the demand that they elevate their own strategic approaches and develop new business models. The innovations brought to them by SEPA open up room for automatizing operations and, thus, significantly increasing the speed of processing and the security level (as these companies are less capable of dealing with unexpected losses than the giants), as well as for lower payment costs and fees. It is expected that these enterprises will achieve a higher degree of integration with the banks. Although SEPA brings many advantages to small and medium enterprises, the acceptance process is relatively slow because it demands the harmonization of their technology with SEPA standard requirements, which is something that their limited resources often do not allow.

4. A novelty that should be especially important for commerce is the anticipated change in payment card transactions. It is considered that the key novelty for reducing costs and increasing the speed of processing payment card transactions is the possibility of making payment agreements with only one institution, which will process all payments, regardless of the card issuer. Previously, the biggest limitation was the merchant's obligation to make payment agreements with each individual issuer. As issuers are numerous, varied and located in different states, providers apply different charges. Now their choice has been expanded to the entire European market, bringing stronger competition and lower service prices. In accordance with this change, POS terminals used for card processing should have the capacity to realize all card type payments, which would mean smaller fees for merchants.

It is expected that customers will also enjoy the benefits of the common and consistent way of card payment throughout the eurozone. The basic advantages for them will lie in the possibility of using a single bank account for payments in the entire zone and the simpler and more efficient use of payment cards. The SEPA infrastructure should allow them to conduct payments within a significantly broader area of acceptance, with the use of a single card. The card market will become more competitive, cost-effective and reliable.

5. Innovative payment processes are of crucial importance for the public sector, which is the biggest participant in the payment system (almost one-fifth of transactions in the national economy are realized with the public sector as the payer or payee). Therefore, this sector has the prerequisites for achieving economies of scale and reducing public administration costs on that basis. Also, the position of the public sector in relation to other sectors gives it a special role in stimulating others to become involved in the new payment mechanisms. That is

why the public sector has an especially important role in the practical development of the SEPA project.

The basic benefits that SEPA brings to the public sector are the following: adapted SEPA products that cover specific user needs, the gaining of innovative advantages, achievement of increased productivity on the basis of common standardization, investments and experiences, more up-to-date information under conditions of business process dematerialization, reduction of information technology costs, facilitation of settlements, support for the population's mobility and stimulation of cross-border commerce.

5. Conclusion

The basic idea of introducing the SEPA payment system is to achieve cumulative positive effects on the supply and demand sides of payment services through their significant cost reduction, open up space for new business possibilities, a new geographic range, and to introduce services that represent an added value. These positive effects should come from the synergetic effects of the technical-technological modernization, standardization and organizational redesign of payment systems. However, adaptation to new payment systems demands relatively large investments on the part of some participants and changes some participants' profit-making possibilities.

The implementation of innovations within the SEPA system in its entirety represents a part of the EU's integration policy, with the goal of achieving macroeconomic benefits. Thus, the entire project's success will depend on the continued devotion and the practical support of the political infrastructures of the states that are carrying the project.

When evaluating the significance of the implementation of SEPA concept elements in Serbia's payment system, it is important to bear in mind that the significance is not exhausted once payment system compatibility is achieved, but that the role of the SEPA concept in changing the business environment itself must also be considered. This additional dimension of influence stems from the very characteristics of the SEPA concept, i.e., its primary orientation towards small and micro-payments and the formation of a single payment system in the function of raising the competitiveness of the economy.

These goals and characteristics of the SEPA concept also determine its significance and development prospects under the conditions of the current global financial crisis. SEPA is gaining in significance precisely in today's turbulent financial conditions, remaining a top priority due to its effect on business efficiency and cost-effectiveness. These effects will also be extremely important for Serbia itself in the coming period, regardless of the tempo of its accession to the EU.

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POSTMODERN GEOPOLITICAL CHALLENGES OF EUROPE**

Summary

Europe is multi-heterogeneous, and therefore failed to develop an integral geo-political identity. After centuries of domination, its global geopolitical position in the 20th century was degraded to the role of 'an object'. In the post modern era the (neo) classical geopolitical concepts remained to be valid, and their confrontation in the future will determine the position of Europe in the international order. The European division remained its key geopolitical handicap. It is only by its overcoming that Europe can be reconstructed to a competitive geo-political and geo-economic center of the world. European power in the future will depend on resolving the four key issues: the 'formula' of internal integration, the inherited subordination to U.S. interests, the perspectives of relations with Russia in line with the growth of energy dependence, and the "Islamic challenge" from a close neighborhood, as well as Europe's own environment.

Key words: *geopolitical identity, the weakened global position, the neoclassical geopolitics, Europe*

JEL classification: F02, O52

1. Introduction: is there an integral European geopolitical identity?

After the termination of bipolarization it was only logical that Europe should face the question: what global role it will have in the future? Will Atlantic Europe still retain its status as America's 'bridgehead' in western Eurasia in the forward barrier function against the 'Soviet threat', although it ceased to exist after the abolition of the Warsaw Pact and the disintegration of the Soviet Union? After all, can Europe make decisions autonomously, having in mind that it long ceased to be a key 'subject' and became an 'object' of the world geopolitics, positioned between the 'hammer and anvil' of the American and Russian poles of power. The U.S. triumph in the Cold War and the move of American spheres of interest towards

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the East have not resolved European existential dilemmas, but only postponed them for the coming years of the postmodern era. Meanwhile, significant positions in the structure of the world system have been taken by new extra-European powers - China in eastern Asia, India in South Asia, Brazil in Latin America, the recovered Eurasian 'giant' Russia and the growing number of economically and geopolitically offensive players of the 'third echelon' that may compete on equal terms with the most developed European countries individually.

Consequently, the traditional rules of international relations have also changed. Those were the rules created by European powers for centuries according to their interests and they applied even when the United States took absolute dominance during the 20th century. At first glance, suddenly, in the early 21st century, many gained positions of Europe and its most powerful countries are not as inviolable as they used to be even in former colonies. The power at the global level is directly proportional to the ability to impose one's own interests, and Europe alone is less and less capable of doing that. It becomes obvious that the non-European 'rest of the world' loses the inertia of awe and that Europe is beginning to be perceived as increasingly vulnerable 'paper tiger'. It is as though the decades-long Cold War treatment of West Germany had been projected on post-modern Europe as a whole: it has become an economic 'giant', and (geo) political 'dwarf'. Will this be the case in 10, 20, or 50 years from now? Such important issues, especially the reviewing of the earlier, and the design of the future global position, require a plunge into the very essence of contemporary geopolitical Europe, i.e. the insight into the key factors of its geopolitical identity.

The geopolitical identity is not only the starting point of any fundamental geopolitical analysis, but also of geopolitical scientific forecasting. Consequently, Europe is faced with questions both of identification of geopolitical **selfhood** in time and space, and of the identification of geopolitical **continuity in time and space**. Self-knowledge of geopolitical identity derives from searching for and giving answers (and reviewing previous answers) to the essential issues of geopolitical history, reality and future: where and what was Europe geopolitically, where is and what is Europe geopolitically *now*, and where and what *will* Europe *be* geopolitically? But before that the answer should be given to the question whether Europe has ever had integrated geo-political identity? According to the pronounced jagged coastline and peninsular natural-geographic predisposition, as well as in the context of the basic geopolitical postulates of the dichotomy and eternal opposition of the 'sea power' and 'land power', the answer might be unambiguous – the geopolitical identity of Europe is thalassocratic. However, in contrast to other leading powers in the contemporary geopolitical world, Europe has never been an integral ethno-spatial, geographical and historical-political-territorial entity, i.e. it has never been *one nation and one state*. Over the time European continent has formed a number of nations and ethnic collectivities. The cycles of fragmentation and enlargement of the political map have histori-

cally alternated; the atomization phases have been replaced by the epochs of great empires. 'The Old Lady's face' is scared by the labyrinth of the old and the existing boundaries of different rank and degree¹. Despite the integrative tendencies emerging on its west, contemporary Europe is also characterized by political and geographical fragmentation and heterogeneity. Accordingly, individual states or groups of countries have formed their own, particular and generally antagonistic geopolitical identities, which, turned into interests, have led to bloody wars both inside Europe and in the world.

Diversity of geopolitical identity is the reality of Europe. They had it in Athens and Sparta, Rome and Carthage, the Western and Eastern Roman Empire (Byzantium), the Ottoman Empire and Austria, France and Germany, in British and Russian empires, the transatlantic and the Soviet Cold War integration, current NATO / EU and contemporary Russia That is where historically continuous conflicts are deeply rooted, which mostly changed their manifestations and methods, but not their essence. It is true that there were conflicts within the same geo-political identity (for example, among the western sea countries about the overseas possessions), but they ceased before the appearance of the threat of the external danger from the opposite geopolitical identity. Faced with the threat and possibility of defeat by 'them' ('the different ones'), 'one side' would establish key strategic alliance with 'the other side'. The Atlantic, thalassocratic European West and the Continental, telurocratic Euro -Asian East even in the postmodern era do not give up the old competition to win and impose their own geopolitical code. The central European-Balkan area, which stretches between the Baltic Sea in the north and the Adriatic and Aegean Sea in the south, represents a vast zone along which their power oscillates. Thus, depending on the specific historical and geopolitical conditions, the buffer zone was created in this area witnessing the struggle for supremacy of the conflicting geopolitical identities and interests from the west and the east; ('cordon sanitaire' after the First World War), then the 'geopolitical gap' was formed i.e. the sharp dividing line the disturbance of which could have brought Europe and the whole world into a new cataclysmic conflict ('the Iron Curtain' after World War II), established in order to restore the transgression frontier as an arena of direct confrontation between the West and the newly recovered East ('New Europe' after the Cold War).

Geo-political identity is rooted in the natural properties of space, but it is not its sole result. Although the physical and geographical characteristics used to have a dominating influence, and in the modern era of information technology they have not lost their importance, their role has never been deterministic. Having access to sea is not sufficient indication of thalassocratic identity - it

¹ On the the phenomenon of internal fragmentation and historical boundaries within the European continent see in: M. Foucher (sous direction de), *Fragments d'Europe*, Fayard, Paris, 1993. (map no. 26: "Fragments d'espace politique européen et faisceaux de frontières", p. 41).

is necessary to develop ambiguous maritime orientation of the country and its population (population concentration, towns and industry, the ethno-psychological mindset of the people, the position of the sacred-geographical places, transportation orientation, maritime trade, naval military doctrine ...).

There are a number of countries bordering the sea, but they have not developed the thalassocratic identity. For example: Russia borders with three oceans and many seas with a coastline of almost 38,000 km, but this maritime strategy is unfavorable at the global level, so that the world's most spacious state is a personification of the continental, telurocratic power; Albania has access to the Adriatic and Ionian Sea, and participates in the Strait of Otranto, as one of the most important European straits, but it is still described as mountainous 'country of eagles' ... Also, there are countries that do not accept the non-ambiguity of the telurocratic identity and the geographically predetermined continental land lock (landlocked country - handicap), so that they make geostrategic long-term plans towards the maritime route of the national liberation and integration (for example: The Kingdom of Serbia) or the expansions (for example: Hungary).

Despite the fact that some countries possess the unchangeable geopolitical identity due to their physical and geographical realities (e.g. the thalassocratic identity of Great Britain, Greece, Portugal, Norway ...; the telurocratic identity of Switzerland, Czech Republic, Slovakia ...), other countries have changed it several times even over a relatively short historical period. In some situations they did it thanks to their own decisions and in order to achieve long-term, geostrategic interests, and sometimes it was the result of the war defeats and the imposed geopolitical decoding. Germany was considered to be a thalassocratic power by the leading theoreticians of geopolitics and geostrategy at the end of the 19th century². With its strategically profiled *idea of Hamburg* it intended to interfere, with a delay, with the already established colonial division, by means of its access to the North Sea and the Atlantic Ocean. Having in mind that at the time the naval dominance of the UK was undisputed, Germany switched to *the idea of Baghdad (the idea of the diagonal)*, it expanded transcontinentally, rapidly changing its identity into telurocratic one. It tried to achieve the East and South-east geo-strategic direction (*Drang nach Osten and Drang nach Südosten*) in two bloody world wars. After the defeat of the 1945 the imposed decoding of German geopolitical identity followed - West Germany was incorporated into thalassocratic military (NATO), and economic and political union (the EEC / EC / EU) and East Germany into the military telurocratic (WP) and economic and political block (CMEA). The whole Europe was divided into these two geopolitical identities accordingly.

The fall of **the Berlin Wall** and the removal of 'the iron curtain' were followed by the attempt of the winner (the USA) to thalassocratize the whole of

² Alfred T. Mahan, *The Problem of Asia - and Its Effect upon International Politics*, Little, Brown and Company, Boston, 1900, pp. 21-22; 63-64.

Europe, including Russia. Despite the global supremacy, everything remained on a limited expansion to the western borders of Belarus and Ukraine (only in **the Baltic republics** to the Russian land borders), and partially in the Balkans. Europe thus maintained the division of its geopolitical identity. But this identity-related and geopolitical division of Europe is not a schizophrenic, but historically logical condition. In the European East, in the Russian sphere, the telurocratic (self-) knowledge remained and gradually became stronger, with a distinctive tendency to permeate the thalassocratic one. In Central and Western Europe the thalassocratic (self) identity, fascinated by an early triumph, started to revitalize, review itself, stratify and polarize. Freed from the fear imposed by the Soviet / Russian superpower, and geo-economically motivated by its vitally important energy resources, many countries began to show signs of authentic renewal of their geopolitical identity (primarily united Germany).

2. Modern and postmodern weakening of the global position of Europe

World domination of Europe begins with the so-called great geographical discoveries and colonialism. Western European countries mainly violently 'Europeanized' North and South America, Australia, a larger part of Africa and the large peripheral zone of Asia. They could do this due to their maritime, Atlantic position in Europe and due to the mediation role of the World Ocean, which they used to access the coasts of other continents as 'spring boards' for further breakthrough into their interior (*hinterlande*). The thalassocratic identity and 'the power of the sea', resulting from physical and geographical factors of a position, proved to be of decisive importance for the establishment of global dominance, first of Portugal and Spain, then Holland and France, and finally the UK – 'the empire where the sun never sets'. On the other hand, in Eastern Europe, in the plains of the continental interior, Russia proved its 'power of the mainland' by the breakthroughs of the Cossack horsemen and land expansion of the state up to East Asia and Alaska. Although in the early 18th century, Peter the Great, transferring the capital to the delta of the Neva River and wetland banks of the Finland coast, tried to redefine artificially the Russian geopolitical identity, it nevertheless remained of telurocratic nature.

In any case, Europe became a global 'center' and it built up and preserved that position for centuries. The rest of the world was a more or less pronounced 'periphery'. Eurocentrism was manifested in different ways - from dictating the rules of political and economic functioning, communication, behavior, dress code ..., to the establishment of geographic conventions (the initial meridian, numbering of the hour zones, drawing maps of the world with Europe at its center ...), up to the determining the headquarters of world institutions of economic, political, legal, cultural, sports and other character.

Europeanization was considered a measure of modernity, progress and success, and 'European values' were the axiom of superior range of civilization, in spite of the dark sides of the colonization era (the physical destruction of the indigenous peoples of entire continents, the ruthless exploitation of human and natural resources, violent imposition of religion, culture, political and economic systems ...). Even today, materialistic European view of the world is considered as 'the only normal'. The Europeans continued to look down on non-European social policies with undisguised hostility and intolerance: the work ethics of the Japanese, the Chinese philosophy of life, family relationships of Muslims, the Sub-Saharan Africans beliefs, the achievements of the ancient American Inca, Mayan, and Aztec civilizations.

Accordingly, eurocentrism dominated the practical and later theoretical and conceptual aspects of geopolitics. The starting points of classic European geopolitical thought of the Swede Johan Rudolf Kjellén, the Briton Halford John Mackinder and the Germans Friedrich Ratzel and Karl Ernst Haushofer in the first half of the 20th century were based primarily on the interests of their respective countries and peoples, and then placed in the context of the retention of the dominant position of Europe globally.

However, it is already in the geopolitical conceptions of Peter Nikolaevich Savicky (Пётр Николаевич Савицкий) and other Russian Eurasians during the 1920s and 1930s than the central role of Europe in the past, the (then) present and the future of the world order was denied, while the key role of Russia-Eurasia as 'a separate continent' was underlined. Similarly, but with diametrically opposite geographical point of view, the primacy of Europe was denied in the concepts of American geopolitical theorists - even in the perceptions of Admiral Alfred T. Mahan in the late 19th century, and especially in the Amero-centric ideas of Nicholas John Spykman in the 1940s. Spykman's followers and creators of American Cold War geopolitics George Frost Kennan, Henry Alfred Kissinger, Zbigniew Kazimierz Brzezinski, Saul Bernard Cohen and others would further highlight the fact that the 'center' moved to the U.S. even after the First World War, and undoubtedly after the Second World War.

The fact that Europe has become 'semi-periphery' can be found not only in American but also in the Russian, Japanese and Chinese geographic and geopolitical cartographic visualizations of the world. The peripherization of Europe was undoubtedly 'a process of long duration', it was not a sudden cataclysmic decline in global influence. Europe retained a number of previously acquired important positions, so that it still plays an important role in the world system. But with the establishment of a bipolar order it has become clear that Europe's role is becoming that of a 'client', and that its geopolitical position has been degraded to an 'object' of competing of the two superpowers - both of them outside its western and central geographical area where the countries - the traditional heirs of eurocentrism - are.

At first it seemed that the wave of declarative *geopolitical nihilism* and *relativism*, initiated even during the Cold War, would be a salvation for Europe, and that it would rise again, exactly thanks to those trendy approaches, from another in a row of historical challenges. When Herbert Marshall McLuhan in the 1960s and 1970s promoted the thesis that the IT revolution and global expansion of electronic media would produce specific effects of 'reduction of the world' and the transformation of the Planet into the 'global village', the socially engaged futurologists readily accepted this attitude claiming that thanks to technological innovations and electronic media the maximization of time will be achieved necessary for information to 'overcome the space'. This will result in 'the end of geography'.

Since the 'compression of time and space' will be carried out³, i.e. that 'the space will be deleted by means of time'⁴, not only the importance of topos was brought into question, but of *chronos* as well. The wave of globalization (as a process) and of globalism (as ideology), which swept the world at the beginning of the last decade of the 20th century, inspired many to conclude that mankind is facing a so-called *acceleration of history*. Moreover, the irreversible collapse of the Soviet block led Francis Fukuyama Yoshihiro to the neo-Hegelian conclusion that the 'end of history' is approaching - the endpoint of the ideological evolution of humanity and the universalization of Western liberal democracy as the final form of human government. If 'the end of history' has come (and earlier even 'the end of geography') and if the whole world has become a liberal-democratic one, and having in mind that 'democracies are never at war with each other' - it follows that 'the end of geopolitics' has also come. It was an ideal opportunity for Europe to get rid the delicate half-peripheral geopolitical position between American and Soviet power in which it involuntarily found itself after the Second World War, and to find an adequate place in the approaching 'new world order'.

The transition period of unquestioned supremacy of the United States in the late 20th and early 21st century, only at first glance did not give good options for European future. The Atlantic and Central Europe were an integral part of the winning, thalassocratic West, militarily, economically and politically institutionalized in the form of NATO and the EU. The 'center' of transatlanticism was actually on the other side of the Atlantic Ocean, but the ecstasy of triumph of the Cold War victory and the fall of the Berlin Wall seemed to have offered a chance for a fundamental and positive redefinition of, not only Western, but also of Eastern European (Russian) position. It would be useful for both 'lungs of Europe'. But favorable geopolitical timing was missed because Europe ran out of its ideas and great thinkers, lulled into spiritual laziness and decadence, living

³ A detailed explanation of the role of modern electronic communication in the globalization process and schematic view of 'compression of time and space' can be seen in: M. Pečujlić, *Globalization: two characters of the world*, Gutenberg Galaxy, Beograd, 2002, p. 56.

⁴ D. Harvi, "Prostor i moć", *Ekonomika*, no. 4-6/1994, *Ekonomika*, Beograd, 1994, p. 80.

for too long under the custody of the U.S., when it neither could, nor had to, or wanted to autonomously decide on its own destiny.

In fact several waves of NATO and EU expansion to the east after the 1989 did not represent the integration and strengthening of Europe, but the transgression of the American sphere of interest, expansion of its 'macro-bridgehead' and strengthening of its globally important geostrategic stepping stone in the west of the Eurasian continent. Europe remained only a slightly geopolitically redesigned 'semi-periphery', while it had the opportunity to use the period of American unipolarism not only to take a good starting point for competition in the coming multipolar world, but for a decisive role in its creation. The ideas of Russian theoreticians of neoEurasian geopolitical current that Europe should become an autonomous pole of power, and ever more desirable concrete offers of the statesmen of the strengthened Russia to form a multipolar world in which Europe would be one of the main pillars of world order, face resolute rejections of the still paternalistic oriented U.S., which are now seeking to extend their relic influence from the Cold War.

Instead of liberating from the United States dominance, and searching its opportunity for a progressive geopolitical and geoeconomic redefinition in the global polycentricism, in the ever tougher competition in the new 'tracks' in the hierarchy of world power, Europe is on its downward flight. The sociologist of history and theorist of the world system Immanuel Wallerstein in his recent research focuses on contemporary global changes through the classical theory of cycles of Nikolai Dimitrievich Kondratev (Николай Дмитриевич Кондратьев) and concludes that Europe (and even the USA!?), is in the 'B Phase, i.e. in the relative stagnation and decline of economic and other powers.

According to Wallerstein, the world economic and financial crisis that hit the world at the end of the first decade of the 21st century is, in fact, the end of Kondratev's 'B Phase'. He does not see a single transient weakness of liberal capitalism in this crisis, but the essential crisis of the world system that is so out of balance that even its temporary stabilization is out of the question. Wallerstein notes that the world geopolitical crisis is taking place simultaneously. As the fight has already started, not for resuscitation of the old, but for the creation of an entirely new global economic system, so the global geopolitical system is in an uncertain transition phase as well. Wallerstein distinguishes 'eight or ten foci of geopolitical power', and concludes that it is too much because none of them, de facto, is strong enough. Therefore, during the transitional period different combinations of forces inevitably follow as the testing of their joint operation, which Wallerstein calls the 'period of juggling (SCO, BRIC ...). Since the late 1970s and the 1980s, Wallerstein has considered the combination of East Asian 'pole' with the U.S., Europe and Russia (and hypothetically India) to be probable⁵.

⁵ Details about geo-economic and geopolitical paradigm of transformation of the existing into a new world system can be seen in an extensive interview with Immanuel Wallerstein

It could have indirectly been concluded that the global importance of Europe would decline, even on the basis of Wallerstein's three-volume work *The Modern World-System*⁶, in which the world is divided into more spatially different parts: *the center, the periphery, the semi-periphery and the area outside the system*. According to the properties of each of these units, Europe (EU) certainly could not be classified in the *periphery* and *the area outside the system*. It undoubtedly used to be the center, and it cannot be denied that, according to some indicators, it is still the same today (economic development, concentration of capital...). But other factors of 'centrality' have either not developed (integral statehood, a strong central government ...) or have undoubtedly begun to weaken (global political influence, military power ...).

This also confirms that today's Europe should be placed in *the semi-periphery*. It is exactly Wallerstein's understanding of the features of *the semi-periphery* that points to this: it is an area between the two extremes (globally influential center and undeveloped, not influential *periphery*) that usually serves as a buffer zone and 'shock absorber' for their mutual influences (particularly true of Europe); countries are reduced to the semi-periphery in two ways - by previously belonging to *the periphery*, but managed to improve their position (not true of Europe) or they previously belonged to *the center*, but their power turned into a long-term decline (particularly true of Europe).

3. Neoclassical geopolitical perception of the future of Europe

The dawn of the postmodern era was followed by new attempts of relativization and the suspension of geopolitics - not only as a science, but also as the essence of the functioning of the world system. With the deconstruction of bipolarism and the approaching of unipolar globalism, new paradigms were promoted - in 1986 Charles Goldfinger promoted the *geofinance*⁷, while Edward

given the South Korean daily newspaper *Hankyoreh*. The interview with I. Wallerstein was led by dr.Suh Jung-Jae, a professor of international relations at the John Hopkins University. The interview was published under the headline "The collapse of capitalism?" by NIN, Belgrade weekly magazine, on 29 January 2009 (p. 68-73).

⁶ I. Wallerstein, "The Modern World-System", vol. I: *Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*, Academic Press, New York/London, 1974; I. Wallerstein, "The Modern World-System", vol. II: *Mercantilism and the Consolidation of the European World-Economy 1600-1750*, Academic Press, New York, 1980; I. Wallerstein, "The Modern World-System", vol. III: *The Second Great Expansion of the Capitalist World-Economy 1730-1840's*, Academic Press, San Diego, 1989.

⁷ Ch. Goldfinger, *La Géofinance - Pour Comprendre la Mutation Financière*, (collection *Odyssée*), Seuil, Paris, 1986.

Luttwak promoted *geo-economics*⁸ in 1990. It was considered that the geopolitical and geostrategic dimensions of confrontation in the arriving 'new world order' should give way to uncompromising geo-economic rivalries, in which there would be no rules and customs of war or chivalry of its actors⁹.

Consequently, the power and influence of states should increasingly be dependent on economic factors, meaning that the accent would be on the efforts of states to gain 'geo-economic role in exchange for the declining geopolitical role'¹⁰. Having in mind that, according to Luttwak's learning, the economic (particularly trade) antagonisms between the United States, European Integration (the then EC) and Japan were relatively successfully resolved even during the Cold War to avoid inflicting damage to their alliance in the struggle against the so-called Soviet threat, it was logical that with the completion of geopolitical confrontation on European soil and with the removal of 'the iron curtain' it was exactly Europe that gained maximum profit. Deprived of mutual threats of the two major powers, a superior one, on the other side of the Atlantic, and the enfeebled one, from the eastern expanse of Eurasia - Europe (embodied in the expanding EU) was left with its respectable economic power which it could use as 'a trump card' for positioning in one of 'the centers' of the future polycentric world.

But it did not happen. Although the exalted Luttwak globalistically exclaimed: 'We have entered the era of *geo-economics*¹¹', the time of geopolitics has not gone yet. On the contrary. *Geo-economics* has not become an (ultra) post-modern negation of geopolitics (antigeopolitics); they have rather permeated and complemented each other. Not even during the period of classical geopolitics was this debatable - neither in theory nor in practice. The world (and of course Europe) became empirically very quickly convinced of this. Different geopolitical interests continued to cause devastating military conflicts, the visible causes and immediate triggers of which remained multilayered - ideological, political, religious and national, cultural and civilizational, geo-strategic, those related to energy, raw materials... Socially engaged scholars offered numerous conceptual bases to the increasingly obvious geopolitical changes that spread around the Planet like a pandemic. Some of them were empirically confirmed not only by the then, but also by the arriving processes, and some became recognizable in

⁸ E. Luttwak, "From Geopolitics to Geo-economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, N^o 20 The Nixon Center, Washington D.C., Summer, 1990. Luttwak explained the phenomenon of *geo-economics* in 1999. See in: E. Luttwak, *Turbo capitalism: winners and losers in the global economy*, Harper and Collins Publishers, New York, 1999.

⁹ E. Luttwak, "The coming global war for economic power: there are no nice guys on the battlefield of geo-economics", *The International Economy*, № 7(5), The International Economy, Washington D.C., 1993

¹⁰ E. Luttwak, "From Geopolitics to Geo-economics: Logic of Conflict, Grammar of Commerce", p. 19.

¹¹ E. Luttwak, *Turbo capitalism: winners and losers in the global economy*, p. 127.

particular foreign policy, international economic and military activities of the great powers:

- **Samuel Phillips Huntington** started from the assumption that the victory of Western liberal-capitalist model in the Cold War would put an end to ideological conflicts, but not to conflicts in general. Having in mind that the world would return to the never old-fashioned division into civilizations and that they would become the main actors in global relations, it followed that most conflicts would, in fact, be *clashes of civilizations*. It is indicative that in his division into seven or eight, that is, nine civilizations¹², Huntington did not single out any as an integrated *European civilization*. It is within the European area that the two civilizations meet (Western and Orthodox)¹³, with the evident infiltration of the third one (Islamic), not only in the Balkans, but across the whole continent (for now, mainly in urban areas). The boundaries of civilizations would not only be the tangible 'fault lines', but would turn into mutual 'battle Lines'. Huntington pointed out the conflict of Islamic against other civilizations, for which he had empirical support in the then Bosnia and Herzegovina¹⁴ which was at war

¹² In the first version, published in the article "The Clash of Civilizations?" in 1993, Huntington singled out seven or eight world civilizations (see in: SP Huntington, "The Clash of Civilizations?", *Foreign Affairs*, vol. 72, № 3, Summer 1993, Council on Foreign Relations, New York, 1993, p. 22-49). Several years later, he increased the number of civilizations to nine (adding the Buddhist), and the updated and expanded version of his concept was published in the book *The Clash of Civilizations and Remaking of World Order* in 1996 (see in: SP Huntington, *The Clash of Civilizations and Remaking of World Order*, Simon & Schuster, New York, 1996). Although Huntington's concept caused planetary controversy and suffered much criticism, mainly from the position of the fashionable so-called political correctness, geopolitical conflicts and armed conflicts that were active at the time of the creation of his article and book, especially those that followed, confirmed that the clash of civilizations (although not the only one) - exists. Also, the conservatives in geopolitical science challenged without substantive arguments the geopolitics his conception. De facto, the areas of Huntington's civilizations in the matrix of (neo) classical geopolitics can be understood as a "great spaces", forming a global system and the 'new world order'. The relations of alliances and rivalries among civilizations, including the conflict of war expressed along their borders, are undoubtedly based on geopolitics and belong to the subject and the area of studying of the science of geopolitics.

¹³ In his article (p. 30), and then in the book as well (p. 159), S. Huntington submitted a geographic map from the William Wallace's book: *The Transformation of Western Europe* published in 1990. , where he indicated the approximate division of Europe into *Western Christianity* and *the Orthodox Christianity with Islam*, which was in post-Cold War period supposed to be almost identical to the division of around 1500. The map and explanation, not without reason, caused negative reactions in the Orthodox countries of Eastern and Southeastern Europe since a civilizational boundary tore Belarus, Ukraine, Romania and Yugoslavia, joining thus their western parts to the Catholic-Protestant civilization of Europe (Vojvodina would be separated from Serbia!)

¹⁴ The war disintegration of SFR Yugoslavia served as the most explicit proof of the concept of *clashes of civilizations*. Huntington underlined the civilizational foundations of the wars in Croatia and especially in Bosnia and Herzegovina (already on the first page of the first

(then in the Caucasus, Kosovo and Metohija, Macedonia, big European capitals ...). Sharp conflicts lasted also between Western and Orthodox civilizations (Ukraine, Croatia ...), but also within the same civilization (Northern Ireland, Basque country ...).

- **Zbigniew Kazimierz Brzezinski**, in the search for the formula of preserving the global U.S. dominance (or leadership), gave the humiliating role to Europe of the instrument in the further suppression of an archenemy Russia in the competition to manage the largest and most important geopolitical land mass - Eurasia. In his *great chessboard* Europe would be one of the three 'big areas' ('Western') along the vitally important Eurasian periphery. Its geopolitical role would be to continue pushing and surrounding the 'central area' of Eurasia - Russia in the future, for the needs of the global dominance of the U.S.¹⁵. Brzezinski is unequivocal - Europe is 'the springboard' of the U.S. ("springboard") and geopolitical 'bridgehead' on the Eurasian mainland. 'The U.S. geostrategic role in Europe is huge'¹⁶. Thanks to the EU and NATO in Europe the leading global position of the United States and its transatlantic participation on the west 'façade' of Eurasia is guaranteed in the long run¹⁷. Moreover, the American thalassocratic notion of Europe as a scene of continuous conflict with the Russian telurocracy has not changed since the late 19th century, when the U.S. admiral A. T. Mehen established the postulates of maritime power (sea power). Since World War II, when N. Spykeman invented the concept of *Rimland*, a *strategic front* was established on the Atlantic facade Eurasia, which, with the rise of American power, moves successively closer to the East and approaches Russia as the main goal. In the Cold War the western Eurasian strategic front was stretching through the center of Europe as 'the iron curtain', and upon its termination it moved further into Eastern Europe, even closer to Russian borders. Its geopolitical and geostrategic function in the preparation for 'star wars' can be reasonably interpreted as (ultra) postmodern "new Iron Curtain" (**Figure 1 - compare the maps a, b and c**).

chapter of his book he writes about the Muslim demonstrations in Sarajevo in 1994, on which they, identifying with the Islamic civilization, wave the flags of Saudi Arabia and Turkey, and not s the UN, NATO or the U.S. flags).

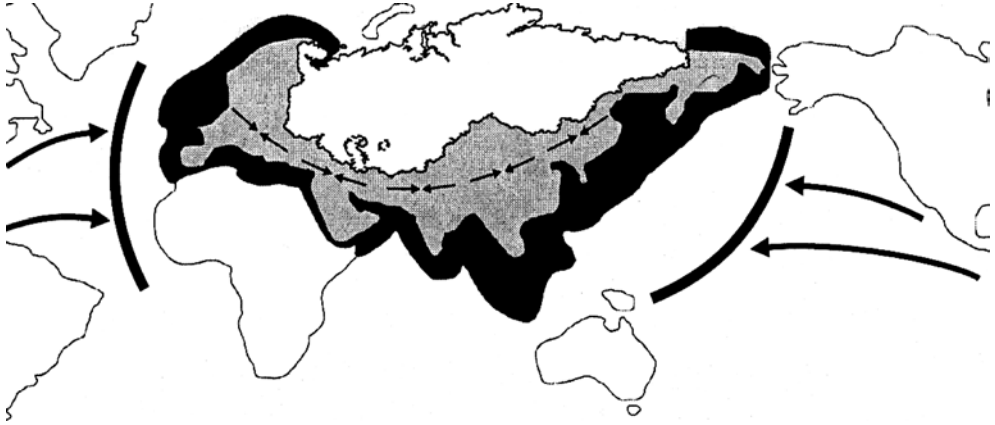
¹⁵ Z. Bžežinski, *Velika šahovska tabla*, CID, Podgorica; Romanov, Banja Luka, 2001. See chapter 2 "Evroazijska šahovska tabla" (pp. 33-56).

¹⁶ Ibid, p. 57.

¹⁷ Z. Bžežinski, *Druga šansa Amerike - tri predsednika i kriza američke supersile*, JP Službeni glasnik; Fakultet bezbednosti Univerziteta u Beogradu, Beograd, 2009 (see the map "The central position of the Atlantic Community worldwide", p. 108).

Picture 1: European routes and the stages of movement of the strategic front

a) The Second World War



Source: N. Spykman, *The Geography of the Peace*, Harcourt, Brace & Co., New York, 1944, p. 52.

b) The Cold War



Source: Z. Brzezinski, *The Great Chess Board*, CID, Podgorica; Romanov, Banja Luka, 2001, p. 12.

c) Star Wars



Source: M. Darius Nazemroaya, “Towards a New Iron Curtain: The US-NATO Missile Shield Encircles Eurasia”, Centre for Research on Globalization, www.globalresearch.ca (28 December 2010)

- **A. Dugin**, the key theoretician of the postmodern Russian neo-Eurasian geopolitical thought, considers the unipolar world order dominated by the U.S. to be unbalanced, unsustainable in the long term, and that it will inevitably evolve towards multipolarity. Due to its central position (analogous to Mekinder’s *Heartland*), Russia, as ‘a new Eurasian empire’¹⁸ should become a natural pivot of old / new Eurasian powers and the starting point for the ‘connections’ with China, India, Iran, Middle East, Southeast Asia and potentially with Japan and Germany. The world would be divided into four ‘zones’ of the meridian direction - Anglo-American, Far Eastern, and panEurAsian and EurAfrican – similar to the panzones of one of the classics of geopolitics, the German geographer and general K. Haushofer. Each zone would consist of several ‘big areas’, and within the EurAfrican zone ‘*the big European area*’¹⁹ would have the position of the dominant pole. Thus, in the neo-EurAsian perception of the future multipolarism Europe is intended to occupy the position of one of the few centers of global power, liberated from decades of the U.S’ geopolitical and geo-economic domination and instrumentalization. The entire concept, including

¹⁸ A. Dugin explains in detail the geopolitical, geostrategic, geoeconomic, geocultural and other essence of Russia-EurAsia as ‘the new empire’. See in: A. Dugin, *Osnovi geopolitike, book 1*, Ekopres, Zrenjanin, 2004, p. 186-255

¹⁹ See in: A. Дугин, *Проект “Евразия”*, ЭКСМО, Яуза, 2004. (www.evrazia.org, February 23th 2010), as well as the maps: “The map of Russian-Eurasian reaction against unipolar globalization. Counter-strategy”, “The map of multipolar world. Four zones – four poles”, “The map of multipolar world. Four zones – big spaces”, (www.evrazia.info, March 16th 2011).

the role of Europe, is subordinate to the primary strategic goal of Russia - the suppression of the thalassocratic U.S. power from the Eurasian megacontinent and its waters. Accordingly, Dugin notes that the classical dualism of 'sea power' and 'land power' continues in the postmodern era, and in such confrontation in the 21st century Europe will remain one of the main objects of the competition²⁰. It will not only be torn between the thalassocratic EurAtlantism and telurocratic neo-EurAsianism, but it will (according to Dugin's cartographic visualization of neoEurAsianism) remain divided between the three of the four 'zones' - Anglo-American, panEurAsian and EurAfrican. The courtiers which are in the contact belt of the large 'zones' (e.g. Serbia) are faced with the most delicate geopolitical position and the challenge of taking one or the other side²¹.

The concepts of the key geo-political theorists of the great powers and the real geo-political processes that take place after the end of the Cold War confirm that Europe has remained 'the hostage' of neoclassical debates in the postmodern period as well. Essentially, nothing has changed. Geographic realities, geo-economic rivalry and long-term geo-strategic goals have remained the same. Changes are beginning to show in the hierarchy of the world power, but they have first been made in the operationalisation and technological advances of the means of achieving the projected interests - the factors of 'soft power' have become increasingly important, which does not mean that the factors 'hard power' have been suspended. This is confirmed by the fact that NATO, despite the implosion of its rival WP, has not only survived, but has grown stronger, become more aggressive, accepted the majority of East European and the Balkan countries, thus 'extending activities' outside its range and its members. Obviously the 'bridgehead' of the U.S. has not completed its mission in western Eurasia yet. The logical question of the Europeans after the fall of the Berlin Wall: 'Why NATO?' - was cautious, shy, short-term, and very quickly sidelined. Moreover, previously concealed fact that NATO and the EU are 'the two sides of same coin' is now explicitly confirmed, even emphasized by means of an integrated term of *transatlantic (Euro-Atlantic) integration*. The strength of interconnections is underlined at any occasion²², especially when this is the message sent to

²⁰ A. Dugin, *Geopolitika postmoderne*, Prevodilačka radionica "Rosić"; "Nikola Pašić", Beograd, 2009, p. 14-16.

²¹ M. Stepić, "Geopolitical orientation of Serbia: Euro-atlantism and/or Euro-asianism", *Megatrend Review*, Vol 2 (2) 2005, Megatrend University, Belgrade, 2005, p. 7-22.

²² Herman Van Rompuy, President of the European Council, in his speech at the NATO summit in Lisbon in November 2010, stressed that the EU and NATO are 'the two closest partners', that their relationship would be 'strengthened further by the adoption of the new NATO strategic concept' and that he, personally, 'confirms the EU's firm commitment to this endeavor'. Remembering the past, he noted that 'without NATO there would be no Union' and that 'our two organizations have been sailing on the same ship for decades'. For the future, he predicted that NATO and the EU would have a tremendous ability to shape the security of the environment 'if they continue to work together' and that 'it was time to

European countries whose political establishment shows the aspiration to integrate into the EU, but is reluctant to join NATO²³.

In varying options of geopolitical future of Europe not enough attention is paid to the ambitions of a relatively new 'track' on a scale of global power - the Islamic factor. The interests of the Islamic factor are usually reduced only to those geographical areas where the Islamic population now has the demographic majority, but the geopolitical consequences of their population explosion and spatial expansiveness are not fully understood. There are 1.3 billion Muslims in the world today, and their number and participation in percentage grow rapidly. In geopolitical and geostrategic sense, they fully or partially participate in the major geographic regions, zones and points of the world - in the *Heartland and Rimland*, at almost all key straits, and canals, in the regions of oil and gas ... Despite the fierce mutual confrontation, they are united in their 'outward' performance - in the first place, to the West.

Having in mind that the Muslim areas of North Africa, Middle East and Asia Minor are located near, on the other side of the Mediterranean, '*the Islamic threat*²⁴' is most directly focused on Europe. Instruments and tools for geopolitical transgression are demographic - due to the high population growth, economic hopelessness, inevitable social conflict and instability of these territories, so the only choice of the young Muslim population is emigration to Europe. It is logical that migration flows will be directly implemented through three potential demographic and geopolitical routs - Iberian and Apennine (Arab expansion), the Balkan (Turkish expansion²⁵). New Muslim masses will join the existing immigrants that even the most developed EU societies have failed to integrate. Scientists have been writing about this for years, and now, noting that the multi-ethnic concept has failed, the leading statesmen have dramatically acknowledged that fact as well - first those of Germany and then of France, Italy ... If current demographic trends continue (especially the migrations), how will the ethno-confessional map of Europe look like in 2030, 2050, the 2100? Is it really possible

tear down the remaining walls that divide them'. See: H. Van Rompuy, "Without NATO there would be no EU", (www.nspm.rs, November 20th 2010).

²³ At the "NATO Summit in 2009 - new members, old members", held in April 2009 at the Embassy of the Czech Republic in Belgrade, it was highlighted that the EU and NATO are "the two complementary organizations". French military attache in Belgrade and a participant in the discussion was even more explicit, saying it could not be said that 'NATO is hardware, and the EU software', but that NATO and the EU are "the left and right leg" for the safety of their members. See the article: "NATO and the EU are complementary," *The Politika*, April 25th 2009.

²⁴ On Islamic revival and confrontation with the West see in: John L. Esposito, *The Islamic Threat - Myth or Reality?*, Oxford University Press, New York, 1992.

²⁵ The ambitions of Turkey were identified by D. Tanasković as neoosmanizam. Neoosmanizam has clear geopolitical dimension and they are already coming true. For the details see in: D. Tanasković, *Neoosmanizam - doktrina i spoljnopolitička praksa*, JP Službeni glasnik; Službeni glasnik Republike Srpske, Beograd, 2010, p. 35-47.

that Europe will transform into 'Eurabia'²⁶? And what will, in this case, be its global geopolitical situation, role and importance?

4. Instead of conclusion: The (mega) trend European geopolitical power

The post-modern Europe is facing a far reaching, strategic challenge - the search for a new 'formula' of functioning in the world that is rapidly being transformed in geopolitical and geo-economic sense. Centuries of colonial dominance, and then the period of the Cold War protection under the 'umbrella' of American interests in the west of Eurasia belong to the past. The relicts of earlier global institutional positioning and interference of the most powerful European countries, the EU and Europe as a whole, are gradually disappearing as well. In the hierarchy of world power an epochal redistribution at leadership positions is taking place and Europe shows a lack of 'fitness' to follow these dynamics. The EU, as its most developed region, despite the inertia of the strongest world economy, is showing signs of stagnation and retardation of the total power:

- 'The hard' ('tangible', 'traditional') factors of power have long ceased to be European comparative advantage - *the territory* is relatively small, poor in natural resources, with once central position that is increasingly turning into periphery; the *population* is still educated, trained and well organized to work, but it has grown old, spiritless, conformist and expensive (as labor); in the economic crisis *economic power* proved to be fragile and less competitive in relation to emerging powers, primarily the far-east 'megadragon' (China), numerous 'small dragons', the U.S., and increasingly India, Russia, Brazil ...; *military power* is not autonomous and integrated, but subordinate to the doctrine and command of NATO and U.S. interests; *the level of technological development* is lagging behind that of the United States and Japan, and soon it will not be able to withstand the competition with China, South Korea, India, and in the future, probably with Brazil, Russia, Canada ...

- 'The soft' ('untouchable', 'modern') factors of power are also no longer the exclusive European 'trump card' for the positioning in the global system - *the national will, discipline and sacrifice* of the population is scarce even in individual countries, and it is understood that they do not exist on the supranational level either because there is no integrated European (EU) nation; *international influence and diplomatic skills* are not as effective as in earlier epochs because they are not backed up by globally dominant economic and military power as a means of threats and compulsion; *popular support* for the official government is

²⁶ The historian N. Ferguson used the term Eurabia. See in: N. Ferguson, "Eurabia", *New York Times Magazine*, April 4, 2004. (Cited according to: R. Jackson, "Neil Howe", *The Graying of the Great Powers – Demography and Geopolitics in the 21st Century*, Center for Strategic & International Studies, Washington, D.C., 2008, p. 155.

minimal because the hypertrophied and too expensive 'eurocracy' is completely alienated from the European population; *the European system of values*, which has historically been built through a distinctive worldview, myths, traditions, the achieved cultural and civilization level and ideological and political models, and that virtually spread to the entire world through colonialism, is rapidly collapsing before the arrival of spiritual and material achievements of more vital centers of the world power; *the power of propaganda*, that is. *media power* (no longer just an instrument, but one of the main actors and creators of the total power) does not exist on the integrated European level, and the power of individual European media companies and countries can not be compared with the U.S. CNN, the Islamic-Arabic (formally Qatar) *Al Jazeera*, and in the future with the media power of China, India, Japan, Russia, Iran, Latin American countries ...

- Will European staggering continue to be more dramatic under the weight of the years of its population, lack of resources and postbipolar wandering in search of global geopolitical role? Or will Europe, as many times in its history, be able to find a solution and survive on the position of one of several major powers that define world order? Consequently, the future of Europe will depend on the resolution of four issues: a) the construction of optimal, functional and sustainable internal relations, not only at the level of the problematically integrated EU, but at the level of the whole, deeply divided Europe; b) the redefinition of the inherited transatlantic relations with the U.S. and the role of geopolitical and geostrategic 'bridgehead' on the west of Eurasia; c) redefinition of the inherited geopolitical antagonisms with Russia in the pragmatic context of the increasingly dramatic energy dependence on the biggest and richest in natural resources country in the world; d) dealing with the 'the Islamic challenge' that exists not only in the immediate European neighborhood on the opposite coast of the Mediterranean, but also within Europe itself.

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BELGIAN CONSOCIATIVE DEMOCRACY, AN OUTLINE FOR A PORTRAIT OF “UNSUCCESSFUL” FEDERALISM**

Summary

The paper presents the basic characteristics of the political system of Belgium, the horizontal organization of authorities on the federal level, as well as the constitutional but also political contradictions that have affected this country and threatened it with constitutional-political dissolution for more than a decade. Particular emphasis is placed on the essential characteristics of Belgian consociative democracy as an “unsuccessful” model–negotiation process, which, despite its flexibility, has not been able to stop and mitigate current disputes and debates on the character of the federal order of the Belgian monarchy and its uncertain future.

Key words: consociation, democracy, federalism, Belgium

JEL classification: H77, G28

1. Introduction

A number of theorists of contemporary political systems have marked Belgium and its history as a sort of “microcosm of European history,” as a state that has lived through and repeated many significant phases of modern European development through its history. The space on which the Belgian state community has been constituted has a turbulent political prehistory, full of turmoil, conflict and war. It has often served as Europe’s battlefield, a topos on which deep and almost unbridgeable national, religious and confessional differences

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have collided. They have left a deep imprint on the configuration and design of the Belgian monarchy's constitutional and political system, as well as on the dynamic and complexity of the relations within its federal order and its everyday political and party life. Such a burdened and difficult political prehistory has given birth to a specific, in many ways unique political system, full of tension, complex relations and constant turbulence which, especially during the last decade, have seriously threatened to totally destroy Belgium's state tissue and relegate its complex, but otherwise interesting, original and democratic order, to the shelves of history reserved for states that were not capable of overcoming their internal tensions and preserving their state unity. Strong ethno-national tensions (Flemish-Walloon disputes) have brought Belgium to an unenviable record, as a state that has spent more than 260 consecutive days without being able to form a government. These controversies and disputes continue even now, at the time of this paper's writing and, judging by everything, it is difficult to foresee their end. The current disputes and obstructions are merely an ugly finale of the political and ethno-national disputes that were opened decades earlier, and which even frequent constitutional tinkering has not been able to prevent or stop.

The current political situation is filled with debates dominated by claims that the country lacks a stable political future, that it should not even exist, that a peaceful breakup is the only solution and the formation of ethnically clean entities the only certain and lasting fate of this state space. Belgium's political and constitutional transformation from a *unitary to a federal* state organization did not succeed in stabilizing the country's political situation but, according to some authors, merely contributed to even bigger confusion – both on the plane of categorization of the character of its political system and on the plane of practical political struggle.

Theoretical discussions on the character and type of that political system range from the view that it is, in the first place, something between a *confederal and a federal system of government*, second, that it has a *polarized consociative character* (A. Lijphart), third, that it is a classical system of *partocracy*, fourth (I. Hooghe), that it is a combination of *consociation and partocracy*, and fifth, that it is a combination of *interparty cooperation and accomodation* (K. Deschouwer). Some theorists view this political system as a federation *sui generis*, as a form of *neo-corporative system*; on the other hand, there are views that it is a bipolar centrifugal federalism, divided between the *soft competences of the federal level of government* and the clearly defined competencies belonging exclusively to the *federal units*. Despite the many theoretical controversies, one thing is certain: political practice has shown that Belgium is a political community that has not succeeded in properly measuring the competences of its federal level of power, which is why that level of power has remained incomplete, unsystemized, disfunctional and an object of constant negation and compromise. The political disputes are, thus, concentrated around two large political blocs – unionist (in

both ethnic regions), which seeks to limit the degree of regional autonomy in favor of the federal level of power, and the *autonomist*, made up of supporters of strengthening regional autonomy, which would ultimately lead to the final breakup of the federation.

2. The political and constitutional system of the Belgian federation

Belgium was formed in 1830, through separation from the union with Protestant Holland that had been formed in 1814 at the Congress of Vienna. In 1831, Belgium adopted a liberal constitution, which contained many modern elements: basic human rights and liberties, sovereignty of the people, separation of powers, the government's responsibility to parliament, etc. Such a modern and democratically profiled constitution significantly influenced the constitutional development of other European countries, including Serbia. In Belgium itself, it eased the constitutional change from a constitutional to a parliamentary monarchy and, with the introduction of universal and equal suffrage – for men in 1919 and for women in 1948/49, the country's political system acquired pronounced transparency, broad political legitimacy and democratic groundedness. Belgium was initially a strictly centralized state. However, as the solutions offered by a centralized state did not prove to be politically, legally and socially optimal for Belgium's multilingual and multiethnic environment, a major constitutional and state reform was undertaken during the 1970s, in several phases.

The reform was carried out in three consecutive and connected phases. In the first phase, a constitutional assembly accepted the program of the Eyskens government in 1970, according to which the legislature stipulates the competences and the makeup of the regional bodies that are to be formed. This was a way to preserve the unity of general state policy while, at the same time, reconciling it with the constitutional recognition of cultural communities, linguistic areas and regions. The second phase of reform took place during the 1980s, and it encompassed the introduction of community and regional executive organs, and the transfer of a number of legislative competences in various areas to the communities and regions, as well as the definitive reform of state and political institutions in accordance with the proposed changes. The third phase of the reform of Belgium's state system began in 1987, essentially representing the radicalization and institutional finalization of the previous two. Thus, step by step, the previous *central state structure* has been reformed and restructured over a short period of time into a *federal political and constitutional order*, within which linguistic communities and regions can realize their constitutional and legal competences in a fully autonomous way. Since 1989, Belgium has been a federal state and, according to the edited text of the current Constitution of February 17,

1994, it is defined as a “federation composed of communities and regions” (Art. 1 of the Constitution).

In accordance with the federal order of the state and its multi-ethnic and multi-lingual (multi-identity makeup) specificities, Belgium encompasses three communities (federal entities): the German-speaking community, the Flemish community and the French (Walloon) community. Belgium also encompasses three regions: the Walloon, the Flemish and the Brussels region. The Walloon region is made up of the following provinces: Walloon Brabant, Hainaut, Liège, Luxembourg and Namur. The Flemish region is made of the following provinces: Antwerp, Flemish Brabant, West Flanders, East Flanders and Limburg. By law, the territory of the Belgian state can be divided into a larger number of provinces, if necessary.

Belgium contains four linguistic regions (language areas): the French-speaking Region, the Dutch (Flemish)-speaking Region, the Bilingual Region of Brussels-Capital, and the German-speaking Region (Art. 4 of the Constitution). According to the Constitution of Belgium, “all power emanates from the Nation,” and “is exerted in the manner established by the Constitution.” The key role in the horizontal organization of powers at the federation level is played by the monarch, the federal government and the judiciary.

2.1. Monarch

The Kingdom of Belgium is a hereditary parliamentary monarchy. The King has no powers other than those formally attributed to him by the Constitution and by specific laws established by virtue of the Constitution itself. As the sovereign of the state, the King of Belgium embodies the unity of the country and its integrity. At the same time, he is the supreme commander of its armed forces. On the basis of the Constitution, The King may confer military decorations and titles of nobility, while remaining unable to attach privileges to the latter. The King has the right to annul or to reduce sentences pronounced by judges (right to pardon), except in cases of ministerial responsibility. The federal legislative power is exerted collectively by the King, the House of Representatives, and the Senate. Each of these branches has the right of legislative initiative. According to the Belgian Constitution, the federal executive power belongs to the King.

The King’s person is inviolable; his ministers are responsible. The King appoints and dismisses his ministers. The King sanctions and promulgates laws. No actions of the King may take effect without the countersignature of a minister, who, in doing so, takes responsibility upon himself. The King has the right to dissolve both Houses simultaneously. The dissolution act implies voter convocations within forty days and House convocations within two months.

2.2. Federal government

The Federal Government is made up of the Prime Minister and the ministers. The Federal Government offers its resignation to the King if the House of Representatives (House of Deputies, as referred to in the German-speaking area), by an absolute majority of its members, adopts a motion of disapproval. After acceptance of the Government's resignation, the King names the proposed successor as Prime Minister, who takes office the moment the new federal Government is sworn in. The Council of Ministers includes fifteen members at most. Ministers have access to both Houses and must be heard whenever they so request. Ministers are responsible before the House of Representatives. According to the Constitution, only Belgians by birth or so-called great naturalization may be ministers. No member of the royal family may be a minister, with the possible exception of the Prime Minister. The Council of Ministers includes as many French-speaking members as Dutch-speaking members. The King also appoints and dismisses the federal Secretaries of State. The latter are members of the federal Government, but are not part of the Council of Ministers (as the inner part of the Government). Rather, they are deputies to a minister.

2.3. Parliament

The Belgian parliament has two Houses. One House is called the House of Representatives (House of Deputies), and the other the Senate. The members of the two Houses represent the entire people (Nation), and not only those who elected them. Both the Houses are equally competent in regard to revision of the Constitution and the adoption of laws (Art. 77 of the Constitution). Also, both Houses of the Belgian parliament have the constitutional competence of the organization of the network of regular courts and tribunals, as well as for the adoption of laws approving co-operation agreements between the State, Communities, and Regions.

At the beginning of each session, each of the Houses appoints its president, its vice-presidents, and forms its committee (Art. 52 of the Constitution). As a rule, all decisions are made by absolute majority of votes. Each House determines, by its regulations, the way in which it exercises its duties.

2.4. House of Representatives

The House of Representatives is made up of one hundred and fifty members. The members of the House of Representatives are elected directly by citizens who have completed the age of eighteen and who do not fall within the categories of exclusion stipulated by law. Each voter has the right to only one vote. Elections are carried out by the system of proportional representation that the law

determines. The ballot is obligatory and secret, and takes place at the commune. The number of seats in each electoral circumscription is obtained by dividing the number of the population of the Kingdom of Belgium by one hundred and fifty. The remaining seats are attributed to the electoral circuit which have the greatest surplus of population not yet represented. The size of the population of each electoral circuit is determined every ten years by a census or by any other means defined by law. The King publishes the results within a period of six months. To be eligible for election, one must be Belgian, enjoy civil and political rights, have completed the age of twenty-one, be legally resident in Belgium. By law, no other condition of eligibility can be required. The members of the House of Representatives are elected for four years. According to the Constitution, the House is renewed every four years.

2.5. Senate

The Senate is made up of seventy-one senators, of whom:

- twenty-five senators elected by the Dutch (Flemish) electoral college;
- fifteen senators elected by the French (Walloon) electoral college;
- ten senators appointed by and within the Council of the Flemish Community, named the Flemish Council;
- ten senators appointed by and within the Council of the French Community;
- one senator appointed by and within the Council of the German-speaking Community;
- six senators appointed by the senators of the Dutch electoral college and the Flemish Community;

four senators appointed by the senators of the French electoral college and the French Community.

Senators are elected for four years, and the Senate is also entirely renewed every four years.

2.6. Community Council

Belgium has a Council and executive organs of the French Community and a Council and executive organs of the Flemish Community, whose makeup and functioning are regulated by law. Also, there are the Council and executive organ of the German Community, whose work is also defined by the appropriate legal act. The Community Council, each in its own area of competence, regulates by decree matters from the areas of culture, education, inter-Community cooperation, international cultural cooperation, administrative matters, employer-personnel relations, etc.

2.7. Judiciary power

There is one Court of Cassation for the whole of Belgium (Art. 147 of the Constitution). This court lacks competence regarding matters of first instance save for the judgment of ministers and of members of Regional and Community Governments. Court of Cassation judges are named by the King on two double lists. One is presented by the Senate, the other by the Court of Cassation. There are five Courts of Appeal in Belgium:

- that of Brussels, with jurisdiction over the province of Brussels-Capital;
- that of Ghent, with jurisdiction over the provinces of West Flanders and of East Flanders;
- that of Antwerp, with jurisdiction over the provinces of Antwerp and Limburg;
- that of Liège, with jurisdiction over the provinces of Liège, of Namur, and of Luxemburg; and
- that of Mons, with jurisdiction over the province of Hainaut.

Appeals court judges and the Cassation Court judges are appointed by the King. Public prosecutors at courts and tribunals are appointed and dismissed by the King. Courts choose within themselves their presidents and vice-presidents. Judges are appointed for life, and court decisions are carried out (proclaimed) in the name of the King.

3. Belgian consociative federalism

As can be seen from the above brief outline of the horizontal organization of federal-level authority, Belgian federalism represents a complex political system that came about as a result of a need to satisfy the manifested political, but before all ethno-national differences in Belgian society. The “consociative prefix” was given the task of marking certain very important features of the Belgian federal order, which have made it an original phenomenon in the area of political system classification. We will attempt to point out some of its important characteristics:

- It is a specific negotiation model, which gives an impression that the process in that system is more important than the final outcome, while the form of *negotiation-agreement* seems more important than the content of what has been negotiated or agreed. In such a negotiation model, one starts from the standpoint that all parties in the role of negotiators desire fair negotiations in which each of the parties must receive a part of its political-interest satisfaction.
- Consociative rules start from the premise of so-called *deep conflict* and the question of how to “reduce the negative consequences of misunder-

standings and disagreements,” guided by a need to reach a good compromise. Especially in the key phase of negotiations, this is imposed as the need to apply needed brakes to the centrifugal forces that have separatist tendencies.

- Mechanisms of consociative negotiations allow, or strive to allow a *peaceful and controlled incorporation of national demands and aspirations in the sphere of institutional policy*.
- Such a system of negotiation democracy does not have a clearly delimited “autonomous-source and institutional gravitational center, i.e., an ontological anchor or autonomous power base,” which would be the protector of the *general national interest at the level of the federal order*; that is not even, and cannot be, the king, except, of course, in the domain of the symbolic unity of the nation and state.
- The absence of such a political center at the federal level of power also assumes an absence of a formal political hierarchy and partnership of political competitors. The absence of a clear and authoritative federal center creates a climate of looseness and confusion in the system-process itself.
- This is, indeed, a contradictory system-process, which produces at least two different political situations or outcomes: on the one hand, it stimulates *increase in the power of the leaders of the negotiating elites* while, at the same time, on the other hand, it produces a *centrifugal spiral in the regime* that conspicuously strengthens the positions of regional elites.
- We are, thus, also talking about a system of a *dispersed political elite and a deconcentration of political power*, which inevitably produces strong political competition, but also a substantial absence of participation in the process on the part of broader social segments of the citizenry.

“That is why some authors feel that political trade-off and compromise can become a one-way street leading from the center to the periphery, with only small doses or trickles flowing from the periphery to the center. Thus, the potential for a centrifugal flow is built into the system. And, paradoxically, these centrifugal tendencies are tied to the moods and dispositions of the ruling structures.”¹

4. Factors contributing to the failure of the federal level of power

There are numerous factors that contribute to the fact that the federal level of power in Belgium is showing signs of chronic failure, bringing it ever closer to the phase of final state and political dissolution. We will present some of them below.

¹ V. Vasović, *Savremene demokratije*, vol. 2, Službeni glasnik, Beograd, 2007, p. 178.

- The process of the transformation of the Belgian state from a unitary to a federal political order (system) lasted too long, more than two decades (1970-1993) and, over such a long period, exhausted great amounts of social energy that could not later be used towards its main goal – strengthening the efficiency and attractiveness of that model.
- The excessively long process of Belgium’s political-legal transformation deepened old fears and opened the way to new national and linguistic disputes, creating a new quality of tension on the identity level. Everyone feared changes – unitarists and separatists alike. The former feared for the future of the state as well as the transfer of power to the regions, while the latter feared the possibility of losing control in the monopolized space of their own ethnic community should the field of concentrated political power shift to the federal organs of power.
- Such a long process of constitutional and political reforms also had quite negative consequences on the economic-financial side. Simply put, it was costly and maintained the continuity of increasing costs, so it is no surprise that Belgium reached the highest level of public debt per capita in the EU.
- The complicated and long negotiation process (*consociation*) most often produced paralysis in the work of federal-level state institutions, specifically the executive authorities, frequently putting them in a position of having to resign and bring the process back to the beginning. Another testimony to the instability of the process was the fact that the fall of the government could be induced by a small political party or faction dissatisfied with its privileges.
- The above item clearly shows that the complicated and expensive process of the consociative negotiation model often depended on the greediness of the political parties or regional power elites, frequently descending into laborious dickering and haggling over levels of new prerogatives and privileges.
- The said shortcomings of the system were also used by political parties without a pronounced ethno-national stance, who waved nationalist demands in order to get their own piece of the political game concerning privileges and money.
- Another important feature of the model are the regional political parties, which have placed themselves into the position of “guardians of regional gates,” testing the permeating power of the federal authorities in both directions, up-down and down-up. Thus, regional political parties appear as promoters of the so-called *non-cooperative potential of consociation*, causing and creating strong processes of partocracy and mutual division of political hegemony and power.
- Yet another important factor of failure can be found in the so-called *fragmentation of the political landscape of the party system* in Belgium, in the crumbling of the big political parties and the increasingly important

position of small regional parties and their sharp competition, both in the area of regional interests and on the plane of influencing the federal level of politics.

- Political and party power are polycentric and dispersed among all three power levels, on the *ethnic, regional and federal level*. This polycentricity is leading to an absence of a clear and strong political center (authority) that could exert a more decisive influence on the protection of federal interests. That center is not, and cannot be even the federal government itself, since in any remotely delicate situation rife with conflicts between the interests of the ethnic-regional and the federal authorities, its ministers would take the side of the communities in which they were elected or which delegated them. Of course, such a balance of power produces a lack of a clearly defined *general federal good*, and of a readiness to defend it at the expense of ethno-regional interests.
- All in all, the political system in Belgium and its *ethno-regional dimension* are producing a state of concentration of political power among *dispersed party elites*; thus, due to the pronounced party competition, political power is not deconcentrated to broader segments of the citizenry. Due to the low level of citizen participation in decision-making, the capacity of the democraticness and legitimacy of the consociative model has been very much brought into question.
- Due to the said reasons, Belgium is experiencing a high degree of citizen distrust in the state and its institutions, as well as the federal authorities' ability to carry out efficient policy for the welfare of all citizens.²

It seems that the current nationalist and linguistic disputes in Belgium have reached their culmination. The entire country, especially the federal level of authority, has found itself under a total political and institutional blockade. Numerous efforts to remove it have not produced an efficient answer thus far, or the hope that Belgium can survive this political crisis as an integral state. And, even if that happens, its political future will still be highly questionable.

The project of the disintegration of the contemporary model of the *national state* has been strongly accelerated by the processes of globalization, and the example of Belgium has demonstrated its malign consequences. Despite the demonstrated democratic nature and flexibility of the consociative democracy model, separatist processes based on the concept of ethno-national autonomies have ultimately produced a political and state crisis that threatens to finally destroy the Belgian state union. All those separation processes – no matter how controlled, democratic and non-violent, and regardless of the fact that they are occurring within the context of an EU-member country – have ultimately brought a democratic country to the brink of political survival. Obviously,

² V. Vasović, *ibidem*.

the future of multinational communities is increasingly uncertain (despite the declarative devotion of globalist elites to the concept of *multi-cultural citizenship*). Some important indicators (political statements of the German chancellor and the British prime minister to the effect that the said concept has not taken root in their countries and does not have a future) are pointing in the direction of their further disintegration, fragmentation and new divisions. It is as though the future of the *national state* as a model will increasingly depend on the current power relations of the *globalist elites* and the pronounced ethno-national competition on the field of *identity geopolitics*. Is not Serbia's own example in that context more than indicative and instructive (the current Kosovo crisis)?

On the other hand, Belgium's example can also be instructive for Serbia, especially in the segment of the growing strength of *centrifugal forces*, which in their further demands for increased competences in the segment of existing and even new forms of autonomy (demands for the autonomy of the Raška region – Sandžak) and increasingly pronounced striving towards a transformation of the state from a unitary to a regional form of organization (the announced regionalization, which is taking on more and more elements of the constitutional order of the regional state model), might slowly but surely lead Serbia itself to the gates of state disintegration and even bring its state survival into question. Unfavorable foreign policy conditions and the constant, turbulent geopolitical recompositions of the Western Balkan area are encouraging precisely such tendencies. It is thus necessary to approach the coming constitutional reforms in Serbia cautiously, systematically and deliberately, so as not to imperil the necessary processes of the country's further decentralization, or its constitutional-legal and territorial sovereignty and integrity.

Addendum – state fact sheet

Official name: Kingdom of Belgium.

Area: 30,519 km².

Languages: Dutch (Flemish), French (Walloon) and German.

State holiday: July 21, day of independence from Holland and day of enthronement of the first king, Leopold I, on the basis of the Constitution of Belgium of 1831.

Capital: Brussels.

Population: 10,100,000.

Ethnic groups: German 1%, Flemish 57%, Walloon 33%, bilingual 9%.

Religions: Christian 76%, without confession 22%, other 2%.

Average annual income per capita: 30,000 euros.

Economic sectors: agriculture 2%, industry 31%, services 67%.

Membership in international organizations: UN, EU and NATO.

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TARIFF SYSTEM REFORM IN WASTE MANAGEMENT IN THE WESTERN BALKANS**

Summary

The main aim of this paper is twofold: to analyze the effects of the tariff systems in municipal waste management in the Western Balkan countries and to propose possible directions in their reforms. It was found that the tariff systems in the analyzed countries are, in the conceptual sense, weaker than the one set up in the European Union, which these countries are striving to join. As a result, in the period 2000-2008, the Western Balkan countries were the only ones in Europe where waste generation per capita increased. The proposed measure is to carry out tariff reform in accordance with the “polluter pays” principle. A set of economic instruments for the realization of that aim has been identified, and a proposal given for supplementing the existing body of environmental regulations, using the Serbian example.

Key words: *environmental tax, tariff system, waste management, reform, Western Balkans*

JEL classification: H23, Q53

1. Introduction

In developing countries, costs of environmental protections are underestimated and, as a rule, incompletely internationalized. They are, thus, passed on to society as external costs. This basically pertains to the Western Balkan countries as well. The question is – how to solve this problem? We will explore some of the solutions that focus on the possibilities offered by public policy in this paper, bearing in mind the standards set by the European Union, which the Western Balkan countries are striving to join.

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The paper will be organized as follows. First, we shall analyze existing waste management problems in the Western Balkan countries and the state of the tariff system. Second, we shall examine the solutions in that system in the European Union. Third, we shall present possible solutions to these questions in the Western Balkan countries, without neglecting the fact that solutions in the tariff system are feasible only in the context of overall reform of the waste management sector.

2. Existing problems and the tariff system in Western Balkan countries

The term *Western Balkans* is taken from the terminology of the European Commission, a body of the European Union. It refers to the countries of South-eastern Europe, which means that it has both a geographical and a political context. In further text, we shall explain which countries are encompassed by this term, i.e., which countries are covered by this analysis.

A certain terminological vagueness is also associated with the term *environmental tax*. The standard definition of environmental taxes used by the International Energy Agency (IEA), the OECD and the European Commission is that these are taxes whose tax base is a physical unit, and whose object of taxation are products and activities that have a negative impact on the environment. A further distinction is made between taxes and user fees, for which the terms “tariff” or “tax” are also used. The distinction is based on the fact that taxes are introduced for the purpose of fiscal and environmental goals, i.e., that they are enforced and directed into the budget, while user fees are directed towards covering costs of services and the realization of revenues (public, private companies) and/or for common use through environmental funds. The term “tariff” is used in this paper because it best describes the content of the concept of charging for services and use of resources in the area of waste management. The concept of economic instruments covers a broader specter of aims and tools at the disposal of economic decision-makers in this area, and they will be analyzed in the last section.

The following table provides information regarding tariff systems in Western Balkan countries.

Table 1: Waste management tariffs in Western Balkan countries

| Country | Households | Other users | Remarks |
|------------------------|---|---|--|
| Albania | Flat rate: EUR 13 to 33/year | Flat rate: EUR 45-1350/year | Rates are set by local authorities |
| Bosnia and Herzegovina | Mostly monthly rates based on surface area of residential premises : EUR 0.05-0.4/m ² | Varies significantly based on region/ municipality and type of industry | Rates set by local authorities; collected by service providers |
| Croatia | Monthly rates based on surface area of residential premises: EUR 0.05-0.11/m ² | Monthly rate based on surface area of commercial premises: EUR 0.14-0.2/m ² | Rates set by local authorities; collected by service providers |
| FYR Macedonia | Monthly rate based on (1) surface area of premises: : EUR 0.01-0.05m ² or (2) flat rate : EUR 1.5-5.0/house | Monthly rate based on (1) surface area of premises : EUR 0.02-0.08/m ² or (2) flat rate : EUR 1.7-7.5/user | Rates set by local authorities; collected by service providers |
| Montenegro | Mostly monthly rates based on surface area of premises, but adjusted according to amount of waste generated : EUR 0.03/m ² | Mostly monthly rates based on surface area of residential premises, but adjusted according to amount of waste generated | Rates set by local authorities; collected by service providers |
| Serbia | Mostly monthly rates based on surface area of residential premises : EUR 0.04/m ² | Mostly monthly rates based on surface area of residential premises : EUR 0.12/m ² | Rates set by local authorities; collected by service providers |

Source: The Priority Environmental Investment Programme Survey, February/March, 2009.E. Baltzar, A. Petrovska, D. Ševic, D. Uzunov, V. Varbova, R. Zhechkov, 2009, p. 68. For Montenegro and Serbia, data are given for indicative purposes.

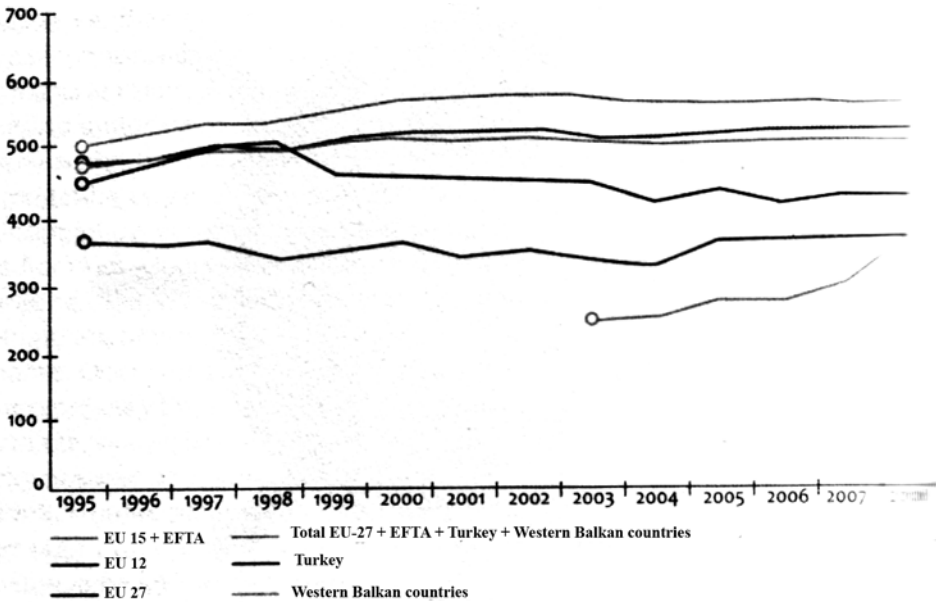
Tariffs for municipal solid waste in Western Balkan countries are used to pay for waste collection, transport and disposal. They are calculated: 1. by household (monthly flat rate or per household annually); 2. by surface area; number of household members is frequently used as an additional criterion.

The tariffs in these countries are not, thus, calculated on the basis of waste mass or volume. Such a tariffing approach allows easier calculation as well as easier waste collection, but also carries a series of negativities, which we will try to summarize.

First of all, the fact that charges are not based on waste mass or volume does not stimulate: a) waste classification by type and, thus, its minimization, as well as an overall reduction in waste generation; b) waste recycling; c) systematic waste disposal.

As a basic consequence of such a structured tariff system, the Western Balkan countries are the only ones in Europe where waste generation per capita has increased. The data shown in Figure 1 are indicative in this regard.

Figure 1: Waste generation per capita (kg)



Source: <http://www.eea.europa.eu/figures#c15=sll&c=wasteBC9=B&>

The basic waste management policy is prevention of waste generation. In the EU, municipal waste makes up 10% of total waste and this policy has been shown as successful since 2000. Unfortunately, that does not apply for the Western Balkan countries – represented by the line closest to the abscissa, which have been registering a constant increase since 2003, reaching 366 kilograms of municipal waste per capita by 2008. This is close to the EU average, which, however, relates to countries with substantially higher GDPs and population consumption levels.

On top of that, the following problems were also identified.¹ First, waste is collected at municipal level. As a rule, local authorities do not receive any subsidies for this purpose from higher authorities, as is the case with other local-level activities (primary education, primary social and health care). This often

¹ E. Baltzar, A. Petrovska, D. Šević, D. Uzunov, V. Varbova, R. Zhechkov, *ibid.*, p. 37, 70.

produces insurmountable obstacles for the poorer municipalities, as public waste utilities are, in certain situations, financed from municipal budgets.

Also, as a rule, waste is collected in urban areas, and rural areas are not covered by these services. Area coverage is as follows: Bosnia and Herzegovina 36%, Croatia 93%, FYR Macedonia 60%, Montenegro 50%, while there are no data for Albania and Serbia. In rural areas, the populace creates waste dumps, burns waste, etc. on its own initiative.

Then there is the evasion of payment for charges, which additionally complicates thus formed tariff systems. The data on coverage in this regard is as follows: Albania 60% for households, 90-100% for companies; Bosnia and Herzegovina 60-70%; Macedonia 70% for urban centers, 30% for rural areas; Montenegro 40-50% for households, 60-70% for companies, while there are no available data for Serbia and Croatia.

Furthermore, this system allows much spill-over of funds. Here are some examples: a) households and residents with different rates of consumption, i.e., waste generation, pay the same price for services; b) service companies that cover multiple municipalities with different levels of income and waste generation charge identical tariffs over their entire area of operations; c) there is spill-over, by way of municipalities, of higher amounts of charges collected in one activity – e.g. in the sphere of waste, as has been registered in Macedonia – to some other activities, such as water supply, street cleaning, etc.; d) the tariffs are different for residents and companies. On the other hand, this facilitates autonomous creation of landfills and waste disposal, contributing to further environmental degradation, especially having in mind the volumes of waste generated by companies and the equipment at their disposal (trucks, labor force) to transport it away from their production facilities.

It must be pointed out, as a consequence and reflection of the current state, that the financing of service utilities has not been systemically solved. Analyses show that operational costs in most countries are greater than the benefits (excluding social and environmental protection costs). In a word, while the maintenance of the system is more-or-less ensured, there is no base for further improvement in the current tariff solutions.

3. Existing solutions in the waste management tariff system in the European Union

When it comes to municipal solid waste, waste management in the EU essentially differs from waste management in the Western Balkan countries. We can see the types of tariff solutions by country in the following table.

Table 2: *Waste management tariffs in the European Union*

| Country | Households | Other users | Remarks |
|----------------|--------------------------------|---|--|
| Austria | EUR 53/per capita | n/a | average per year |
| Belgium | EUR 68-83/ton | n/a | flat rate or by volume |
| Bulgaria | 0.1-0.4% of property value | Number of containers and building value | Tariffs set by municipalities |
| Czech Republic | EUR:11.6-23.2/ton | n/a | Tariffs set by municipalities |
| Denmark | EUR: 182/family | n/a | Tariffs set by municipalities |
| Estonia | EUR:16-43/ton | n/a | By municipality and container type |
| Finland | EUR: 67/ton | n/a | average value |
| France | EUR: 116/ton | n/a | average value |
| Germany | EUR: 35-100 /ton | n/a | By number of household members or by volume |
| Greece | EUR: 6-15/ton | n/a | |
| Hungary | EUR: 1.54/househ. | EUR: 6.8-25.2/ton | Set by service provider |
| Ireland | EUR: 2.5/waste cont. | n/a | Tariffs set by municipalities |
| Italy | EUR: 28-95 per capita per year | n/a | Depends on size of municipality and region |
| Latvia | EUR: 15.7-38.6/ton | EUR: 15.7-38.6/ton | Tariffs set by municipalities |
| Holland | EUR: 75/ton | n/a | Flat rate per year |
| Norway | EUR: 24-121/household | n/a | Per year |
| Poland | EUR: 46.04/ ton | n/a | By volume or flat rate |
| Portugal | EUR: 6-15/ton | n/a | |
| Romania | EUR: 0.75/flat | n/a | Set by municipalities, per month |
| Slovenia | EUR: 37.96/ton | EUR: 47.32/ton | Average charge per volume, set by service provider |
| Spain | EUR: 15-30/ton | n/a | Depending on service quality |
| Sweden | EUR: 102/per year | n/a | Flat rate per household |
| Great Britain | EUR: 18-33/ton | n/a | Financed from local taxes |

Source: S. Speck, J. McNicholas, M. Markovic, *Environmental Taxes in an Enlarged Europe, An Analysis and Database of Environmental Taxes and Charges in Central and Eastern Europe*, The Regional Environmental Center for Central and Eastern Europe, 2001, p. 64; S. Speck, M. Marković (ed.), *Waste Management Policies in Central and Eastern European Countries, Current Policies and Trends*, Final Report, Regional Environment Center for Central and Eastern Europe, 2001, p. 78.

The waste management tariff system in the EU is based on fixed or variable charges, depending on the waste producer. Households are assigned fixed tariff rates, while firms, i.e., commercial waste producers, have variable rates defined by weight or volume. The tendency in the EU is for municipalities to increasingly set variable tariffs or combined fixed and variable tariff rates for managing waste produced by households. Methods of variable tariff rate formation are wide-ranging: from setting the price on the basis of a returned bag to more complex methods of linking containers with waste producers and setting tariff rates on that basis. The basic aim of these methods is to stimulate initiatives for waste minimization, classification and recycling, as well as to secure the covering of costs in the sphere of waste management, i.e., to apply the “polluter pays” principle.

The waste management system, and especially the tariff system in the EU, is based on a broad body of regulation that covers all the principles relevant for waste management. In accordance with Article 4 of Directive 2008/98/EC on waste, the hierarchy of principles assumes that waste management strategies must be primarily based on prevention of waste production (generation) and the minimization of the harmful effects of waste. When that is not possible, waste materials should be reused, recycled, renewed or used as energy sources. In the last phase, the possibility is left for applying measures related to waste disposal in accordance with the defined standards. To this should also be added: the proximity principle (waste should be disposed as close as possible to the source of generation); producer responsibility principle (which assumes that economic actors must be included in the measures based on the approach stemming from the “life cycle” principle for substances, parts or products that they produce or use), prevention of illegal trade in waste and illegal waste disposal (which assumes the undertaking of appropriate monitoring measures, securing respect for regulations and international cooperation), and the principle of the best available techniques that do not require excessive costs (which assumes that factory emissions into the environment must be reduced as much as possible, and as cheaply as possible).

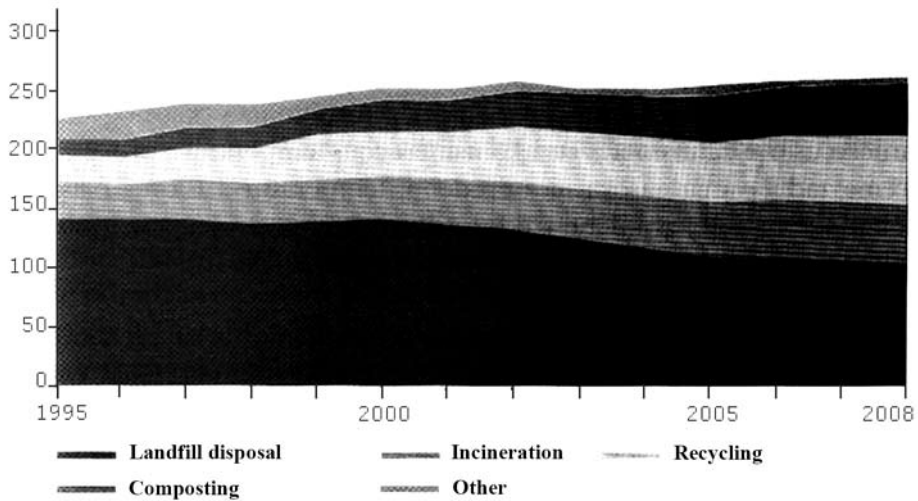
Of the 678 legal acts that are part of the corpus of EU environmental law sources, the group marked “Waste management and clean technologies” contains a total of 71.² By far the most frequent source of law are “decisions” (more than 40), followed by “directives” (19), while the number of “regulations” is 7. All these legal acts can be classified in various ways. Having in mind the primary character of the object of regulation, we shall group them here as follows: a) general acts in the area of waste, of which the most important is Council Directive 2008/98/EC on waste; b) acts dealing with waste produced as a result of consumer activities, i.e., acts dealing with special waste flows, where we would particularly point out Council Directive 94/62/EC on packaging and packaging waste; c) for

² As of July 1, 2010. See: <http://eur-lex.europa.eu/en/legis/latest/chap15103030.htm> (date of access: 1/ 7/ 2010).

acts dealing with hazardous waste, the basic source of law is Council Decision 93/98/EEC; among the other acts, of special significance is Directive 2006/21/EC on the management of waste from extractive industries. As all classifications, this one is also arbitrary, and its purpose is to allow an easier overview of the legal acts, as there is much interconnectedness and intertwining of the significance of certain acts from different groups.³

The above EU waste management tariff system, along with other measures that were undertaken, has proven to be efficient, which can be seen from the data in Figure 2.

Figure 2: *Development of municipal waste management in the EU-27*



Source: http://www.eea.europa.eu/soer/synthesis/?b?_start:int=24&-C

Since 1995, municipal waste disposal has been falling. On the other hand, other forms of waste management have been developing, among which a special place is reserved for recycling, which has become an important activity in the EU, as testified by the fact that it employs 1.5 million people.

4. Designing tariff system reform in Western Balkan countries

The designing of a new tariff system in the Western Balkan countries can be deconstructed into three, that is, four key elements: first, constituting a system on the basis of the “polluter pays” principle; second, choice and implementation of a set of economic measures that should facilitate this process; third, within

³ D. Todić, *Životna sredina, Vodič kroz EU politike*, Evropski pokret, Srbija, 2010, pp. 276-280.

the framework of the second, special consideration and differentiation of sources of new investments; fourth, articulating the needed augmentation of the legal regulations in this area.

The first, key issue regarding the design of a more efficient tariff system in Western Balkan countries is the application of the “polluter pays” principle. In essence, this principle means, before all, the focusing of attention on the polluter. It was formulated in 1972 (OECD), and assumes the following elements: “The principle aimed at allocating the costs of protection from pollution and control measures for the rational use of scarce resources and preventing the appearance of distortions in international trade and investment is the so-called Polluter Pays principle. This principle means that the polluter should bear the costs of the said measures introduced by the public authorities and maintain the environment in an appropriate state. In other words, the costs of these measures should reflect the costs of goods and services that cause pollution in production and/or consumption. Such measures should not be tied to subsidies, as this would lead to significant distortions in international trade and investment.”

The operationalization of this principle is essentially carried out through the principle of cost recovery. In the case of waste management public services, adequate tariff formation contributes to an adequate supply of public services in this domain, the improvement of life in the relevant social community, and a more complete use of resources in the economy and society as a whole.

In the EU, as well as other international financial institutions, these costs include the following:⁴

- 1) collection of revenues for current maintenance: waste collection, transport, disposal and maintenance of landfills;
- 2) future investments;
- 3) equitable revenue distribution;
- 4) waste minimization;
- 5) restraining demand.

Here it should be said that there is another, broader approach to this question: “The setting of tariffs goes further than cost recovery, since tariffs are public policy instruments and can, thus, be used for different social, economic and financial goals.”⁵ This approach is not the predominant one, because it implies the fulfillment of goals that are more social than municipal, i.e., the goals of improving services, which is a conclusion reached by the authors as well.⁶

⁴ Asian Development Bank: *Guidelines for the Financial Governance and Management of Investment*, 2002, p. 116.

⁵ D. Dole, I. Barlett, *Beyond Cost Recovery: Setting User Charges for Financial, Economic and Social Goals*, FRD, Technical Note No. 10, 2004, p. 1.

⁶ Dole, I. Barlett, *ibid.*, p. 25.

Tariff system structuring according to the cost recovery principle should fulfill the criteria imposed by business practice. They are tied to the fact that, as a rule, such a conceived system brings higher service prices, which can be seen from their level in the EU (Table 2). These are the criteria: the population's payment capacity, readiness to pay and political feasibility.

Second, the prices for current maintenance (item 1, as it follows from the above) should be gradually raised, i.e., introduced, which assumes a highly efficient and sensitive economic policy in this sphere. Therefore, the raising of prices must be accompanied by other economic measures that should facilitate this process. In literature and economic practice, it is well known that a smaller number of goals can be achieved through the combination of a large number of measures: thus, for example, certain analyses show that, for the achievement of twelve basic economic goals, economic policy has as many as 303 economic instruments at its disposal, of which forty are important.⁷ The existence of such a large number of instruments leaves significant creative space for the carriers of economic policy. They should basically facilitate a more efficient combining of different instruments. The positive effects of a successful articulation of economic instruments are: possibilities of a dosed and equal distribution of the negative measures of certain instruments of economic, i.e., ecological policy onto differentiated economic and social groups. This should contribute to a lower cost burden per instrument, which leads to easier acceptance of these measures on the part of economic and social actors.

The way in which these goals and measures will be combined and realized is something that can be resolved only in the given environment of a concrete local self-government. The below package of measures applied in the EU can provide the coordinates, i.e., the conceptual framework for this approach in the Western Balkan countries.

Table 3: Package of measures for implementing the EU directive on waste

| | | | | | | |
|--|---|---|---|---|---|---|
| Environmental production tax | | | | | * | |
| Taxes on landfills | * | * | * | | | * |
| Taxes on incineration | | | * | | | |
| Landfill prohibition | * | * | * | * | * | * |
| Separate biowaste collection | * | * | * | * | * | * |
| Polluter responsibility/voluntary contract for paper waste | | * | * | * | | |
| Polluter responsibility for package waste | * | * | * | * | * | * |

Source: E. Baltzar, A. Petrovska, D. Šević, D. Uzunov, V. Varbova, R. Zhechkov, Research conducted by the European Topic Center for Resource and Waste Management (ETC/RWM) 2009, p. 20.

⁷ D. Gnjatović, V. Grbić, *Ekonomska politika, Teorija – Analiza – Primena*, Megatrend univerzitet, Beograd, 2009, p. 10.

In all the observed countries, of different economic strength and civilizational level, three more groups of measures were used in addition to waste management tariffs. On one side, prohibition of inadequate landfills and, on the other, the spreading of responsibility, i.e., costs of waste collection, to different actors: direct or intermediate pollution generators. In that way, the burden of costs of economic instruments was spread to a larger number of participants, which resulted in: reduced waste production, increased participation of other forms of waste management, especially recycling, effects on the overall level of charges in the tariff system.

As an addendum to the above, it should be said that, for the needs of forming an adequate waste management tariff system, economic instruments can be aggregated into three groups.⁸

Revenue-raising instruments. To this group of economic instruments belong various types of tariffs for waste collection, transport and disposal. The revenues realized from these tariffs usually serve for the solution of concrete problems for which the tariffs were set. This group of economic instruments includes: polluter taxes, waste producer taxes, waste management tariffs, preventive taxes, etc.

Revenue-providing instruments. This group of instruments encompasses various types of subsidies aimed at stimulating certain kinds of behavior in waste management, e.g., reduction in waste production or a recycling process. Subsidies can be: direct payments, reduced taxes, transfers in goods, preferential access to credits. Examples in the domain of municipal waste also include: reduced property taxes, customs duties, sales taxes aimed at improving waste management and larger investments; tax reduction on the basis of proof of recycling or reuse of waste; tax discounts for reduced pollution or increased energy efficiency; forming an environmental protection fund; grants for improving technological development.

Non-revenue instruments. These economic instruments combine the effects of taxes and subsidies for improving waste management. Examples of such instruments are: deposit-refund system, security deposit system, eco-labeling system, formation of polluter blacklists, etc.

Third, a critical element in designing a tariff system in Western Balkan countries is tied to the financing of future investments (item 2), the solution of which has implications for the level and development of prices in the tariff system. Sources for their financing, even though the “polluter pays” principle does not essentially assume this, should be sought outside the user system, i.e., in the collection of external funds. This means that there should also be reliance on other sources of financing during a transition period, in order to secure the long-term sustainability of the waste management system. The data in Table 4 give

⁸ Inter-American Development Bank: *Economic Instruments for Solid Waste Management, Environmental Network, Regional Policy Dialogue*, II Meeting: The Application of Economic Instruments in Water and Solid Waste Management, Washington D.C., 2003, p. 1.

a sort of conceptual framework regarding the sources from which these funds could be drawn.

Table 4: Possible sources of investment in waste management

| TYPE OF CAPITAL | SOURCE |
|---------------------------------|--|
| Budget | State |
| | Municipalities |
| | Environmental fund |
| Donations | EU Instruments for Pre-Accession Assistance (IPA) |
| | Other international donors |
| Credits | International financial institutions |
| | Bilateral financial arrangements |
| | Commercial banks |
| | Bonds issued by the state or municipalities |
| Private capital | Public-private partnership arrangements |
| Broader producer responsibility | Measures taken by waste producers themselves |
| | Tariffs paid by waste producers to service providers |

Fourth, finally, but not in conclusion, it is necessary to complete the processes of legal regulation of the waste management sector that have already been initiated in the Western Balkan countries. A good example of what has been accomplished in this regard, i.e., what still needs to be done in this sphere, is offered by the Serbian legislation.⁹

The basic national law sources in Serbia in this area are: the Law on Environmental Protection (“Official Gazette of the RS,” no. 135/04 and 36/09), Law on Waste Management (“Official Gazette of the RS,” no. 36/09) and the Law on Packaging and Packaging Waste Management (“Official Gazette of the RS,” no. 36/09). A larger number of sub-legal acts were adopted on the basis of these basic laws.

In addition, there will be other activities in the period that follows, aimed at augmenting the waste management system. The establishment of an integral waste management system in accordance with EU requirements will be secured by the adoption of sub-legal acts that will completely incorporate the EU requirements. This will also mean the adoption of national waste management plans (e.g., National Plan for Biodegradable Waste Reduction), in accordance with EU directives on waste and waste landfills; adoption of sub-legal acts (on the basis of the Law on Waste Management) that will completely incorporate the EU Directive from this area, along with the provisions of the Stockholm Convention; adoption of sub-legal acts (based on the Law on Packaging and Packaging Waste) that will determine the types of packaging for certain types of chemicals

⁹ D. Todić, *ibid.*, p. 298.

for which security deposits will be used, through which the requirements from Directive 94/62/EC on packaging and packaging waste will be completely incorporated; creation of plans for the implementation of EU regulations in the area of waste, whose implementation entails large investments; adoption of regulations through which Directive 2006/21/EC on mining waste will be completely incorporated.

5. Conclusion

The following may be concluded on the basis of the above analysis. First, the tariff system in the Western Balkan countries represents, in the conceptual sense, a weaker solution than the one adopted by the EU. As a result, in the 2000-2008 period, the Western Balkan countries were the only ones in Europe where waste generated per capita increased. Second, numerous waste management problems were identified: lack of coverage of rural areas with services; revenue spill-over (basically, residents that generate different volumes of waste pay the same service prices); evasion in tariff collection, etc. Third, the tariff system in the EU is based on the “polluter pays” principle, which formed a basis for the conception of numerous forms of tariff rate setting: from setting prices on the basis of returned bags to more complex methods of linking containers with waste producers and tariff rates set according to these methods. Also, the body of legal regulations in that field has been completed. Fourth, the following reform measures were designed in Western Balkan countries: gradual introduction of the “polluter pays” principle, set of economic measures necessary for the easier application of this approach, which assumes the raising of service prices; finally, amendments to the existing legal regulations have been proposed.

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THE PERSPECTIVES OF DEVELOPMENT OF ELECTRONIC GOVERNMENT IN SERBIA AND EU EXPERIENCE

Summary

The digital economy environment has brought about fundamental changes. Progressive development of information technology points out to a need to introduce the E-Government in local government as a factor of creation, launch and promotion. Serbia recognized the importance of information society at the beginning of 1989, when the regulatory activities and organizational preparations started in this area. Despite of its early start, Serbia is now, when it comes to e-Government service, behind the European countries. The factors such as the political situation, lack of capital, absence of appropriate legislation and others, slowed the development of Serbia in the field of interoperable e-Government services. This paper presents the concept of electronic government, gives overview of e-Government and legal regulations in the field of application of e-business in the Republic of Serbia, with special emphasis on the Electronic Signature Law, the Law on Personal Data Protection, Law on Organization and Competence of Government Authorities for the fight against cybercrime, the Law on Free Access to Information, and the Electronic Documents Law. Special attention is devoted to current legal provisions of the European Union related to electronic business.

Key words: *electronic government, legal framework of e- government, local administration*

JEL classification: O38, H70

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1. Introduction

The aim of this paper is to emphasize the great importance of e-Government for providing services of public administration to citizens and businesses by means of electronic communication, in order to encourage citizen participation in democratic processes and remove obstacles to business. E-Government enhances the development and implementation of development strategies and helps public sector to meet the complex requirements for the provision of better services with minimal use of resources. In fact, e-Government means a way of organizing public management in order to increase efficiency, transparency, ease of access and responsiveness to citizens' demands, by intense and strategic use of information and communications technologies in public sector management, internal relations within and between the administrations, as well as in everyday relations with citizens and other users of public services. Therefore, e-Government is an online information exchange and provision of services to citizens, business and other administrative organizations or agencies.

The definition of e-Government, that is, comprehension of the term e-Government, depends primarily on interest of those who describe it. For a businessman, it is a quick electronic registration, an electronically organized cadaster or online public procurement. Citizens pay the biggest interest to access to different information, the enrollment results in schools and colleges, notice of public works, check balances, paying online and the electoral system in which there is no theft, while journalists are primarily interested in an unlimited, fast and free access to public information.¹

The European Union has defined e-Government as the use of information and communications technologies in public administrations combined with organizational change and new skills in order to improve public services and strengthen support to public policies. This points, above all, to the use of Internet as a tool for achieving better management. The OECD, the United Nations and the World Bank also gave their definition of e-Government. The OECD has defined e-Government as the use of information and communication technologies, especially the Internet, as a tool to achieve better results of the government. According to the United Nations, e-Government represents the capacity and willingness of the public sector to develop the use of information and communications technologies to improve service delivery to citizens, while the World Bank definition emphasizes that e-Government aims to provide an easier, cheaper and

¹ S. Marinkovic, "Section proposal related to Information Society for National Strategy of Serbia, for accession to EU", Center for Internet development in Serbia, National Information Technology and Internet Agency, Internet portal of e-Government in Serbia, 2006; B. Dobrosavljevic, "The Role of Information Technologies in E-Government - Serbian Business Registers Agency Experience", YU INFO conference, CD edition, *Kopaonik 2007, Serbia*.

more transparent interaction between Government and citizens (G2C), government and companies (G2B) and government organizations themselves (G2G).²

Based on the definitions set forth, it is easy to conclude that e-Government is the use of information and communications technologies for improving governance and management processes. According to available data, South Korea was the first state in which the electronic system of public administration began to function, and that was on the first November 2002. The citizens of this country had at their disposal 4000 of different categories, and were able to carry 393 different activities related to communication with the public administration. It was soon followed by more developed and economically strong countries. Of course, it is difficult to speak about the historical development of this concept, because from this perspective we have an impression that everything followed a natural course, but it happened very fast. Ten years ago the different symposium of experts brought ideas of common electronic databases, implementation of Internet in the functioning of public administration, while also the common strategy and plans at the level of the European Community were adopted, as well as agreements on mutual cooperation on e-Government.³

From the end of the nineties to the present, several strategic documents concerning the development of information society, e-Government issues and delivering online public services were adopted within the European Union. All these documents point to the fact that the European development strategy of information society and e-governance have evolved along with the Union, which has growth from the Economic Community into an entity very similar to the individual states which compose it.

2. Models of e-Government

Bearing in mind that e-Government is the use of information and communications technologies for improvement of governance and management processes, the concept of e-Government can concern three main target groups: the government or administration, the business sector and the citizens, which imply three most important models of e-Government: Government to Government (G2G), Government to Business (G2B) and Government to Citizen (G2C).⁴

² P. Gottschalk, "E-business strategy, sourcing, and governance", Elsevier, 2006; The Working Group on E-Government in the Developing World: Roadmap for E-Government in the Developing World, Pacific Council on International Policy, 2002.

³ European Commission: "The European E-Government Action Plan 2011-2015, Harnessing ICT to promote smart, sustainable & innovative Government", Brussels, 15 December 2010, COM (2010) 743.

⁴ M. M. Brown, *Electronic government, Encyclopedia of Public Administration and Public Policy*, Marcel Dekker, 2003, pp. 427-443; Capgemini, "Online availability of public services: How is Europe progressing", European Commission Directorate General for

Government to Business (G2B) indicates the relationship between government and business. This relationship, that is, the acts of government aiming the business sector attract the most attention, primarily due to the desire and pressure of business to improve the speed of services performance and obtain possible cost reductions. This includes public procurement and sales by the government in relation with the business sector. Although they do not rely directly on information technology, several different methods for transparent public procurement are used in relation with the business sector, which contributes to the democratization and the gradual change of general customs within public institutions. In later stages of e-Government development, administration approaches this group by implementing applications for electronic delivery of services, which are otherwise provided by non-electronic means. So, G2B is a service for communication of public administration with business subjects based on the concept of the Internet and extranets. Its main components are the supply, information and services that make businesses work, by providing verified data and eliminating redundant data collection, and create communication and other essentials for achieving e-business between them.

Government to Citizen (G2C) indicates the relationship between government and citizens, that is, a service for communication between public administration and citizens, based on the concept of the Internet. Its basic components are visitors, information, online services and digital democracy. G2C initiatives are undertaken to facilitate the interaction of citizens and government, which some experts believe the main objective of e-Government. These initiatives include facilitating transactions such as forms filing, license renewal, paying taxes, and are performed in a simpler and faster way. G2C initiatives often seek to use resources such as websites and info-kiosks in order to make information more accessible. In another aspect, G2C initiatives affected government itself by the change in business processes within the organization. Many believe that one of the primary goals of G2C initiatives should be to create so-called *one-stop shops, unique places where people could obtain various services, particularly those which require the cooperation of several agencies, without contacting each agency individually. The potential growth of G2C initiatives concerns the increased interaction among citizens themselves and the increased participation of citizens in government.*

The links between these groups involve two-sided interaction, including communications citizens – government (C2G) and business sector – government (B2G).

Most governments begin providing electronic information, aimed at different target groups. Over time, more complex services are required due to public pressure and a desire to enhance internal efficiency distribution. This proc-

Information Society and Media, 2005; Capgemini, "Online availability of public services: How is Europe progressing", Web Based Survey on Electronic Public Services, Report of the 6th Measurement, i-2010 Information Space Innovation & Investment in R&D Inclusion, 2006.

ess takes place in stages in which different services become gradually available. Range of services that the government decides to offer electronically depends on two factors: one is the public demand for certain services, and the other is reduction of internal costs.

The very process of maturation of e-Government initiatives consists of four phases.

In the first phase E-Government means that a government is present on the Internet and provides the public, primarily the business sector and citizens (G2C and G2B), with relevant information. This web site format is similar to the government pamphlet or brochure. The value that the public has of this is public availability: the processes are documented and transparent, contributing to democratization, but also to efficient performance of services. The relation G2G offers to various public institutions a possibility to share between them their static information using electronic medium.

The second phase is marked by the interaction between government and public (G2C and G2B), which is stimulated by a variety of applications. People can ask questions via e-mail, search databases, load and save forms and documents, what significantly saves their time compared to the performance of these activities in traditional way. All information is available 24 hours a day, while at the counter it could be obtained only during business hours. This phase of the interaction G2G means the use of local networks and exchange data via electronic mail (e-mail) or intranet applications.

In the third phase the complexity of the technology is increased because this phase assumes that all transactions can be done without leaving the office. At this stage the government makes available services such as tax returns, license renewals, submission of demands or electronic voting. The third phase is the most demanding in terms of technology and for its implementation the legislative and other pre-conditions are required. Given the degree of interaction between public and government, it is necessary to implement electronic signatures, and take all measures to ensure privacy and data protection, but also to provide the legal framework for the legal transfer of these services. Concerning business, governments at this stage introduce the electronic applications for public procurement and other tenders.

The fourth stage occurs when all the information systems are integrated and when the public (G2C, G2B) can get all services at one virtual counter. At this stage, costs reduction, efficiency increase and customer satisfaction reach the highest level. A unique starting point for all services is the ultimate goal of all e-Government initiatives. The greatest risk factor in achieving this goal comes from the government, because it implies a radical change of culture, processes and responsibilities within government institutions. This goal is impossible to achieve without a change in public servants' work and habits and without introducing new models of cooperation between them.

Therefore, e-Government development and service levels, that is, the ways of interaction between target groups are listed in four phases. The first stage is the presence or presentation of information on the Internet. The second is the interaction and participation of target groups in different processes, and availability of services. The third defines the transaction or two-way information exchange and performance of various services. The fourth and most complex phase is a transformation, that is, a complete integration of processes and transformational changes.⁵

3. Laws and regulations on e-business in the Republic of Serbia

In Serbia, the applicable regulations relating to the development of information society, for ease of description, can be classified into two groups. The first group consists of the regulations issued before 2001, and another group consists of the regulations enacted in the period from 2003 to 2005.

From 1989 to 2001 the following regulations were adopted⁶:

- Guidelines for preparation and adoption of information systems projects of public authorities (“Off. Gazette of SRS”, no. 49/89)

These guidelines enact activities of republic and municipal authorities to develop information systems, from the initiative for the improvement or construction of an information system until the operational implementation of designed solutions, the project content within which activities are organized with the aim to develop information systems and the adoption process of information system projects.

- Ordinance on security and protection of information systems of state authorities (“Off. Gazette of SRS”, no. 41/90)

The regulation set out measures to secure and protect information systems of state authorities based on the computers application, as well as their implementation. It was noted that measures may be organizational and technical and it deals with specific elements they concern.

- Law on the Information System of the Republic of Serbia (“Official Gazette RS”, no. 12/96)
- Government Ordinances on development and functioning program of information system of Serbia:

⁵ D. Osimo, D. Zinnbauer, A. Bianchi, “The future of e-Government: An exploration of ICT driven models of e-Government for the EU in 2020”, *IPTS*, 2007.

⁶ National Agency for Information Technology and Internet: *Long-term plan for e-Government development in Serbia*, Draft 2, 2006.

- Ordinance on Development Program of Information System of the Republic of Serbia in 1997 (“Off. Gazette of RS”, no. 3/97)
- Ordinance on Development and Functioning Program of Information System of the Republic of Serbia in 1998 (“Off. Gazette of RS”, no. 17/98)
- Ordinance on Development and Functioning Program of Information System of the Republic of Serbia in 2000 (“Off. Gazette of RS”, no. 10/00)
- Ordinance on Development and Functioning Program of Information System of the Republic of Serbia in 2001 (“Off. Gazette of RS”, no. 58/01)

These ordinances established activities plans for tasks implementation laid down by the Law on Information System of the Republic of Serbia as well the competence of their implementation, deadlines and the necessary funding.

- Law on Personal Data Protection (“Off. Gazette”, no. 24/98 and 26/98)

This law is consistent with the Council of Europe Convention on the Protection of Individuals with Regard to Automatic Processing of Personal Data, while on the other hand it does not comply with the European Parliament and Council 95/46/EC on the protection of citizens in regard to the personal data processing and on the free movement of such data; therefore this law, from the standpoint of new European standards, was largely overcome. The mentioned law was limited mainly to matters of personal data protection, but did not deal with the collection, processing or use of personal data, which is supposed to be regulated by specific laws that were never enacted. In addition, from the moment of promulgation the Law has never really been implemented. Thus, the Republic of Serbia was in a situation that, as the legal successor of the former Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro, formally had a law, but in fact had no law governing this area.

The formal legal reason for this state is the fact that when the jurisdiction of federal authorities was transmitted to the authorities of the Republic of Serbia, there was no designated state agency to assume the jurisdiction for the exercise of rights under the Law on Personal Data Protection from 1998, and it could not really apply. In addition, the substantive reason for the situation in the field of protection of personal data is that inadequate standards contained in the Law on Personal Data Protection from 1998 were not able to meet the requirements arising from the Directive of the European Parliament and Council 95/46/EC, which affirmed the EU standards in this area, especially the highest possible standards of transparency of data processing and efficiency of processing control.

The Article 42 of Constitution of the Republic of Serbia guarantees the protection of personal data. In order to effectively secure it, it was necessary to enact a new law that would provide effective protection of personal data in a modern way and in accordance with the applicable standards of the European Union.

Meanwhile, the laws that are directly related to the protection of personal data were passed, such as the Law on Identity Cards and the Law on Travel Documents.

Both laws stipulate the use of personal biometric data in new documents, which represents, without a system to use, processing, control and protection of biometric data, a possible danger of violating the constitutional right to protection of personal data.

The right to protection of personal data is an important part of the right to privacy, which is one of the fundamental human rights. Under modern conditions this right is all the more vulnerable. Development of science and technology, particularly the development of modern communications, the introduction of new information systems and the creation of databases in all areas, with no doubt beneficial effects, create the conditions for new forms of violation of rights of privacy and misuse of personal data.

The data on which is determined or can be determined the individual identity can be abused for overseeing and directing the behavior and habits of the person, trade and exchange of identity databases, personal identity theft, as well as for other various forms of abuse. Starting from the fact that in modern society there are many phenomena that pose a serious threat to the right to privacy, and therefore many other human rights, the Republic of Serbia needs a strategic approach, which will use the experience and support of the international community to provide adequate legal and factual conditions for the development and action of national capacities for protection of personal data. It is necessary to create the necessary legal frame, but also all other assumptions in order to prevent the violation of the rights guaranteed by international agreements and national legislation.

Bearing this in mind, the Government adopted the Strategy for the protection of personal data, which was published in "Off. Gazette of RS", no. 58/2010, dated 20 August 2010, so the aforementioned strategy is among the regulations adopted in the period from 2003 to 2005.

Other regulations enacted in the period 2003-2005 are as follows:

- Law on Electronic Signatures ("Off. Gazette of RS", no. 135/04)⁷

This law regulates the use of electronic signatures in legal matters and other legal actions, as well as rights, obligations and responsibilities related to electronic certificates, unless a special law stipulates otherwise. The provisions of the Act apply to the communication between authorities, communication between authorities and parties, delivery and making decision of authorities in electronic form in the administrative, judicial or other proceedings before the state body, if the law governing the procedure prescribes the use of electronic signatures.

The law includes provisions on electronic and qualified electronic signature, electronic certificates and certification bodies, rights, obligations and responsibilities of users and certification bodies, the provisions on supervision in the implementation of the law and penal provisions.

⁷ Law on Electronic Signature – LES, "The Official Gazette of RS", no. 135/04.

According to the law, qualified electronic signature in relation to data in electronic form has the same jurisdictional effect and probative value as handwritten signature or the signature and seal, in relation to data in paper form. To be equivalent to the signature, the qualified electronic signature must meet the prescribed legal requirements.

- Law on Free Access to Information (“Off. Gazette of RS”, no. 120/04 dated 5 November 2004).⁸

This law regulates the right of access to public information held by public authorities in order to achieve and protect the public interests for information and attain a free democratic order and open society. In order to achieve the rights, the Act establishes the Commissioner for Information of Public Importance, as an independent statutory agency, independent in the exercise of its jurisdiction.

Information of public interest, according to this law, is information held by a public authority, created in the workplace or in relation to the work of public authorities, contained in a document, and applies to all that the public has a justified interest to know. To be considered a piece of information of public interest information, it does not matter whether the source of information is authority or other person, the information medium (paper, tape, film, electronic media, etc.), date of creation of information, method of obtaining information, nor are any another features of the information.

According to the law, everyone shall be entitled to access public information by allowing him access to the document containing information of public importance, the right to a copy of that document, as well as the right to, upon request, be sent a copy of the document by mail, fax, electronic mail or otherwise. According to the Act, the authority shall issue a copy of the document (photocopy, audio copy, video copy, digital copy, etc.) containing the requested information in the form in which the information is.

- Company Registration Law (“Off. Gazette of RS”, no. 55/04)

The law is effective from 1 January, 2005. The law regulates the conditions, scope and procedure of registration in the Business Register, and the manner of keeping the Register of companies.

- Broadcast Law (“Off. Gazette of RS”, no. 42/02 and 97/04)
- Regulation on the establishment of house numbers, building numbers, labeling and marking names of places, streets and squares (“Off. Gazette” No. 110/03 and 137/04)
- Criminal Code (“Off. Gazette of RS”, no. 85/05) adopted on 29 September 2005.⁹

⁸ Law on Free Access to Information, “The Official Gazette of RS”, no. 120/04.

⁹ Criminal Code, “The Official Gazette of RS”, no. 61/05.

The adoption of this law gives a complete legal framework to criminal matter in line with international conventions. The law covered in one place all crimes and introduced a large number of crimes that our legislation ignored. New criminal offenses, among other things, concern computer crimes, copyright protection, and more.

Criminal acts against computer data security, contained in chapter twenty-seven (Articles 298 and 304 of the Act) are: damage to computer data and programs, computer sabotage, creation and dispersion computer viruses, computer fraud, unauthorized access to protected computers, computer network and electronic processing data, preventing and limiting access to the public network, unauthorized use of computer or computer network.

Chapter 20 deals with intellectual property offenses. This law enacts, among others, two criminal acts relevant to this area: the unauthorized use of copyright works or subject matter of related rights (Article 199) and the unauthorized removal or alteration of electronic information on Copyright and Related Rights (Art. 200).

Chapter 14 deals with offenses against man and citizen rights and freedom. The law, among others, stipulates four offenses relevant to this issue: violation of letters and other parcels secrecy (Art. 142), unauthorized tapping and recording (Art. 143), unauthorized photography (Art. 144), and unauthorized collection of personal data (Art. 146).

- Law on Organization and Competence of Government Authorities for the fight against cybercrime ("Off. Gazette of RS", no. 61/05), adopted on July 15, 2005.¹⁰

This law sets up specialized public institutions for detection, prosecution and trial for: 1. crimes against the security of computer data determined by the criminal law; 2. offenses against intellectual property rights, property and legal transactions in which computers, computer networks, computer data, and their products in the material or electronic form are used as object or means of committing the offense, if the number of copies of copyright works exceeds 500 or if material loss exceeds the amount of 850,000 dinars.

In the Belgrade District Court which has first instance jurisdiction for dealing with these cases, the Council shall be established to combat cyber-crime.

The District Attorney's Office in Belgrade shall establish a special Department to combat cyber-crime, that is, special prosecutor's office headed by a special prosecutor. The special prosecutor, chosen from among public prosecutors and deputies, is appointed for four years and may be re-elected to that office.

- Advertising Law ("Off. Gazette of RS", no. 79/05)
- Law on Public Procurement ("Off. Gazette RS", no. 116/08)

¹⁰ Law on Organization and Competence of Government Authorities for the fight against cybercrime, "The Official Gazette of RS", no. 61/05.

- Law on Ratification of Convention on Cybercrime (“Off. Gazette of RS”, no. 19/09)¹¹

The Council of Europe Convention on Cybercrime was signed in Budapest on 23 November 2001 while an additional Protocol which outlaws acts of a racist and xenophobic nature committed through computer systems is signed in Strasbourg on 28 January 2005. The Republic of Serbia signed on 16 April 2005 in Helsinki both the Convention on Cybercrime and the Additional Protocol to the Convention, but they have not until recently been ratified.

An important part of the Convention on Cybercrime is dedicated to the obligations of Countries to create the normative preconditions for the implementation of additional procedures and jurisdictions in order to ensure effective detection and prosecution of computer crime cases. In this sense, the establishment of special public institutions specialized in combating cyber-crime is of essential importance. Such obligations became, however, formally and legally valid only after the ratification of the Convention and Additional Protocol.

In March 2009 the Serbian parliament finally ratified the Convention on Cybercrime and its Additional Protocol. Afterwards, other important regulations in this area, first of all Criminal Procedure Code, and then the Law on Organization and Competence of Government Authorities for the fight against cybercrime, the Criminal Code were amended, which resulted in creation of the institutional framework for the effective fight against cybercrime. In doing so, the Criminal Code had to be aligned with the Convention on Cybercrime, while the Law on Government Authorities Organization and Jurisdiction for fighting cyber-crime had to be aligned with the changes in Criminal Code and the new legislation on public prosecution, courts and the arrangement of seats and areas courts and public prosecutors.

Although the new legislation is much better basis for an effective fight against cybercrime, it is with right subject to many objections. Moreover, it is well known that the so-called dark figure in this type of crime remains high.

- Electronic Document Law adopted on 14 July 2009 (“Off. Gazette of RS”, no. 51/09)¹²

The Electronic Documents Law governs the conditions and manner of dealing with electronic document in legal, administrative, judicial and other procedures, as well as rights, obligations and responsibilities of companies and other legal entities, entrepreneurs and natural persons, public institutions, territorial autonomy institutions and local governments and authorities and organizations entrusted with public authority in connection with this document.

¹¹ Law on Ratification of Convention on Cybercrime, “The Official Gazette of RS”, no. 19/09.

¹² Electronic Document Law, “The Official Gazette of RS”, no. 51/09.

Namely, the Electronic Signature Law gives to a document with electronic signature the same status that has a written document, while the Electronic Document Law deals with procedures of handling of such documents. In Electronic Document Law, electronic document is considered a document that was written in electronic format and incorporates an electronic signature. The law also specifies how to receive documents in electronic format, how to issue a certificate of receipt of electronic documents and how to keep duplicates. According to the Act, electronic documents are kept for as long as they are, the procedures used, kept in written form.

The Act also contains provisions on the digital timestamp, as the time of arrival of documents is important according to the Ordinance on Office Management and Law on Administrative Procedure.

Electronic Signature Law in which such signature has the same legal force as handwritten signature was adopted in 2004. Guidelines for certification service of electronic signatures were adopted in 2008. The PTT was licensed as qualified certification service providers for electronic signatures in December 2008, and the use of electronic signature was made official in March 2011.

- Law on Electronic Commerce was adopted on 29 May 2009.

This law has as purpose to establish the conditions and manners of supplying information society services, obligations to inform users of service, commercial messages and rules concerning the conclusion of contracts in electronic form, the liability of service providers of information society, monitoring and violations.

- Telecommunications Law (“Off. Gazette of RS”, no. 44/03 and 36/06)

Telecommunications Law regulates the field of telecommunications services. The law established a new regulatory body (the Republican Agency for Telecommunications) and instruments for competition promotion the Steering Committee of this body was established in May 2005 by the decision of the National Assembly of the Republic of Serbia.

- Law on Public Information (“Off. Gazette of RS”, no. 43/03 and 61/05)
- Law on Amendments to the Law on Public Information adopted on 11 September 2009 (“The Official Gazette of RS”, no. 71/09)

Public Information Law is the first law in the Republic of Serbia that defines the Internet as a media outlet. Under this Act, the media are newspapers, radio and television programs, news agencies, internet and other electronic items listed media and other sources of public information using words, pictures and sounds to publish ideas, information and opinions intended for public broadcasting, which will be used by unlimited users.

- Protection of intellectual property

- Law on Standardization (“Off. Gazette of RS”, no. 36/09) and Law on Technical Requirements for Products and Conformity Assessment (“Off. Gazette of RS”, no. 36/09)
- Law on Electronic Communications (“Off. Gazette of RS”, no. 45/10)¹³
- Regulations for implementing the Law on electronic signature (“Off. Gazette of RS”, no. 48/05, 82/05 and 116/05)

Minister of Science and Environmental Protection under the authority of the Law issued the following regulations, published in “The Official Gazette of the Republic of Serbia” no. 26/2008, on 14 March 2008:

- Guidelines on keeping records of certification providers
- Guidelines on certification providers issuing qualified electronic certificates in the Republic of Serbia
- Guidelines on technical and technological processes for the formation of qualified electronic signatures and criteria to be fulfilled to form a qualified electronic signature
- Guidelines on detailed conditions for issuing qualified electronic signatures.

After the bylaws, it is necessary to implement activities of the Central Certification Authority (Root CA) within the competent authority, in order to provide the necessary infrastructure for the implementation of the legislation, and therefore the European Directive on electronic signatures.

4. Electronic signature

The use of electronic signatures in legal procedures and other legal actions, as well as rights, obligations and responsibilities related to electronic certificates are regulated by the Law on Electronic Signatures.¹⁴

An electronic signature is a technology whose application in the e-business systems is used to check the authenticity of the signer, protect the integrity of data transmitted and confirm non-repudiation of electronic messages or signing date of the document. Analogous to the handwritten signature in standard business, electronic signatures is used in electronic commerce. Moreover, the electronic signature has the added feature to protect the integrity of electronically signed message, which is not provided by a traditional signature.

Regarding the legal aspects of electronic signatures, the EU Directive 1999/93/EC on electronic signatures (adopted on 13 December, 1999 and for-

¹³ Law on Electronic Communications - ZEK, “The Official Gazette of RS”, no. 45/10.

¹⁴ D. Spasić, “Electronic signature as internet user’s digital identity (Elektronski potpis kao digitalni identitet internet korisnika)”, PTT Srbija, 2006.

mally entered into force on 19 January 2000) establish a legal frame of electronic signature and a basis for adopted laws on electronic signatures in all EU countries, as in most other European countries.

Electronic Signature Law in Serbia, in full conformity with EU Directive 1999/93/EC, was adopted by the Serbian Parliament, on 14 December 2004 and published in the "Official Gazette of the Republic of Serbia" no. 135/21.12.2004. This law regulates the use of electronic signatures in legal affairs, business and other legal actions, as well as rights, obligations and responsibilities related to electronic certificates, unless a special law provides otherwise. The provisions of this Act apply to the communication between authorities, communication of authorities with parties, decision issuing and delivery by authorities in electronic form in the administrative, judicial or other procedures before the public institution, if the law governing the procedure prescribes the use of electronic signatures. Namely, the basic role of the electronic signature is to prescribe the conditions under which an electronic signature is legally equivalent to handwritten signatures and to prescribe conditions to be met by certification bodies that issue qualified certificates for the verification of qualified electronic signatures.

According to the Law on electronic signature, an electronic signature differs of a qualified electronic signature. An electronic signature is a set of data in electronic form which are attached or logically associated with electronic document and which serve to identify the signer, while the qualified electronic signature is an electronic signature that reliably guarantees the identity of the signer, the integrity of electronic documents and prevents subsequent denial of responsibility for their content and which meets the requirements stipulated by the Law on Electronic Signatures.

According to the text of the Law, the qualified electronic signature, in order to have the same effect and probative value as handwritten signature or the signature and seal related to the data in paper form, must satisfy the following conditions:

- to be uniquely linked to the signatory;
- it allows the identification of the signatory;
- it is created using means that the signatory can maintain under his sole control;
- is directly linked to the data to which it relates in such a way that any changes of the source data is detectable;
- it is created using means that are used for the formation of qualified electronic signatures, and
- it is checked using signatory's qualified electronic certificate.

The law specifically stipulates that the electronic document or documents in electronic form that is used in legal procedures and other legal actions, as well as administrative, judicial or other proceedings before the state body, cannot be

denied for validity or probative force only because it is in electronic the form. However, this is not effective for or does not apply to:

- legal transactions on the transfer of property of real estate or which establish other real estate rights;
- statements of parties and other participants in the process of discussing inheritance, testament form, contracts on the transfer and distribution of property for life, on life support contracts and agreements relating to inheritance, as well as other agreements in the field of inheritance law;
- agreements on regulation of property relations between spouses;
- contracts for disposal of property of persons deprived of their working capacity;
- agreements of give;
- Other legal issues or actions for which a special law or pursuant to law enacted legislation, specifically the use of handwritten signatures on paper documents or handwritten signature verification is prescribed.

For the realization of a qualified electronic signature it is necessary to use the means for the creation of a qualified electronic signature and have a qualified electronic certificate issued by the certification authority that meets the appropriate requirements under the Law on Electronic Signatures. In this technological time, qualified electronic signature is implemented using asymmetric cryptographic systems (such as the RSA algorithm) and the hash function (MD5 or SHA-1 algorithms), while smart cards are generally used as a means for the formation of qualified electronic signatures.¹⁵

The most popular applications which use an electronic signature are:

- protected web transactions,
- protected e-mail messages,
- protected FTP service,
- creation of VPN (IPSec) network,
- secure management of documents,
- secure online payments, and many others.¹⁶

The most important fields of application of electronic signatures are:

- e-Business
- e-Commerce

¹⁵ P. Wauters, M. Niskens, J. Tiebout, "The user challenge benchmarking the supply of online public services", Capgemini: http://ec.europa.eu/information_society/eeurope/i2010/docs/benchmarking/egov_benchmark_2007.pdf; A. Afuah., C. L. Tucci, *Internet Business Models and Strategies: Text and Cases*, McGraw-Hill, New York, 2001.

¹⁶ C. Codagnone, D. Osimo, "Future technology needs for future e-Government Services: Services platform report", *Report for the European Commission, Brussels: Information Society and Media Directorate*, 2008; Ministry of Finance of the Republic of Serbia: "Information system in control function of public finance", 2006.

- e-Procurement
- e-Banking
- e-Government
- e-Healthcare
- payment systems based on chip card (EMV) and others.

Therefore, the application of qualified electronic signatures requires two basic elements: a means for the creation of qualified electronic signatures and signatory's qualified electronic certificate. If any of these elements is missing, the signature does not meet the requirements to be qualified, but this is only an electronic signature.

In other words, although the legislation stipulates that an electronic signature can be anything that is logically connected to the electronic document and which serves to identify the signatory (for example, a scanned signature to the end of the document, etc.), it is considered that an electronic signature is the signature made by means for the formation of a qualified electronic signature, but whose signatory has no qualified certificate. Also, the signatory who has a qualified certificate and does not sign documents using means for the formation of qualified signatures cannot form a qualified electronic signature which is legally equated with the handwritten signature.

On 6 January 2003 in Serbia, electronic banking was introduced between legal and natural persons and almost all of our banks, which use smart cards for electronic signing of financial transactions. These signatures are only electronic signatures, because users have no qualified certificates and smart cards they used are not verified as a means for the formation of qualified signatures in our country.

By all accounts, based on practice in the world, the use of qualified electronic signature will not be required in the field of electronic banking, as it is considered as specific for a closed users group (where there is an explicit agreement between the customer and the bank).

Based on the world and European analyses, the real and broadest application of qualified electronic signature is expected in the field of e-Government, when the citizens will do business electronically with public authorities, i.e. send e-civil service requirements (for instance, application for electronic birth certificate, e-tax, etc.). These requests must be signed by citizens' qualified electronic signatures.

As mentioned already, a qualified electronic signature is at this stage of technological development formed on the application of asymmetric cryptographic algorithms and digital signature technology. The qualified electronic signature is created in accordance with the recommendation of PKCS # 1 (Public Key Cryptographic Standard), and the length of the modulus of an asymmetric cryptographic algorithm must be a minimum of 1024 bits. What matters, is precisely

that all the signed electronic documents be exchanged in the form of documents that incorporate basic information about the procedure, algorithm and signatory's qualified electronic certificate, so the recipient can verify the qualified electronic signature using agreed technologies and procedures.

5. Current EU legislation related to electronic business

The development of European Union legislation is based on carefully defined legal acts which since 1993 shows the effort to thoroughly examine every legal aspect of electronic commerce, in order to better define and protect the legal relations of participants in electronic commerce of the European Union.

The effort to create safe, ordered and coordinated legal framework for development of electronic commerce and information society, more recently expanded to the area of security concerning computer offence and cybercrime, the issue of electronic markets taxation, consumer protection, as well as jurisdictional issues. Legal regulation of these issues has just started or is still ongoing in most countries. Thus, for example, Convention on Cybercrime, although signed by the end of 2001 by all member states of the Council of Europe, USA, Canada, South Africa and Japan, has been ratified only by few countries up to date. However, the adoption of the Convention represents a major contribution to the harmonization of legislation, establishing a uniform methodology of data collection and analysis, since the content vagueness of the so-called cybercrime made difficult its prevention due to the lack of exact data on committed criminal acts. Thus, more effective prevention and prosecution of computer crimes perpetrators is enabled by punishing the new crimes content that are presented and distributed via the Internet, the various forms of the system obstruction (DDoS attacks), and by making differences in relation to the protection of intellectual property where the piracy protection extends to other copyright and related rights with respect to the extension of audio piracy and audiovisual piracy.

Future challenges of e-Government have become a recognized interest of Council of Europe sub-committees for e-Government development and implementation in modern society. Viewing positions of member states authorities led to the concept of e-Government calendar for the period after 2010, which revealed its development orientations and main ideas. It is acknowledged that some of the ideas presented in the vision studies have already existed among public administrators. In the survey, in the months preceding the presentation of subcommittee vision study to subgroups, state administrators were sent a questionnaire. Among other issues, they were asked which activities of the E-Government 2010 Action Plan should continue after 2010 and what new activities should be added to the new action plan.

The analysis of responses revealed that, although Member States proposed a variety of activities, there is an agreement on the most important issues to be addressed. At the meeting of the government subgroup, held on 24 October 2008, the action directions in the E-Government 2010 Action Plan were compared with those proposed for the period after 2010 and the following trends were observed:

- 1) 1. transition from the use of ICTs to support or replace existing administrative process to the process of re-planning and reorganization of the institutional and administrative restrinformation and communications technologies;
- 2) 2. an increasing interest in technologies (e-IDM, e-Signature, e-Authentification...) that allow better integration of administrative processes and allow the personalized services implementation, while at the same time support the higher standards of security and privacy;
- 3) 3. a strong interest in technologies that integrate internal and external processes in order to provide personalized services;
- 4) 4. a growing need to harmonize rules and procedures and to give greater priority to semantic interoperability, taking advantage of the opportunity of an open environment (open standards, open source);
- 5) 5. a growing concern for user-centered design and services usability, in order to increase customer satisfaction;
- 6) 6. a growing recognition that social exclusion has social and economic costs and that inclusion measures should be further developed and adapted to specific target groups;
- 7) 7. agreement on the need to involve social actors in the management and the interest of public and private sector, which is increasingly more common to use the system to participate in joint production;
- 8) 8. a requirement to develop practice of benchmarking in order to include measures for areas such as customer satisfaction, transparency, and others.

Namely, a large number of ideas described in the vision study, were similar to those the e-Government representatives of member states have considered before the studies were published. However, as scientists and those engaged in politics constantly borrow ideas from each other, all this is not so surprising.

One of the key policy priorities is the strengthening of e-Government in the field of politics. In this way, concerns about accountability, transparency and openness of government and public services, a willingness to develop user-friendly and inclusive services as well as genuine concern are incorporated in the political plan, and all this will actively involve citizens in policy-making.

Specifically, the analysis of all action directions from the work of sub-groups showed that priority is the very political action line which balanced the need to initiate new activities with the need to integrate activities already under way. In

the field of economics, e-Government should continue to support the construction of the single market, which is still the basis of development of European space. The need to progress in the economic field is expressed by emphasizing two areas where significant work remains to be done: to provide cross-border services and the stimulation of personal mobility. In the field of personal mobility stimulation, in the future it is necessary to resolve some important issues concerning identity management and access and portability of social security rights, health care contributions, pensions and other personal services.

After analyzing the action directions, the efficiency and effectiveness issues came to the fore and they were a topic of organizational changes in the development program of e-Government after 2010. This includes horizontal integration process, regardless of administrative boundaries, vertical integration of initial and ultimate end of the process and cooperation with private and public sector. What is particularly important is that a legitimate concern for environmentally responsible use of information and communications technologies was expressed by the governments and public services.

At the meeting of the e-Government subgroup held on 18 December 2008, some priorities were proposed and then presented and adopted at a meeting for e-Government development, held on 26 February 2009. These priorities can be summarized as follows:

1. Support to the single market:

- to simplify citizen's and businesses mobility of in the single market;
- to facilitate cross-border delivery of e-services to citizens and businesses, and
- to ensure safe and effective cooperation between Member States.

2. Training of companies and citizens:

- to make administration more transparent and to provide access to public information;
- to provide tools for participation in public decision-making, and
- to create services that are user-oriented, inclusive and attractive to all citizens and businesses.

3. Administrative Efficiency and Effectiveness:

- more efficient use of cross-border e-Government services for citizens and companies;
- to use information and communication technologies to support organizational change and skills development, and
- to use better directly and indirectly information and communication technologies in order to reduce carbonate contamination from the use of printed documentation.

The member states underlined the need for monitoring and evaluation of the implementation of the current political priorities in order to make competent authorities more responsible and to improve the quality of their policies. A policy based on the above priorities, should constantly follow trends of innovation, explore and exploit the opportunities offered by future technologies, such as computer engineering of society and community needs, modeling and visualization, mobile devices of new generation, internet technology, geographic localization and global positioning and other numerous technologies. Therefore, in order to increase management efficiency and effectiveness in the field of electronic commerce and development support and cross-border services provision that will improve the performance of the single market and enhance all social and economic areas in the European Union, the European Commission and Member States will continue to encourage e-Government innovation and will access carefully to the implementation of all the action plans.

Table 1: Action directions identified for the E-Government Action Plan for the period after 2010 (symbols x, xx and xxx indicate the value of the links).

| Action directions \ Political objectives | PP1: Single market | PP2: Training | PP3: Efficiency |
|---|-----------------------|------------------|--------------------|
| e- ID management | xxx | xx | x |
| Directive on services and people mobility | xxx | xx | |
| Cross-border services | xxx | xx | |
| e-participation | xx | xxx | xx |
| Interoperability | xxx | xxx | xxx |
| Legal frame | xxx | xxx | xxx |
| Inclusion | x | xxx | xx |
| User-oriented approach | xx | xxx | |
| Organizational changes | x | x | xxx |
| Environmental management | | | xxx |

Given that the E-Government 2010 Action Plan was the first of its kind in the field of e-Government, the experience it gave resulted in instructive lessons. One such lesson is that the Action Plan should be ambitious but also realistic, what can be achieved by defining clearer priorities and plan focusing on areas and activities of individual Member States on which European cooperation places the highest importance. Thus, during the preparation for the meeting of e-Government sub-groups of 6 May 2009, a new consultation of Member States was organized to identify the most important directions of activities for the implementation of political priorities. The data obtained from different Member States are carefully reviewed and grouped by similarities. This led to the definition of 9 main directions of possible action, which are shown in Table 1.

Some of these action directions pass through three different political priorities, while others do not. The Member States have therefore agreed that it would be good to make a difference, first, between highly important political objectives to be achieved and which should be included in the ministerial statement, and secondly, the specific activities to be defined in the following Action Plan. The relationship between political objectives and action directions is expressed in Table 1.

In considering the proposed action directions, the Member States agreed that it would be useful to distinguish between the application-oriented programs, on the one hand, and the transverse activities conditioned by their realization, on the other. The following action directions are highlighted as major in Table 2: the management of e-documents, the directive on services and mobility, cross-border services and e-participation.

Table 2: Programs aimed at the implementation and their conditional actions

| Action directions \ Conditions | e-Documents Management | Directive on service and people mobility | Cross-border services | e-Participation |
|--------------------------------|------------------------|--|-----------------------|-----------------|
| Interoperability | ← ↑ | ← ↑ | ← ↑ | ← ↑ |
| Legal frame | ← → | ← → | ← → | ← → |
| Inclusion | ← → | ← → | ← → | ← → |
| User-oriented approach | ← → | ← → | ← → | ← → |
| Organizational change | ← → | ← → | ← → | ← → |
| Green government | ← ↓ | ← ↓ | ← ↓ | ← ↓ |

E-documents management is an action direction. The Member States largely support it to be continued. The future work should include not only the development of recognition system identification techniques for electronic ID cards, but also the development of flexible and interoperable e-Government system able to handle documents with multiple individual identities, identification techniques and applications for sensitive ID card in a safe and efficient way.

The Member States have recognized the importance of the existing directive on services for the single market and are willing to strengthen them by giving priority to e-Government activities that support them. However, the common opinion is that it will be necessary to put more work on improving the people mobility within the European Union. This would include, for example, work on electronic access or transfer of social security, health care contributions and pension programs.

Cross-border services are former services of great importance. The change of the name reflects the insistence of the Member States that this should be a

joint project with the added value which can be reflected at the European level. The large-scale pilot program (CIP) which is currently under way in e-procurement (Peppol) falls into this category. A new large-scale pilot projects may be added, for example in the field of security, law and environment. There are some important links with the work on e-participation, for example in relation to user-generated data and re-use of public sector information.

Our current understanding of the term e-participation is often synonymous with the term e-democracy (for instance, e-consultation, e-legislation). It should be expanded to include the whole area of social participation as well as the area of collaborative work processes. This includes exploring new possibilities of the computer engineering of community and society needs, multiple use of information sources, re-use of public data, visualization and modeling of these data and the collaborative construction of public institutions and services.

In reality, the new generation of an open, flexible and cooperative e-Government is required to enable European citizens and the business sector to improve their mobility within the internal market of the 21st century and to ensure that public services serve the economy, which relies on networks of the future.

- The European Commission aims to provide a new generation of services administration for e-businesses and citizens through its E-Government action plan for the period 2011-2015. The Action Plan, based on the Declaration concluded on 18 November 2009 at the Fifth Ministerial Conference on e-Government held in Sweden in Malmo, identifies four policy priorities:
 - improving relationships between citizens and the business sector;
 - strengthening of the single market mobility;
 - facilitate efficiency and effectiveness;
 - creation of the key required for setting preconditions so that things happened.

The above-mentioned action plan contributes to a knowledge based, sustainable and inclusive economy for the European Union, as set forth in the Europe 2020 Strategy. It supports and complements the Digital agenda for Europe.

The Action Plan aims to maximize the complementarity of national and European policy that supports e-Government transition to a new generation of open, flexible, and in every field ready for the cooperation of e-Government at local, regional, national and European level, which will greatly improve the relationship that exists between citizens and the business sector.

There are strong political and economic reasons for European cooperation in the field of e-Government. A joint action and exchange of knowledge at the level of the European Union contributes to overcoming the current economic crisis, through more efficient use of public resources.

The primary mission of the European Commission to carry out the optimization of the conditions necessary for the development of cross-border e-Government which will provide services to citizens and businesses, regardless of country of origin, includes also development of an environment that promotes the system interoperability of the key elements that enable the reform, such as electronic signature and electronic identification. Services available throughout the European Union have strengthened the digital single market and complemented existing legislation in areas such as electronic identification, electronic procurement, electronic justice, e-health, mobility and social security, while providing tangible benefits to citizens, businesses and governments in Europe.

The combination of all these efforts should lead to the acceptance of e-Government. By 2015, 50% of the population and 80% of companies should use e-Government services.

6. Conclusion

The aim of this paper is to emphasize the great importance that e-Government has for providing public administration services to citizens and businesses electronically, in order to encourage citizen participation in democratic processes and remove obstacles to business. The paper points out the fact that the government, the state and public administration must constantly adapt their tasks and responsibilities to economic and social change. Limited funds, high hopes and expectations and demands for an efficient administrative process are the need to which the management and administration face. In modern e-business technologies there are the basis for solutions development of managing the government administration and its institutions. Its efficiency is based on the integration of all business processes. Accounting, budgeting, capital management and procurement, together constitute integrated business processes. Integrated information system of public administration is a necessary precondition for the organization of a modern government on the principles of e-Government.

The goal of the state administration that works on the e-Government principle is to help all clients and partners of any public sector institutions to participate in processes of public administration through the Internet. Representatives of state institutions, their clients and partners, create a virtual group that participates in knowledge, responsibilities and tasks.

Citizens have witnessed many changes in the public sector in the whole world, in developed countries and in countries in transition, just because the government transforms itself with new technologies. It is predicted that e-Government will change the government's work over the next 10 years more than it has changed in the last 100 years.

For the Republic of Serbia, e-Government is extremely significant as its further development will directly impact on reducing corruption in our country, which otherwise is one of the major problems that reduce the economic competitiveness and attractiveness to investors. In all countries where electronic signature is applied there was a decline of corruption, without exception. Thus, e-Government delivers fast and effective solution because it avoids contact with people and the processes become automatic, while there is a raise in transparency and awareness of all those who should carry out a transaction with the state. The Serbian government has already mandated that all its organs establish the accuracy of the information on their internet sites in the first half of 2011 while the competent ministry plans to issue the legislation that would instruct it to those who perform public functions.

Serbia stands out in the use of social networks and has approximately 2.5 million users of Facebook, but the number of users grows and covers a wide range of generations. As for the older generation, our country lags behind in the implementation of all technologies, and because of that the competent ministry will put effort to encourage older than 35 years to use more new technologies.

Future research should be directed towards determining the single framework for the introduction of electronic government in the Republic of Serbia and establishing benchmarks and rules of acting for subjects in this field, what indicates the need for adoption of the Law on E-Government. Although the Law on Electronic Signature made initial steps towards defining a legal framework for e-Government, adoption of the Law on E-Government would be a response to the need for a uniform and clear definition of relations between the authorities, as public service providers, and between citizens and businesses, as service users. It would establish clear lines of responsibility between authorities themselves and increase performance and prudence (rationality) of public funds spending. On the other hand, it would responded to the many questions on which regional laws do not provide an answer, for instance the issues concerning legal validity of electronic documents, what is considered an original electronic document, the way of exchange of electronic documents between institutions and between institutions and users, the electronic services implementation, or a number of organizational issues and relationships, which would be legally established in the legal system of Serbia.

E-Government is an area to which a great attention is given in recent years and whose large expansion is expected. Awareness of the organized adaptation of public administration to the information society was awakened in Serbia with delay in comparison to the European countries, but, following the examples of good practice which have taken place in some countries, the goal of modern e-Government can be reached. In the same sense, it is necessary to further develop and institutionalize criminal-legal protection of e-Government observed in its entirety.

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CRISIS OF THE WELFARE STATE IN THE EUROPEAN UNION**

- The impact of the world financial crisis on the welfare state -

Summary

Although common steps towards the construction of a European social model have been made, there is no European welfare state today – each state still has its own specific system of resolving existing social problems. The heterogeneity of European social models that is realized in practice through different social institutions and laws related to citizens' social security still exists. The intensive process of economic globalization, the deepening of European integrations, especially in the monetary field, and especially the global financial crisis, are calling into question the sustainability of such an approach in the future.

Over the last few years, rates of growth in the EU countries have not reached the levels earlier predicted. This has led to complaints as well as to the necessity of creating a competitive environment. Europe can no longer afford the “luxury” of meeting the needs of the welfare state. The EU must cut the costs of social protection and alleviate labor laws if it wants to keep competitiveness with developing economies, such as China and India.

Key words: *welfare state, social protection, global financial crisis, social costs, EU member countries*

JEL classification: H53, I38

1. Introduction

The basic goal of each country's social policy is to secure a socio-economically acceptable minimum living standard for the entire populace. Social policy encompasses various problems,¹ including wages, various programs of social aid

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¹ Under social policy are primarily meant measures that complement and change the results of the market coordinating system – most often interfering with the functioning of the price mechanism. M. Prokopijević, *Evropska unija*, Uvod, second supplemented edition, Službeni glasnik, Belgrade, 2009, p. 487.

– for the elderly, sick and the handicapped, pensions (family pensions), health-care, education, and professional and geographical mobility for the labor force. The basic reasons for conceiving and waging a social policy are not of an economic nature, but political, social and moral. The social peace would be harmed if the most vulnerable, helpless people were dying in the streets of hunger and sickness in an economically developed country enjoying high economic growth levels and a high living standard, whose almost entire populace lives above the poverty line.

2. The roots of social Europe – the European social model

At the twilight of World War II, European leaders were seeking a framework and a mechanism that would help prevent future conflicts between states, the types that have characterized the continent's history. From the original six founding states, the EU has expanded to 27 member states with a unified decision-making and cooperation system. The Treaty Establishing the European Community (TEC) laid down the fundamental social goals that should be fulfilled:² a) promotion and strengthening of employment, b) improvement of living and working conditions, c) adequate social protection, d) dialogue between management and employees, e) development of human resources with the goal of maintaining high employment levels and fighting against social exclusion.

At the time of the formation of the EU, there were no especially ambitious plans for the development of a common social policy – the original Treaty of Rome did not exclude social issues, but they were not frequently mentioned. More extensive social policies began to be implemented only after the formation of the single market.³ The European Union received broader authorization in the field of social policy through the passage of the Single European Act and the Maastricht Treaty, which supplemented the Treaty of Rome. The priorities of social policies changed over time, along with the socio-economic and political changes on the international and domestic scenes. During the first years, the basic goals of social policy were: improvement of living and working conditions; ensuring high levels of employment and social protection; gender equality; raising the standards and quality of life; prohibiting discrimination on the basis of gender, race, ethnicity, religion, invalidity, age; ensuring the free movement of the labor force between states; free formation of institutions, etc. Later on, the goals of social policy were shifted to problems of labor mobility;

² Source: European Trade Union Confederation, *European Social Model*, <http://www.etuc.org/a/2771>

³ The 1957–1985 period can be counted as the first and the period from 1986 to the present as the second phase of social policy. - M. Prokopijević, *Evropska unija, Uvod*, second supplemented edition, Službeni glasnik, Beograd, 2009, p. 487.

the EU was to extend aid in supplementing the activities of member states in areas encompassing working conditions, social protection, informedness and negotiations with management.

One of the first working documents brought by the EU in 1958 was the system of social security for migrant workers, citizens of EU member states, giving these workers the same social security rights as those in the host country; social security contributions were freely transferred between EU member states and taken in the full amount. The **European Social Fund** (ESF) was founded in 1961, with the goal of becoming the main financial means and the most powerful EU instrument in the social sphere – through which the EU would achieve its employment policy goals in practice. The European Fund for Regional Development, the Cohesion Fund and the ESF together made up the EU structural funds. The ESF⁴ seeks to improve employment possibilities, contribute to the raising of living standards and increase labor force mobility – with the biggest priority being placed on reducing the problem of unemployment as, since the 1970s, unemployment has become the most important social issue within the EU.⁵

The 1989 adoption of the **Social Charter**, in the form of a political declaration, by all the member states except for Great Britain, represented a turning point in the development of social policy. The charter lays out an outline of workers' basic rights. Its goal was to establish a political basis for adopting the minimum joint body of laws related to the labor force – improving employment, contributing to the improvement of working and living conditions, contributing to labor-management dialogue, improving social protection, developing human resources and helping in the social inclusion of employees. Immediately after its passage in 1996, the Social Charter came into force in all the member states, except Great Britain, which had resisted it from the start, and did not sign it until 1997.⁶

⁴ Social policy usually encompasses a much larger number of issues than the one attributed to the ESF. In addition to participation in solving problems of unemployment and education-training, which is partially covered by the ESF, standard national social policy intervenes in a much larger number of issues, including healthcare and the system of social aid.

⁵ With the first reform of 1971, the ESF was allowed to intervene in the area of professional training, before all of the younger population (under 25 years of age), as well as in regions with an underdeveloped industrial sector and structural unemployment. Changes occurred during the next wave of reform in 1984, and most of the funds were now allocated for the professional training and employment of the under-25 population. The ESF covers one half of all expenses, but never more than the total public expenditures of the country in question. Cited by: M. Jovanović, *Evropska ekonomska integracija, second supplemented edition*, CID Ekonomski fakultet, Beograd, 2006, p. 636.

⁶ Great Britain sought to retain the American liberal style on its labor market, with maximum freedom from regulations regarding guaranteed minimum wage and workday hours, as well as from EU tendencies to set the highest possible standards with the aim of preventing member states from competing with each other with lower prices by gaining or maintaining unfair advantage through low labor costs.

In the course of its existence, the European Union has continuously broadened its competencies at the expense of member states in the economic sphere. In the political sphere this process has been slower, while the area of social policy has remained under the exclusive competence of the member states' national governments.

At the EU level there are only regulations in the domain of labor relations and they are limited (protection at the work place, prohibition of discrimination, etc.), while social protection has been left entirely to the member states, whose social policies represent one of the last "bulwarks" of national sovereignty and, more and more frequently, a basis for political events. The EU social policy and the adopted framework of joint social standards and values represent more of a supplement to their autonomy than a limitation. A firm boundary has been set to the broadening of EU competencies in the field of social policy through the establishment and acceptance of the Subsidiarity principle,⁷ which automatically refers matters to the national rather than the EU level. In addition to stimulating social divergence, the Subsidiarity principle has a positive effect on the differences in member states' social policies.

At the EU level, in the field of social policy, there exists an *open method of coordination*.⁸ The EU political bodies set down global, common goals that direct national social policies and systems. The European Union formulates the indicators for monitoring the achievement of these goals, and detailed analyses of member states' performances are performed every two years, along with analyses of reasons for some deviations.

For the rest of the world, the *Euroepan Social Model* represents an example of a society based on social justice and equality, where economic and social development emphasize equality as a priority and where job security and social protection are used as instruments for fighting poverty and social exclusion. This is the reason why the success of social Europe is important – not only for European citizens but for the development of equally just economic-political systems in other countries.

The main goal of social Europe is to create an equal society in the greatest possible measure, meaning: prevention and reduction of poverty, guaranteeing basic human rights, satisfaction of basic needs and an income that ensures a

⁷ In the theory of fiscal federalism, the Subsidiarity principle means that each function should be carried out at the lowest possible level of government if that brings greater efficiency and lower administrative costs. Briefly, the issue of Subsidiarity comes down to whether the member states are able to achieve the aims of the Union to a sufficient extent. – D. Gareth, "Subsidiarity: the wrong idea, in the wrong place, at the wrong time," *Common market law review*, vol. 43, 2006, pp. 63-84.

⁸ The open method of coordination (OMC) today represents the basic instrument of diffusion of EU social policy. It is primarily intended for orientation of member states' policies and the adoption of joint action frameworks for the achievement of common goals. - N. Perišić, "Evropski socijalni modeli," excerpt from the master's thesis published in the magazine *Socijalna misao*, No. 1, 2008, p. 120.

dignified life. The five basic characteristics of social Europe are: 1) *fundamental social rights* – including freedom of association, freedom to organize strikes, protection from unfair job dismissals, equal working conditions, equality and non-discrimination; 2) *social protection* – secured through highly developed universal systems, with measures of wealth redistribution such as a guaranteed minimum wage or progressive taxation; 3) *social dialogue* – the right to collective bargaining; national and European work councils made up of employee representatives; 4) *social and labor regulation* (legislation) – covering, for example, health and safety, limiting of working hours, vacations, workplace safety and equal opportunity for all, and 5) *state responsibility for full employment* – securing services of general interest that are important for economic and social cohesion.

The adoption of the social *acquis communautaire* – the foundation of European social legislation – was signed by all the member states, and this is a crucial matter in the direction of further European integration. The goal of the EU is to achieve greater economic growth and prosperity through a single internal market of goods and services; however, we must here also recognize the urgent need to establish a single labor market and the functioning of legislation that will determine the “rules of the game” for all participants. Otherwise, it may become a “recipe for a race to the bottom,” with employees who will pay the price of increased competition through declining standards and working conditions, while companies will maintain competitiveness by lowering working conditions instead of investing in innovation and knowledge.

It is true that some member states, especially the Scandinavian ones, are more successful, with higher economic growth and low unemployment rates. The European Union should learn from the example of the most successful ones and examine whether systems in which greater job mobility is accompanied by active welfare state measures that can be applied at a broader level, i.e., in the other member states.

3. Welfare state models in the EU

Europe's expensive and oft criticized social protection network should serve as an inspiration for other countries in the time of global recession. The European model, based on the welfare state and social dialogue, has much to teach others all over the world.

Jose Manuel Baroso
President of the European Commission

The welfare state has a democratic-constitutional character at its base – the government seeks to guarantee to citizens an acceptable level of living standard through a combination of regulations, consultations and activation of budget mechanisms. The welfare state encompasses two types of state expenditure

arrangements:⁹ 1) *financial aid* and 2) *subsidies* – social services offered to the populace (childcare, education, healthcare, care for the elderly and the handicapped). Elements of welfare state crisis are often neglected by economic theorists, although they stem from contradictions; today, decisions on economic policy measures are made at the communitarian level of the EU, while social policy measures are decided at national level. Economic policies are established on the neoclassical approach, while national social policies are founded on the Keynesian economic teaching, with its emphasis on strong state intervention. Differently from the American social model, the European one, besides employment, also insists on social cohesion. The Union continues to seek a social model that could be called a *European social model*.¹⁰ The significant and dramatic changes that have taken place over the past two decades on the international economic, political and social level have greatly influenced numerous attempts to establish a model that would be in accordance with the idea of a European social model in its constitutive elements.

Social policies and social security systems within different EU social models differ, among other things, in the following: 1) domination of the responsibility of the market, state or family; 2) degree of the populace's emancipation from social differences, and 3) strategies used for achieving their goals. Still, it is possible to classify the existing European welfare states into five groups, according to their predominant philosophy and elements.¹¹

1. **The continental welfare state model** (Belgium, France, Germany, Luxembourg, Holland, Austria) is characterized by the strategy of “paying out, subsidizing” social problems and traditional values – social programs are oriented towards certain groups of professions and their work place. Compensational measures are predominant, together with a high degree of regulation in industry. The welfare state is the “compensator, the source of aid,” while universalism does not exist, due to the promise of institutional securing of full employment and the practice of the private labor market. Still, unemployment compensation based on social security and generous welfare state funds allow poverty reduction and very good healthcare.

2. **The Scandinavian welfare state model** (Sweden, Denmark, Finland), also known as the *Swedish model* – emphasizes each individual's right to work. It is characterized by active policies on the labor market, wide coverage of the pop-

⁹ According to a broader definition, the welfare state can also include price regulation (rent control and support for agricultural product prices), housing policy, work environment regulation, work safety legislation and ecological policy. For more details on this, see: K. Josifidis, N. Supić, *Država blagostanja – konvergencija odozdo ili odozgo*.

¹⁰ The EU member states share a common vision about how society should be organized, which distinguishes them to a great measure from the rest of the world. This is known under the name of the *European Social Model*.

¹¹ I. Raluca, *Types of welfare states in the European Union*, <http://www.suite101.com/content/types-of-welfare-states-in-the-european-union-a11225424> April 2009.

ulace with social services and reduction of social differences. The conditions for exercising rights and the contributions are generous, while the accent is on services instead of money transfers. The state is responsible for financing and organizing different types of social benefits. This welfare state model is based on a broad scale of taxation and a high tax burden. The “Swedish model” also has an advantage in terms of a simpler organization compared to that of other European welfare states, as most of the tasks and goals are carried out by state and local organs, which are less dependent on individuals, national organizations, families and churches.

3. The Anglo-Saxon welfare state model (Great Britain, Ireland) is also known as the residual welfare state model. Its basic characteristic is selectivity, which is best reflected in the simple process of employment and dismissal from work on the part of companies – the level of job protection and preservation is low. It is based on principles of activating users of social help and the unemployed, strong economic orientation and the largest extent of social security privatization. Unemployment rates in these countries are substantially lower than in other EU member states. In spite of that, it has been empirically proven that this strategy of social protection has been unsuccessful in the reduction of poverty, as public expenditure, the total funds allocated for social protection, are much lower than in other European countries (in Great Britain it equals 22% of the state budget). There has been a large reduction in the social benefits ensured and provided by the state, an end to the linkage between state pension policy and average income, and stimulations for transfers to private pension funds, as well as a reduction in various forms of unemployment and invalidity compensation.

4. The Mediterranean welfare state model (Italy, Spain, Portugal, Greece) is characterized by a rudimentary welfare state with a pronounced internal polarization in the area of social benefits. It combines universality and selectivity in the securing of social protection. Its basic characteristic is the lack of a classical social protection network, in terms of securing a social minimum income; instead, the accent is placed on the family as the basic unit of solidarity. Although there is no minimum income (wage) level scheme in Italy, Spain, Portugal and Greece, the benefits for pensioners with the necessary qualifications are the highest in Europe. There is a class of “highly protected persons” (state administration employees, i.e., the bureaucracy), but also a large number of unprotected people (workers on the gray labor market, young people and the long-term unemployed). The level of state activity in the social protection sector is extremely low and insufficiently efficient in reducing the poverty of the vulnerable part of society.

5. The new welfare state in the EU – the post-communist welfare state model (the twelve new EU member states, received in 2004 and 2007). With the accession of 12 new members, it can safely be said that there is a brand new welfare state category that can be added to the previous models: *the post-communist wel-*

fare state. This type is characterized by a “transition dilemma” – after separating from and abandoning the communist regime, economic performances have been lower than expected. The countries of Eastern and Southeastern Europe were supposed to find ways to meet demands for better living standards and quality, without compromise and the competition of their economies. Although the post-communist countries entered the transition period with a set of social protection and welfare state policies inherited from the old system, their quality was low and marked by great inequalities. For instance, Romania and Bulgaria preferred to keep their entire welfare state structures untouched – first they promoted macroeconomic efficiency and economic growth, and only later took measures to fulfill the higher social costs of the process of transition to a market system. The post-communist countries began to draw closer to capitalist social models, in an attempt to solve the problems of heritage and transition. In addition to the large differences between them, there are also certain similarities: the pre-communist Bismarckian model¹² of social insurance, socialist universalism, corporativism, egalitarianism and post-communist pro-market schemes, all combined with a pronounced redistributive orientation.

One of the most important characteristics by which the social models of EU member states mutually differ is the *vertical of the distribution of competencies*¹³ between the central, middle and local levels. Thus, in the Scandinavian countries, social policy is to a large measure decentralized and the majority of social services is provided by regional and local authorities. The conditions for enjoying social rights and transfers are mostly generous, with the accent being on services rather than money transfers. In countries with a federal structure (Germany, Austria, Belgium) and those with pronounced regionalization (Spain, Italy, Great Britain), federal, i.e., regional authorities play an important role in formulating and implementing social policy.

4. Social Europe – an answer to globalization

The European Commission has proposed the founding of a Globalization Adjustment Fund (GAF)¹⁴ in order to help those who have become unemployed as

¹² A. Cerami, *Social policy in Central and Eastern Europe: The Emergence of a new European model of solidarity*, Universitat Erfurt, 2005.

¹³ I. Janev, “Socijalna država i politika na lokalnom nivou u EU” (the paper was produced within the scientific project “Social and Political Preconditions for Building Democratic Institutions in Serbia,” 149057D, realized within the Institute for Political Studies in Belgrade and financed by the Ministry of Science), published in: *Politička revija*, year XXI, VIII, vol. 20, No. 2, 2009, p. 238.

¹⁴ The European Globalisation Adjustment Fund helps those who have lost their jobs due to their company’s closure or move to another country to find a new job as quickly as possible. The maximum provided by the EGAF on the annual level equals 500 million euros. According to: <http://ec.europa.eu/social/main.jsp?catId=326&langId=en>

a result of the industrial restructuring process. The GAF should be implemented in consultation with social partners, in order to avoid confusion between existing adjustment measures. Employees faced with dismissal should be informed in advance so that they have sufficient time for additional training and professional education, or for finding another job. Sweden has one of the longest notification periods in the EU and also one of the highest employment rates in the world. Research has confirmed that people find new employment more easily when they are informed and warned in advance.

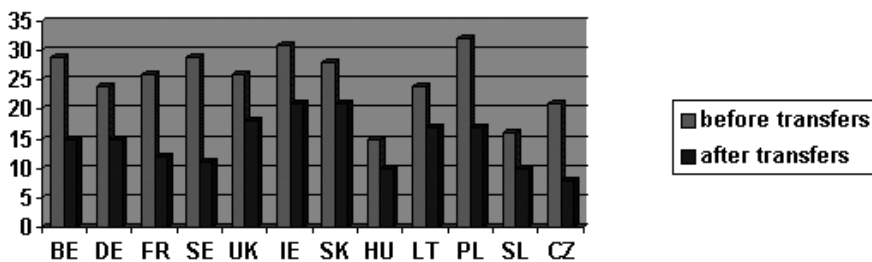
Employees at the level of the EU are among the most productive in the world, and this is best seen in member states with strong social protection policies. Work productivity per working hour in Germany is close to the US average, and France and Belgium are not far behind.

Recent World Bank research has shown that 11 EU member states are among the 30 most competitive countries in the world – with the Scandinavian and the Baltic countries standing out. Denmark leads the list, with the highest rate of economic development, the highest rate of employment and the highest investment in social protection in the EU. an unemployment rate of only 5% and 80% of its workforce with labor union membership. In addition, it should not be surprising that the EU-27 also represents the world's largest trading bloc, with an increasing share in world exports. During the last six-seven years, EU exports to China have grown by almost 87%.

Wealth redistribution in the EU – active poverty reduction and national income redistribution policies contribute to levels of equality in the EU that are higher than anywhere else in the world. Without state regulation on the free market, 30% of the population would be exposed to the risk of poverty (according to OECD estimates). Social transfers contribute to a significant reduction of risk, which can be seen on the graph, lowering the share of the vulnerable (potentially poor) to 10-15%, whereas in the US, this share has remained at 20-25%.¹⁵

Graph 1:

Poverty risk before and after social transfers



¹⁵ European Trade Union Confederation, *European Social Model*: <http://www.etuc.org/a/2771>

5. Welfare state reform in the EU

In European welfare states, the pressure to implement reforms has grown over the past two decades, being conditioned upon different causes, including demographic changes, crises caused by unemployment, public debt and the market economy system. The evolution of social protection-based benefits since the mid 1990s illustrates that in many EU countries (Denmark Estonia, Finland, Ireland, Latvia, Lithuania, Holland, Slovakia, Spain and Great Britain) the welfare state has been “destabilized,” which is already visible on the macroplan. The prime mover of these trends is the process of pension system and healthcare system reform – welfare state spending for these two areas runs between 70 and 80 percent of total spending for social protection. As a result of unequal economic and social development and of catching up with the developed member states, in countries such as Greece, Hungary and Portugal the process of closing the gap in the area of economic development has gone hand-in-hand with relative welfare state expansion, while in Estonia, Ireland, Latvia, Lithuania, Slovakia and Spain, despite advantages in economic development, the welfare state has been reduced. This shows that, without a policy of intervention, a strong link between economic and social development, the kind that existed at the EU level until the mid 1990s, is difficult to maintain.

Reforms in systems of social protection over the last two decades have shown a high degree of convergence. Similarities in the processes of transformation and systemic evolution are especially evident in pension and labor market policies, both in Western and Eastern Europe. In the area of *pension policy*, changes can be seen in the introduction of a model based on three pillars¹⁶: 1) transition from defined compensation schemes to certain contribution schemes, 2) relative reduction in social services offered and 3) tendencies toward mixed financing (taxes and contributions). This change, which is characteristic for all European countries, is more pronounced in Central and Eastern European countries than in most of the EU-15 countries. The condemnation and criticism of socialism, viewed from the aspect of the process of transformation from centralized socialism into a capitalist, market economy, meant that neoliberalism penetrated the Central and Eastern European countries more than the older EU countries, as well as the US and Great Britain – the birthplaces of liberalism. Social policy was being linked to socialism by many political options in the CEE countries. Therefore, it should not be surprising that in those countries, with the exception of the Czech Republic and Slovenia, pension system reforms had more pronounced elements of neoliberal policy than in Western European countries.

¹⁶ K. Busch, “Alternativen zum neoliberalen Wirtschafts und Sozialmodell der Europäischen Union,” in: M. Flore, H. Schlattermund (eds.): *Zukunft von Arbeitsbeziehungen und Arbeit in Europa*, 19-30, Osnabruck, 2009.

In the *healthcare sector*, the situation has been quite different so far. Although reforms both in the East and in the West were performed under the same demographic and financial limitations, differently from what was happening with pension insurance, here they followed a path of dependence and were less radical.

It can be said that welfare state reforms in the EU converged significantly both in the East and the West – and, as they had common objective problems (demographic changes, public debt, unemployment) and a common socio-political model (neoliberalism), this is not at all surprising. Still, there are national distinctions *and divergent political constellations at member state level, which can intensify the danger of downward spirals in system of market economies.*

6. Scope of the welfare state in the EU – analysis of total state social protection expenditures

In the 2001–2008 period, average social protection expenditures ranged between 25.7% (2007) and 27.2% (2003). The largest budget outlays for aid to vulnerable social groups were recorded in the EU-15, with an average of 27.3%. The share of social protection expenditure differs significantly by country. The countries with the highest percentages of expenditure relative to total GDP spent more than twice as much as the three countries with the lowest percentages of expenditure, the Baltic member states.

Table 1: Total state social protection expenditures (as % of GDP)

| State | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------------|------|------|------|------|------|------|------|------|
| EU-27 | 26.6 | 26.9 | 27.2 | 27.1 | 27.1 | 26.7 | 25.7 | 26.4 |
| EU-25 | 26.7 | 26.9 | 27.3 | 27.2 | 27.2 | 26.9 | 25.9 | 26.5 |
| EU-15 | 27.0 | 27.3 | 27.7 | 27.6 | 27.7 | 27.3 | 26.4 | 27.1 |
| EA-16 | 26.8 | 27.4 | 27.8 | 27.7 | 27.7 | 27.3 | 26.8 | 27.5 |
| Continental welfare state | 27.0 | 27.8 | 28.4 | 28.3 | 28.2 | 27.8 | 26.7 | 27.2 |
| Scandinavian welfare state | 28.2 | 28.9 | 29.9 | 29.6 | 29.3 | 28.6 | 27.7 | 28.4 |
| Anglo-Saxon welfare state | 20.8 | 21.4 | 21.7 | 21.9 | 22.2 | 22.2 | 21.6 | 22.9 |
| Mediterranean welfare state | 22.7 | 23.1 | 23.3 | 24.3 | 24.1 | 24.1 | 24.0 | 25.2 |
| Post-communist welfare state | 16.7 | 16.9 | 16.9 | 16.6 | 17.0 | 17.1 | 16.5 | 17.5 |

Source: EUROSTAT, European Commission, social expenditure

As can be seen from the above table, the Scandinavian countries converge above the EU average, with average social expenditures of 28.7% of GDP, followed by the continental welfare states, with average expenditures of 27.2% of GDP. The remaining welfare states converge below the average, especially the post-communist states, with average social expenditures of about 16.7% of GDP, or about 10% lower than the EU average.

During the previous period,¹⁷ the largest social expenditures were made in Sweden, an average of 30% of GDP, while the lowest were in Estonia (12-13%), Latvia (11-15%), Bulgaria (10-15%) and Romania (12.5-14.5%). In the 2006-2008 period, member states with an above average level of social expenditure accounted for about 39.5% of the EU population. States in which social expenditure reached approximately 29% of GDP (France, Sweden, Belgium, Holland, Germany and Denmark) accounted for 21.2% of the EU population. The states whose social expenditures ranged between 21 and 27 percent were Italy, Great Britain, Finland, Portugal, Greece, Spain, Slovenia and Hungary. The largest group of states, where the level of social expenditures was the lowest, under 21% of GDP, was made up of almost all the newer member states: Bulgaria, Czech Republic, Latvia, Estonia, Lithuania, Malta, Cyprus, Slovakia, and Romania, which make up almost a quarter of the EU population.

As can be seen from the following table, at the EU-27 level, social expenditures as a percentage of GDP rose between 2001-2003 from 26.6% to 27.2% of GDP, retained that level (27.1%) up to 2006, and then started falling – to 26.7% in 2006, and then to the lowest level – 25.7% of GDP – in 2007. A decline in social expenditure was also recorded between 2005 and 2007 at the EU level, but to a somewhat lower extent. Observed by country, the largest growth in social expenditure was recorded in Bulgaria (from 9.7% in 2003 to 15.5% in 2008), while negligible growth was recorded in Estonia (from 12% in 2003 to 15.1% in 2008) and Ireland (from 17.8% in 2003 to 22.1% in 2008). The situation did not change significantly in the countries with the highest social expenditure levels, although these dit fall in some of them; for example, in Germany – from 30.5% in 2003 to 27.8% in 2008, or in Sweden – from 32.2% of GDP in 2003 to 29.4% of GDP in 2008.¹⁸

If we look at social expenditure expressed on the individual level, i.e., per capita (measured by purchasing power standard – PPS), differences between states are even more pronounced. Within the EU-27 in 2008, Luxembourg had the highest expenditure level per capita (14.057 PPS per capita), followed by Holland (9.557 PPS per capita) and Sweden (9.033 PPS). The average value, i.e., social expenditure, in these three countries was five to eight times greater than that in

¹⁷ http://europa.eu/legislation_summaries/employment_and_social_policy/situation_in_europe/index_en.htm

¹⁸ Ibid.

the countries with the lowest expenditure levels, such as Romania, Bulgaria and Latvia (with values between 1.661 and 1.803 PPS per capita).¹⁹

The disparities between the countries can be partially explained by different levels of national wealth, i.e., total income. They also reflect differences in systems of social protection, demographic trends, unemployment rates and other social, institutional and economic factors.

Generally speaking, there is a positive correlation between social expenditure, expressed as a percent of GDP, and PPS per capita. This is especially true for the group of countries (Latvia, Lithuania, Estonia, Romania, Bulgaria and Slovakia) with the lowest levels of GDP allocated for social financing – less than 17% of GDP, and for the group of countries (Austria, Germany, Denmark, Belgium, Holland, Sweden and France) with the highest levels of social expenditure – an average of 29% of GDP allocated for social protection.

The level of social expenditure per capita (expressed in PPS) significantly varied in countries belonging to the group of low to mid level social expenditure expressed as a percentage of GDP (between 17 and 27 percent). In their case, even the countries that had similar expenditure levels, measured by percentage of GDP, differ significantly in social expenditures per capita (PPS). That is the case with the following groups of countries:²⁰ 1. Poland, Malta, Czech Republic, Cyprus and Ireland (in Ireland, for example, social expenditure per capita in 2008 equalled 7,460 euros, while in Poland, the Czech Republic and Malta it ranged between 2,630 and 3,730 euros PPS); 2. Spain and Luxembourg (Spain has higher social expenditure as a percentage of GDP – 22.7% – compared to Luxembourg with 20.1%, but per capita expenditure in Luxembourg is significantly higher – two and a half times – and equals 14,057 euros, compared to Spain's 5,846 euros); 3) Hungary and Slovenia (percentage of GDP for social expenditure differs is by 1.2% higher in Hungary, while the difference in expenditure per capita is much higher, 4,921 euros in Slovenia as opposed to 3,693 euros in Hungary). The large differences in per capita social expenditures within these groups reflect different combinations of social expenditure, GDP levels and population size.

¹⁹ EUROSTAT: European social Statistics; Social protection-Expenditure and receipts, 2010; <http://epp.eurostat.cec.eu.int>

²⁰ Ibid.

Table 2: Total public social expenditures, in mil. EUR and per capita

| State | GDP PPS p/c | Total public social expenditures, mil. EUR | Public social expenditures, per capita |
|-----------------------------|-------------|--|--|
| EU27 | 25 100 | 3 293 138 | 6 604 |
| EA 16 | 28 300 | 2 540 063 | 8 108 |
| Scandinavian model | | | |
| Denmark | 42 400 | 69 197 | 8 942 |
| Finland | 34 800 | 48 572 | 7 724 |
| Sweden | 35 400 | 98 105 | 9 033 |
| Continental model | | | |
| Germany | 30 400 | 688 747 | 7 998 |
| France | 30 400 | 599 418 | 8 310 |
| Holland | 36 200 | 169 625 | 9 557 |
| Austria | 33 800 | 79 776 | 8 763 |
| Belgium | 32 200 | 97 582 | 8 171 |
| Luxembourg | 80 500 | 7 984 | 14 057 |
| Mediterranean model | | | |
| Greece | 21 300 | 61 198 | 6 048 |
| Spain | 23 900 | 247 138 | 5 846 |
| Italy | 26 300 | 435 684 | 7 090 |
| Portugal | 15 700 | 41 877 | 4 791 |
| Anglo-Saxon model | | | |
| Ireland | 40 900 | 39 810 | 7 460 |
| Great Britain | 29 600 | 430 584 | 6 895 |
| Post-communist model | | | |
| Bulgaria | 4 500 | 5 438 | 1 661 |
| Czech Republic | 14 200 | 27 687 | 3 774 |
| Estonia | 12 000 | 2 425 | 2 548 |
| Cyprus | 21 700 | 3 177 | 4 426 |
| Latvia | 10 200 | 2 907 | 1 803 |
| Lithuania | 9 600 | 5 217 | 2 514 |
| Hungary | 10 500 | 24 153 | 3 693 |
| Malta | 13 800 | 1 083 | 3 637 |
| Poland | 9 500 | 67 394 | 2 630 |
| Romania | 6 500 | 19 921 | 1 716 |
| Slovenia | 18 400 | 8 016 | 4 921 |
| Slovakia | 12 000 | 10 377 | 2 900 |

Source: European System of Integrated Social Protection Statistics ESSPROS, Manual 2010.

If we look at social expenditures according to purpose, i.e., function, it is apparent that, at EU level in 2008, the majority of funds was allocated for the protection of the elderly (pension financing) – 10%, and healthcare – 7.5%, while the least amount of funds as a percentage of GDP – less than 1% - was allocated for housing – 0.5%, and social exclusion – 0.3%.²¹

Table 3: Social benefits, by function, in 2008, % GDP

| Type of welfare state | Healthcare | Elderly | Family pensions | Invalidity | Family (child) protection | Unemployment | Housing | Social exclusion |
|-----------------------------|------------|---------|-----------------|------------|---------------------------|--------------|---------|------------------|
| EU-27 | 7.5 | 9.9 | 1.6 | 2.0 | 2.1 | 1.3 | 0.5 | 0.3 |
| EU-25 | 7.6 | 9.9 | 1.6 | 2.1 | 2.1 | 1.3 | 0.5 | 0.3 |
| EU-15 | 7.7 | 10.1 | 1.6 | 2.1 | 2.1 | 1.4 | 0.6 | 0.4 |
| EA-16 | 7.8 | 10.2 | 2.0 | 1.9 | 2.2 | 1.5 | 0.4 | 0.4 |
| Scandinavian model | 7.0 | 10.4 | 0.5 | 3.9 | 3.2 | 1.3 | 0.5 | 0.6 |
| Continental model | 7.5 | 9.3 | 1.8 | 2.0 | 2.6 | 1.6 | 0.3 | 0.6 |
| Mediterranean model | 6.9 | 10.3 | 2.0 | 1.6 | 1.4 | 1.4 | 0.1 | 1.2 |
| Anglo-Saxon model | 8.0 | 6.6 | 0.5 | 1.8 | 2.4 | 1.2 | 0.8 | 0.3 |
| Post-communist model | 4.9 | 7.1 | 0.9 | 1.3 | 1.6 | 0.5 | 0.1 | 0.3 |

Source: European System of Integrated Social Protection Statistics ESSPROS, Manual 2010

The Scandinavian welfare states converge above the EU average when it comes to social expenditures for pensions (10.4% of GDP), financing social protection for invalids (3.9% of GDP), and for spending for family (child) protection (3.2% of GDP). The Mediterranean welfare states also converge above the average in total spending for pensions (10.3% of GDP) and social exclusion (1.2% of GDP). Viewed by various functions of social protection, the continental welfare states converge toward the EU average in almost all aspects,²² while the Anglo-Saxon welfare states converge above the average in the area of healthcare, even as their social expenditures for protection of the elderly (6.6% of GDP) and family pensions (0.5% of GDP) run substantially below the EU average. The new

²¹ Source: European System of Integrated Social Protection Statistics ESSPROS, Manual 2010, Social protection expenditure by function, as % of GDP

²² EUROSTAT: European social Statistics; Social protection-Expenditure and receipts, 2010; <http://epp.eurostat.cec.eu.int>

member states, the post-communist welfare states, also converge substantially below the EU average in all individual segments of social protection. The largest deviations are observed in healthcare (average social expenditures equal 4.9% of GDP, or about 3% lower than the EU average), significantly affecting the quality of protection itself, which is already on a somewhat lower level in these countries when it comes to social expenditures for pensions and invalids.²³ This further points to the necessity of continuing the reform process in the former communist countries in the fields of health and overall social protection, as well as their striving to catch up to the older EU member states.

7. The world economic crisis

There are many arguments in favor of the view that the global economy won't soon return to the high economic growth rates it was achieving in the pre-crisis period, viewed from the dual crisis aspect.²⁴

The global crisis and the weaker economic growth it has brought have resulted in pressure on the welfare state, both in the most developed, industrialized countries and in the less developed ones throughout the world. Europe has seen a reduction in social services, coupled with growth in taxes and contributions. In developing countries, the situation is somewhat different, while in underdeveloped countries the informal systems of social protection are especially threatened. In middle developed countries with better development prospects, the establishment, construction and expansion of the social protection system can continue. Fundamental reforms on the international, European and national levels might concomitantly reduce economic and social imbalances and contribute to improved conditions for future economic growth.

It seemed in the fall of 2009 that the worst scenario was over – in many countries, the recession had reached its peak, some analysts and economic experts were already talking about a V-shaped crisis, and global stock markets were recovering. Differently from the previous great economic crisis of 1929, it looked as though this one would be brief and that a quick return to the status quo ante would be possible. Many do not share this optimistic vision, taking the view that economic and social disbalances in the global economy were what caused this crisis in the first place. The situation would change if the differences in current account balances between the US, on the one hand, and China, Japan and Germany, on the other, were reduced, if a new global monetary order was established, the global financial markets were regulated, the distortions in the

²³ Ibid.

²⁴ K. Busch, *World Economic Crisis and the welfare state; Possible solutions to reduce the economic and social imbalances in the world economy, Europe and Germany*, International Policy Analysis, Friedrich Ebert Stiftung, February 2010.

eurozone competition policy were reduced, the unequal distribution of wealth and income were corrected and economic growth models became more oriented towards the domestic market and domestic production, before all in China, Japan and Germany, as well as in the countries of Central and Eastern Europe and many of the developing countries. Only thus would we be able to avoid the negative social effects that are hitting the social protection systems, which are being undermined by a growing unemployment rate and high public debts. All this would be possible if the neoliberal deregulatory state were to be transformed into a powerful, globally cooperative interventionist state.

At this time, the basic topic of discussion at the global level regarding the world economy is how to overcome the crisis as quickly as possible, as what direction recovery should take. Many are expecting a quick V-shaped recovery, while others expect the slower U-form. The third group is of the view that, probably after an initial brief recovery, another decline will occur before the crisis is at last over, and they are talking about a W-form. Others yet see a danger that a long period of stagnation will follow the crisis, similar to what occurred during the Great Depression of 1929, in the form of an L-shape. There are ten basic reasons²⁵ why caution should be exercised when looking at the prospects for the world economy's fast recovery: 1) the problems of the American economy, 2) reduction in global economic imbalances, 3) increased unemployment and pressure on consumption, 4) budget policy and public debt reduction, 5) monetary policy problems, 6) income policy and distortions in the eurozone's competition policy, 7) crisis in Central and Eastern Europe, 8) uncertainties on the world oil market, 9) the importance of crediting, 10) inadequate reregulation of global financial markets.

7.1. Effect of the world economic crisis on welfare states within the EU

The strong interventionist policies and automatic stabilizers built into the European welfare state systems limited the economic and social effects of the biggest recession of the last several decades. Still, it is still difficult to totally assess the social price of the crisis. Its effects on the labor market and the general populace, which are understandably the most vulnerable segments, have still not been fully uncovered. Investment in regular monitoring of social trends and improvement of social statistics are of crucial importance for fast and efficient answers and evaluations of the effects and consequences of the crisis.

The financial crisis has worsened poverty-related conditions in various aspects – for example, housing conditions. During the past decade, homelessness, social and housing polarization and new forms of housing deprivation have

²⁵ U. Schafer, *Der Crash des Kapitalismus, Warum die entfesselte Marktwirtschaft scheiterte*, Frankfurt am Main, 2009; R. Shiller, *Kapitalismus ist nicht für die Reichen da*, in, *Süddeutsche Zeitung*, 7, September 2009, No. 205.

increased the interest of public policies, which are mostly lacking in adequate information in this area. Integrated strategies dealing with housing exclusion and homelessness have a significant role in post-crisis period policies, with prospects of building cohesive and sustainable societies.

The economic crisis has had a negative effect on mental and physical health, and has brought the danger of deepening health inequalities. The influence of the crisis will vary depending on member states' initial health situations and capacities to deal with the challenges. Increased demand coupled with large budgetary pressures make it urgent to increase the efficiency of healthcare systems, along with ensuring access to quality healthcare for all.

Pensioners have so far been little affected by the crisis, although the reduction of pensions in some countries with high poverty levels has caused concern among the older populace. The crisis and future prospects of lower economic growth will certainly affect all types and schemes of pension policy. As pensions are increasingly dependent on contributions tied to income level during one's work life, the adequacy of their levels will depend on the ability of the labor market to offer possibilities for longer and more complete careers.

The global economic crisis directly affects the financing of the social protection system, primarily for two reasons:²⁶ on the one hand, with increased unemployment rates, the costs of the funds of social insurance and state expenditures related to social protection grow while, on the other hand, their proceeds from taxes and contributions are falling, as a result of lower economic growth and lower wages. This is the reason for the appearance of the financing of "jazz" in national systems of social protection at the general EU level. Ever since the majority of states have adopted credit-financed aid packages in response to the economic crisis and in order to help the financial sector, cumulatively higher deficits in state and social insurance fund budgets have begun to appear. If the crisis is overcome any time soon and the European economy reclaims its high growth rates, member states' comprehensive indebtedness could be fixed without much difficulty. However, the situation will be different if economic growth in the post-crisis period is lower than before the crisis. If growth rates remain below earlier predicted levels of potential growth and unemployment remains high for a longer period, state budgets will be faced with prolonged and bigger difficulties. Reduced social spending and benefits accompanied by tax and contribution hikes might become the main issue of the day very quickly.

In its report²⁷ to the European Parliament and Council, the European Commission presented the state of EU member states' budgets at the end of 2010 as a

²⁶ J. Hirsch, "Die Krise des neoliberalen Kapitalismus", in: E. Alvater et al.: *Krisen Analysen*, 45–74, Hamburg, 2009.

²⁷ Commission of the European Communities: *Long term sustainability of public finances for a recovering economy*, Communication from the Commission to the European Parliament and the Council, SEC (2009), 1354, Brussels.

result of the crisis. The Commission compiled data on the basis of a 2006 report on the long-term sustainability of public finances in the EU. It was estimated in 2006 that nine member states belonged to the low-risk group; now there are only four (Denmark, Estonia, Finland and Sweden), together with new member Bulgaria. In 2009, the middle risk group included Austria, Belgium, France, Germany, Hungary, Italy, Luxembourg, Poland and Portugal. Compared to 2006, the high risk group now numbers twice the number of states: Czech Republic, Greece, Ireland, Latvia, Lithuania, Malta, Holland, Slovakia, Slovenia, Spain, Great Britain and new member Romania. Based on this analysis of the current situation of growing debts in public, state budgets, the Commission presented three demands:²⁸ 1) reduction of the deficit:debt ratio, 2) increasing the employment rate and 3) reform of the system of social protection, especially the system of pension insurance and healthcare.

It is, thus, clear that, on the basis of the effects of the global economic crisis on the labor market, social insurance funds and state budgets, EU member states will have to intensify welfare state reforms, which has been a demand for years. Reduced social benefits and increased taxes and contributions are unavoidable if the current state of affairs remains unchanged, especially in the group of high-risk countries, which make up almost one half of the EU member states.

7.2. Reforms of the EU economic and social order

In the European form of economic and monetary union, the single currency is the joint competency of all the member states, while wages, social and tax policy are under the national competence of the member states. In such a system of market states, national economies compete for international investments on the basis of wages and social costs, as well as corporate tax rates. The European economic and monetary union has sparked competition between states in reducing wage costs, paring down the welfare state and lowering corporate taxes. These imbalances can be avoided only if within the EU the rules of competition related to incomes, social costs and taxes are precisely defined.

When it comes to income policy, ever since the Doorn Declaration of 1998 and the adoption of harmonized directives²⁹ on the part of various organizations, labor unions have been putting great effort into preventing wage dumping within the EU. The directives demanded that member state organizations regulate and adjust national income policies – “inflation rate plus increased productivity.” Had this directive been realized, income distribution at national level and competition at EU level could have remained unchanged. In any case, data on shifts in the unit price of income clearly show just how far removed

²⁸ Ibid.

²⁹ S. Dullien, D. Schwarzer, “Fiskalpolitik im Euroraum; Reformbedarf und Reformoptionen,” in: *WSIMitteilungen*, No. 9-2009.

European labor unions still are from the realization of their goals. In addition, since intra-European income-related competition has increased, member states' efforts must intensify significantly. In the eurozone, this has especially become necessary due to the reduced income unit prices in Germany, which has brought increased external economic imbalances between the member states. At the same time, as a result of redistribution in favor of capital, inequality in income distribution within national economies has become increasingly obvious. As well, all 27 member states were supposed to introduce a minimum income, defined at the EU level, equalling 60% of the average income in each individual EU member state. As a first step, a minimum income of 50% might be set. Also necessary is an urgent limiting of growing tax dumping in the EU. In addition to introducing joint minimum wage estimates, it is also necessary to reach agreement on a minimum corporate tax rate.

In the area of *systems of social protection* urgent coordination is necessary on the common, EU level, in order to halt the further erosion of the welfare state, caused by competition in reducing social protection costs at national levels. Toward that end, it is necessary to establish a European Social Stability Pact³⁰ at the level of the EU, which will link welfare state size with the relevant level of member states' economic development. The EU contains four or five groups of states, divided according to the criterion of income level per capita. The scope or corridor of social benefit relations should be fixed for each group of states. The group of wealthier states should have a higher corridor than the group of poorer states. States can move up to a higher corridor if they advance economically, i.e., achieve higher growth rates, and draw closer to the wealthier states.

7.3 Effective and efficient social inclusion policies during and after the crisis

The total effects of the crisis on people have yet to manifest themselves fully, and they need to be faced. According to the European Commission, unemployment in 2010 rose above 10%, while social expenditures rose from 27.5% to 30.8% of GDP between 2007 and 2010.³¹ From the beginning of the crisis, the ranks of the unemployed have swelled by five million, while the income of many households fell, thus exposing them to risk of poverty and increased indebtedness and, in some cases, even loss of home. Migrants, younger and older workers and those with temporary work contracts, especially women, were hit as soon as the crisis

³⁰ B. Cantillon, "The poverty effects of social protection in Europe; EU enlargement and its lessons for developing countries," P. Townsend (ed.): *Building decent societies, Rethinking the role of social security in development*, 80-98, New York, 2009; http://www.sozialmodell.eu/downloads/hacker_bjoern/EWSM%20Parlamentarierdialog_Diskussionspapier%20EN_2009-02-04.pdf

³¹ For more details on this, see: Council of the European Union: Social Protection Committee Contribution, Europe 2020, Strategy (EPSCO).

broke out, but unemployment also affected other social categories, which had previously been relatively secure.

The nature, scope and effects of the crisis within the EU differ from country to country. The unemployment rate in one country rose from 2.7% to 3.9%, while in another it rose from 6% all the way up to 20.9%. Also, the member states started from different social situations. In 2008, poverty risk rates ranged between 9 and 26 percent.³² The coverage and the level of support and provided social protection also varied between countries and different social groups. State perceptions showed significant differences: in June 2009, while the majority of the population was aware that the crisis had increased poverty, the percentage of those who understood that deeper influence ranged between 10 and 69 percent.

The responses of economic-social policies also differed, both in terms of measures taken and of emphasis of the importance of the main problems that needed to be solved. The European Commission estimates that state spending for the use of discretionary measures varied – from below 1% of GDP in some countries to above 3.5% in others.

Member states used the European Social Funds (ESF)³³ in order to increase support for the unemployed, to assure the employed their jobs and to help the most vulnerable groups overcome structural obstacles in the course of integration into the labor market. Use was made of the flexibilities in the ESF, operational programs were adjusted and modified where necessary, and features recommended by the Commission were utilized in order to increase the efficiency of the Fund. The ESF programs also offered financial support for fulfillment of EU long-term goals related to social inclusion, and aided recovery and social cohesion.

The crisis also affected those far removed from the labor market, both inactive persons and the long-term unemployed. Even beforehand, the uneducated and the inadequately educated, the handicapped and those with mental problems, and migrants – especially women, enjoyed limited access to added training, professional improvement and other services. The efforts invested in increasing employment over the last few years might be undermined with the lack of jobs and amidst pressure for additional training and professional improvement.

Coverage and adequacy in extending and securing minimum incomes widely differ within the EU. In most countries, the social aid is not sufficient to help people escape poverty but, generally speaking, it helps in reducing its intensity. Recent attempts to modernize social aid have focused on financial stimulation at work, but the lack of clear mechanisms for raising the minimum income level has sometimes led to a growing inadequacy of social benefits over time. Complex rules, lack of information, arbitrary evaluations, administrative errors – are only some of the numerous reasons for postponing the raising of minimum incomes.

³² Source: Eurostat Yearbook, 2010; http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-CD-10-220

³³ European Social Fund: <http://ec.europa.eu/esf/home.jsp?langId=en>

Adequate support in the form of incomes is of great importance for all people, but economic and social policy must also help their inclusion in the labor market. Expenditures and active measures directed towards the labor market, including lifetime learning, have significantly improved in recent years. Experience shows that long-term unemployment and inactivity tend to become entrenched long after a crisis ends. Modern social protection policies are an important instrument of helping the sick, of ensuring compensation for invalidity and of providing early retirement programs.

Homelessness and housing exclusion – Lack of adequate housing is a long-term problem in most European countries. The causes of housing exclusion are often complex, and can be any of the following:³⁴ structural (unemployment, poverty or lack of adequate or accessible housing), b) personal (family breakup, sickness), c) institutional (imprisonment, lack of care) or 4) discrimination-related causes.

In some countries, the outbreak of the crisis and increased unemployment were also accompanied by difficulty or inability to pay of housing loans, or even home repossessions. Low income and increased living expenses are also important reasons for increased losses of home. Member states have reacted with measures such as protection of mortgage owners, strengthened income support, improved supply of social and public housing. In some cases, targeted measures were introduced, such as securing shelter for the homeless or adopting energy conservation plans.

Cost and quality of housing are key questions of welfare and living standards. Almost 38% of those that live on the poverty line spend more than 40% of their disposable income on housing – or more than twice the average for the entire population (19%). They are also faced with worse housing conditions than the remaining population – 27% of them live in overcrowded housing (the EU average is 15%), and 38% suffer from at least one problem related to housing deprivation³⁵ (compared to the EU average of 22%). Recent nationally-based research on numbers of people without housing provide an unclear, confused picture, but also show that the situation is growing worse in most countries. An exact evaluation of the problem, which would also include people living in unsafe and inadequate housing, will await a jointly agreed methodology at the EU level.

Improved effectiveness and efficiency of healthcare spending amid worsening conditions and growing budget limitations. Data on the influence of the crisis on healthcare is still incomplete and dispersed, but experience confirms that the economic recession is increasing risks for mental and physical health

³⁴ A. Baum-Ceisig, K. Busch, B. Hacker, C. Nospickel, “Wohlfahrtsstaaten in Mittel und Osteuropa, Entwicklungen,” *Reformen und Perspektiven im Kontext der europäischen Integration*, Baden-Baden, 2008.

³⁵ European Commission; *Employment, social affairs and inclusion*, <http://ec.europa.eu/social/main.jsp?catId=148&langId=en>

and that negative consequences may appear over time. The state of health is determined and influenced by the length of the worsening of the economic and social situation in the country. Indirect effects appear because budget limitations make it difficult to adequately respond to growing healthcare needs. A sudden increase in life insecurity is the main factor and source of stress that affects the population at the broadest level. Job uncertainty, the restructuring process and long-term unemployment significantly affect mental health and may lead to suicide, alcohol and drug dependence, increased risk of cardio-vascular diseases and increased mortality.

The issue of the effects of the crisis on the healthcare sector significantly varies within the EU and depends on the depth of economic fall, the capability and organization of the healthcare sector and the scope of welfare state policies. The member states that are the worst affected by the crisis are also ones with the worst health situation and inadequately developed social and healthcare policies. The differences are widening due to different policy responses – while in some countries recovery packages include increased healthcare-related spending, in others healthcare budgets have been reduced. States with worse healthcare conditions and higher health inequalities do not have equal healthcare access and spend less on it. In addition, budgetary pressures prevent countries from investing sufficiently in the health protection of their populaces. The high inequalities related to health and healthcare within member states indicate that they did not equally benefit from economic progress, which should have been able to secure better health conditions.

Having in mind increased needs and pressures to reduce budgets, improved effectiveness and efficiency are seen as urgent. The state budgets of the member states have been under pressure for years in regard to defining priorities and increasing efficiency and effectiveness. Healthcare-related state spending is significant, with an average of about 9% of GDP, and a range between 5 and 11 percent.³⁶ Healthcare spending is the most connected with the level of GDP per capita, although current spending is conditioned by a complex set of factors. Key structural factors include new technologies, growing expectations, aging of the population and increased unhealthy behavior.

7.4. The European Strategy 2020

At its spring session, the European Council reached agreement on five key goals of the European Strategy that should be achieved in the coming years. One of these goals relates to *social inclusion*, especially through poverty reduction. The EU leaders appealed for further joint work that would be carried out through certain dimensions of this goal. The June session of the European Council will once again be devoted to this topic. On the basis of its mandate, the Social Pro-

³⁶ International Monetary Fund: *Social Security Expenditure Database*, Washington, 2009.

tection Committee (SPC) advised the Council to consider the adoption of the following approach:³⁷

- 1) Formulate an EU goal, numerically expressed as pulling one million people out of poverty or social exclusion by 2020.
- 2) Measure or estimate the total number of people living in relative poverty or socially excluded on the basis of three indicators, thus reflecting the different dimensions of poverty and exclusion: poverty risk rate, material deprivation rate and percent of people living in households without a single employed person.
- 3) Define at the EU level a referential aggregate indicator as a percentage of people living at the poverty line and (or) in material deprivation and (or) in households without employed persons, in accordance with the following concepts:
 - *Population living at the poverty line* – people that live on less than 60% of the average national income. The poverty rate³⁸ is the leading indicator used for measuring and monitoring poverty in the EU. It is a relative measure of poverty, tied to income distribution, taking into account all sources of financial earnings, including market earnings and social transfers. It reflects the role of labor and social protection in preventing and reducing poverty.
 - *Materially deprived population* – people whose living conditions are substantially limited by a lack of sources, those living in at least four out of the nine possible situations of material deprivation.³⁹ The rate of material deprivation is a non-monetary measure of poverty that has also reflected different levels of quality and standards of living throughout the EU, ever since it has been based on on single European basis.
 - *Population living in households with no employed persons* – this population segment is defined as having nulti or very low work intensity throughout the year, and represents a true reflection of the situation of prolonged exclusion from the labor market. This group includes people whose families are in a situation of long-term exclusion from the labor

³⁷ For more details on this, see: Council of the European Union, Social Protection Committee Contribution, Europe 2020, Strategy (EPSCO).

³⁸ In 2008, 17% of the European population lived in relative poverty.

³⁹ At the EU level, the common view is that material deprivation, i.e., its indicator, should be defined as the percentage of the populace living in at least three out of the following nine situations: those that a) cannot afford to pay rental expenses or bills for using housing space; b) cannot afford to heat their homes, without electrical power; c) are faced with unexpected expenses; d) cannot eat meat, fish or equivalent amounts of protein every other day; e) cannot afford one week of vacation once a year; f) cannot own an automobile; g) a washing machine; h) color TV or i) a telephone. In 2008, 17% of the total population of the EU was thus affected, with a range between 3.5% and 51%. A stricter definition of material deprivation encompasses people living in 4 of the said 9 situations.

market – long-term exclusion from the labor market is one of the fundamental causes of poverty and increases the risk of passing on and inheriting poverty from one generation to the next.

- 4) Analyze the possibilities of using the year 2009 as the referential year for relevant data.
- 5) Identify an ambitious but realistic level of obligations and dedication, having in mind the limitations of financial sustainability and knowing that the aggregate indicator at the EU level will increase by about 120 million people living at the poverty line or in social exclusion.
- 6) Provide that the member states have freedom and independence in setting national goals on the basis of the most adequate indicators, which provide an overview of their conditions and priorities, and have them explain and clarify how the fulfillment of their national goals would contribute to the fulfillment of goals at the EU level, in dialogue with the European Commission and with the support of the Social Protection Committee.

8. Conclusion

One of the fundamental principles (ideals) of the EU has been its system of social protection, usually better known as the European welfare state. The view of EU member states that the state has a responsibility to care for its citizens has become a sort of common culture that unifies 27 different nationalities. However, the European welfare state is presently being subjected to economic and demographic pressures. The latest global economic crisis has shaken the foundations of the common European social vision.

The world economic crisis has accentuated the large diversity within the EU. Its scope, strength and effects vary, depending on the capacities of national welfare state systems to offer adequate protection. Not all the EU member states possess the necessary financial resources to meet the growing needs and there are large gaps in their social protection networks. The current priority is to reduce those gaps.

At the same time, the need to halt increased public spending requires improvement in the quality of intervention and, in some cases, establishment of clear priorities, i.e., more effective and efficient social inclusion and social protection, which is connected to the principle of accessibility, universal availability, adequacy and sustainability. Balanced active strategies of social inclusion, combined with adequate income support and access to the labor market and social services, can fulfill the goals of: fighting for poverty reduction, increasing participation on the labor market and increasing the efficiency of social protection spending.

The Greek debt crisis has compelled European governments to do much more in terms of reducing the costs of social protection financing during the past several months than in the previous ten years. European governments, from Ger-

many to Spain, have produced draft laws or plans on cost saving and reduction, in order to try to reduce state debts and limit public spending. However, these reforms have encountered various forms of resistance – and not only in Greece. The Germans are angry because of reductions in social spending. In France, tens of thousands of employees took to the streets to protest President Sarkozy's plan to rise the retirement age from 60 to 62. Reforms in the French pension system represent a part of an EU-wide effort to reduce growing public debts. The French government has stated that employees must extend their worklives in order to keep the pension system "above water."

Dominique Moisi, a political analyst from the French Institute for International Relations, has stated: "The European welfare state represents a very important part of the European identity. I would say that it is one of Europe's biggest comparative advantages, not only in the economic sense, but in the social and humane aspect as well." Moisi thinks that the welfare state provides protection and represents some sort of cushion in case of economic crisis, protecting Europeans from the sorts of consequences and hardship that Americans have experienced. However, without larger reforms, the EU will not be able to sustain its vision of a more generous way of life. The social system in France has accumulated more than 100 billion euros of debt, which is no longer sustainable. It is presently surviving for one reason only – the French credit rating, which is of the highest level, and France's ability to borrow in order to pay for the realization of its social programs.

A high percentage of social spending in the EU goes to support labor market policies – in the form of benefits and exemptions for the unemployed and for pension systems. With the present population aging dynamic and increased expected lifespans, coupled with financial pressures, the raising of the retirement age is a reality in states throughout the Union.

With an aging population and slowing economic growth, no one is safe any longer. The EU is founded upon three basic pillars: peace, growth and development, and a common social vision. If one of these pillars crumbles, the question is how long the other two would last.

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IMPACT OF CORRUPTION ON FOREIGN DIRECT INVESTMENT

Summary

The globalization of world economy has resulted in a significant increase in foreign direct investment and transition economies are becoming more open to international business operations, they liberalize their regimes and thus become attractive to foreign investors. Multinational companies have numerous positive effects on growth and development of the country in which they invest. These are primarily reflected in employment opportunities, fiscal benefits, transfer of technology, knowledge and skills, capital inflows and the like. The positive effect depends on the environment within the host country and its absorption capacity. However, not all countries are equally successful in this, nor are the effects of foreign direct investment in all countries equal. The success of the selected strategy depends primarily on the degree of overall social and economic development of the country; it is the ability of governments and domestic firms to optimally exploit the benefits that FDI brings. The main intention of this paper is to point out the importance of foreign direct investment and corruption as a major factor in the rejection of potential investors. The paper will show foreign direct investment in Croatia as a country from the region that adopted the European legal entities, improved investment environment and strengthened the fight against corruption through the process of accession to the European Union.

Key words: *Foreign direct investment, investment climate, corruption, The Republic of Croatia*

JEL classification: F21, D73

1. Introduction

A vast number of researches on FDI show that individual incentives cannot increase FDI without favourable institutional environment, political and economic situation. On the other hand, if attracting FDI is not part of development strategy of a state, it cannot provide the expected results.

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There is a wide range of institutional and political obstacles like ineffective courts, relativization of obligatory relations and ineffectiveness of services for determining ownership relations. Constant changes of laws, rules and regulations on local level do not encourage foreign investors, and what they want a stimulating and stable environment whose main characteristic is predictability. There are also other unfavourable circumstances involved here like: high cost of labour per unit of product, complicated procedure for setting up business and a high level of corruption.

Foreign investors first take into consideration the impact of various factors and then make a final decision. There is not a large number of direct investments in the Republic of Croatia and countries in the region which are export-oriented greenfield investments, representing the main impulse for economy reconstruction and new jobs. Without consistent strategy for economic development and successful economic policy there is no adequate macroeconomic, business environment and stimulating investment climate for foreign direct investment. The problem of attracting foreign investors is in the whole system. i.e. administration, legislation, tax system and political willingness to attract investors.

This requires political stability, transparency in privatization and strict implementation of contracts. It involves protection of private ownership, improvement of legislation and court protection and fighting corruption. Only the countries that create a predictable, stable business environment and systematic deregulation can count on foreign investments.

2. Foreign Direct Investment

2.1. *Foreign direct investment and investment environment*

According to statistical conventions of IMF, foreign direct investment – FDI refers to the situation when residents of a country- home country become owners of 10 or more percent of a company in another country- host country. That way, they participate in the control of that company - foreign investment enterprise – FIE. According to its characteristics, FDI can be divided into foreign direct investments that create completely new production property (greenfield investments) and those used for investing into existing property for taking over (M&A) and increase of efficiency or they are a result of privatization (brownfield investments). The motives of foreign investors (FDI tendered or provider) can be the following: portfolio optimizing, exploiting externalities on the market of the investing country, internalization of a large number of transactions by FDI (instead of conducting such transactions by licences, export, labour market or capital on the market), making use of specific advantages of multinational com-

panies over other enterprises on the market (more advanced technology, better product brand, supply network...), using specific characteristics of recipient country (market size, vicinity to third markets, cheap labour, cheap raw materials and natural resources, etc.) and other motives (better organization, rationalization of capital costs. strategic motives, etc.).

The motive for foreign direct investment arises from ownership advantages of owning specific intangible assets, when there are benefits from own production in comparison to licence selling, i.e. benefits from internalization, when there are advantages of a location related to characteristics of the recipient country.

The motives of national authorities (FDI recipients. i.e. seekers) are expected net social benefits from FDI. These include positive impacts from FDI on foreign trade investments, growth, employment, transfer of modern technology and knowledge in recipient country. Last but not least motive of national authorities for attracting and reception of FDI is the fact that financing investment in the country by foreign direct investment is cheaper than debt financing as the FDI flows are longer-term than most loans, there is no repayment and foreign debt of a country is not included.

FDI impact on economy can be monitored on the basis of a few indicators: impact on foreign trade, GDP and economic growth, employment/unemployment, investment and other economic parameters (spillover effects).

Depending on whether FDI and export are complements (substitutes), i.e. FDI and import substitutes (complements) a positive or negative impact on foreign trade can be determined. The impact on FDI and GDP depends on complementarity of export and FDI. Will, and to what extent FDI affect growth and employment depends on efficiency of administration and safety of business conditions. Besides, the impact of FDI depends on corruption level, i.e. the level of human capital in the country and opportunity to apply and absorb transferred technology, business skills and management in the host country. FDI has a positive impact on GDP by stimulating other investments, i.e. by crowding in other domestic and foreign investments, most commonly when FDI creates a new economy sector (greenfield investment).

Foreign direct investment can be stimulated in various ways (by fiscal, financial and other measures). Here, social benefits should be greater than social expenditure. Research shows that stimulating export (incentives for export production) results in numerous positive effects of FDI on domestic economy and requires participation of domestic suppliers. One of the most popular ways of stimulating foreign direct investment is approval of tax stimulations, having in mind the impact of that measures on budget and competition of other countries in the region.

2.2. Foreign Direct Investment in the Republic of Croatia

Table 1: Foreign direct investment in the Republic of Croatia 1993–2010
(in millions of euros)

| | Ownership investments | | Retained earnings ** | Other investments | | Total |
|-------|-----------------------|-------------|----------------------|-------------------|-------------|----------|
| | Assets | Liabilities | | Assets | Liabilities | |
| 1993 | 0.0 | 101.0 | n/a | n/a | n/a | 101.0 |
| 1994 | 0.0 | | n/a | n/a | n/a | 92.8 |
| 1995 | 0.0 | 79.1 | n/a | n/a | n/a | 79.1 |
| 1996 | 0.0 | 382.1 | n/a | n/a | n/a | 382.1 |
| 1997 | 0.0 | 325.0 | 35.9 | -7.1 | 126.4 | 480.2 |
| 1998 | 0.0 | 581.1 | 63.9 | -12.8 | 217.6 | 849.7 |
| 1999 | 0.0 | 1.208.6 | 43.4 | -0.2 | 111.1 | 1,362.9 |
| 2000 | 0.0 | 750.6 | 86.8 | 0.7 | 302.5 | 1,140.6 |
| 2001 | 0.0 | 910.8 | 187.9 | 0.2 | 368.7 | 1,467.5 |
| 2002 | 0.0 | 718.3 | 160.9 | -0.3 | 259.0 | 1,137.9 |
| 2003 | 0.0 | 762.0 | 587.9 | -1.5 | 414.0 | 1,762.4 |
| 2004 | -0.2 | 319.9 | 291.7 | -17.8 | 356.0 | 949.6 |
| 2005 | 0.0 | 793.0 | 570.5 | 0.0 | 104.4 | 1,467.9 |
| 2006 | -0.1 | 1.747.7 | 721.0 | 12.4 | 287.3 | 2,768.3 |
| 2007 | 0.0 | 2.188.3 | 483.3 | 20.3 | 987.2 | 3,679.0 |
| 2008 | 0.0 | 2,199.2 | 508.5 | -26.4 | 1.537.0 | 4,218.4 |
| 2009 | 0.0 | 696.8 | 343.1 | -27.9 | 1,083.6 | 2,095.6 |
| 2010* | 0.0 | 521.0 | 540.5 | -17.2 | -604.4 | 439.9 |
| Total | -0.3 | 14,377.4 | 4,625.2 | -77.7 | 5,550.3 | 24,474.9 |

Source: Web-page of the Croatian National Bank

According to the CNB data, foreign direct investment in Croatia from 1993 until the end of last year amounted 24.47 billion euros.¹

* Preliminary data

**From the first trimester of 2009 the method of calculating retained earnings changed and it boils down to recording retained earnings on trimestral base during the period when the profit was made. Retained earnings before that period were recorded in the month when the decision for distribution of earnings for previous business year was made.

¹ The data include direct and round trip investment whose performance is increase of direct investment in both directions (both in the Republic of Croatia and abroad) for the same amount. That type of direct investment was recorded in December 2008 (825.7 mil. euros) and in August 2009 (666.5 mil. euros). In accordance to this there is the effect on direct investment in the Republic of Croatia and abroad, starting from these months.

Foreign direct investment in Croatia in previous year, according to preliminary data of Croatian National Bank, amounted 2.09 billion euros.

The statistics of the Central Bank published on its internet pages shows that the largest amount of profit amounting 249.3 million euros, was made in “other business activities”. The amount of 186.6 million euros suggests financial intermediation, besides insurance and pension funds and the amount of 166.6 million euros means ownership investment in real estate. Direct investment in a few business activities shows negative values, mostly in production of chemicals and chemical products where drain was 485 million euros, followed by post and telecommunications having the drain of 132.2 million euros.

The greatest investment amounting 116.3 million euros last year originated from Belgian investors. They are followed by direct investment from Italy, in the amount of 112.8 million euros, Luxemburg with 111.6 million euros, Slovenia with 86.6 million euros. Austrian investors precede with 6.22 billion euros of investment in Croatia in the previous 18 years, followed by investments from Holland with 3.7 billion euros, Germany with 2.9 billion euros, Hungary with 2.3 billion euros and others. The largest amount, on the criterion of business activities, of 8.6 billion euros is the investment in banks, followed by investment in wholesale trade and intermediation in trade amounting 2.8 billion euros.

Table 2: Foreign direct investent in the Republic of Croatia 1993–2010

| | 1993. | 1994. | 1995. | 1996. | 1997. | 1998. | 1999. | 2000. | 2001. |
|-----------------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| AUSTRIA | 8.2 | 37.9 | 6.4 | 46.3 | 249.5 | 165.2 | 152.9 | 170.1 | 526.2 |
| HOLLAND | 3.7 | 13.1 | 0.2 | 8.3 | 38.5 | 94.0 | 60.2 | 73.6 | 29.6 |
| GERMANY | 35.0 | 6.4 | 14.2 | 2.0 | -59.2 | 62.4 | 879.9 | 115.2 | 622.9 |
| HUNGARY | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 6.8 | 5.5 | 4.0 | 4.0 |
| LUXEMBURG | 2.5 | 0.0 | 0.0 | 0.2 | 8.8 | 2.6 | -11.1 | 331.2 | 34.5 |
| FRANCE | 0.0 | 0.0 | 0.1 | 4.5 | 22.3 | 25.5 | 6.8 | 14.5 | -1.0 |
| ITALY | 6.9 | 3.0 | 2.7 | 4.4 | 9.0 | -1.3 | 34.2 | 84.7 | 51.8 |
| SLOVENIA | 4.8 | 0.2 | 2.6 | 2.4 | 20.7 | 28.7 | 25.1 | 78.1 | 51.2 |
| NETH. ANT. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BELGUM | 0.8 | 0.1 | 0.5 | 1.1 | 4.3 | -1.0 | 0.3 | 0.8 | 1.3 |
| SWITZERLAND | 7.8 | 15.8 | 10.1 | 16.7 | -11.3 | 8.0 | 5.4 | 10.4 | 13.0 |
| GREAT BRITAIN | 9.9 | 0.5 | 0.2 | 0.1 | 48.9 | 3.5 | 26.6 | 38.0 | 12.7 |
| INT. FIN. INS. | 0.0 | 0.0 | 0.0 | 33.9 | 19.8 | -40.8 | 33.4 | 6.1 | -6.5 |
| CYPRUS | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 1.0 | -4.4 | 0.1 |
| SWEDEN | 0.3 | 0.0 | 26.6 | 6.0 | 8.2 | 22.4 | 4.7 | 7.1 | 1.1 |
| DENMARK | 3.3 | 0.9 | 2.9 | 6.4 | 1.0 | 4.3 | 5.0 | 0.6 | 1.9 |
| RUSIA | 0.0 | 0.0 | 0.0 | 4.7 | 0.0 | 1.7 | 0.0 | -0.4 | 0.0 |
| NORWAY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.5 |
| IRELAND | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.4 | 0.1 | 0.0 | 0.0 |
| MALTA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.3 | 0.0 | 0.0 | 0.0 |
| USA | 3.6 | 2.2 | -11.0 | 227.4 | 78.3 | 474.2 | 132.5 | 114.0 | 103.6 |
| BAH | 0.2 | 0.0 | 0.0 | 0.0 | 7.5 | 3.7 | 0.7 | -1.8 | 8.3 |
| POLAND | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 |
| SPAIN | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 |
| LEINCHEN. | 0.0 | 9.2 | 2.1 | 8.9 | 11.3 | 5.0 | 15.3 | 54.7 | -1.0 |
| SLOVAKIA | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 | 0.1 | 7.1 |
| ISRAEL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.6 | 0.2 | 0.0 |
| SAN MARINO | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ISL. REP. IRAN | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| MONACO | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 |
| Other countries | 14.0 | 3.3 | 21.3 | 8.6 | 20.3 | -19.1 | -16.6 | 43.4 | 6.1 |
| TOTAL | 101.0 | 92.8 | 79.1 | 382.1 | 480.2 | 849.7 | 1.362.9 | 1.140.6 | 1.467.5 |

Source: Croatian National Bank web pages

| | | | | | | | | | |
|---------|---------|-------|---------|----------|---------|---------|---------|--------|----------|
| 2002. | 2003. | 2004. | 2005. | 2006. | 2007. | 2008. | 2009. | 2010.* | Ukupno |
| 598.8 | 432.1 | 248.6 | 543.6 | -510.0 | 2.078.7 | 1.060.8 | 419.6 | -8.4 | 6.226.2 |
| 17.5 | 130.6 | 71.1 | 173.9 | 1.954.2 | 261.1 | 288.8 | 785.0 | -297.5 | 3.706.0 |
| 18.5 | 120.6 | 190.5 | -132.1 | 229.2 | 173.1 | 427.7 | 161.9 | 62.5 | 2.930.6 |
| 13.9 | 483.4 | 43.5 | 329.0 | 52.0 | 260.3 | 959.5 | 167.2 | -0.7 | 2.330.2 |
| 103.9 | 34.9 | 64.4 | 104.1 | 302.3 | 15.5 | 108.0 | 157.7 | 111.6 | 1.371.3 |
| 2.9 | 69.0 | 22.6 | -8.4 | 1.034.2 | 107.2 | 11.4 | 41.9 | 16.2 | 1.369.7 |
| 225.7 | 81.7 | 150.3 | 177.9 | 187.9 | -88.9 | 53.8 | 82.0 | 112.8 | 1.178.4 |
| 28.9 | 67.1 | 43.1 | 119.3 | 82.5 | 221.8 | 180.6 | 111.6 | 86.6 | 1.155.5 |
| 0.0 | 0.0 | 4.5 | 5.9 | 0.5 | 5.9 | 851.2 | 1.9 | 15.9 | 885.7 |
| 3.3 | 4.1 | 9.3 | -1.4 | 1.3 | 337.6 | 32.2 | 27.3 | 116.3 | 538.3 |
| 16.5 | 36.4 | 22.6 | 38.0 | 264.5 | -155.6 | 101.2 | 8.6 | 43.6 | 451.8 |
| 6.6 | 31.4 | 33.7 | 42.7 | 75.6 | 67.9 | -10.8 | 42.0 | -48.5 | 380.8 |
| 102.0 | -7.8 | 11.8 | 6.7 | 72.6 | 14.4 | 29.2 | 0.0 | 3.0 | 277.9 |
| 1.0 | 11.1 | 14.0 | 23.8 | 13.8 | 24.4 | -1.9 | 39.3 | 59.5 | 182.1 |
| 15.4 | 15.5 | 5.4 | 19.5 | 37.2 | 65.5 | 37.2 | -50.5 | -55.0 | 166.5 |
| 9.7 | -1.2 | 0.7 | 4.6 | 28.2 | 18.1 | 69.7 | 22.5 | -13.2 | 165.6 |
| 1.2 | 1.2 | 2.7 | 5.0 | 18.9 | 81.7 | 6.7 | 5.8 | 24.5 | 153.7 |
| 0.7 | -0.4 | 1.0 | -1.1 | 8.3 | 21.0 | 47.4 | 15.8 | 57.7 | 151.1 |
| 7.2 | 11.6 | 4.7 | 16.1 | 9.5 | -11.3 | 11.5 | 18.9 | 70.4 | 139.3 |
| 0.0 | 0.3 | 3.2 | 7.8 | 1.1 | 46.3 | 32.3 | -1.7 | 10.2 | 102.6 |
| -94.8 | 310.7 | -20.9 | 5.9 | -1.121.3 | -34.1 | -57.7 | 16.6 | -36.1 | 93.1 |
| 1.3 | 2.5 | 14.0 | 6.3 | 7.5 | 17.3 | 9.0 | -2.0 | 11.1 | 85.6 |
| 0.1 | 0.1 | 0.9 | 2.5 | 1.5 | 52.0 | 30.4 | -3.9 | -14.7 | 69.4 |
| 6.9 | 0.1 | 5.4 | 2.6 | 3.9 | 22.6 | 3.7 | -4.8 | 19.3 | 60.1 |
| 19.7 | -93.2 | -9.3 | 28.4 | 0.2 | 28.5 | -28.4 | 1.4 | -4.3 | 48.4 |
| 1.0 | 1.8 | 0.3 | 4.1 | 1.4 | 0.9 | 3.3 | 6.0 | 13.1 | 39.3 |
| 0.0 | 1.0 | 8.2 | 5.1 | 1.5 | 3.2 | 3.2 | 0.4 | 8.5 | 32.1 |
| 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 31.2 | 6.4 | -2.4 | -3.5 | 31.9 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.8 | 5.1 | 25.9 |
| 0.0 | 0.2 | -0.1 | 0.1 | -0.4 | 0.0 | -0.6 | 6.4 | 14.4 | 20.1 |
| 30.3 | 17.5 | 3.3 | -62.1 | 10.4 | 12.7 | -47.5 | 0.3 | 59.3 | 105.6 |
| 1.137.9 | 1.762.4 | 949.6 | 1.467.9 | 2.768.3 | 3.679.0 | 4.218.4 | 2.095.6 | 439.9 | 24.474.9 |

2.3. South-eastern European countries

Despite the consequences of recession in 2009, Bosnia and Herzegovina, Montenegro and Serbia made an actual economic growth in 2010. Albania stands out by intensity of actual growth in 2010 with 3.5%. In comparison with 2009, its growth additionally increased, while the growth was the lowest in Bosnia and Herzegovina (1.1%).

The available economic indicators show that in Bosnia and Herzegovina industrial production rose by 1.6%, with a considerable increase in production of consumer goods, while the production of capital production decreased. When it comes to foreign trade (in convertible marks), there is a considerable annual increase of actual export (28.3%) and a slight increase of import (10.3%). The structure of export implies the crucial impact of foreign demand on movements of industrial production, with the largest increase in export of intermediary products and consumer goods, together with power.

The largest increase, when it comes to export, was in power, intermediary products, and annual decrease was again seen in capital products. At the same time, export from Bosnia and Herzegovina to Croatia rose by 13.4% (in 2009 it fell by 18.4%), whereas import from Croatia grew by 11.0% (in 2009 it decreased by 33.3%). which makes Croatia the most important Bosnian foreign trade partner.

As for domestic demand, it seems that in the second decade there came about intensification of actual turnover in retailing, which implies a gradual recovery of personal expenditure.

Actual GDP in Serbia grew by 1.5% in 2010 in comparison with the previous year. The end of the recession period and economic growth were also encouraged by favourable foreign demand. Nominal value of goods export in 2010 (in Serbian dinars) grew by 36.3% compared with previous year, while import rose by 20.4% with positive rates for all product categories. At the same time, regarding the structure of import markets, the largest increase of import (37.6%) was seen in the group that included the countries of Central and Eastern Europe (detailed analysis by individual countries is not available). The index of physical range of industrial production also grew by 3% in 2010, with the trends resembling those in Bosnia and Herzegovina (growth of production of intermediary products and durable consumer goods and decrease in production of capital products). On the other hand, growth in unemployment and scarce sources of funding prevented recovery of personal expenditure, as suggested by retail trading, which decreased on the annual level. Wage freeze in the public sector resulted in annual decrease in actual state expenditure, while investment expenditure, according to estimations of the National Bank of Serbia in 2010 positively contributed to the overall change of economic activity.

Economic activity of other countries from this group also grew, particularly because of favourable foreign demand. Thanks to the low level of domestic

demand, shorts in current accounts of payment balances remained at last year's level. i.e. they are significantly lower than in the years before the crisis. In accordance with relatively fragile recovery in most countries, inflationary pressures were not too strong. The exception is only Serbia, where the increase of food price was slightly larger.

3. Impact of corruption and bureaucracy on foreign direct investment

3.1. *The scope and perception of corruption*

Modern and democratic society increasingly emphasizes the systematic malfunction of corruption. It is considered not only morally wrong, but it is also one of the factors of country malfunctioning. Corruption is, therefore, a behaviour which is a deviation from a normal performance of public duties for personal (or other: family, private or interest group) benefit, it represents breach of norms for personal benefit. This includes bribe (accepting money or other benefits with the aim of influencing decisions of public authorities), nepotism, abuse of position for personal benefit (illegal use of public goods, services, etc.).

Corruption is also a specific situation of exchange when a public officer sees their position as a source of income and wants to increase personal gain. In legal terms, though, corruption is defined in different ways and as a different criminal act. A standard definition is the following:

- “the solicitation or acceptance, directly or indirectly, by a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favor, promise or advantage for himself or for another person or entity, in exchange for any act or omission in the performance of his public functions;
- the offering or granting, directly or indirectly, to a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favor, promise or advantage for himself or for another person or entity, in exchange for any act or omission in the performance of his public functions;
- any act or omission in the discharge of his duties by a government official or a person who performs public functions for the purpose of illicitly obtaining benefits for himself or for a third party;
- the fraudulent use or concealment of property derived from any of the acts referred to in this article;
- participation as a principal, coprincipal, instigator, accomplice or accessory after the fact, or in any other manner, in the commission or attempted

commission of, or in any collaboration or conspiracy to commit, any of the acts referred to in this article”.²

Corruption is a social defect, lack of suppositions, social norms and values necessary for normal functioning of free market economy. Corruption is becoming an unbearable obstacle for development of international economic relations because of the consequences it causes. Corruption is adverse to moral postulates of capitalism which ascribe wealth to working and temptations of their vocation treat ownership as sanctity and protect private sphere. This is where performing public services with something that does not belong to individuals, but to a bearer of function on the behalf of others comes from. Those who use their position for personal benefit jeopardize the very foundation of economy and authority structures.

In the last few years a political action for repression of corruption was initiated on various levels. International organizations, certain governments, international non-governmental organizations and individuals initiated drafting documents and its repression. Corruption is unacceptable in normal market competition and it needs to be eliminated. The fact that the world market exists means that it accepts only homogenous and non-contradictory rules of doing business.

Transparency International (TI)³ is a global organization of civil society that fights against corruption, and its global network includes more than 90 locally established national organizations that fight against corruption within their countries. They gather relevant people from the government, civil society, business subjects and media with the aim to improve transparency in elections in public services, public procurement and business. Non-political, TI does not conduct investigations on corruption nor is it involved in individual cases, but it cooperates from time to time with the organizations that do the above mentioned.

Transparency International defined five global priorities in fight against corruption: in public procurement, in private sector, international convention for fight against corruption, poverty and development. Transparency International devotes particular attention to the following: access to information, establishing a center for legal aid in the fields of defence, education, security, health, legislation, humanitarian aid and global crises.

Corruption perception index (CPI) of Transparency International is a rank of countries according to the degree of perception of scope of corruption among government officials and politicians. The index consists of the data gained from scientific research on corruption, conducted by various reputable organizations. Corruption perception index reflects viewpoints of businessmen and analysts from all over the world including experts from assessed countries.

² Article VI *Interamerican Convention Against Corruption*, 1997.

³ <http://www.transparency.org/>

Corruption perception index focuses on corruption in public sector and defines corruption as abuse of entrusted power for personal gain. Surveys used for putting together corruption perception index contain questions related to abuse of public empowerments for personal gain, with an emphasis on, for example, accepting bribe by government officials in public procurements. Sources do not differ administrative from political corruption or petty corruption acts from major corruption acts.

It is difficult to ground comparative statements about the level of corruption in various countries on concrete empiric data, e.g. on comparison of the number of lawsuits or court cases. Such data do not reflect the actual level of corruption, but they point out the quality of prosecutor, courts and/or media in disclosure of corruption. A method of collection of comparative data is, therefore, based on experience and perceptions of people directly facing corruption in certain countries.

CPI is a complex index based on other surveys and it measures a level of corruption perception in public sector and among officials in 178 countries of the world. It uses 13 different opinion surveys and assessments conducted by 10 independent institutions among experienced observers– businessmen, analysts, and local experts. It is based on perception and not on data.

The results from 2010 show that a great majority of 180 countries covered by the research has a score lower than five on the scale from 0 (highly corrupt) to 10 (very clean).⁴

The result of CPI survey shows the level of corruption perception in a certain country. The rank on the list shows the position of a country among other countries covered by the survey. CPI requires complementary analysis in order to explain why a country has a certain rank, and it is not conceived as an index that measures changes in time, i.e. scores by years are neither comparable nor they reflect the latest changes in the country.

The key messages of Transparency International are that the response to the global crisis needs to be focused on zero tolerance to corruption, as three quarters of the 178 countries had a score below 5, which shows that corruption is still a serious problem. In order to solve the problems of weakened financial markets, climate changes and poverty, anti-corruption measures need to be integrated in all the spheres of public policies.

The global sources of CPI are the following: African Development Bank, 2009; Asian Development Bank, 2009; Bertelsmann Foundation, 2009; Transformation index; Economist Intelligence Unit (EIU); Country Risk Service and Country Forecast, 2010; Freedom House (FH). Nations in transition, 2010; Global Insight (former World Markets Research Centre, GI); Rates of risk, 2010; Institute for Management Development (IMD) Lausanne, World Competitiveness Yearbook, 2009 and 2010; Political and Economic Risk Consultancy, (PERC)

⁴ Rank list of all 180 countries published on the internet on the following page: http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

Hong Kong, Asian Intelligence Newsletter, 2009 and 2010; World Economic Forum (WEF); Global Competitiveness Report 2009 and 2010; World Bank (WB); Country Policy and Institutional Assessment, 2009.

Sources of CPI for Croatia: Bertelsmann Foundation, 2009; Transformation index (BF); Economist Intelligence Unit (EIU); Country Risk Service and Country Forecast, 2010; Freedom House (FH), Nations in transition, 2010; Institute for Management Development (IMD) Lausanne, World Competitiveness Yearbook, 2009 i 2010; World Economic Forum (WEF), Global Competitiveness Report, 2009 and 2010.

Table 3: Results of corruption perception index for 2010 (countries that are seen as the least corrupted and countries seen as highly corrupted)

The least corrupted countries

| no | country | Result | no. of surveys |
|----|-------------|--------|----------------|
| 1 | Denmark | 9,3 | 6 |
| 1 | New Zealand | 9,3 | 6 |
| 1 | Sigapore | 9,3 | 9 |
| 4 | Finland | 9,2 | 6 |
| | Sweden | 9,2 | 6 |

The most corrupted countries

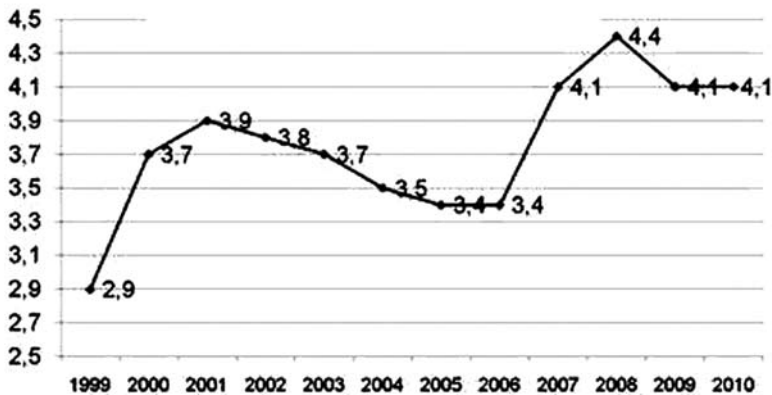
| no. | Country | Result | no. of surveys |
|-----|-------------|--------|----------------|
| 175 | Iraq | 1,5 | 3 |
| 176 | Afghanistan | 1,4 | 4 |
| | Mynanmar | 1,4 | 3 |
| 178 | Somalia | 1,1 | 3 |

Source: http://www.transparency.hr/dokumenti/ipk2010/CPI2010_presentation_2010-10-26_HR.ppt#340.1. Slide 1

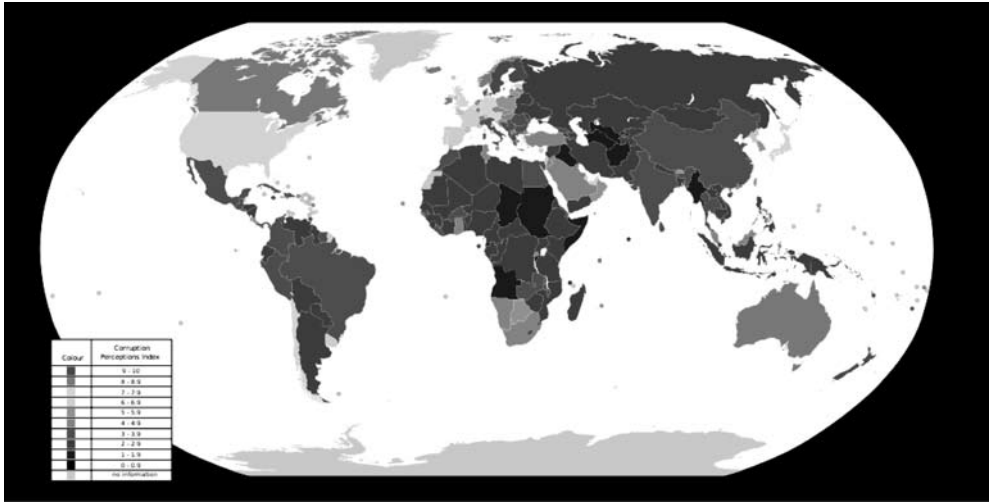
Table 4: Comparison of corruption perception index Croatia – region 2010.

| No. | Country | Result | No. of surveys |
|-----|------------|--------|----------------|
| 27 | Slovenia | 6,4 | 8 |
| 56 | Turkey | 4,4 | 7 |
| 62 | Croatia | 4,1 | 8 |
| 62 | Macedonia | 4,1 | 5 |
| 67 | Italy | 3,9 | 6 |
| 69 | Montenegro | 3,7 | 5 |
| 69 | Romania | 3,7 | 5 |
| 71 | Bulgaria | 3,6 | 8 |
| 78 | Serbia | 3,5 | 6 |
| 91 | Bosnia | 3,2 | 7 |

Source: http://www.transparency.hr/dokumenti/ipk2010/CPI2010_presentation_2010-10-26_HR.ppt#340

Graph 1: Corruption perception index for Croatia through years

Source: http://www.transparency.hr/dokumenti/ipk2010/CPI2010_presentation_2010-10-26_HR.ppt#340

Picture 1: *Global corruption perception index for 2010*

Source: http://en.wikipedia.org/wiki/Corruption_Perceptions_Index

Government officials are often unaware that postponing of a few weeks in each of a few public institutions could cost investor hundreds of thousands of euros of lost profit and time. It also results in establishing a bad relationship with investors and distorts allocation of resources. Corruption will never be completely eliminated, but its effects can be limited and damage it does can be decreased. This is why the principal aim should be demotivation for giving and receiving bribe, and not fortification of compensation control.

It is necessary to use legal force, but it will not have a long-term effect if the conditions that encourage bribery change. These include exclusion of corruption-related programs; establishing appropriate privatization processes; reform of state programs (changes in legislation, tax reforms, social benefits program reforms); public service reform; anti-corruption laws and reforms in the public procurement system.

It is particularly difficult to take any action when government officials and courts (as those who fight against corruption) are corrupted and when politics is seen as an opportunity for making money. If leading government officials do not set a good example, it is not likely to expect that others will behave differently. The reform needs to start from the top. It requires support from influential groups and simultaneous reform of the role of a state.

In the countries where corruption is deeply ingrained and widespread, reformers need to take specific steps and not only expect that regular habits will be changed by changing high-ranking officials. It is not enough only to directly attack corruption by harsher enforcement of law or to demand disclosure of property and specific anti-corruption agencies, but the focus should be on the

conditions that affect payment, i.e. the sources of corruption and factors that encourage it.

Treating corruption as a permanent feature of human nature that cannot be fought will not help. Major victims of corruption are poorer social classes, often because they consider that corruption is inevitable and they are the ones affected by it. It is necessary to mobilize all the social and political officials. Police and legal action is not effective without public support, which is not possible without active press.

Concrete measures include adopting legislation on change of government and laws on funding political parties; development of investigative journalism; decentralization (for the sake of greater responsibility) with increased discipline responsibility of local officials; creation of effective system of legislative control of work quality of ethicality of officers– it is necessary to enact a code of conduct for government officials and officers specifying moral principles- these standards need to be protected by legal constraints; focus of investigating activities on the highest political levels; additional education of judges for solving corruption cases; harsher punishments for corruption; zero tolerance to corruption; public budget; breaking up monopoly on the market; developing civil liability – citizens should be encouraged to report corruption and tend to prevent it.

3.2. Bureaucratization as an obstacle to investing

As regards administrative obstacles, it is necessary to decide which procedures are unnecessary and eliminate them. Monopoly of government officials should also be reduced so that clients could submit appeals to any officer who has the appropriate jurisdiction and go to the next one if they are rejected by the first officer. Civil society is an important factor of limiting the power of government officials and persons who perform public functions. Media and the public can make accusations against authorities and bad service provided by private organizations and individuals can demand responsibility of a state.

The steps necessary for overcoming administrative obstacles often are not expensive, in financial terms, but a much harder task is changing the deeply ingrained attitudes of government officials. A large number of problems arises as a result of lack of dialogue between certain departments within public administration and investors, which can be easily changed. Simplifying administrative procedures is not only important for encouraging investment, development of small and medium business, repression of corruption and growth, but also for the process of progression of Croatia towards full membership in the European Union and facing ever increasing competition that goes along with it.

Reforms are also necessary both on the national and local level, as local authorities tackle the issues related to land and civil engineering.

Central government should put financial and technical resources at disposal to local areas which are attractive to investors and whose local authorities aim to improve investing conditions. On the other hand, one of its tasks should also be implementation of law on market competition, not only on company level, but also in local governments. In other words, local authorities should be punished for limiting competition, i.e. entrance of new companies in the market. In order to remove or decrease the number of administrative obstacles for direct investment, it is necessary to implement the rule which proscribes that enterprise registration must not last longer than 30 days with the possibility of making that obligation legal; introduce the 'silence is consent' principle– if the relevant body does not reply to a potential investor within the proscribed period (30 days in this case), it means that he got a consent to the request; introduce one-stop-shop offices all over the country; giving the opportunity for registration of enterprises via the internet; decreasing fees for various permissions when setting up companies; introduce financial motivation in the system (e.g. various fees whose amount depends on the length of administrative procedures); improve coordination between governmental bodies so that investors do not need to submit the same documentation to different bodies; intensify communication between public administration, entrepreneurs and trade union representatives; provide more information to domestic and foreign investors by preparing comprehensive guides for procedures of investments and existing legislation on the national and local level; reconsider the cases of overlapping when it is necessary to ask for the same permit from the same department twice; increase orientation on results.

4. Deficiencies of public administration and rule of law

4.1. Deficiencies of public administration in Croatia

The regulatory environment that investors face is too bureaucratized. According to foreign investors, an obstacle to investing in Croatia is not the very regulation of enterprise registration which is in accordance with European practice, but “slow, complicated and inflexible public administration which acts according to discretionary and not professional principles”. The process of acquiring permits is still not well defined, which is particularly common in small and remote places where local officials improvise a lot, i.e. they interpret procedures too freely. Investors are often not sure who issued the necessary permits as there is no adequate coordination between ministries and agencies. Some procedures are unnecessarily complicated and difficult, commercial courts have too many cases, which prolongs the process of registration, and officials ask for

bribes in order to quicken some procedures – this is typical of procedures for issuing building permits.

Public administration reform is carried out slowly and without strong political will for its implementation. At the same time, entrepreneurs see inefficiency of public administration as the major obstacle to successful business. According to the rating of Administrative court, almost every second court case solved by administrative bodies is not in accordance with the law. Breaches of regulations on public procurement are the most common. In its document from 2004, “55 proposals for increasing competitiveness of Croatia” National Competitiveness Council pointed out the importance of public administration in economy and the need for its reform in terms of joining the European Union. The reform needs to be based on systematic approach, privatization principle, cost-effectiveness and new public management. Particular attention needs to be given to creation of rational and modern organization of public administration and increasing institutional capacities as a frame for efficiency.

Namely, entrepreneurs claim that a long-term inefficiency of public administration is the biggest obstacle to successful business and they want its reform. Instead, the focus is on the scope of public administration. It is often seen as too great, although there are not reliable data on what it is actually like. The number of officials is not familiar, there are only estimations and register is about to be introduced.

The question of scope of administration needs to be placed in the context of the question what we want from public administration. It is actually the question of what kind of a social state we want- do we want to privatize education and health care and accept everything that goes with those sectors on markets.

The most important measures that should improve public administration are stimulating better quality officers by introducing performance-based salaries, increasing the quality of work by education, harsher control and implementation of anti-corruption policy and discipline measures.

Key measures for overcoming deficiencies in public administration are the following: elimination of dual responsibilities, computerization, giving technical and extra work to the market, reviewing the need for a large number of government offices and agencies as independent bodies, decentralization, introduction of a central system of financial control over the use of state budget, introduction of measures of efficiency for connecting budgets of certain bodies, decreasing the number of public administrative organizations and networks of regional units of ministries and administrative organizations, separating creative and scientific work from repetitive work in the bodies of central public administration.

4.2. Rule of law and legal system

According to the Constitution of the Republic of Croatia, rule of law is one of the highest values of statutory order of Croatia. However, rule of law is not reflected in the statutory principles and overall legislature, but primarily in application of regulations and obeying legal order.

Length of court cases is considered one of the key problems in the process of realizing rule of law. Its existence is a signal to potential investors that solving a legal dispute in their business cooperation will take quite some time, i.e. they would not get legal protection in due time. In order to quicken legal cases it is necessary to do the following:⁵ reform process provisions; delegate tasks performed by courts to other public and civil services and private professions (especially notary public) and delegate tasks that are not crucial for court functioning to other people within the court and outside it (this includes enterprise registration in commercial courts); change organizational structure of jurisdiction on the national level (the system of court competency) and on individual court level (reorganizing the functioning of magistracy).

As for determining ownership rights, it is necessary to change provisions on land registers; update and computerize land register and comply it with cadastre; make the registration process easy, cheap and efficient; create and apply security register for real estate; engage officers in the areas of land registers.

Additional reform measures include: establishing legal consistency in legislation – providing guidelines for the cases where there are variations in practices between courts; avoidance of changes in laws; well defined distribution of cases among judges; consistency in enforcement of all laws, even when it comes to administration or else there comes about legal inequality; publishing verdicts on e-portals; clear rules on liability of judges.

All these recommendations can seem utopic, having in mind that if staff structure of legal profession and its psychology change slowly. One of the pre-conditions for efficient legislation is well organized administration. This means that a progress in the legal system is not possible without the reform of public administration as public administration and legal system are two interdependent systems of law enforcement. It will probably take a lot of time for citizens and businessmen to start trusting judiciary as a guarantee of personal and political rights.

⁵ A. Uzelac, "Rule of Law and the Judicial System: Court delays as a barrier to accession", in: K. Ott (ed.), *Croatian Accession to the European Union: The Challenges of Participation*, Institute of Public Finance and Friedrich Ebert, Zagreb, 2004, p. 106.

5. Conclusion

This paper shows that FDI can have a significant impact on domestic trade, GDP and economic growth, employment/unemployment, investment, and the rest of economy through spillover effect.

Depending on whether FDI and export are substitutes, i.e. FDI and import substitutes, i.e. complements, the positive or negative effect in foreign trade balance can be determined. The impact of FDI on GDP and employment depends on complementarity of export and FDI. Will, and to what extent, FDI affect growth and employment depends on efficiency of administration and security of business conditions.

Together with this, impact of FDI depends on the level of corruption, i.e. the level of capital in the country and opportunity to absorb transferred technology, business skills, management in the host country. FDI has a positive impact on GDP by encouraging other investments, both domestic and foreign, which is the most common when FDI creates a new economy sector, the so called greenfield investment.

Corruption and a low level of rule of law with poor quality public administration are the main obstacles to foreign direct investment.

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CONTRIBUTION TO PROMOTING A PEACEFUL SETTLEMENT STRATEGY FOR LABOR DISPUTES**

Summary

The paper presents case studies which are the basis for an analysis of the state of two aspects of industrial relations in Serbia – industrial and social peace on one side and industrial and social conflicts on the other. This analysis points out that social peace has innumerable comparative advantages over industrial and social conflicts, that social peace is incomparably politically, economically, socially and morally cheaper than industrial and social conflicts, and that the creation of social peace is a key issue of the strategy and the future of the world we live in. Social peace is of particular importance for transition economies, including Serbia. There is a direct proportion between the success of transition, i.e. the social reforms it assumes, and social peace, i.e. the degree of a society's conflictualness.

Key words: *transition, social peace, social democracy, Agency for the Peaceful Settlement of Labor Disputes, trade unions, industrial conflicts, Serbia*

JEL classification: J52, O25

1. Introductory remarks

If today we were to make a list of Serbia's needs, the fulfillment of which would be necessary for the further successful course of political, economic and social reforms, it is certain that the list would be varied and very long. Places on the list would be reserved for political and social stability, the development and strengthening of the social power of democratic institutions, acceleration of the European integration process, more efficient battle against organized crime and corruption, more efficient protection of human, economic, labor and social

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rights, faster solution of economic and social problems, higher employment and a higher standard and quality of living for ordinary people.

However, besides the above and other demands and needs that represent a part of our everyday life, the content of our political and social life and the subject of industrial and social conflicts, one demand undoubtedly has the biggest significance, not only at this moment, but in the long term. That is the demand or the need to finally, after decades of national, religious, political, economic, social and other conflicts, establish a lasting and stable social peace.¹

For a long time now, the need to establish a lasting and stable social peace has not been just a political and scientific, but also a commonsense fact, visible on the phenomenal plane and recognizable in citizens' everyday lives. This fact is founded on the exceptionally high political, economic, social and moral price that has been paid over the past two decades with radical political, industrial and social conflicts, on the exceptionally high working energy that has been, to put it mildly, irrationally and inexpediently spent in the conflicts that have been shaking Serbian society over the past two decades, on the fact that the current conflicts represent one of the biggest obstacles to necessary social reforms, on the experience of other, successful transition countries and, of course, the economically and technologically developed countries of the European Union, which have largely founded their progress in all fields on the successful prevention of industrial and social conflicts, i.e., on strategies and mechanisms of social and industrial peace.

In other words, industrial and social peace is the *conditio sine qua non* for the success of the initiated economic, social and political reforms, a source wherein is concentrated the potential strength for Serbia's ultimate exit from the vicious circle of crisis and conflict, a need without which Serbia and its citizens cannot achieve all the needs mentioned at the beginning of this text, needs – that essentially represent the civilizational heritage of the contemporary age and unquestionably belong to the present corpus of basic and inalienable human, economic, working and social rights. An understanding of this strategic significance, i.e., the fact that social and industrial peace are an irreplaceable component of a stable economic and technological development of Serbian society, would assume the need to consider this relationship of industrial and social conflicts, on one side, and social and industrial peace, on the other, on a global historical plane, based on the experience of the transition process in Central and East European countries, and on Serbia's own experience and social practice, in order to recognize and analyze the common denominators as well as the differences of this essentially same process on different levels and over different time intervals.

¹ T. Milenković, *Putevi i stranputice socijalnog partnerstva*, Radnička štampa, Beograd, 2010

2. Contemporary societies' movement toward industrial and social peace

The history of industrial relations has shown us that the actors of industrial relations have often opted for – or social circumstances have pushed them onto the track of – industrial and social conflicts. In fact, the beginnings of industrial relations were marked by conflicts. In the same way, industrial conflicts have been the dominant characteristic of industrial and overall social relations over a very long period of the industrial way of production.² Of course, in analyzing this historical course of the relation between industrial and social peace and industrial and social conflicts, we must bear in mind that, even today, in the economically and technologically most developed societies, with the highest degree of human liberties and rights and democracy, industrial and social peace do not exist in their unadulterated form. Social and industrial conflicts appear in all societies, including the most developed ones, but in different phenomenal forms and varying intensities. However, this does not bring into question the fact that industrial and social peace predominate in contemporary economically and technologically developed democratic countries, before all in the EU, but also in others, and that all three social partners accept it as an indisputable common strategic interest and goal.

Industrial and social peace cannot be built and cannot realistically function unless all three social partners – the political authorities, employers and the labor unions – accept social peace as their individual and common interest and, on the basis of that, undertake joint, coordinated activities towards building and enabling the real functioning of the mechanisms and instruments of social and industrial peace.

In that sense, it can be said that all three social partners, individually and jointly, for they are always closely tied and interdependent, even when their relations are predominantly conflictual, have gained experiences and knowledge through historical processes about the harmfulness of industrial and social conflicts – for each social actor individually and for all of them together. The fact that we are talking about societies founded on private property, entrepreneurial initiative and market competition, which has by its nature become increasingly sharp and merciless, in which the success of a national economy and even society as a whole is measured by the profit rate, has greatly contributed to all social actors' realization of the harm done to them by industrial and social conflicts. This has been also confirmed, by strength of facts and on the phenomenal plane, by the contemporary age.³ Today it is obvious that the most economically, technologically, politically, culturally and otherwise progressive societies are those with the fewest conflicts within them. At the same time, impoverished societies

² K. Marx, F. Engels, *The Communist Manifesto*, (Serbian translation) Kultura, Beograd, 1968

³ P. K. Edwards, *Conflict at work – a materialist analysis of workplace relations*, Blackwell, Oxford, 1986

are extremely or predominantly conflict-ridden. Mathematically speaking, there is an inverse proportion between the degree of a society's development, the quality of life of the working class and all citizens and industrial and social conflicts.

In the first place, each actor of industrial conflicts suffers direct harm. The direct harm for the labor unions and workers lies in the fact that during a strike, one of the most radical forms of industrial conflict, they do not receive the wages that are the only source of existence for them and their families. That means that the unions, i.e., the workers that participate in strikes and other forms of radical industrial action, are risking the basic source of their existence. The direct harm for employers is found in the disruption of the process of production of goods or services, whereby the employer or the owners of the capital lose profit, which is the basic motive for investing capital and launching entrepreneurial initiative. The state suffers direct harm from industrial and social conflicts by losing a portion of taxes, which limits the realization of its functions due to shortfalls in its budget.

In addition to direct harm, all actors of industrial conflicts also suffer indirect harm. Workers that participate in industrial conflicts risk being left without work, i.e., unemployed, as well as being subject to police and judicial persecution. In case of strikes and other forms of radical industrial conflict, employers are not able to meet their business obligations towards buyers, i.e., the customers of their goods and services. This exposes them to additional expenses. The worst consequence is certainly the fact that their business reputation suffers, and their business partners turn to other, competing companies. This is defined as the "social risk of investing," which is quite pronounced in today's age in transition countries and developing countries in general, in which industrial and social conflicts are still predominant. The state suffers indirect harm from industrial and social conflicts, as these cause and sustain political and social instability, which is not in the interest of any political authorities. Also, dissatisfied actors of industrial and social conflicts, workers and their unions as well as employers, are also voters who cast their votes every four years, or even more frequently, for particular political parties. Naturally, those whose mandate was marked by mass industrial and social conflicts cannot count on that vote. Finally, it is obvious that the individual harm that industrial conflicts inflict on employers, labor unions and the state is mutually connected and conditioned, always bringing a result that is, from the standpoint of harm suffered by the national economy and society as a whole, always greater in magnitude than its individual parts.

In considering the overall negative effects of industrial and social conflicts, the first thing to have in mind is that they take up a huge amount of the social and working energy of all actors. In addition, the conflicts have a demotivating effect on all of them as well. In the case of workers, this is manifested through reduced productivity and quality of work, and in the case of employers, through the movement of capital into industries, regions and, more and more frequently today, countries with the lowest social risk of investment. Finally, industrial and

social conflicts are the main detonators of political, economic and social instability, which are today the biggest obstacles to economic and technological development and people's standard and quality of living.

As industrial and social conflicts have sharpened, their economic, political, social and moral consequences have grown, with most of the price being paid by the working-producing segments of society, which, by the feedback principle, has additionally sharpened the scope and intensity of the conflicts. In addition, the predominant spontaneity of industrial and social conflicts during the initial phases of industrial relations threatened to develop into the most radical conflicts, including armed ones.⁴

The constantly growing negative consequences of industrial and social conflicts gradually compelled all actors – political authorities, labor unions and employers – to seek ways and means of lessening them and, ultimately, of systematically preventing conflicts from breaking out in the first place. Social practice proved on a daily basis that it was in all ways cheaper and more acceptable for all actors to sit at the negotiating table and peacefully resolve disputes and reach consent regarding their objectively different interests, than to waste their own, as well as the energy of the national and, more and more today, the global economy on mutual conflict. Each actor of industrial relations saw their own interest in the prevention of industrial and social conflicts. This definitely opened a new chapter in the history of industrial relations – a chapter in which the activity of social actors is predominantly concentrated on the development of the concepts, instruments and practice of social peace. This line of separation is of great significance, as the new phase assumes the existence of a new essential determinant of industrial relations. Namely, each individual actor, on the basis of their own estimation and decision, may enter into industrial conflict. It is assumed that, from that moment, they are opening a front against other actors of industrial relations. However, even with the best intentions, industrial and social peace cannot be built by any individual social actor. Of course, each of the actors of industrial relations have their own specific role and interests in industrial relations, but they can build social peace only jointly, through agreement on joint interests and goals upon which industrial and social peace will be founded. This fact was the main reason for increasing attention being devoted to questions of the establishment and functioning of industrial and social peace, with inevitable differences in approach, conditioned upon the objectively different interests of individual social partners. A new area of social research and policy was formed – i.e., an entire series of new applied and theoretical scholarly and professional disciplines: crisis management, crisis and conflict management, industrial conflicts, and such. All these disciplines have a common goal – the prevention of industrial and social conflicts, or at least the reduction of their consequences to the smallest possible measure.

⁴ J. E. T. Eldridge, *Industrial disputes*, Routledge, London, 1968

3. From industrial and social conflicts toward social peace in transition countries

At the beginning of the transition process, all transition countries, including Serbia, were aiming for the same goals. Etymologically speaking, the term “transition,” which has been one of the most often used in Central and East European countries over the past two decades, essentially denotes a process of movement from formerly socialist, one-party systems, and a planned, centralized economy based on state, i.e., social ownership and means of production, towards open, civil societies based on private and public ownership, multi-party, parliamentary democracy and guaranteed civil, political, economic and social rights. This basic and the most general and broadly defined goal of transition has not been brought into question by anyone.

However, just as “the road to hell is paved with good intentions,” so has the road to this general and undisputed goal been filled with numerous obstacles, dilemmas, open questions, and wrong turns. Before all, practice at the beginning of this process negated optimistic predictions regarding the duration of transition, and especially its social price. It has turned out that the said general transition goals can be reached by various paths, different methods and instruments, different strategies, but also that the political, economic, social and moral price of these paths and strategies greatly differs. In the same way, it is doubtless that the achievement of transition’s general goals essentially represents the common denominator for a large number of concrete political, economic and social goals, which should be realized in everyday political and social practice.⁵

It is also a fact that, depending on the application of different strategies, individual countries have achieved different results in the transition process, as measured by the attained level of democracy, human freedoms and rights, and quality and dignity of human life. In analyzing the success level of political, economic and social reforms in individual transition countries, as well as the factors that have had a positive or limited influence on this process, one inevitably sees the factor of the establishment, development and the real social power of the instruments and practice of social democracy. It can freely be said that there is a direct proportion between the success of the social reforms that are assumed by the transition process and the establishment of the concept and practice of social democracy. It can thus be said that socially responsible business and the corporate culture have been important pillars of successful transition countries’ development strategies.

The establishment of the concept and practice of social democracy has encountered the following groups of obstacles:

⁵ Z. Čupić, *Proces tranzicije u Centralnoj Evropi – prva etapa*, Institut za međunarodnu politiku i ekonomiju, Beograd, 1997

- Obstacles caused by economic and technological lag and a low standard and quality of living of the populace;
- Obstacles caused by limitations of human resources, related to the level of general and professional education that fits the demands of new technologies and the present age as a whole, as well as to the value system;
- Obstacles of a theoretical and ideological nature.

At the very beginning, the theoretical concept in the establishment of the practice of social democracy was faced with its own Scylla and Charybdis, in the form of so-called shock therapy and the neoliberal concept of ordering society's economic life. Today, two decades after the fall of the Berlin Wall, it is doubtless that the theory and strategy of "shock therapy" was based on unrealistic estimates regarding the duration and the very course of transition, as well as its social price. The very fact that transition is still ongoing and that estimates of its ultimate duration are a thankless and uncertain task confirms this in the most emphatic way. However, it is indisputable that the theory of "shock therapy" has brought great damage to the overall course of reforms everywhere it has been applied, before all because it neglects or totally overlooks the key actor of the process – man, through whose individual life the entire meaning, course and results of social reforms are refracted and evaluated. Truth be told, the authors of "shock therapy" renounced their own deed very quickly. That, however, did not erase the damage that had been done.

The theory and the striving to establish the domination of the neoliberal concept, not just in transition countries but throughout the world, have been a constant. Ultimately, "shock therapy" is nothing other than the most radical and cruelest variety of neoliberalism, which did not last for long on the political and economic scene precisely because of the dire effects it had produced. It should also be born in mind that "shock therapy" and neoliberalism are the antipodes of socially responsible business and corporate culture. This stems from the fact that social democracy, as a preventive to industrial and social conflicts, assumes the responsibility of all social actors for an equal and stable economic and technological development of society, based on an optimal linking of honorable and equal market competition and the principles of social justice and solidarity. The neoliberal concept actually opposes the principles of social justice and solidarity, in the name of the unlimited freedom of market competition.⁶

On the other hand, it is obvious that today's economically and technologically most developed countries of Europe and the world did not build their success on the neoliberal concept. Insistence on exclusively free market competition under the existing conditions of extreme differences in the degree of individual countries' and world regions' economic and technological development resembles a game in which the winner is known in advance, precisely because the game

⁶ G. Fajertag, P. Pochet, *Social pacts in Europe – new dynamics*, ETUI, Brussels, 2000

is being played under unequal and, by extension, unsportsmanlike and dishonorable conditions. Finally, the concept and practice of the EU clearly embody the view that, under conditions of large differences, economic life cannot be left to the market alone, as testified by the strategy and the generous funds that secure equal regional development and a gradual reduction of differences individual EU countries' degree of development.

As well, the key role, especially in the first, the most complex and the most conflict-ridden phases of transition, was played by the state, which adopted and implemented the laws and the economic and social policy measures. In other words, in both developed and transition countries, it is not the large role and influence of the state in society's economic life that is disputable but the content and the character of that role. It is also a fact that the states that played their role successfully in the transition process, creating a favorable social environment for stable economic and technological development, largely founded that role on the principles of social democracy, and built such relations with the other two social partners – the labor unions and employers' organizations.

In transition countries, social democracy is both a goal and a means. This is conditioned upon the specificity of the social conditions in which the concept and practice of social democracy are being established. The numerous limitations faced by economic and social reforms in transition countries require the engagement of all available social forces in overcoming these limitations and hardships, as well as a consensus among all relevant social forces regarding the paths of necessary and unavoidable reforms. That is one of the foundations of social democracy. In that sense, as a foundation of industrial and social peace, social democracy represents a goal that should be achieved by the social partners – the state, the employers and the labor unions – so that the goals of economic, social and societal reforms can be reached in an optimal way. On the other hand, in its essence, in the long term, social democracy represents a means, i.e., an efficient set of instruments, which allows the integration of society's creative forces in the achievement of democratically defined and generally accepted goals and of society's strategy of development.

However, especially in the initial phases, transition countries lack the instruments and mechanisms on which responsible business and the corporate culture as the pillar of these mechanisms and instruments are founded. For this reason, transition countries are forced to concomitantly build mechanisms and instruments of socially responsible business, affirm its moral values and achieve concrete goals of economic and social reforms. In essence, in the first phases of transition, the weight of political battle in these countries is shifted into the area of establishing legal and political mechanisms, i.e., rules of the game, which will, in the long term, either stimulate, slow or prevent the establishment of socially responsible business and a corporate culture.⁷

⁷ B. Lubarda, *Evropsko radno pravo*, CID, Podgorica, 2004

The point is that social democracy is one of the results of the overall changes in the social environment of the economically and technically developed countries as well as the transition countries. It is clear that social democracy cannot be established in the full sense of the word and in its full capacity if the society in question has not sufficiently developed all the necessary components (rule of law, democracy, democratic institutions, human liberties and rights, freedom of organization for workers and employees, etc.). In other words, social democracy cannot be established formally, by law, although laws can wield an important influence on the objective radius of socially responsible business. On the contrary, social democracy is a real social process, in which numerous actors take part in a synchronized way and must possess the adequate capacity, the minimum mutual confidence and an awareness regarding the undoubted and absolute advantages of social and industrial peace – and, before all, to put it in terms of modern parlance, the “political will” for the creation and development of these processes. For this reason, the attitude towards socially responsible business in each society also represents an indicator of the degree to which its numerous components are developed – which are, at the same time, the key components of society’s overall democratic development.

Viewed from the standpoint of global movements, as well as from transition countries’ experiences, the intertwined relations of industrial and social peace, on the one hand, and of industrial and social conflicts, on the other, Serbia’s experience has been dominated by conflicts, while the process of establishing integral, systematic mechanisms and practices of social peace has been more-or-less marginalized. The entire transition process in Serbia has been extremely conflict-ridden – including the most radical forms of conflicts that Serbian society has faced in the past two decades or so – as well as slowed down and, in certain periods, forcibly disrupted. For this reason, in many respects, Serbia is still at the starting gate, which the successful transition countries have long since left.⁸ Even today, Serbian society continues to be exceptionally conflict-ridden and divided, as industrial and social conflicts irrationally and needlessly waste a huge amount of the social energy that is, otherwise, very much needed for a more successful and efficient achievement of the goals of economic and social reforms. Even more dangerous than the direct harm is the indirect harm that is being inflicted – permanent political and social instability and the loss of hope and motivation on the part of most citizens. In other words, we are still awaiting the establishment of a favorable and motivating social environment for the establishment and development of social democracy.

Differently from other, successful transition countries, no minimum national social consensus regarding the strategy, paths of achievement and social price of transition has ever been reached in Serbia. On the contrary, the social price

⁸ D. Šuković, “Globalizacija i siromaštvo” in: *Globalizacija i tranzicija*, Institute for Social Sciences: Center for Economic Research and Friedrich-Ebert-Stiftung, Belgrade, 2001

of transition and its distribution to individual social layers has been, from the beginning as well as at present, the key object of industrial and social conflicts, regardless of the masking of various ideological and political forms. The very fact that the ruling elites have not succeeded in building at least a key, generally acceptable determinants of this society's development strategy has slowed and obstructed the flow of transition in manifold ways, thus reducing its already modest results. It should also be born in mind that the reaching of such a consensus in all countries, both developed and transition ones, represented the first test of social actors' ability to build socially responsible business. At the same time, the entire social price of transition has been shifted onto the already impoverished working-producing layers of society. This social price of transition has become unbearable for many, thus, on the basis of the feedback principle, further magnifying the conflictual nature of society. The social structure is radically changing, and society is being divided into a minority of the exceptionally rich and privileged and the majority of the more or less poor. The increasing material and social segmentation stands, in fact, as testimony of an ever-stronger and conspicuous establishment of discrimination. The most dangerous thing in all this is the creation of a psychology of poverty as the evil and inevitable fate of the majority, which is destroying the basic values of civil society, i.e., of the free citizen as its foundation. All of the above leads to a single conclusion – the further deepening of industrial and social conflicts would lead to Serbia's further economic, political, social and human exhaustion, wasting its material, social and moral substance. In other words, the establishment of social peace is a question of Serbia's survival and future, while various social actors' positions regarding this issue are a litmus paper of their capacity and responsibility. One of these actors, whose immediate task is the prevention and peaceful settlement of industrial and social conflicts, is the Agency for Peaceful Settlement of Labor Disputes. Without negating, before all, the significance of its establishment and the tendency of the constant growth of its capacities, efficiency and social reputation, it must be born in mind that the Agency is functioning in a specific social environment, which greatly influences the objective scope of its activity. This means that the role of the Agency must be analyzed in the context of the real functioning of all the instruments of social democracy, the legal framework and the overall social environment.

The Law on the Agency for Peaceful Settlement of Labor Disputes is especially significant in analyzing the legal foundation of democratic industrial relations in Serbia from the standpoint of the relation between conflictual and peaceful methods of settling labor disputes. This law is of strategic, even historical importance, as it has established, for the first time in the history of Serbia, an institution specialized for dealing with the peaceful settlement of labor disputes. The Law defines the Agency's role and the way of its realization, the content of the Agency's work, the bases of its organization, responsibility, the public nature

of its work, its relations with social partners. What is noticeable is that the Agency's competence is limited to certain kinds of labor disputes. This has "tied its hands" and prevents it from contributing even more to the peaceful settlement of labor disputes and the affirmation of the overall advantages of social peace. In following the Agency's work and development, it can be said that it has, over a short period of time, through its capacities and the effects of its work, acquired a high reputation and trust among social actors, surpassing the boundaries to the content of its work that have been set by the Law. These limitations have been partially removed through recent changes in the Law, by which the Agency's competence has been broadened to include one of the most complex and most conflictual issues of current industrial relations – the question of mobbing. This, of course, requires a further advancement of all the Agency's work parameters, which the Agency objectively cannot accomplish alone, without support from the state and social partners as a whole. Of course, this would assume that the legal framework of the Agency's activities is always seen in the context of overall labor and socially-related legislation.⁹

Industrial relations draw their legal basis from Serbia's labor and social legislation. The legal solutions are often contradictory, while the legal norms are to be found in various laws, such as the Law on Labor, Law on Strikes, Law on Pension Insurance, Law on Peaceful Settlement of Labor Disputes, etc. There is a need to regulate with a separate Labor Code (a legal act), with the consent of all the actors of the social dialogue, a framework of rules and principles on the basis of which social dialogue would be founded and the system of collective bargaining, social dialogue, and peaceful settlement of labor disputes, i.e., social democracy as a whole, would function. Such a normative need can serve as an important step toward a systematic ordering of industrial relations and social dialogue; however, without the complete construction of institutional forms of functioning of all social groups that represent the actors of industrial relations and participants in the social dialogue, it will not be sufficient for establishing an efficient and democratic system of collective bargaining and social dialogue. This would also be the way to objectively strengthen both the legal and the actual position of the Agency for Peaceful Settlement of Labor Disputes. Of course, that is not possible without a parallel real development and strengthening of mechanisms of social democracy.

4. Social practice regarding peaceful and conflictual settlement of labor disputes

By their nature, industrial relations and, thus, both the aspects of these relations – industrial and social peace and industrial and social conflicts, are living, dynamic, developmental matter, one of the most contradictory areas of social

⁹ Ž. Kulić, *Industrijski odnosi*, Megatrend univerzitet, Beograd, 2005

life. In that sense, all theoretical considerations in the area of industrial relations require the verification of social practice, i.e., the ability of scholarly and professional knowledge to face the facts of life. Thus the decision to devote a separate section of this text, in the form of smaller case studies, to analyses of characteristic experiences from individual strikes, and of processes of peaceful settlement of labor disputes, whose carrier was the Agency for Peaceful Settlement of Labor Disputes. On the basis of the said decision, this section will be devoted to analyses of the cases that follow.

4.1. The judicial administration strike of 2007

This is a strike that strongly shook not just labor union and judicial circles, but the overall public scene in 2007. Essentially, this was the first strong, radical, industrial action of employees in this socially neglected and overlooked field. The judicial administration strike was essentially a blockade of the entire judicial system. The main reason for the strike was employee dissatisfaction with their material position, including the fact that certain categories of judicial administration employees were receiving salaries below the lawful minimum, as well as overall inadequate work conditions. The Proclamation issued by the judicial administration employee union, calling on its membership and all employees to protest, went as follows:

ASSOCIATION OF INDEPENDENT TRADE UNIONS OF SERBIA

TRADE UNION OF JUDICIARY EMPLOYEES OF SERBIA

– Republic Committee –

PROTEST PROCLAMATION

Respected members,

Despite the uncompromising persistence and daily efforts on the part of representatives of the Trade Union of Judiciary Employees of Serbia, the Government of Serbia has not shown an ounce of understanding for the material catastrophe that has befallen judiciary employees. Namely, the salaries of judicial administration employees are more than humiliating, and are jeopardizing their very existence, as well as damaging interpersonal relations. On September 5, 2007, we organized a workday in front of the Government of Serbia in order to express our dissatisfaction with that. However, the just demands of the employees have yet to be met.

At the same time, we once again sent the letter with our demands and an announcement of an employee strike, where we warned the justice minister that such low salaries are jeopardizing the lives of employees and that, due to the volume, complexity and responsibility of the jobs they are doing, i.e., due to the work burden in the judiciary, they are not able to engage in additional work.

In connection with this, we hereby inform you that we have scheduled a general protest for October 30, 2007, with the gathering beginning in front of the Trade Union Building on Nikola Pašić Square at 11 o'clock, and a protest walk down the streets of Belgrade, passing by the National Assembly of Serbia, to the Government of Serbia building.

If you are dissatisfied, we invite you to answer this call, because it is not honorable to forsake the Trade Union, whose members you are as well. The Trade Union is made up of all its members and it is the duty of each member to come and fight for his portion. We have come to realize that a salary, no matter how big, is not sufficient to ensure personal courage, but such an unacceptably low one is compelling us to fight in order to restore our human, somewhere lost, dignity.

ANSWER THE CALL AND FIGHT!¹⁰

TRADE UNION PRESIDENT

SLAVICA ŽIVANOVIĆ

Since the leadership of the Trade Union of Judiciary Employees, which was at the same time the protest leadership, concluded that the above protest gathering and protest walk did not bear fruit, i.e., did not bring the desired result, it was

¹⁰ Documentation of the Trade Union of Judiciary Employees of Serbia, Belgrade, 2010

decided that the protest should be radicalized, and all employees were called to a general strike, about which the following was said in the relevant document:

*Minutes from the Extraordinary Session of the Republic Committee
of the Judiciary Trade Union of Serbia
held on Oct. 30, 2007*

Considering that employee dissatisfaction culminated at the public protest of judiciary employees of Serbia, held in front of the Government of the Republic of Serbia, and that it was proposed at that time by public acclamation that no quarter must be given until demands are met, the Judiciary Trade Union of Serbia is hereby bringing a

DECISION

For a TOTAL WORK STOPPAGE beginning with November 5, 2007, in all the judiciary organs of Serbia, beginning at 8:00 A.M., with employees coming to work and gathering in the hall of the building at the entry to the judiciary premises.

The demands are the following:

- *100% increase of salaries for the lowest employee categories,*
- *signing of a collective agreement,*
- *exempting the judicial administration from the Law on State Employee and Appointee Salaries.*

The strike committee, which represents employee interests and is leading the announced work stoppage on their behalf, is made up of all the members of the Republic Committee of the Judiciary Trade Union of Serbia.

Fulfillment of the demands will mean an automatic stoppage of this decision.¹¹

Unsuccessful negotiations with the Justice Ministry and the Government of Serbia led to a further radicalization of the strike, which can be seen from the following decision of the trade union Republic Committee:

DECISION

To, beginning with November 16, 2007, radicalize the work stoppage in all judiciary organs in Serbia in a unified manner and totally.

Note:

1. *Work is to be continued on prison cases, temporary measures, cases of family violence and arrest orders.*
2. *Threats to employees by invoking the Law on strikes are without base.*

¹¹ Documentation of the Trade Union of Judiciary Employees of Serbia, Belgrade, 2010

This is the Law of 1996, from a non-existent state [the former State Union of Serbia and Montenegro, and the Federal Republic of Yugoslavia before that – trans. note], after whose breakup laws were automatically transferred to the competence of the republic. The Constitutional Court of Serbia has not yet issued an opinion on its constitutionality. Thus, as per Art. 61 of the new Constitution, there is no legal basis for the threats.

3. The threats are merely an attempt to break up our unity and persistence, as well as proof that the employer, the Government, does not know how to solve the problem of the blockade of judicial organs.

4. Bravely, principledly, until our demands are met.¹²

Testimony to the radicalization of the conflict was also the fact that it shifted into the media space, i.e., the efforts of both the Justice Ministry and the Trade Union to gain public opinion support. This is readily apparent in the letter of the Trade Union strike committee sent to the media, in which, among other things, the following was said:

TO THE ELECTRONIC AND THE PRINT MEDIA

We respectfully ask that you broadcast or publish this announcement, so that citizens may be informed in a timely manner.

Since the judiciary administration has been protesting since September 5, 2007, and since no agreement has been reached so far with competent persons in the Government of Serbia regarding the resolution of the submitted demands, due to its prolonged humiliating material state, which is the only thing that does not expire, the administration will begin a total work stoppage on Monday, November 5, 2007.

It is true that the Serbian judiciary is slow and inefficient, but that is not a consequence of a lack of work on the part of the judiciary administration. Therefore, it is justified to ask why the Government of Serbia is punishing the administration, which is carrying out its tasks exclusively upon orders of carriers of judiciary functions. We especially emphasize that employee salaries range between 9,200 and 19,000 dinars per month, including hot meals and reimbursement, which means that the net salary in administration is between 1,700 and 10,500 dinars. Does the Government dare confirm and publicize this fact, since the lawful minimum wage on the territory of Serbia is 11,160 dinars – net?

At the same time, we appeal for understanding and apologize to the citizens in advance!¹³

¹² Documentation of the Trade Union of Judiciary Employees of Serbia, Belgrade, 2010

¹³ Documentation of the Trade Union of Judiciary Employees of Serbia, Belgrade, 2010

The strike ended with an agreement in which both sides withdrew a part of their initial demands, i.e., accepted the solution that was reasonable at that time and acceptable for both sides. That can be seen from the text of the Protocol on ending the strike:

On November 20, 2007, the Ministry of Justice and the Ministry of Finance of the Republic of Serbia, on one side, and the Trade Union of Judiciary Employees of Serbia and the Trade Union of Judiciary Organizations of the Republic of Serbia, on the other, have concluded the following:

PROTOCOL

1. A Program will be offered for state employees and appointees in the judiciary for solving the problem of excess employees ("social program" in further text) for at least 2000 persons. Towards that end, employees will be offered severance pay under the same conditions as those offered to employees in education and healthcare.

The deadline for program realization is December 31, 2007.

2. In the course of 2008, beginning in February of that year, for purposes of reducing the salary funds on the basis of reducing the number of state employees and appointees in the judiciary, monetary payments will be disbursed in the form of stimulation for achieved work results according to a model that will be determined in agreement with trade union representatives.

The deadline for creating a model of stimulation payment disbursement is end of November, 2007.

3. Towards the goal of realizing the social program in the judiciary, two one-time payments will be made, in the amounts of:

- 5,000,000 dinars upon starting social program realization in December 2007, and*
- 5,000,000 dinars upon completing social program realization in January 2008.¹⁴*

4.2. Collective labor dispute with the Public Utilities Trade Union of Novi Sad, January 2010

The subject of the collective labor dispute between the Trade Union of Public Utility Employees of Novi Sad and the Novi Sad City Assembly were provisions of the collective agreement related to employee salaries and other material rights. It was preceded by a dispute stemming from the fact that the employer – the Novi Sad City Assembly – disputed the legitimacy of the trade union representatives that initiated the union action. However, that dispute was resolved,

¹⁴ Documentation of the Trade Union of Judiciary Employees of Serbia, Belgrade, 2010

so the actors concentrated on the issue of salaries, i.e., the way they were regulated in the collective agreement. Again, two things were confirmed in this case. First, the rule that, in a great number of cases, the disputes that are taken up before the Agency are a result or, better said, a consequence of an unsuccessful or insufficiently efficient collective bargaining process, which once again reaffirms the need to improve the collective bargaining system as a whole, as well as to strengthen the Agency's role in that process. Second, this case also reaffirmed the practice by which collective bargaining mostly or exclusively concentrates on issues of employee salaries and material rights. Without disputing the importance of these questions, it must be said that such practice is in the greatest measure a consequence of economic crisis and the worsening positions of both employees and employers, and that, as a whole, it has an unfavorable effect on the very essence of the collective bargaining process, which must have a much broader significance. The essence of these employee demands is given in detail in their correspondence to the employer – the Novi Sad City Assembly, where, among other things, the following is written:¹⁵

Trade Union of Employees in Public Utilities and Housing Services of Novi Sad

Number: 11-2

Novi Sad, January 18, 2010

*TO THE AGENCY FOR PEACEFUL SETTLEMENT OF LABOR DISPUTES
Belgrade
Omladinskih brigada 1*

Subject: Elaboration of the proposal for peaceful settlement of labor dispute

Together with the proposal of the Trade Union of Employees in Public Utilities and Housing Services of Novi Sad for peaceful settlement of a labor dispute, we hereby send the following elaboration of the dispute.

After months of disputing the legitimacy and legality of the Trade Union of Employees in Public Utilities and Housing Services of Novi Sad and their representatives (with which the Agency has been acquainted, the events of August-September 2009), upon submission of indisputable evidence, negotiations between the City and the Trade Union regarding the cancelled provisions of the Special Collective Agreement were continued. Several meetings were held (October, November, December 2009), at which the majority of the disputed articles were agreed upon. However, the most important ones, articles 27, 28, 55 and 58 of the Special Collective Agreement (price of work, coefficients for the lowest categories of workers, protection of older employees and severance pay for excess employees) were not agreed upon. In fact, it would be better to say that they were not even considered

¹⁵ Documentation of the Association of Independent Trade Unions of Vojvodina

by the City. During negotiations it was constantly emphasized that the City must deduct 10% from all companies' total salary mass for 2010, in order to compensate for the budget deficit. Upon request from the Trade Union to explain how that was possible to carry out, the reply was that a way would be found. The Managing Boards were ordered to produce Business Plans for 2010, in which the salary funds for 2010 would be reduced by 10 or more percent. The Managing Boards' sessions were held by way of telephone, without consulting the trade unions and submitting these Programs for consideration, which they were obliged to do according to the Collective Agreement.

The business plans of the Public Utility Companies (PUC) and Public Enterprises (PE) were adopted by the Novi Sad City Assembly on December 28, 2009, whereby the total mass of employee salary funds was reduced by 10%. However, the salary mass was also corrected through a rebalance of the Program for 2009, which meant that in some of the enterprises the salary fund mass would be reduced by as much as 26%. Employee dissatisfaction reached its culmination and a decision to begin a strike was made, by 14 of the 16 committees of Novi Sad PUC and PE Trade Unions. The strike was set to begin on January 18 at 8 o'clock. A demand was immediately submitted to the City and the employers to define the minimum work process in the companies. The City did not meet its obligation under Article 10, par. 2 of the Law on Strikes, and did not make a decision on the minimum work process, or submit it to the Trade Union for consideration. Some of the employers did make these decisions, but in the maximum set amount (in some cases up to 87%), even though these are not activities in which strikes would jeopardize the safety of persons, property, human health, or cause major property damage as per Article 9 of the Law on Strikes. Based on the above, it can be concluded that those employed in public utilities and other public enterprises in the city of Novi Sad were denied their constitutional right to strike, even though the decision to strike also included confirmation that the Trade Union would respect the defined minimum work process. On January 15, 2010, in the offices of the Work Inspection for the Južnobački district, with the presence of the head of Work Inspection, a meeting was held between representatives of the City and the Trade Union. The Work Inspection ordered the City representatives (members of the Novi Sad City Assembly) to urgently make a decision on the minimum work process for the Novi Sad public utilities, adding that it is their obligation to initiate a process for peaceful settlement of the labor dispute with the Agency. Instead of this, on the evening of January 15, 2010, the City Assembly adopted a Conclusion by which directors were ordered to undertake measures from Article 16 of the Law on Strikes, i.e., measures from the competence of state, rather than local authorities.

In the course of negotiations conducted between the City and the Trade Union, the latter pointed out several times that the salaries of PUC and PE employees were already frozen, and that they had been maintained at the same level for a full 5 years, by a decision of the Government of Serbia. However, the City reduced

salaries in two different ways during 2010. This was done, firstly, through the non-rational employment of political party members, who as a rule receive high salaries and are, thus, using up already limited available resources and, secondly, all employee salaries were reduced by 10 or more percent in order to cover budget shortfalls. This most affected the employees with the lowest salaries, who, as a rule, depend on those salaries alone for their livelihoods.

The denial of the legitimacy of elected representatives (submitted to the Agency by the City) represents yet another attempt to avoid a solution and negotiations, in accordance with the already tried scenario from last summer. Namely, in accordance with the decisions of the Association of Independent Trade Unions, the Trade Union of Employees in Public Utilities and Housing Services of Vojvodina and Novi Sad, elections were held in the PUC and PE of Novi Sad for presidents and members of the management and supervisory boards of all the trade unions in the period from October 1, 2009 to December 15, 2009. In accordance with Article 208 of the Labor Law, all the employers were informed about the completed elections within 8 days, as well as about the persons elected to the said functions (president and members of the management and supervisory boards). Finally, in accordance with the Statute, the Third Elective Conference of the Trade Union of Employees in Public Utilities and Housing Services in Novi Sad was held, the City Council constituted and the Labor Union president elected on January 12, 2010. Requests for the entry of authorized persons into the register were submitted on time to the Ministry of Labor and Social Policy, and their registration is being awaited, although this is not realistic before February-March 2010, due to the elections held on the territory of the entire Republic and the number of submitted requests. We would simply like to note that the elected persons are fully legal and legitimate representatives of the employees in their enterprises even without being registered, as they have been elected by their members. We consider that entry into the register of the Ministry does not have a constitutive but only an evidentiary character.¹⁶

This example is characteristic in that both the sides in the dispute accepted the inclusion of the Agency in the settlement of disputed issues and responsibly set upon a search for joint, mutually acceptable solutions. The course of peaceful settlement of the dispute, which included joint sessions of the disputing sides, as well as contacts between the reconciliators and the highest officials of the Novi Sad City Assembly, testified to the demanding and complex quality of this work, as well as affirmed the high level of demands being placed before all the participants in the dispute. Evidence that this is a very complex, responsible task, founded on tolerance and respect for ethical principles, is provided in the following Minutes of the reconciliation process:

¹⁶ Documentation of the Trade Union of Public Utility Employees, Novi Sad, 2010

MINUTES

Of discussions held in the process of peaceful settlement of a collective labor dispute

In the course of the process of peaceful settlement of the collective labor dispute between the Trade Union of Employees in Public Utilities and Housing Services of Novi Sad ("Trade Union" in further text) and the City of Novi Sad ("Employer" in further text), which came about in relation to the negotiations being conducted for the purposes of concluding a collective agreement on amendments and supplements to the partially revoked Special Collective Agreement for Public Utilities and other Public Enterprises of the City of Novi Sad ("Official Gazette of the City of Novi Sad," no. 13/2008), three discussions were held, along with a separate conversation with Igor Pavličić, mayor of Novi Sad.

The first discussion regarding the settlement of the said dispute was held on February 3, 2010, from 11:00 to 13:30, in the offices of the Organization of Reserve Military Officers of the City of Novi Sad, at Pozorišni trg no. 2, in Novi Sad. The discussion was opened and run by Živko Kulić, reconciliator and president of the Reconciliation Committee.

In addition to members of the Reconciliation Committee: Živko Kulić, reconciliator, Zoran Radosavljević, Trade Union representative, and Milan Đurić, Employer representative, the discussion was also attended by representatives of the disputing parties:

a) on the side of the Trade Union – Frček Dragan, Milorad Kotur, Ljubomir Popović, Vladimir Plavšić, Andrić Velizar, Slobodan Stojnić, and others;

b) on the side of the Employer – Vitomir Vučković, Milan Radovanović, Zora Dorđević, Slavka Dulović, Živko Makarić, Vladislava Turčinović, and others.

The discussion lasted for two and a half hours, with the participation of a number of representatives of both sides in the dispute. It was concluded that there remained three disputed issues between them. One was related to the possibility of reducing employee salaries in case of the company's poor business results, the second to the director's "right" to increase the salaries of a circle of his associates by a certain percentage, and the third to the size of severance pay per year of employment for employees who will be declared as excess. During the discussion, each side maintained its previous statements and views. In such a situation, it was not possible to end the procedure and make a recommendation, which is why it was agreed to subsequently schedule a new discussion, in order to gain additional time for an eventual convergence of views of the sides in the dispute.

The second discussion was held on February 22, 2010, in the same offices as the first, lasting from 11:00 to 13:30. Besides the Reconciliation Committee members, practically the same representatives of the disputing sides took part as in the first discussion.

The discussion revealed that nothing of significance had changed in the meantime. Each side continued to adhere to its previous views and facts, although new justifications or challenges to them were offered. As a result, it was decided to hold one more discussion, where additional efforts would be invested in finding compromise solutions for overcoming the disputed issues.

In the meantime, on March 1, 2010, in the role of reconciler, Prof. Živko Kulić held talks with Igor Pavličić, mayor of Novi Sad. The talks were held in Novi Sad, in the presence of Milan Đukić, member of the Reconciliation Committee, and Vitomir Vučković, representative of the employer's side in the process of peaceful settlement of the said dispute. At that time, they agreed for the process of peaceful settlement of the dispute to continue, so that compromise, mutually acceptable solutions could also be reached for the remaining disputed issues.

The third and final discussion was held on March 16, 2010, from 11:00 to 13:00, in the same offices as the previous two. Once again, in addition to the Reconciliation Committee members, the meeting was attended mainly by the same representatives of the disputing sides as in the previous two cases.

During the discussion, the circumstances that had led to the appearance of the disputed issues were explained once again. At the same time, it was pointed out that a peaceful outcome of the process was in the interest of both sides in the dispute, and that there are solutions that could be acceptable to both.

At 13:00, the reconciler concluded the discussion, thus practically ending the reconciliation process in this case. After everything, in accordance with the previously concluded agreement, the members of the Reconciliation Committee proceeded to try and harmonize their views, in order to make a recommendation on the settling of the said dispute.¹⁷

The responsible approach of the social partners-participants in the dispute, who have demonstrated that they favor a peaceful settlement of the disputed issues, as well as the well-chosen strategy of the reconciler, produced a positive result, the adoption of the Recommendation regarding the way of settlement of the collective labor dispute:

On the basis of Article 24 of the Law on Peaceful Settlement of Labor Disputes ("Official Gazette of the RS," no. 125/2004 and 104/2009), the Reconciliation Com-

¹⁷ Documentation of the Trade Union of Public Utility Employees of Novi Sad, 2010.

mittee, in the process of peaceful settlement of the collective labor dispute between the City of Novi Sad and the Trade Union of Employees in Public Utilities and Housing Services of Novi Sad, for the purposes of concluding a collective agreement on amendments and supplements to the partially revoked Special Collective Agreement for Public Utilities and Other Public Enterprises of the City of Novi Sad ("Official Gazette of the City of Novi Sad," no. 13/2008 – "Special Collective Agreement" in further text), upon completion of the process of reconciliation and of the determination of the facts, hereby adopts a

RECOMMENDATION

Concerning the way of settling the collective labor dispute

1. *It is recommended that the sides in the dispute resolve the issues in dispute, which came about in the collective bargaining process being conducted for the purposes of concluding a collective agreement on amendments and supplements to the partially revoked Special Collective Agreement, in the following way.*

"Article 27 shall be supplemented by a new paragraph, as follows:

Exceptionally, when the employer, due to insufficient planned funds, is not able to secure payment of salaries by applying the price of work that was set by the company's plan and program for the said year, the price of work for the simplest work will be set in such a way so that the total mass of available funds for payment of salaries for the month for which the accounting is made, minus the amount of compensation for hot meals and vacation reimbursement, shall be divided by the total sum of coefficients for all employees, concerning which the employer and the trade union shall conclude an agreement."

2. *Also, the sides in the dispute are advised to continue in good faith the negotiations on setting the severance pay level for all employees whose work is no longer needed, due to technological, economic or organizational changes and, if possible, conclude them by the end of March 2010, whereby the severance pay for years of employment spent in another company not founded by the City of Novi Sad shall be calculated in accordance with the law and other pertinent regulations.*

Explanation

The procedure for peaceful settlement of the dispute in question was initiated upon the proposal of the Trade Union of Employees in Public Utilities and Housing Services of Novi Sad. The other side in the dispute agreed to the proposal to attempt to settle the disputed issues peacefully, in accordance with the Law on Peaceful Settlement of Labor Disputes. The procedure of peaceful dispute resolution was conducted and concluded in accordance with the ascertained facts and the rules regulated by that law.

*Due to the above reasons, the Reconciliation Committee has adopted such a recommendation.*¹⁸

5. Concluding considerations

In analyzing the contents, basic knowledge, facts and views presented in this study, i.e., the various aspects of industrial relations, the essential message or conclusion that can be drawn is – that social peace possesses immeasurable comparative advantages relative to industrial and social conflicts, that social peace is immeasurably cheaper politically, economically, socially and morally than industrial and social conflicts, and that the construction of social peace is a key question of the strategy and future of the world in which we live. Social peace is especially significant for transition countries, on the basis of whose experience, including Serbia's, a direct proportion can be observed between the success of transition, i.e., the social reforms that it assumes, and social peace, i.e., a society's degree of conflictualness.

Namely, in order to affirm the view on the advantages of industrial and social peace over industrial and social conflict, it is quite sufficient to invoke the aid of the history of industrial relations as a whole, from the first steps in the industrial, market way of production, which through force of fact reveals itself to be also a process of movement from industrial and social conflicts toward industrial and social peace, whereby the actors of industrial relations arrived through practice, i.e., by facing the facts of life, to the realization of the advantages and civilizational meaning and values of social peace and, on that basis, invested increasing joint efforts into constructing and securing an efficient, integral and systemic functioning of the instruments of social peace. In truth, such an experience has also been confirmed, in a more turbulent, contradictory process, by all the transition countries. Serbia's experience also represents an affirmation in that regard, unfortunately through the constant presence and extremely high price of industrial and social conflicts, for which Serbian society has been paying and continues to pay.

From this it follows that the structure of disputes with which the Agency for Peaceful Settlement of Labor Disputes has been dealing should be viewed much more broadly, as an indicator of the overall state of industrial relations, as well as of the prospects of industrial and social peace in society as a whole. An analysis of the state of both the interconnected and interdependent aspects of industrial relations – industrial and social peace, on the one hand, and industrial and social conflicts, on the other – shows a mutual connectedness and conditionality, before all on the plane of commonsense logic, in the sense that we are talking about a space in an area of society's social and economic life, which at

¹⁸ Documentation of the Trade Union of Public Utility Employees of Novi Sad, 2010.

the same time comprises conflicts and social peace. That means that social peace and social conflicts are fighting for the same space, i.e., the more conflicts there are, the less social peace we have. However, we are not talking about a simple mechanical division of space, because each industrial and social conflict greatly reduces the space and devalues strivings for social peace.¹⁹ This disproportionate relationship between social and industrial peace and industrial and social conflicts reflects especially on the position, social role and real social power of the Agency for Peaceful Settlement of Labor Disputes. In that sense, we can apply to the Agency's overall role in industrial relations the folk saying: "Whoever doesn't pay on the bridge, will pay on the bridgeworks." Namely, experiences gained thus far, as well as analysis of the Agency's work contents since its inception, confirm that the key problems of industrial relations, as well as all social partners' real capacities to solve these problems, are being manifested through the Agency's work contents. At the same time, by using the same criteria, we can observe key, systemic limitations that prevent the Agency from working more efficiently. In other words, all the advantages and achieved results in the process of establishing and developing social democracy are having a positive and stimulative effect on the Agency's work while, on the other hand, all the problems and limitations on the plane of industrial relations are having a highly negative effect on its work. In that sense, the Agency can be defined as a sort of a bridge between industrial and social conflicts and industrial and social peace. In observing this bridge, on which peaceful and conflictual methods of labor dispute settlement are testing strengths, it is obvious that the state of the functioning of the mechanisms and the practice of social peace is far from what the complex conditions in Serbia require, as well as from the level of development of the mechanism of social peace in developed countries. On the other hand, conflictual methods of settling labor disputes, including the most radical ones such as strikes and public protests, are not proving to be particularly efficient. On the contrary, research in this field has confirmed a fall in the overall effectiveness of strikes and other radical methods of industrial action. In essence, there is still insufficiently utilized space for the development of mechanisms and practices of industrial and social peace and, in that context, for advancing the role and the function of the Agency.

¹⁹ R. Hase, H. Šnajder, K. Vajgelt, *Leksikon socijalne tržišne privrede*, Conrad Adenauer Foundation, Belgrade Office, 2005.

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LEGAL PROTECTION OF TAX COLLECTION AND TAX CONTROL IN SERBIA**

Summary

The behavior of tax debtors can occasionally jeopardize the tax collection process and disrupt the tax control procedure. That has a negative effect on government revenue collection and the functioning of bodies for compulsory social insurance. Jeopardizing tax collection and tax control has been defined as a criminal act in Serbia's tax legislation.

Key words: *tax collection, tax control, temporary measure, securing tax collection, Serbia*

JEL classification: H83, K42

1. Introduction

Collection and control represent important phases in the process of collecting taxes and other public revenues.

Tax collection represents the most frequently used method of settling tax debt, consisting of the collection of specific, mainly pecuniary assets from a tax debtor for the purposes of settling a tax claim. The collection of taxes and secondary tax obligations can be regular or forced. Regular collection is performed when the tax obligation comes due, when the tax debtor pays the due amount to the appropriate public revenue payment account. Forced collection is performed in accordance with the law, when the due tax obligation is not paid by the prescribed deadline. Coming due means that the deadline for tax payment has expired. Taxes and secondary tax obligations come due within a term regulated by law. Once the due date expires, the tax debtor becomes delinquent, after which the following ensues: 1) interest begins accruing on the amount due; 2) notice of outstanding debt is sent to the debtor; 3) the procedure of forced tax debt col-

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lection begins; and 4) a decision on the establishment of a pledge is brought (in certain cases).¹

Tax control is the procedure of checking and determining the legality and regularity of fulfillment of tax obligations, carried out by the Tax Administration, in accordance with the law. The subject of tax control is the tax debtor's activity in the domain of tax-legal relations, and his adherence to the law and other regulations. The Tax Administration performs a check of the completeness of reporting, regularity, accuracy and timeliness of the calculation and payment of taxes by categories, depending on the object of control, which is identified in the control order. It also checks the currency, accuracy and validity of accounting documents and other records, the regularity of keeping of books and other records, and the proper application of tax and tax-related regulations. Tax control has a threefold function: 1) preventive, 2) corrective and 3) repressive. Its preventive role is primarily demonstrated through stimulation of tax debtors to adhere to the laws and other regulations in order to avoid the consequences of probable discovery of omissions.² If tax control finds irregularities or omissions in the execution of responsibilities within tax-legal relations, the tax debtor is ordered to remedy them. This represents the corrective function of tax control. The repressive function of tax control is demonstrated through the discovery of tax crimes and violations, as well as through the undertaking of appropriate measures in connection with the discovered tax violations.

Serbian tax law qualifies obstruction of a tax organ from collecting a tax debt or performing tax control as a criminal act of jeopardizing tax collection and tax control.

2. Legal definition of the crime of jeopardizing tax collection and tax control

The crime of jeopardizing tax collection and tax control is regulated by the provision of Article 175 of the Tax Procedure and Tax Administration Act.³ The provision states the following:

“Whoever, in the intent to jeopardize the collection of tax not yet due or not assessed, but in regards to which the procedure for assessment or control has been initiated, that is, of tax assessed to him or another person, after the interim measure for securing collection has been established in accordance with the law, that, is, in the forced collection procedure, alienates, hides, damages, destroys

¹ M. Kulić, *Poresko procesno pravo*, Megatrend univerzitet, Beograd, 2007, p. 129.

² D. Popović, *Komentar Zakona o poreskom postupku i poreskoj administraciji*, Beograd, 2003, p. 180.

³ Zakon o poreskom postupku i poreskoj administraciji, “Službeni glasnik RS” (Tax Procedure and Tax Administration Act, “Official Gazette of the RS”), No. 80/02, 84/02, 23/03, 70/03, 55/04, 61/05, 85/05, 62/06, 63/06, 61/07, 20/09, 72/09, 53/10.

or renders unusable the object on which the interim measure for securing the collection has been established, that is the object subject to forced collection or tax control, shall be punished by imprisonment of up to one year and a fine.

Imprisonment from paragraph 1 of this Article shall also be pronounced to the person giving false data on facts relevant for conducting forced tax collection, that is, tax control.”

The provision from this article has a blanket character. It refers to fiscal regulations that must be violated in order to qualify as this particular criminal act. In order for the crime to exist, it is necessary to determine who has alienated, concealed, damaged, destroyed or rendered unusable the object on which the interim measure for securing the collection has been established, that is the object subject to forced collection or tax control, with the intent of jeopardizing collection of a tax that has not yet come due or that has not yet been assessed, but for which an assessment or control procedure has been initiated, or of a tax that has been assessed to him or another person.

A criminal act possesses both objective and subjective elements. Objective elements include the alienation, concealment, damage, destruction or rendering unusable of the object on which the interim measure for securing the collection has been established, that is the object subject to forced collection or tax control. The subjective element consists of the intent to jeopardize collection of a tax that has not yet come due or that has not yet been assessed, but for which an assessment or control procedure has been initiated, or of a tax that has been assessed to him or another person.

This criminal act has two forms, which differ only in regards to the perpetrator. The criminal act contains several constitutive features related to the object of criminal-legal protection, act of perpetration, effect, perpetrator, guilt and the objective condition of incrimination.

3. Object of the criminal act of jeopardizing tax collection and tax control

3.1. Protective object

1. The objects of criminal-legal protection with this criminal act are the state's right and fiscal interest to properly collect and control public revenues. Accompanying this state interest is the obligation of taxpayers to allow the tax organ to collect and control public revenues, and not to jeopardize collection and control. The content of these obligations is determined by non-criminal regulations, which gives this act a blanket character. In formulating this criminal act, the legislator used the term “tax.” However, in this case, taxes encompass all public revenues collected by the Tax Administration and local self-government

units:⁴ 1) taxes, 2) contributions for mandatory social insurance, 3) duties, 4) fees for use of goods of general interest and 5) self-contributions.

2. In order to secure the collection of tax that has not become due or has not been assessed, but for which assessment or control procedure has been initiated, and there is danger that the taxpayer may jeopardize or prevent its collection or render it ineffective, the Tax Administration may establish, by a ruling, interim measures for securing the collection. The ruling shall include a reasoning, stating why the Tax Administration finds that there is a danger from the taxpayer jeopardizing or preventing the collection of tax not yet due, and such a ruling shall become enforceable on the day it is served to the taxpayer. Interim measures are pledges on: 1) movables, 2) immovables, 3) pecuniary assets and 4) claims of the public revenue debtor. Interim measures last until the tax for the securing of which they have been imposed is collected or until such time when the taxpayer provides adequate security for the tax liability. Exceptionally, an interim measure of a ban on transfer of pecuniary assets via the taxpayer's account with a bank shall last until the moment the ruling on forced collection of tax from pecuniary assets on the taxpayer's account is served to the organization competent for forced collection.

The pledge can also be constituted before the forced collection of public revenues, that is, the Tax Administration can, immediately upon the tax debt coming due, enter the pledge in the pledge registers.

Forced collection is effected on: 1) the taxpayer's pecuniary assets – by transfer of assets from the taxpayer's accounts, including funds on his foreign currency account, to the public revenue payment account; 2) taxpayer's pecuniary claims – by transfer of claims to the public revenue payment account; 3) taxpayer's non-pecuniary claims – by ban, transfer of claim and inventory with valuation, seizure and sale of objects of claim; 4) cash and securities – by inventory and seizure; 5) movables – by seizure and sale; and 6) immovables – by seizure, establishing the start value and sale.

In order to secure a tax claim in forced collection a statutory pledge is constituted on the taxpayer's objects and/or property rights on behalf of the tax creditor, that is, in favor of the Republic of Serbia. The pledge lasts until the tax debt is settled or the tax ruling revoked.

In the procedure of establishing the pledge, the Tax Administration orders by a ruling: 1) an inventory of movable property; 2) an inventory of immovable property; 3) a ban on transfer of pecuniary assets via the taxpayer's account with a bank, except for tax purposes and enters the ban in the register of blocked accounts kept by the competent organization; 4) a prohibition on the taxpayer's debtors to pay cash debts to the taxpayer and enters the ban in the corresponding register; 5) a prohibition on the taxpayer's debtors to meet other obligations owed to the taxpayer and enters the ban in the register of movables. This decision is

⁴ Article 2 and 2a of the Tax Procedure and Tax Administration Act.

forwarded to the taxpayer and corresponding registers, the taxpayer's debtors and the bank. Once the inventory of movable and immovable property is completed, the Tax Administration orders the corresponding authority to enter the pledge in the register of movable and/or immovable property by a ruling. Together with the ruling, the Tax Administration attaches to the ruling the minutes on inventory of movable and immovable property. The ruling is entered, immediately after being served, in the register of pledges on movable property, immovable property and/or the register of blocked accounts with the competent authority, where date and precise time of receipt are registered. The ruling becomes enforceable on the day it is served to the taxpayer. The statutory pledge on behalf of the Republic of Serbia is constituted by entry in the corresponding register.⁵

In order to secure the collection of public revenues from the taxpayer's pecuniary funds after the commencement of forced collection procedure, the Tax Administration establishes, by a ruling, an interim measure of securing the collection of the tax claim. This interim measure is a ban for the taxpayer to settle his pecuniary obligations towards third parties by stipulating a change of creditors or debtors in an obligation relation (assignment, cession and the like), by set-off (compensation) or in another manner in accordance with the law. The Tax Administration ruling on establishing this interim measure becomes enforceable on the day it is served to the taxpayer. The ruling is forwarded to the organization competent for forced collection together with the enforceable Tax Administration ruling on forced collection of public revenues from the taxpayer's pecuniary assets. The organization competent for forced collection is under the obligation, immediately after being served the ruling, to enter it into the blocked account register under the date and precise time of its receipt. The interim measure is enforced in accordance with the provisions of the law governing payment operations that relate to forced collection from the client's account.

Forced collection from the taxpayer's non-pecuniary claims, when the claim entails surrender of objects or transfer of ownership right to the taxpayer, is effected on the basis of a Tax Administration ruling stipulating that the taxpayer's debtor is to surrender the owed object or immovable once such surrender becomes due, to the Tax Administration, and/or to transfer the ownership right to the Republic of Serbia. If the debtor fails to effect the payment once it becomes due, the Tax Administration effects forced collection from the taxpayer's debtor's non-pecuniary claim in accordance with the law. Once the Republic enters into possession of the objects or gains ownership over the objects, they are sold in accordance with the law. Forced collection from other non-pecuniary claims is effected in the same way. Forced collection of public revenues from cash is effected in accordance with the law. The Tax Administration forwards the ruling on forced collection from securities to the bank or other legal person keeping the securities, as well as to the taxpayer. The bank or another legal person keeping

⁵ Article 87 of the Tax Procedure and Tax Administration Act.

the securities forwards to the Tax Administration data on securities, including an estimate of their value within five days from receiving the ruling. The bank or other legal person are under the obligation to sell the securities under the best conditions on the market within the following eight days. The obtained price, minus the commission and cost of sale, is deposited to the Tax Administration account and the following day, at the latest, paid to the corresponding public revenue payment account.

3. In tax control procedure, the Tax Administration performs, in accordance with the law: 1) office control; 2) field control; 3) actions for the purpose of discovering tax crimes.

Office control is a set of actions used by the Tax Administration to check the accuracy, completeness and conformity with the law and other regulations of taxpayer data stated in the tax return, as well as in the tax balance, accounting statements and other taxpayer records, by comparison with tax accounting and other official records kept by or at the disposal of the Tax Administration. Office control is conducted by the tax inspector on Tax Administration premises, except for actions of control of receipt and processing of tax returns and other statements carried out by Tax Administration officials assigned to those tasks. Mathematical accuracy, formal accuracy and completeness of the tax return and other tax statements are verified in the procedure of office control, after which the taxpayer forwards them to the Tax Administration, in accordance with the law. If it is established, in the course of office control procedure, that there are irregularities in regards to data relevant for assessing the amount of tax liability, the tax inspector is obligated to make the minutes on control. On the basis of the minutes, the Tax Administration passes a ruling on determining the tax obligation.

Field control is a set of actions used by the Tax Administration to verify legality of work and regularity in fulfilment of tax liability by taxpayers. Field control is conducted by a tax inspector on the basis of a control order. In the course of field control the tax inspector also uses data collected in the process of the office control of reception and processing of the tax statement and other reports. Field control is carried out at the taxpayer's business premises or in another location, depending on the object of control. The Taxpayer is under the obligation to allow the tax inspector insight into the state of raw materials, reproduction materials, semi-finished products, finished products and goods and equipment, as well as to enable insight into books, business records and other records and documents. The tax inspector may also request data or access to documents from the taxpayer's employees or other persons. Those persons are under the obligation to make the data and documents at their disposal available to the tax inspector. The tax inspector makes the minutes on field control. If it is established during field control that the taxpayer has failed to apply or has incorrectly applied regulations upon self-assessment of tax, a ruling shall be passed on the basis of minutes on field control performed and/or supplementary minutes. The

Tax Administration passes the ruling on the tax obligation within 60 days from the day of service of minutes on field control.⁶

In the course of tax control, the tax inspector shall seize goods in the following cases: 1) when there is doubt that goods or raw materials or reproduction material have been used, obtained without computing tax or in another manner contrary to regulations, and the taxpayer does not have proof of obtaining them in accordance with regulations and having paid tax, if payment of tax is prescribed; 2) when goods are marketed by a person not registered or not authorised to perform such activity; 3) when goods are produced in order to be marketed or when goods are marketed without being properly recorded in books and other prescribed records; 4) when goods are being transported without prescribed documents (delivery note, waybill, invoice and the like.); and 5) when goods are sold outside registered business premises or another place designated for sale by a competent authority. In such cases, the tax inspector shall also seize the transport vehicle or other means by which goods are being transported or marketed, if the value of goods exceeds one third of the value of such means. A transport vehicle or other means shall also be seized when the value of goods does not exceed one third of the value of that means, if it is additionally equipped with separate space for hiding and secret transport of goods after being manufactured at a factory. During tax control, the tax inspector may, while providing a return note, temporarily seize books, business records, other records and documents, until the tax control procedure is finished. If the taxpayer keeps books and records on automated data processing means, the tax inspector may, while providing a return note, temporarily seize the means for automated data processing, until the tax control procedure is finished.⁷

If, in the tax control procedure, violation of regulations or irregularity in their application is determined, the Tax Administration shall pass a ruling ordering the taxpayer to eliminate established violations of law or irregularities in application of regulations in the time limit set out by the ruling. If the taxpayer fails to proceed in accordance with the ruling within the set time limit, the Tax Administration shall take the following measures: 1) prohibition to dispose of assets on the account, except for the purpose of settling liabilities based on tax; 2) temporary prohibition to perform business activity; 3) temporary prohibition to perform certain operations; or 4) temporary prohibition to alienate objects in case of reasonable doubt that the taxpayer shall disrupt or prevent the fulfilment of the tax liability. These measures may also be ordered by the tax inspector during tax control, when conditions for confiscation of goods have been met. The effect of these measures shall last until the taxpayer eliminates the determined violations of law or irregularities in application of regulations.⁸

⁶ Articles 123–129 of the Tax Procedure and Tax Administration Act.

⁷ Article 130 of the Tax Procedure and Tax Administration Act.

⁸ Article 132 of the Tax Procedure and Tax Administration Act.

When the tax inspector orders the measure of seizure of objects, he is under the obligation to establish the value of objects seized and to store them in the place determined by an act of the finance minister. If the seized object is perishable or if its keeping requires major costs, the Tax Administration shall sell the object by direct agreement, without delay. Once the ruling becomes final or the procedure initiated in accordance with the criminal charges is concluded, seized objects, save for perishable objects or objects whose storage incurs great cost, shall be sold by public auction, that is, via a trading network, while seized cigarettes and liquors without control excise stamp are destroyed. Exceptionally, the Government of the Republic of Serbia may give without compensation the seized objects to state organs, humanitarian organizations, and other beneficiaries of humanitarian aid, cultural institutions and to other justified purposes. Seized objects that cannot be sold or used for health, veterinary, phytosanitary, safety and other prescribed reasons or due to major damage are destroyed in accordance with regulations.

4. It may be concluded that the first form of activity (par. 1) protects the collection of public revenues that have not yet come due or have not been assessed, but in regards to which the procedure for assessment or control has been initiated, that is, of tax assessed to him or another person, upon establishment of an interim measure for securing public revenue collection in accordance with the law, i.e., in the process of forced collection or tax control.

The second form of activity (par. 2) protects the implementation of the forced collection of public revenues itself, as well as the implementation of tax control. In the procedure of forced collection of public revenues and of tax control, the objects of proof are all facts of significance for a proper implementation of forced collection of public revenue and/or tax control. Without ascertaining the facts, there can be no application of regulations covering the forced collection and control of public revenues. This incrimination offers criminal-legal protection for the undertaking of procedural activities of proving during enforced tax collection procedure and/or the tax control procedure.

3.2. Object of perpetration

The object of perpetration with the first form of crime of jeopardizing tax collection and tax control from paragraph 1 is the object regarding which the interim measure for securing public revenue collection has been established, i.e., the object of enforced public revenue collection or tax control.

The object of perpetration with the second form of crime from paragraph 2 is not specifically identified. As a result, a merger of the protective object and the object of perpetration takes place there.

4. Elements of the crime of jeopardizing tax collection and tax control

4.1. Act of perpetration

The perpetration of the crime of jeopardizing tax collection and tax control can be executed solely through actual commission, which is why it is classified under commissive acts.

1. The first form of perpetration (par. 1) can be executed by performing one of the following five alternatively regulated acts of perpetration: 1) alienation, 2) concealment, 3) damage, 4) destruction or 5) rendering unusable of the object on which the interim measure for securing public revenue collection has been established, that is the object subject to forced collection or tax control.

Alienation of objects can be performed in various ways: sales, exchange, gift, etc. The object of this act can only be something that is the property of the perpetrator. It can be a movable or immovable object on which an interim measure for the securing of public revenue collection has been applied, i.e., an object subject to enforced public revenue collection or tax control.

Concealment of objects represents hiding without alienation, such as: placing the object in a hidden place, placing it in someone else's keeping, etc. The act of concealment can be performed only in relation to a movable object on which an interim measure for the securing of public revenue collection has been applied, i.e., a movable object subject to enforced public revenue collection or tax control.

Damage exists when the object's characteristics are partly changed in a negative sense, i.e., so that its appearance changes, its use value is reduced, etc.

Destruction means a total change of the object's characteristics in the negative sense, so that it no longer exists or is changed to such an extent that it has been turned into something else.

An object is rendered unusable when it can no longer be used in any way, when it can no longer serve its intended purpose. This does not mean that its appearance has to be changed, i.e., the object's physical characteristics might be changed only minimally but, due to the nature of the object, the effect is its total unusability.⁹

For the existence of a criminal act, it is not important whether the object can be repaired. This may be of significance for the mutual delimitation of the said forms of perpetration, which does not have a larger practical significance. Sometimes it is difficult to distinguish between damage and rendering an object unusable and, in such cases, it is usually concluded that, besides having been rendered unusable, the object is also damaged, which is sufficient for the existence of a criminal act (e.g., Belgrade District Court judgment Kž.1663/92). It is a rare

⁹ Z. Stojanović, *Komentar Krivičnog zakonika*, "Službeni glasnik RS," Beograd, 2006, p. 519.

case in which an object is rendered unusable without it being damaged, on the one hand, where it cannot simply be made usable once again, on the other. Thus, rendering an object unusable is possible in instances when a complex object is dismantled into its parts. Or, e.g., erasing a personal computer's system program makes that computer unusable; however, as a rule, that program can be simply reinstalled. Or, if air is let out of an automobile's tires, the automobile can still be rendered usable relatively easily. Defining an act of rendering an object unusable as an act of perpetration, besides its damaging, makes sense only if it is not demanded that the object becomes permanently unusable (as in the case with destroyed objects), i.e., if it is not demanded that a significant investment, in the form of repair, is necessary to render it usable again. On the other hand, it would not be justified to understand the rendering of an object unusable to mean any, even the smallest, easily removable obstacle to using that object.¹⁰

This type of criminal act can be committed, for example, when a third party claims to have the right to an object that is subject to forced collection, on the basis of which the Tax Administration, according to Article 85, Paragraph 3 of the Tax Procedure and Tax Administration Act, may stay or terminate forced collection on such an object, until the dispute regarding the third party action against execution is concluded, when the object may be entrusted for safekeeping to the taxpayer or a third person, who are under the obligation to keep the object in an unchanged condition, in accordance with Article 102, Paragraph 3 and 4 of the Act. A criminal act will exist if it established, in regards to the third-party action against execution, that the plaintiff is not the owner of the inventoried object, and the taxpayer alienates it, destroys it or damages it, thus jeopardizing the collection of tax.

2. The act of perpetrating the second form of crime of jeopardizing tax collection and tax control (par. 2) is giving false data on facts of significance for execution of forced collection of public revenues and/or tax control. The giving of false data comprises affirmation of untruthful or negation of truthful facts. False data regarding facts are data that, by their content, do not correspond with reality, i.e., which are contrary to the factual state. In order for a crime to exist in this case, it is necessary that the false data relate to facts of significance for execution of forced collection of public revenues and/or tax control.

This form of crime can be committed when, for example, during the process of inventorying movables, which the tax enforcer performs under Article 89 of the Tax Procedure and Tax Administration Act, the taxpayer provides false information to the effect that a pledge has been placed on the movable object, and recorded in the pledge register in the name of a private-legal creditor, which is something that the tax enforcer must take into account, as that is a fact of significance for the execution of forced collection of public revenues. This crime

¹⁰ Z. Stojanović, *ibid.*, pp. 519-520.

can also be committed by the taxpayer who is obligated, under Article 127 of the Tax Procedure and Tax Administration Act, to allow the tax inspector insight into the state of raw materials, reproduction materials, semi-finished products, finished products and goods and equipment, if he provides the tax inspector with false data regarding facts of significance for the performance of tax control.

4.2. Effect

The crime of jeopardizing tax collection and tax control is performed by the very execution of any of the acts of perpetrations. Its effect is produced at the moment of perpetration of act. The effect is the jeopardizing of tax collection or tax control. With the first type of perpetration (par. 1), the jeopardizing is concrete in nature, as the perpetrator's action creates concrete danger for the proper execution of tax collection and tax control. For the existence of this form of crime, it is not necessary that the perpetrator succeeds in his intention to jeopardize the collection of a public revenue that is not yet due or has not been established, in regards to which the procedure for assessment or control has been initiated, that is, of tax assessed to him or another person, upon institution of an interim measure for securing tax collection in accordance with the law, i.e., in the process of forced collection or tax control.

However, with the second form of crime (par. 2), this jeopardizing is of an abstract nature, since the data provided by the taxpayer and other persons regarding facts of significance for execution of public revenue collection and/or tax control are checked during the procedure of forced collection and/or tax control, on the basis of other available evidence. However, the very act of giving false data regarding the said facts creates a danger for the proper establishment of the legally relevant factual state in the procedure of forced collection of public revenues and/or tax control.

4.3. Perpetrator

1. A perpetrator of the crime of jeopardizing tax collection and tax control is a person that, with the intention of jeopardizing the collection of tax not yet due or not assessed, but in regards to which the procedure for assessment or control has been initiated, that is, of tax assessed to him or another person, after the interim measure for securing collection has been established in accordance with the law, that is, in the forced collection procedure, alienates, hides, damages, destroys or renders unusable the object on which the interim measure for securing the collection has been established, that is the object subject to forced collection or tax control. A perpetrator of the crime is also a person providing false data on facts of significance for executing forced public revenue collection and/or tax control.

The perpetrator of this crime may be: 1) an entrepreneur or other natural person who is a taxpayer; 2) a responsible person in the taxpayer; 3) another taxpayer or responsible person in another taxpayer; and 4) other persons.

An entrepreneur or other natural person who is a taxpayer and responsible person in the taxpayer may commit this crime when, e.g., the Tax Administration, on the basis of the provision of Article 66 of the Tax Procedure and Tax Administration Act, establishes, by a ruling, interim measures for securing the collection of tax that has not become due or has not been assessed, but assessment or control procedure has been initiated, and there is danger from the taxpayer jeopardizing or preventing its collection or rendering it ineffective, and the taxpayer nevertheless alienates, conceals, damages, destroys or renders unusable the object over which an interim measure for securing collection has been instituted.

This crime may also be perpetrated by another taxpayer or responsible person in another taxpayer. Thus, the tax warrantor – if it is a natural person, i.e., a responsible person in the tax warrantor – if it is a legal person, may appear as the perpetrator of this crime when, e.g., the Tax Administration directs public revenue collection or tax control towards the tax warrantor responsible for paying the taxpayer's tax debt, in the case when the taxpayer does not pay the debt when it comes due.

Another person that may appear as a perpetrator of this crime is a responsible person in the legal person or a natural person. Thus, e.g., if a legal or natural person during the procedure of forced public revenue collection claims to have a right to an object that is subject to the forced collection procedure, the Tax Administration may interrupt the application of forced collection of the object until the dispute regarding the third party action against execution is concluded, while the object may be, under Article 102, Paragraph 3 of the Tax Procedure and Tax Administration Act, entrusted for safekeeping to the taxpayer or a third person. If the person to which the object has been entrusted alienates it, conceals it, damages it, destroys it or renders it unusable, then the responsible person in the legal person, or that natural person shall be the perpetrator of the first form of the criminal offense. However, if a legal or a natural person falsely claims right to objects subject to forced collection procedure, then the responsible person in that legal person, or that natural person is the perpetrator of the second form of this criminal act.

4.4. Guilt

1. For the existence of the first form of the crime of jeopardizing tax collection and tax control (par. 1), it is not sufficient that the perpetrator alienates, conceals, damages, destroys or renders unusable the object over which an interim measure for securing collection, i.e., the object that is subject to forced tax collection or tax control, but it is also necessary for the appropriate condi-

tions regarding the perpetrator's liability to be fulfilled. The subjective side of this form of criminal act is characterized by the perpetrator's intent to jeopardize the collection of a public revenue that has not come due or has not been assessed, but for which assessment or control procedure, i.e., public revenue that has been assessed to him or another person, has been initiated, upon establishment of an interim measure for securing public revenue collection in accordance with the law, i.e., in the procedure of forced collection or tax control. The perpetrator must have the said intent at time of performance of the act, because the act cannot be executed without that intent. Therefore, it is not a criminal offense if any of the said acts are performed without the appropriate intent. Thus, e.g., if the subject of the interim measure is a television set that has been entrusted to the taxpayer – natural person, and the taxpayer damages it while moving it between rooms by slipping and dropping it, there is no criminal offense, as there was no intent on the part of the taxpayer to jeopardize tax collection or tax control.

Intent represents a more serious form of premeditation – a premeditation of stronger intensity, i.e., a direct premeditation, where the perpetrated act was motivated by an awareness of the consequences. It is an act of perpetration with the highest degree of consciousness and volition. With this type of criminal offense, intent must be determined in each concrete case. It can be determined on the basis of the perpetrator's factual behavior. The perpetrator should be aware of all the real circumstances of the criminal offense. He should be conscious of the act, i.e., conscious that he is alienating, concealing, damaging, destroying or rendering unusable the object on which an interim measure for securing collection has been instituted, i.e., the object subject to forced collection of public revenues or tax control; conscious of the consequence, i.e., of the fact that he is jeopardizing tax collection or tax control, and conscious of the causal connection between the act and the consequence. It is also necessary that the perpetrator desired the perpetration of the act.¹¹

Specific intent on the part of the perpetrator is not required for the existence of the second form of criminal act from paragraph 2, but it is necessary that he is acting with premeditation. The perpetrator's premeditation should, before all, encompass awareness of the fact that the data he is providing regarding facts of significance for executing forced public revenue collection and/or tax control – are false.

2. The perpetrator of this crime should be conscious of the illegal nature of the act, i.e., the perpetrator should be aware of the legal prohibition of the act he is undertaking. This means that the perpetrator should be aware that, by alienating, concealing, damaging, destroying or rendering unusable the object on which an interim measure for securing collection has been instituted, i.e., the object subject to forced collection of public revenues or tax control, i.e., that, by giving false data on facts of significance for execution of forced collection of

¹¹ M. Kulić, *Poreska krivična dela*, Beograd, 2010, p. 190.

public revenues and/or tax control, he is acting in a way contrary to tax regulations. It is not necessary to determine consciousness of illegality in each concrete case, since the persons that may appear as perpetrators are, by the nature of their duties, conscious of the prohibited nature of their actions.

5. Construction of an extended criminal offense of jeopardizing tax collection and tax control

The crime of jeopardizing tax collection and tax control can also appear as a construction of an extended criminal offense. An extended criminal offense shall exist when multiple acts of jeopardizing tax collection and tax control are committed in a temporally connected manner by the same perpetrator, with those acts representing a whole due to the existence of at least two of the following circumstances: sameness of damaged party; sameness of object of the act; use of the same situation or the same permanent relationship, sameness of places or rooms in which the act was performed or sameness of perpetrator's premeditation. In the case of this crime, sameness of the damaged party shall exist if the same budget or the same organization for mandatory social insurance is damaged by multiple acts. Sameness of crime object shall also exist if, for example, the object on which an interim measure for securing tax collection has been instituted is always being rendered unusable. In the course of execution of this offense, the same situation is used if the act is always executed, for example, in the procedure of forced tax collection. It is also necessary that the important elements of all the acts making up the extended criminal offense were previously encompassed by the perpetrator's single premeditation. The total consequence of the extended criminal offense should also be encompassed by the single premeditation.¹²

The criminal offense of jeopardizing tax collection and tax control that is not encompassed by an extended criminal offense in a valid court judgment represents a separate criminal offense, i.e., becomes a part of a separate extended criminal offense.

6. Conclusion

In striving to prevent obstruction of tax collection and tax control, states undertake certain preventive measures. However, besides these, states are also compelled to undertake repressive measures. Thus, Serbia's tax legislation incriminates certain activities that jeopardize tax collection and tax control, which is why these activities are characterized as socially dangerous and sanctions are prescribed against their perpetrators.

¹² M. Kulić, *ibid.*, p. 191.

Differently from other tax crimes, for which relatively severe punishment is prescribed, only moderate punishment is prescribed for this criminal offense. Tax crime cannot be suppressed solely by prescribing severe punishment. In that sense, Frank Cowell correctly concludes that punishment for tax crimes should not diverge greatly from punishment for other crimes and should not be out of step with public opinion regarding what is just. If punishment does not fit into an incremental structure, then the efficiency of punishment for certain types of crime may fail.¹³

Under conditions of growing economic and political crisis in Serbia, economic activity is declining, thus limiting the state's ability to finance its functions from real sources. This is leading to increased fiscal pressure on taxpayers. Under such circumstances, we may expect an increasing number of instances of the crime of jeopardizing tax collection and tax control.

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¹³ F. Cowell, *Cheating the government: the economics of evasion*, MIT Press, Cambridge, MA, London, 1990, p. 129. and 149-151.

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COOPERATIVE MODELS, PRACTICES, AND MEANINGS

– Tools for coping with personal and social risks –

Summary

The paper discusses the emergence and development of cooperatives in Slovenia at the end of the 19th and the first decades of the 20th century. The cooperative movement has played an exceptionally important role in the development of the Slovenian economy and society. The cooperative mechanism founded and dispersed on the basis of the German Schulze-Delitzsch and Raiffeisen model represented an institutional innovation that helped the Slovenian population to overcome the risks brought by the capitalist social order.

Key words: cooperative movement, liberal capitalism, Slovenia

JEL classification: G21, N83

1. Introduction

During the last quarter of the 19th century, a significant process was occurring on the Slovenian space. Within the framework of the penetration of the capitalist economic order, the cooperative model of economic organization was being transferred into Slovenia. The model was copied from the German example, which is not surprising, as both the German models, established by Hermann Schulze-Delitzsch and Wilhelm Raiffeisen, were very well respected throughout Europe.¹ The discussion topic is limited to the Slovenian space, to the process of

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¹ See, for example, T. W. Guinnane, "Failed Institutional Transplant: Raiffeisen's Credit Cooperatives in Ireland, 1894–1914," *Explorations in Economic History*, Vol. 31, 1994, pp. 38–61; Á. P. Martínez Soto, S. Martínez Rodríguez, "The Adoption of Agricultural Credit Cooperativism In Spain (1890–1935): Solidarity From Below," http://www.h-economica.uab.es/wps/2008_04.pdf; M. Prinz, G., Rural Cooperatives, Friedrich-Wilhelm Raiffeisen and the Organisation of Trust 1850–1914, Paper delivered to the XIII IEHA Congress

transplantation of the German cooperative models and the relations and attached meanings within the Slovenian space. In connection with this, I have placed the development of the cooperative movement within a broader context of institutional innovativeness, in the context of social mechanisms for dealing with social and economic risk within the framework of the capitalist social order.

In the context of the 19th century, within the context of European time and space, cooperativism represented an important social and economic innovation towards the goal of social transformation. Cooperatives were a symbiosis of two wide open institutional forms. The fundamental idea was how to ensure a mechanism that would turn the changeable economic and social environment to its own advantage and improve it. Cooperativism took root among the populace and within the economic milieu. Developing the thought further, we can write that cooperativism stems from the synergetic innovation of the practical linking of the idea of social association and the enterprise. Schulze-Delitzsch and Raiffeisen were the first to, on the basis of observation, implement cooperativism in an experimental form. Cooperativism has since escaped their control and adjusted to the conditions and needs of different social segments, economic areas and goals.² In that process, cooperativism revealed itself as a universal form for the most varied goals. The role of cooperativism was multi-layered and, in local areas, where it became deeply rooted, quite significant. It changed economic conditions and introduced the dimension of social control and political disciplining and redistribution of economic and social power. Cooperativism played an important role in the area of social, economic and, especially, financial inclusion, in the stimulation of collective (social) entrepreneurship, as it opened up the social and economic space to social segments that had previously been socially marginalized.

2. Environment

If I were to begin with a schematic presentation of the environment and the conditions, then it would be quite appropriate to posit some statements that, in my opinion, characterized conditions in Slovenia up to World War I. These would be the following: 1. the Slovene community was economically and socially homogenized on pre-modern bases; 2. the professional (educational) structure was professionally unsegmented, with the humanist intelligentsia being predominant; 3. the Slovene milieu was controlled by anti-developmental ideologies, i.e.,

Buenos Aires, July 2002, Session 57; T. Lorenz (ed.), *Cooperatives in Ethnic Conflicts: Eastern Europe in the 19th and Early 20th Century*.

² B. Fairbairn, "History from the Ecological Perspective; Gaia Theory and the Problem of Cooperatives in Turn-of-the-Century Germany," *The American Historical Review*, Vol. 99, No. 4, 1994, pp. 1219, 1235.

a persistently unfavorable social atmosphere within economic development; 4. belated affirmation of perspectives of technology and economic efficiency in the social perception.

All four of these characteristics are mutually causally linked, and they determined the fundamental parameters of Slovene economic and social development. They mutually differ regarding the time of their effect. The first two proved to be long-term constants, while the third partly lost its influence between the two world wars, when the fourth started to come into play. The Slovene society and economy before World War I were in some sort of in-between-state, with moments of modernity appearing parallel with pre-modernity. And the predominance of pre-modern economic and social forms was obvious.³ Industrialization acquired the meaning of a process relatively late in the day, during the 1880s and 1890s, and a basic infrastructure (commercial, financial, energy) was established as well. However, all this was taking place with a lag of several decades relative to other, more developed environments. The basic economic activity was agriculture. And it was precisely agriculture, due to its economic and social self-sufficiency, that was the great obstacle on the path of the modernization of the economy and society.⁴ The degree of commercialization was low, and the level of self-supply still high. And without the modernization of agriculture, i.e., the raising of the rural population's productivity and income growth, industrialization could not be accelerated.⁵ Quality resources were also lacking – both human and natural, along with capital and technology, or were insufficiently and inefficiently utilized. Due to its level of knowledge and technology, the Slovene milieu depended on the import of scarce resources. The same applied for capital when it came to more ambitious undertakings, and not just until the rise of domestic banking, but even subsequently. At that time, the Slovene milieu was caught in a charmed circle of poverty: a relatively low level of savings and investment, slow accumulation of capital, low productivity and low average income.⁶

The then Slovene community was unsegmented and homogenized, whether we are referring to its educational, professional or ownership structure. As a predominantly pre-modern community, it did not manage to defend itself from the reflexes of an anti-modernizing atmosphere; the static developmental sample logically ended in anti-capitalism and mixtures of anti-Semitism. Individualism and entrepreneurship were little valued characteristics.

³ On the elements of social modernization, see: *Slovenska novejša zgodovina*, Mladinska knjiga, Ljubljana, 2005, pp. 104-120.

⁴ Heinz-Gerhardt Haupt, "The History of Consumption in Western Europe in the 19th and 20th Century," in: H. Kaelble (ed.), *The European Way*, Bergham Books, New York – Oxford, 2004, p. 173.

⁵ See: M. Novak, *Zamudniški vzorci industrializacije*, Znanstveno in publicistično središče, Ljubljana, 1991.

⁶ T. Hočevar, *The Structure of the Slovenian Economy*, Studia Slovenica, New York, 1965, pp. 93-112.

And where are the roots of such a social context? We find possible causes in the unsegmented social and educational structure. There was no entrepreneurial populace as a carrier of progress in the economic and social areas. Neither did the feudal land owners cultivate an entrepreneurial spirit. On the other hand, the one-dimensional nature of the Slovene elites that defined the tone of the construction of social reality was quite evident. This small group was dominated by representatives of humanistic (priests, teachers) or sociological disciplines (legal professionals). Their thought world was divided between tradition and modernity. It is not overly risky to conclude that, with their greater orientation toward the traditional social and economic structures, their thought world was less inclined toward modern economic and social flows. This sample was most evidently established following the ideological division of the last decades of the 19th century. Prior to that, we had been able to observe an affirmative social discourse regarding modernization – somewhat restrained, to be sure, but still present.⁷ After the ideological division, the predominant social discourse changed, especially following the one-dimensional political homogenization. Orientation towards agriculture as the carrier of the national consciousness and devotion to the church, i.e., Catholicism, brought the specific moment of national discourse on a religious basis. Some of the Slovene elites even came to identify the Slovene identity with Catholicism. All this did not contribute to a positive development program but, rather, a defensive one, since modernization was also bringing secularization along with it. The defensive discourse placed key emphasis on the preservation and affirmation of the existing state of affairs. Development was not being rejected wholesale. Economic development? Yes – but it had to be quite slow, extremely cautious, and could under no circumstances destroy the traditional social model.⁸ In a logical consequence, such a standpoint meant that poverty, in addition to ideological-political homogenization, had also brought homogenization of the populace. The predominant portion of the Slovene elites devoted most of their energies at the turn of the century to the preservation of the peasantry, and not to the entrepreneurial transformation of other sectors. No side of the Slovene elites could have gone past the structural characteristics of the community and the economy had the argumentation of peasant protection outweighed the entrepreneurial emphasis.⁹

In addition, it is impossible to neglect the activities whose goal was to reject everything that was destroying the homogenization of the populace and accelerating ownership or intellectual differentiation. Modernizing phenomena were a disruption for the existing order of limitedness within one's own national borders. It was not infrequently the case that public discreditation would come on the

⁷ See: P. Vodopivec, *O gospodarskih in socialnih nazorih na Slovenskem v 19. stoletju*, INZ, Ljubljana, 2006, pp. 130-200.

⁸ *Slovenska novejša zgodovina*, pp. 24-120.

⁹ J. Perovšek, *Na poti v moderno*, INZ, Ljubljana, 2005, pp. 63-83.

heels of expression of differences. Disqualification was based on two moments of public discourse, on moralizing and the negation of national intimacy. For example, modern art was discredited as being both immoral and anti-national.¹⁰ Ownership and entrepreneurial differentiation were characterized as capitalist activities, bordering on greed and selfishness.¹¹ Naturally, these were all quite contrary to the imagined Slovene national character. And thus was the circle closed.

In the second half of the 19th century, well over 80% of the Slovene populace lived off agriculture, which is why the state of this sector was exceptionally important for the then perception of social and, consequently, economic conditions. And these, it was generally thought, were not good. The freeing of landholdings and the accompanying regulation of feudal obligation buyouts, together with other economic policy measures, also created the basic conditions for free agricultural activity. Thus, peasants were defined as autonomous economic actors; at the systemic level, they were allowed to freely engage in economic life in accordance with business logic. And this inclusion of peasants into economic life was occurring within the framework of the capitalist economy, which was demanding the overcoming of the bounds of natural agriculture. Peasants and agriculture as a branch, on the other hand, intensified their opposition to agricultural commercialization.

The effects of this process in the Slovene provinces were great and mutually dependent, and were also reflected both inwards and outwards. Among the inward effects were changes in the peasant psychology, since individualism and the business mentality were gaining in stature at the expense of the community. The outward effects, which are, of course, measurable, were reflected in the tendency toward the optimization of the size of peasant landholdings, depending on the crops being raised and the tools and machinery that was used. Due to economic necessity, peasant landholdings had to be reoriented from their all-around nature towards branches for which they had better conditions and where they could utilize their advantages. This specialization was not necessarily one-sided, as peasants most often engaged in multiple, complementary branches.

Outward effects of the transition of agriculture into a monetary economy include the breakup of peasant lands, which was a consequence of progressing individualization, but also moved by economic horizons. The breakup of landholdings was smaller in scope, or non-existent, wherever there was a possibility of the surplus peasant labor force overflowing into other sectors, and, of course, larger in places where industrialization had not yet begun, or was progressing slowly. The possibilities of securing a peasant existence exclusively within agri-

¹⁰ For a detailed analysis of ideological issues, see the discussion: E. Pelikan, "Ideološka izhodišča cenzure v konceptih slovenskega političnega katolicizma ob koncu 19. in v prvi polovici 20. stoletja," in: M. Režek (ed.) *Cenzurirano – zgodovina cenzure na Slovenskem od 19. stoletja do danes*, Nova Revija, Ljubljana, 2010, pp. 45-54.

¹¹ Various articles in "Narodno gospodarje," the publication of the Cooperative Association in Ljubljana, at the end of the 19th and the beginning of the 20th century.

culture grew smaller with the breakup of peasant lands. This forced peasants to look for alternative sources of income outside of agriculture which, in turn, accelerated the penetration of the monetary economy into the provinces.

From the above general overview of the line of agricultural development up to World War II, it is clear that, if they wanted to survive as such, peasants had to work in accordance with business logic and constantly adjust to the demands of their given economic environment. This constant adjustment to the demands of the economic environment placed many questions in front of peasants and agriculture as a branch, all rooted in a single, but fundamental dilemma. This dilemma, which occupied peasant policy planners as well as peasants over the course of the entire century, was as follows: how to ensure a market orientation for a Slovene agriculture with a predominantly small land holder structure and a higher level of production, both in quality and quantity, which would secure higher income and a higher standard of living to the peasants and, thus, to the populace employed in the agricultural branch. Many human fates and the quality of everyday life in most Slovene lands depended on the answer to this fundamental dilemma.¹²

3. Cooperative models and protagonists

Cooperativism was also placed in this economic-social context, as the Slovenes considered it to be the most appropriate model that could allow a small people with an unstructured social scene and a small economic structure to successfully adapt to the current economic order, i.e., to modernize the economic and social structure within the framework of the capitalist economy.¹³ Due to the Slovenes' historical position within the Habsburg monarchy, at the margins of cultural, political and economic progress, the cooperative movement had several additional characteristics. Therein lay the subordination that determined cooperativism's developmental moves. Namely, the great significance of the national question as a motivational impetus was evident. Since the very beginnings of the development of cooperativism among Slovenes, the national moment had become firmly embedded itself in the economic foundations of the reasons that had stimulated the rapid development of the cooperative movement. The national attribute was attached to cooperativism until the end of the Habsburg monarchy. During the decades-long process of affirming Slovene cultural, political and economic emancipation, the national emphasis moved into the background. The exclusion of the national prefix as a very important motive force was possible only after 1918, when the Slovenes entered the Yugoslavian state. German

¹² Ž. Lazarević, *Plasti prostora in časa*, Ljubljana, 2009, pp. 106-107.

¹³ Ž. Lazarević, "Zadružništvo v Sloveniji v dobi kapitalizma (Sistemi in organizacije)," *Arhivi*, 1-2, 1994, pp. 12-19.

pressure subsided, and Germans became a minority. As the national enthusiasm gradually lost currency in that process of emancipation, the ideological moment, which had not had the opportunity to stand out during the period of accelerated national emancipation, was increasingly coming to the forefront.

In the first period, the development of Slovene cooperativism was strongest in areas with a nationally mixed population structure. These were areas of Carinthia and Styria, where Slovenes and Germans were mixed. Styria was the cradle of cooperativism's development, whence came the people who, already from the 1860s, had provided the first impetuses for the cooperative movement. One of these was Josip Vošnjak, one of the leaders of a political movement that, after the Czech example, propagated the founding of cooperatives.¹⁴ The 1870s were the years of searching and overcoming the uncertain beginnings. The first true turning point came at the beginning of the 1880s, when Mihael Vošnjak, Josip's brother, totally devoted himself to the cooperative movement. It was his initiative that led to the founding of the credit cooperative in Celje, which was at the time a battleground of bitter German-Slovene political fighting, which once even caused the fall of a government.

In the process of creating the organizational structure for the credit cooperative in Celje, M. Vošnjak relied on the already accepted cooperative principles propounded by Hermann Schulze-Delitzsch,¹⁵ while choosing a somewhat modified form of these principles. On the basis of legal provisions adopted in 1880, which gave tax breaks to associations and cooperatives that limited their activity solely to their members, he introduced two types of ownership stakes into everyday cooperative functioning – main and business stakes. The former, with their active voting rights, enabled influence over decision-making, the latter did not. Of course, the business stakes were intended for those that were not interested in serious membership in a credit cooperative but merely sought a loan. The distinction between the stakes and their different levels did not merely serve to increase the principal but served, before all, as insurance that the running of the credit cooperative would be in firm and secure “national hands.” Also, Vošnjak provided for the payment of dividends, i.e., paying interest on cooperative stakes – albeit only the main ones, as well as paid functions. All this was supposed to stimulate secure business practices. He was aware of the fact that people's trust could not be built solely on national and morally firm cooperative members but, before all, on transparent, secure and conscientious work. It was necessary to create large and strong cooperatives in Slovene hands, which, like real banks, would be able to face the German competition. This cooperative form was basically very similar to a shareholding company with ordinary (main

¹⁴ D. Schauer, *Prva doba našega združništva*, Ljubljana, 1945, p. 36.

¹⁵ On his doctrine, see: J. Perovšek, “Schulze-Delitzscheva združnogospodarska doktrina kot liberalni odgovor na socialno vprašanje v 19. Stoletju,” *Prispevki za novejšo zgodovino*, vol. 1/1997, pp. 17-34.

stakes) and priority shares (business stakes). Such a form was understandable, as the cooperative impetus was still largely limited to the cities at that time. Thus, economic and social conditions were taken into consideration at the very start, along with the prevailing opinion of the urban populace, which was more differentiated both in the ownership and the social sense. In their mind, economic performance and assurance of the middle class' existence were, together with the national moment, the most important issues. Ethical measures were still not at the forefront.¹⁶

Characteristic of the second period in the development of Slovene cooperativism was the transfer of the center of gravity from ethnically mixed lands to the central Slovene land, Kranjska, which had previously been in the background. The national question in Kranjska was not as strongly charged as in other regions, as Slovene dominance there was unquestionable. At the same time, this process coincided with ideological-political divisions in the Slovene national movement. Unity was finished, belonging to the same people was no longer a sufficient precondition for political unity. Ideological principles were increasingly coming to the fore, and party-political divisions started to appear. Cooperativism became caught up in these divisions as well, in the form of stratification and separation of energies into various cooperative, ideologically and politically founded associations. This, of course, changed the fundamental standpoint of cooperative participation, and the imperative of activity moved to other areas. For a large portion of the Slovene space, this did not at all mean the abandonment of national attributes. Far from that. For, despite the big changes, in nationally mixed areas cooperativism had retained a strong national impulse – a Slovene character, regardless of ideological orientation. Here it should be noted, not as a first-rate surprise but certainly as something unexpected, that ideological-political, party and other cooperative divergences went hand-in-hand with a strong rise of the cooperative idea and movement.

The entry of political competition into the previously homogenous Slovene cooperative movement resulted in the creation of a broad cooperative network that reached even the most remote Slovene regions. It was not infrequent to find two competing cooperatives in a single area, both conspicuously Slovene-oriented, but with a clear political, i.e., ideological delimitation. This second period was marked, just as in politics, with the entry of the masses, the broadest population segments, into cooperatives. The predominance of urban-based cooperatives and urban membership had become a thing of the past. The center of gravity of the cooperative movement moved to the provinces, to the peasant population that was the majority among Slovenes. Thus, the 1890s saw a massive acceleration in the development of credit cooperatives, when Raiffeisen's system began to be introduced in Slovenia. This was the point where Janez Krek, a man who contributed a great deal to the development of Slovene cooperativism, especially

¹⁶ Ž. Lazarević, *Zadružništvo v Sloveniji v dobi kapitalizma*, pp. 12-19.

the organizational side, entered the picture. Krek was not a social theorist but, before all, a practitioner. His activity was founded on the premise of the Christian social teaching, especially relying on the papal encyclical *Rerum novarum* of 1891 and, in the cooperative field, on Raiffeisen's organizational principle.¹⁷ Such an approach, of course, did not exclude a national accent wherever that was needed. On the contrary, the phrase "equality of socially neglected social segments" also encompassed the elimination of national neglect, and not just of economic or social neglect.

Thus, they saw the achievement of their cooperative mission in the provinces, which were more differentiated in the ownership sense, more prone to traditionalism and egalitarianism, but were also taking the brunt of the impact of the universal commercialization of economic life. Such an environment was more receptive to Raiffeisen's cooperative model, with a large number of small, locally bounded cooperatives, whose members had equal stakes, small in size, thus enabling the participation of even the poorest segments of the population. The leadership was barred from being rewarded for its work, except for the treasurer. Also, cooperatives did not pay out any profits, but invested eventual surpluses into a reserve fund, which could be used solely for financing goals of general benefit. Besides crediting activity, many small cooperatives, especially the provincial ones, also developed joint purchasing of life and economic provisions, as well as the organized sale of agricultural products.¹⁸ This pronounced local orientation also serves to explain the rapid increase in the number of Raiffeisen-type cooperatives on Slovene territory. An additional impulse to this type of cooperative model was provided by the law of 1889, which defined cooperatives and the tax breaks associated with them, on the condition that they did not pay out profits but placed them in reserve funds.¹⁹

The rapid growth of cooperatives was aided by another important factor – the intensive involvement of the Slovene Catholic clergy. A strong impetus to this was provided by the Catholic economic-social doctrine, with its strong accent on cooperativism. It was often the case in the provinces that clergymen were, along with teachers, the only educated people, who knew how to mobilize the populace for cooperative work and the national idea. Their network allowed the movers of this type of cooperativism to achieve an exceptionally deep cooperative and national-political penetration among the populace.

A concluding comparison of standpoints reveals that, in Slovene areas, both the adherents of Vošnjak/Schulze-Delitzsch and those of Raiffeisen's cooperative principles had essentially the same intentions: to strengthen the base of the small business sector. Individual representatives of this sector simply lacked suf-

¹⁷ *Enciklopedija Slovenije*, booklet 6, Mladinska knjiga, Ljubljana, 1992, pp. 1-5.

¹⁸ M. Štibler, *Zadružništvo*, I del, Kmetijska matica, Ljubljana, 1931, pp. 21-37; M. Vičič, *Zadružništvo*, I knjiga, Smeri, zgodovina in sistemi, 1937, pp. 182-188.

¹⁹ Ž. Lazarevič, *Zadružništvo v Sloveniji v dobi kapitalizma*, p. 16.

ficient strength – without the support of others with equal interests – to autonomously deal with free, market-dictated competition. That is why the question of the economic meaning of cooperative activity was never posed in any variety, as its protagonists recognized the benefits of cooperative work. The differences appeared in the categorization of accents of cooperative activity. While adherents of Vošnjak's cooperative form placed the economic perspective at the forefront, Raiffesen's followers took the opposite tack, emphasizing ethical-social moments instead. If the former accepted the economic order as a given and used cooperatives as an aid to economic strengthening, the latter went a step further, approaching cooperatives from the opposite side. They wanted to use cooperatives as a means in the "struggle" against the current economic system, against its secondary effects; they wanted to use cooperatives as a weapon in the fight against the foundations of the then economic order, i.e., against profit as the basic motivational element of economic life. Whoever succeeded in economically protecting the peasant also succeeded in preserving the traditional social picture, and the peasantry from social-cultural modernization.²⁰ And a necessary prerequisite for such an accomplishment was a change in people's mentality through the establishment of new values, including economic ones. That is why, in the Ljubljana Cooperative Association, which was quite firmly embedded in the structure of the Catholic grouping, ethical-social accents took the lead, while economic performance, although not unimportant, was of secondary significance. Herein lay the source of different organizational bases in Slovene cooperatives. In both cases, cooperatives were broadly instrumentalized for political purposes, whether national or party-related, which gained in value as the 20th century approached.

4. Cooperative associations

Cooperative associations represented an important step in the development of cooperativism. It was part of the process of the strengthening of cooperativism and a broader dispersion of risk. The process of joining associations was slow and, until 1903, voluntary, until the adoption of a law in the Habsburg monarchy that stipulated mandatory auditing of cooperative operations. In this way, cooperatives became the first economic entities subject to mandatory business auditing.²¹ Some cooperatives had two options: either join an auditing associa-

²⁰ It is necessary to view such accents in the context of the idealization of the peasantry as a source of tradition, carrier of traditional values, national culture, human intimacy and national consciousness, a source of physical and spiritual health, a reservoir of military force, devotion to faith and to the ruler, that is, the state... G. Prinz, *Rural Cooperatives*.

²¹ The institution of the external audit was tightly connected with the 19th century development of corporate firms, which distinguished between company ownership and company management. The auditor's task was to confirm that company management was consci-

tion or be subject to commercial court audits. The law of 1903 was intended to strengthen the quality and security of cooperative operations. However, it ended up merely legalizing the existing state of affairs. Cooperative associations that conducted audits had already existed before that, and everything was on a voluntary basis. The first such association, the Association of Slovene Credit Cooperatives, was created back in 1883. The goal of the association, besides presenting a united front to the authorities and the public, was to, in the first place, mutually connect, harmonize and unite the internal operations of credit cooperatives, in order to achieve comparativeness of work and success. They established auditing standards, conducted unofficial audits and allowed the supra-regional flow of financial resources within association bounds. At the same time, the association, which was from the very beginning chaired by Mihael Vošnjak, was supposed to accelerate the establishment of new cooperatives by securing technical and organizational help in covering Slovenian territory with a network of credit cooperatives. The program slogan could be expressed in the principle, "at least one credit cooperative in every Slovene district." This network of credit cooperatives, in addition to accelerating economic development, was supposed to provide strong financial support for the Slovene national movement.²² At its initiative or with its technical and organizational help, new credit cooperatives quickly began to sprout all over Slovene territory. The period of randomness was over, it was the end of enthusiasm. The time of organized and deliberate establishment of a cooperative network had begun.²³ This association was characterized by its relaxed organization; for example, despite their membership in the association, some cooperatives retained their independence. In 1903, the association was renamed as the Celje Cooperative Association. It ended its activity in 1930 when, due to business problems, it was liquidated. Its members had previously joined the Association of Slovene Cooperatives back in 1907. These associations were dominated by cooperatives organizationally founded on the Schulze-Delitzsch/Vošnjak model, although they also had a respectable number of Raiffeisen-type cooperatives as well.

The founding of small credit (popularly known as "rajfajzenovke" or, roughly "Raiffeisenettes") and other cooperatives, under the influence of the Catholic grouping, was an extremely fertile process as, just in the period between 1892 and

entiously running the company and giving the shareholders, i.e., owners, truthful data. It is interesting to note, however, that in both Slovenia and Germany credit cooperatives founded on the Schulze-Delitzsch organizational principle opposed mandatory auditing supervision. For conditions in Germany, see: T. W. Guinnane, "Friend and Advisor: External Auditing and Confidence in Germany's Credit Cooperatives, 1889-1914," *The Business History Review*, Vol. 77, No. 2, 2003, p. 249.

²² Schauer, *ibid.*, pp. 61-66.

²³ Ž. Lazarevič, *Razvoj institucij finančnega posredništva v Celju do konca prve svetovne vojne. Iz zgodovine Celja 1848-1918*, Muzej novejšje zgodovine, Celje, 1998, pp. 140-151.

1905, 481 cooperatives were founded.²⁴ Since Raiffeisen's system was, at its base, pronounced in its centralism, a new Slovene cooperative association was already formed in 1895. The Association of Credit Cooperatives of Kranjska began operations in Ljubljana, and changed its name in 1903 to the Cooperative Association in Ljubljana. At the forefront of this process of connection was Janez Krek, the soul of Catholic-oriented cooperativism, who presided over this cooperative organization from 1895 until his death in 1917.²⁵ Under his leadership, the Cooperative Association as a whole, and especially credit cooperatives, enjoyed exceptional development. In addition to exchange of monetary resources, the main task of the Cooperative Association in the domain of credit cooperatives was the auditing of members' operations. This well organized, transparently operated and financially solid association came as welcome support in the processes of political and economic emancipation of Slovenes living in nationally mixed areas. This second cooperative organization was also conspicuously nationally oriented, covering the entire Slovene ethnic space and strengthening its activity in nationally mixed areas. It paid no heed to the provincial borders that divided the Slovene-populated space.

5. Practices and meanings

Cooperativism enjoyed rapid development among the Slovenes, as evidenced by the more than 1,000 cooperatives of the most varied types that were operating there in 1918, as well as the fact that, by the end of 1937, that number had grown to almost 1,700. By far the most numerous – almost a half of the total – were credit cooperatives, similarly as in other states. They were followed by peasant cooperatives of the buying-purchasing or consumer, dairy, livestock, machine, wine-producing and fruit-growing variety.²⁶ Thus, it would not be at all exaggerated to say that practically every resident lived in the close vicinity of a credit or some other kind of cooperative. Especially in the provinces, credit cooperatives had brought financial services closer to the populace than ever before.

The exceptional development of credit cooperatives was not a surprise in Slovenia only – for the situation was the same in other countries.²⁷ Credit cooperativism was successful because it offered a practically feasible solution for an

²⁴ A. Kralj, *Iz zgodovine slovenskega zadružištva. Slovenci v desetletju 1918–1928*, Leonova družba, Ljubljana, 1928, p. 541 (537–551).

²⁵ W. Lukan, "The Second Phase of Slovene Cooperativism (1894–1918). Slovene Studies," *Journal of the Society for Slovene Studies*, vol. 1-2/1989, pp. 83-96.

²⁶ V. Valenčič, "Pregled našega združnega gibanja in stanja," in: *Spominski zbornik Slovenije, Jubilej*, Ljubljana, 1939, pp. 457-464.

²⁷ For Germany, which served as an example to the rest of Europe, see: T. W. Guinnane, "Cooperatives as Information machines: German Rural Credit Cooperatives, 1883–1914," *The Journal of Economic History*, Vol. 61, No. 2, 2001, pp. 366-389.

acute social problem of the time. All the proponents of cooperativism saw the lack of capital for the small business sector as the fundamental weakness of the social and economic order of the 19th century. Namely, the issue was not systematically solved. The existing formal lenders (banks and savings banks) most often excluded a multitude of small craftsmen and peasants from their crediting schemes. It was possible to ensure modernization of the small business sector and, thus, its economic survival only through investments. And the prerequisite for these was the existence of credit sources. Credit supply in the informal sector was, in fact, available, but extremely unfavorable. Due to the high (usurious) interest rates, the collection of unpaid debts was not only pushing debtors into pauperization but pushing entire peasant holdings and multitudes of craftsmen to the brink of economic survival. The personal and the social price of the great gap between interest rates and debtors' expected earnings was extremely high. It was in this domain that credit cooperatives achieved exceptional success. Their organizational form ensured that small savings would be encompassed and directed toward investment. They established themselves as a systemic tool of financial intermediation for the needs of the small business sector. Traditional Slovene poverty and the consequent lack of capital had, thus, acquired a new, heretofore unknown dimension. It turned out that Slovenes had substantial resources at their disposal and that it was merely necessary to collect and channel them.

In modern economic parlance, the success of credit cooperatives can be attributed to the fact that they managed to overcome the shortcomings of asymmetric information. Their advantage lay in being better informed on debtors' economic state, better possibilities of overseeing the way credits were spent and businesses managed and, before all, the ability to apply efficient sanctions in case of non-payment. In the case of small credit cooperatives (a village or several hamlets), the members knew each other and each other's habits, needs, characters and abilities, which allowed the daily supervision of borrowers. In case of problems with payment, sanctions would be instituted at relatively low cost, through mechanisms of social supervision. Cooperatives could expel anyone that did not fit the moral standards of the local milieu. Since business was limited to members of a small community, and it was very hard or practically impossible to gain membership in a cooperative in another community,²⁸ members that

²⁸ They could become members of other cooperatives, but those were usually more distant and membership in them did not bring the advantages of a small community's social network. And even that was just a possibility, as the example of the credit cooperative in Ljubno shows that it was extremely hard to become a member after the founding. And it was especially difficult to gain main stakes in cooperatives based on Vošnjak's principles. Newcomers were rarely allowed into the circle of decision-makers. Also, individual stakes were carefully weighed, even in cases of sell-offs, gifts or inheritance of stake. The established power and influence relations were carefully preserved. – Minutes of sessions of leaderships and main assemblies from 1894–1940, Celje Historical Archive, Documentation of savings banks and credit cooperatives, Štedionica i kreditna zadruga Ljubno.

were expelled from the cooperative for failure to fulfill their contractual obligations regarding loan repayment would be cut off from all financial support and become quite isolated socially. Both economic and non-economic sanctions were in plain sight.²⁹ Thus, cooperatives were a powerful tool of social supervision.³⁰ This allowed them to lend money to deprived and undercapitalized economic entities, or to all those that banks or similar institutions did not wish to credit, or credited only under extremely unfavorable terms. The way in which loans were approved and insured was also an institutional innovation. In extending loans small credit cooperatives used the scheme of the local community social network. For short-term and medium-term loans, it was sufficient to have co-signers that guaranteed for the loan, which was relatively cheap for both the borrowers and the cooperatives. Co-signers also had the role of the borrower's social supervisor. Long-term loans were usually secured by intabulation,³¹ which, however, raised costs. Co-signers were usually people that would not be acceptable for other creditors as, like the borrower, they possessed little or even no property that could be pledged, i.e., offered as a guarantee. Of course, the bigger credit cooperatives with large memberships had a harder time obtaining information about their debtors. In connection with this, the rarely seen practice of collecting information over a separate information network was interesting to note. Mihael Vošnjak also formed an interesting model of evaluating the borrower's creditworthiness, where the opinions of "people of confidence," "secret associates" or, better said, "intelligence agents" of the credit cooperative regarding the loan applicant carried significant weight. These "people of confidence" were not publicly known, except to the leadership, and were "deployed" throughout the credit cooperative's area of operations. The dispensing of loans was not always carried out according to objective criteria. Certain factors would frequently be overlooked if a "secret associate" guaranteed for the applicant. On the other hand, those labeled as unreliable or bad managers by "intelligence agents" were consistently rejected.³²

²⁹ Guinnane, *Cooperatives as Information machines*, pp. 367, 370.

³⁰ The case of the Ribnička credit cooperative is indicative. At the end of the 19th century, it was faced with a split among its membership. The minority portion demanded a reform of the cooperative, which was based on Vošnjak's principles. A portion of the membership demanded a reduction in the value of the stakes and, before all, that each member have a right to vote regardless of stake. They also demanded higher interests and the division of the reserve fund. In fact, the demand was for a redistribution of powers within the cooperative. It was not possible to resolve the conflict and, as a result, one member was expelled, after which the conflict ended. This was, in addition, the sole instance where a member was expelled during the cooperative's 50-year history. - *Spomen-spis Štedionice u Ribnici 1888-1928*, Ribnica, 1928, p. 22.

³¹ Ž. Lazarević, *Kmečki dolgovi v Sloveniji*, Ljubljana, 1994, pp. 110-113.

³² *Zadruga*, vol. 3/1884, p. 10.

By establishing an alternative model, cooperatives succeeded in including the broadest social segments within the mechanism of financial intermediation, segments that would have otherwise been excluded from it, or would have had a minor, one-sided role within it. The alternative model was based on small sums, small deposits and small (micro) credits at the lowest possible crediting costs,³³ which was a consequence of low, that is, the lowest possible costs of doing business. The cooperatives were small and, as a rule, without (or with very little) paid personnel. The model of merging the principles of a small community (association) and the collective entrepreneurial impulse quite evidently produced socially and economically relevant results. Members of cooperatives appeared in three roles: as owners, as creditors and as debtors. Cooperatives were under the power and the management of the membership. Since members were also producers, the degree of information asymmetry was lower. The tendency to limit information was lesser, because members stood on both sides of the transaction, which eliminated the moment of distrust and attempts to secure insurance from risk of insufficient information.³⁴ Thus, cooperatives were founded on a tight network of mutual relations within a local community (social capital!).

From being a peripheral phenomenon during the 1870s and 1880s, cooperatives grew into a significant and unavoidable factor on the banking market, and became an extremely important institution of financial intermediation. They participated significantly in retail operations, crediting and deposits. In 1935, credit cooperatives approved 41% of the total loan sum and attracted 44% of all deposits in Slovenia's bank sector.³⁵ The contribution of credit cooperatives was significant. They opened up borrowing to the most numerous population segment – people with low incomes and little property, who had been cut off from formal crediting. In that way, cooperatives made possible an investment cycle in the agricultural and craft sectors. The population gained the possibility to adopt new agricultural and practical methods and technologies in retail trade and crafts. At relatively low cost, and thanks to ordered property rights and the cadastral service, they also enabled the capitalization of agricultural properties, which often served as insurance in crediting processes.

For decades, credit cooperatives represented the simplest form of banking operations. Almost all their transactions included cash. Their balances were simple as well. Investments were, as a rule, loans, while claims were the deposits of members and others, as credit cooperatives also accepted deposits from non-members. In order to secure a loan, one had to become a member. During World War I, in addition to investments war loans were also made, as an expression of active

³³ Guinnane, *Cooperatives as Information Machines*, p. 386.

³⁴ M. E. Sykuta, M. L. Cook, "A New Institutional Economics Approach to Contracts and Cooperatives," *American Journal of Agriculture Economics*, Vol. 83, No. 5, 2001, p. 1276 (1273–1279).

³⁵ Ž. Lazarević, J. Prinčič, *Zgodovina slovenskega bančništva*, Ljubljana, 2000, pp. 160–163.

patriotism. These had to be written off later, during the Yugoslavian period. More intense changes in credit cooperatives started to occur in the interwar period, when the larger credit cooperatives began to follow the business methods of bank stock companies and began to credit the entrepreneurial corporate sector. Some credit cooperatives even transformed into stock companies. At the same time, as a whole, cooperatives entered the ownership structure of the most prominent bank stock companies, through auditing cooperative associations.³⁶

Looking back at the development of cooperatives, it is necessary to emphasize that they succeeded in developing because they overcame fundamental obstacles – the problems of lack of education and lack of trust. These elements were tightly linked and mutually conditioned. In spite of that, the cooperative movement fought on by the following means: 1. educating cooperative members, 2. establishing external supervisory mechanisms and 3. reducing risks with cooperative member pledges for cooperative obligations. The establishment of individual elements occurred simultaneously, as the system was gradually built. During the 19th century, cooperatives came into being out of the real economic and social needs of the deprived classes, in order to secure certain economic services in the area of crediting or production needs, on the principles of self-help, i.e., self-supply. Thus, most cooperatives, especially peasant ones, were run by people without any formal business experience and, usually, without particularly high education other than basic literacy. Bookkeeping experience was also quite rare. As a result, there was always a danger of mistakes and accompanying harm to business, which would hurt the cooperative's reputation and jeopardize its survival.³⁷ There were several paths to take in order to overcome this risk: 1. paying employees, 2. gradual replacement of cooperative leaderships, and 3. uniting into broader cooperative organizations.

Payment of employees was usual in the type of Slovene cooperatives championed by Mihael Vošnjak and organizationally founded on the Schulze-Delitzsch model. Slovene cooperatives run on the Raiffeisen model usually paid only the treasurer, modestly at that, and in later periods. In the initial period, cooperative work was rarely monetarily rewarded. Here it is worth mentioning that, initially, an exceptionally important role in the cooperative movement was played by teachers and, before all, the clergy, who were the only educated people in small provincial, rural regions. They took up the leading functions in cooperatives and were only very rarely monetarily rewarded for their work. They acted out of moral or social solidarity with the populace, with a desire to accomplish a mission. An important approach was the gradual replacement of cooperative leaderships, as members did not want to deny themselves the accumulated management experience and employ new, inexperienced members. The gradual replacement allowed

³⁶ Ž. Lazarević, J. Prinčič, *ibid.*, p. 149.

³⁷ T. W. Guinnane: "A Friend and Advisor: External Auditing and Confidence in Germany's Credit Cooperatives, 1889–1914," *The Business History Review*, Vol. 77, No. 2, 2003, p. 262.

the transfer of knowledge and experience. The function of treasurer was certainly the most prominent cooperative function, and the cooperative's success greatly depended on his abilities. His responsibility was great – he was responsible for the keeping of books and of precise credit and deposit records, for managing the cooperative account with the cooperative association, preparing loan documentation, proposing intabulations, preparing periodic business reports for the cooperative's management and the auditing association, etc. Bookkeepers/treasurers in the provinces rarely possessed specialized education – after all, where would a clergyman or a teacher acquire it?³⁸ Under such conditions, cooperative members and leaderships absolutely required outside help, someone who could rectify the errors made by cooperative members in bookkeeping, etc. So as not to repeat the errors, they required education in bookkeeping and other cooperative operations. Due to the limitations of the local community, they needed external impetuses for the introduction of cooperative best practices and knowledge transfer. Above all, cooperative members also needed public verification of their work, outside recognition that they were working well and transparently and that potential members, i.e., the populace, could trust them. These tasks were performed by cooperative/auditing associations which, as we have already noted, were mandatory in Slovenia after 1903, even though cooperatives had already previously joined together to form higher organizations and subjected themselves to voluntary business auditing. The educational function of cooperative associations was quite large. Cooperative members' business education was practical, with auditing reports and error rectification, as well as organized classes within the associations themselves. Classes mostly took place during winter, when the peasant workload was lighter. A significant leap forward occurred in 1909, with the beginning of organized and institutionalized education of cooperative members. In Ljubljana, a special cooperative class was established within the framework of the general school of commerce. They enrolled 30 students per year, who studied mathematics, cooperative law, cooperative governance and organization, cooperative ideology, accounting, the science of knowing merchandise, economic geography, basic economics and, of course, the Slovene language. Classes initially ran from the beginning of November to the end of March, but eventually expanded to the entire school year.³⁹

Education and the external supervision of cooperative operations certainly made a significant contribution to the establishment of trust regarding the work of an individual cooperative and the cooperative system as a whole. As we have already noted, when it comes to gaining trust we need to distinguish between the individual cooperative level and the systemic level. As an ideology and a practice, cooperativism was based on trust, which was possible to build in a small environment. As we have already said, cooperatives functioned on the principle

³⁸ T. W. Guinnane, *ibid.*, p. 245.

³⁹ *Zadružni leksikon FNRJ*, Knjiga II, Zagreb, 1957, p. 1472.

of knowledge of the local community and the social networks. However, this was not enough, especially in the domain of credit cooperatives, where trust was exceptionally important. The tool for establishing trust was the guarantee for the cooperative's obligations. And this guarantee was a potentially large obligation for the members, especially in Raiffeisen-type cooperatives, where the gap between short-term sources and long-term claims was more pronounced than in cooperatives of the Schulze-Delitzsch system. That could have been a fatal trap. Bad news about lack of liquidity would chase away the investors and new members that had secured the majority of the credit fund. All members carried a part of the responsibility and guaranteed for the cooperative's obligations (especially the deposits). In theory, an unlimited guarantee encompassed all the members' property. A limited guarantee was easier on the members, but they still carried a potentially large burden, since the cooperative stakes in that case were high. The example of the Credit Cooperative in Ribnica, a Vošnjak-type cooperative, which had a limited guarantee, is interesting. In 1909, rumors began spreading throughout the Ribnica district to the effect that the limited guarantee did not ensure the safety of the population's deposits. The cooperative management's reaction to increased money withdrawals was to guarantee deposits not only with members' stakes but also with the property of the management itself.⁴⁰ There was, thus, a real danger that some members might lose all their property.⁴¹ Fortunately, few cooperatives failed in practice and the ones that did had few deposits. Cooperatives tried to secure themselves from such risk through mechanisms of social control and, as already mentioned, by joining together in associations. As for social supervision, it is worth noting the importance of gaining new members – the kind that did not urgently need a loan. Such members, especially if they could be drawn into the management bodies, represented, as a part of the local center of economic, social and political power, an important guarantee that debtors would not be taking over the cooperatives and accommodating operations to their own needs, thus encouraging others, including non-members, to invest money in the cooperative. Precisely this type of member, who had the interest of his stakes' security, was at the same time the most motivated to warn of non-dedicated credit spending.⁴² The second path was represented by the cooperative associations. Since cooperatives were small as a rule, they were exposed to the risks of illiquidity and public distrust, just like all financial institutions. Regional organizing was formed (with the establishment of external supervision, mutual solidarity, education, risk division, flow of information and resources, etc.) so as to allow the overcoming of this limitation. The central bodies were a sort of regional bank, accepting smaller cooperatives' surpluses and using them to grant loans to local cooperatives. By joining a coop-

⁴⁰ *Spominski spis Posojilnice Ribnica*, p. 23.

⁴¹ T. W. Guinnane, *ibid.*, p. 240.

⁴² T. W. Guinnane, *ibid.*, p. 371.

erative auditing association, cooperatives obliged themselves to respect certain rules, in exchange for which they would receive help in case of illiquidity, information and educational possibilities. Still, the cooperatives continued to maintain interest rates, maximum loan amounts and most business policy matters at a respectable level.⁴³

6. Social contexts

In a portion of Slovene society, the development of cooperatives, especially those based on the Raiffeisen model in the organization of the Catholic grouping, was causing unease.⁴⁴ Objections focused on three moments: the engagement of the clergy, the activity of consumer cooperatives and the cooperatives' weak leadership. Objections were directed at the following: 1. the clergy was neglecting its basic spiritual mission among the populace in favor of working in cooperatives, especially in consumer cooperatives; 2. cooperatives were being instrumentalized in favor of political and narrow party goals; 3. consumer cooperatives represented unfair competition to other trading shops; 4. the supply of cheap merchandise, especially liquor (wine, brandy) stimulated "inappropriate" consumption, alcoholism and immorality, instead of affirming social values; 5. the lack of qualifications of the clergy and the consumer cooperatives' membership for running commercial operations, which was reflected in poor or sloppy bookkeeping.⁴⁵ These objections give us a picture of important social issues within a broader context. I can, thus, posit three theses on the characteristics of the content and the broader social backgrounds of the debates about cooperatives at the turn of the century. These debates came down to the following: 1. choosing the development model of capitalism, which revealed itself as a conflict between the rural and the urban; 2. redefinition of the national economic interest; and 3. democratization of consumption through the mechanism of regulation.

Debates about cooperativism need to be seen as a clarification of views regarding the development model of Slovene capitalism. They represented a face-off between protagonists of two paths, two choices. The actors of the debate placed the choice between the corporate and the individual (that is, entrepreneurial) model of capitalism at the forefront of the social dilemma. On the other hand, due to the structural characteristics of society and the economy, this also meant a conflict between the urban and the non-urban parts of Slovene society,

⁴³ T. W. Guinnane, *Cooperatives as Information Machines*, pp. 369-370.

⁴⁴ A similar debate took place in Germany as well, a turbulent debate on the lack of business solidity of various Raiffeisen-type cooperatives. The interesting thing to note was the very low number of business bankruptcies among cooperatives. T. W. Guinnane, "A Friend and Advisor...", *ibid.*, p. 239.

⁴⁵ I. Nevesekdo (Ivan Tavčar), *Izgubljeni bog. Resnična povest, tiskana z nedovoljenjem visokočastitega knezoškofijskega ordinariata*, Ljubljana, 1900.

manifested as a feeling of potential vulnerability on the part of urban, commercially based economic structures. The peasantry began its economic emancipation when, in their second stage of development, cooperatives spread to the provinces. Through their own organizations, peasants were entering the market and capitalist relations, alongside the ordinary middlemen. Thus, the debate about cooperatives revealed a clash of two interests, two concepts embodied in the political, ideological and interest dichotomy of the Catholic and the liberal sources. It was a local struggle, a fight for the local definition of capitalism.

The liberal side represented the interests of the more entrepreneurially oriented part of Slovene society, while the other side sought to enter capitalism in an organized way, through cooperatives, i.e., in the form of corporations. Cooperativism, especially of the Catholic variety, with its greater emphasis on non-credit cooperatives, were heralding an evident shift of economic power inside the Slovene space, due to political centralization and the redirection of the money flows. Since it was a small business structure, even the smallest shift in the flow of money, reflected in falling demand vis-à-vis the previous suppliers, represented a large disruption in business.

Looking briefly at consumer cooperatives or associations, as they were then called, it is necessary to point to some additional views. Consumer cooperatives, i.e., cooperative stores in the provinces within the Cooperative Association or in cities under the organization of the Social-Democratic party, certainly played an important role in supplying the populace with everyday life, domestic and economic needs. And, of course, with their competitive activity, they threatened the already established commercial business, especially retail sales in the provinces.

Through consumer cooperatives, their propagators and practitioners sought to lower the prices of everyday needs, to exclude the large and small merchants. Namely, the purchasing of merchandise was centralized through cooperative associations. Such an approach, of course, secured significantly better purchasing and, thus, selling terms. The entire system of consumer cooperatives was based on the lowest possible costs with minimum profit – when they were not satisfied with merely covering costs. In this way, consumer cooperatives were able to offer much lower final prices. The lower prices were supposed to help strengthen purchasing power in the provinces and worker communities, even if their income did not change. And, as a consequence, peasants could set aside a bit more for much needed investments, and workers for the betterment of their everyday existence.

Thus, cooperative-based commerce threatened the existing merchants, as it lowered profit margins and, consequently, slowed capital accumulation. In addition, cooperativism was being established on the principles of the capitalist economy. By utilizing economies of scale and comparably lower costs and profits, they were bringing down the established model of slow capital accumulation in Slovenia. Fragmentation and small business volume increase costs and require

large profit margins for the capitalization of profits. And this was precisely the picture of Slovene commerce – fragmented, with a low level of concentration. In small shops, the owners worked alone, helped only by their families, all day and with minimal costs, with modest inventories and in modest premises. They were economically threatened by the smallest shifts in demand. Such a structure had a pretty difficult time in keeping up with the cooperatives' economies of scale.

It is easier to understand the objections to consumer cooperatives on this interpretative basis. National/nationalistic homogenization was acting against foreign competition. But the defensive position was much harder to argue once the protagonists of domestic capitalism gained domestic competition. It is surprising that entrepreneurial argumentation was not at the forefront, but rather questions of morality and national and inter-class solidarity. This was a pre-modern standpoint of rejecting the fundamental postulates of the capitalist economy. Tendencies towards political arbitrariness and the subordination of the economy to the political system were recognizable. The political system was supposed to act as the coordinator of economic relations within the Slovene community. Opponents did not judge the phenomenon of (consumer) cooperativism from the standpoint of social and economic efficiency and the benefits stemming from it.

At the same time, the debate about consumer associations also meant a redefinition of the national economic interest. As a Slovene national interest, cooperatives were possible and existed only during the time of national homogenization which had a clearly defined external enemy (Germans!) against which to seemingly or temporarily set off the economic interests of social classes or individuals. As we have seen, cooperatives, especially the consumer associations, marked the beginning of pronounced interest-based profiling, which also found expression in ideological orientations and political preferences. And this interest-based profiling was directly destroying the understanding of the national interest in the economic sphere as well. Cooperatives are a typical example in this sense. While political agitation was redirecting consumers from German to Slovene shops, the satisfaction on the Slovene side was universal. And then, almost at once – nothing. This spoke of the relativity of ways in which national interest was understood, served as testimony of the extent to which that category was dependent on its own position, interests, aspirations and perceptions. It spoke volumes about the conflict between the interests of individuals, social classes and interest groups, and the goals of the general interest. It spoke about how partial private interests were equalized with general social goals. As the debate testified, for a portion of Slovene politics and the Slovene population, some cooperatives suddenly no longer possessed the legitimacy of a Slovene national interest. On the contrary, consumer cooperatives were supposedly harming the Slovene national interest, as their competition with the existing merchants was acting against the Slovene national interest, as seen by Slovene merchant representatives.

Within the broader context, we should also deal with the development of consumption. Here as well, consumer cooperatives represented one of the steps on the road to a consumer society. The majority of the Slovene population was very poorly integrated into consumer flows at the turn of the century. The level of demand was low due to insufficient purchasing power, as Slovenia was more poor than not at that time, i.e., far from qualifying as a consumer society in the true sense of the word. Testimony to this were indicators such as the earnings of the largest populace, the peasants, as well as of the workers, the second largest consumer group. These two segments lived a more or less impoverished existence, mostly focused on the bare existential minimum. Also contributing to the low level of demand was the way of life, which was at the same time the product of economic conditions and the traditional (non)consumer mentality, which dictated the greatest possible use of the purchased product, whether crafted or industrially made. Almost as a rule, clothing was purchased once or twice in a lifetime and, not infrequently, after becoming worn out it would be repaired and transformed into children's clothing, thus further extending its lifespan. It is known that shoes were worn until even repair couldn't keep them from falling apart any longer, furniture was passed on from one generation to the next, while a personal bed was an unattainable ideal for most of the populace. We could go on and on, without exhausting the list of manifestations of the modest material bases of life in Slovenia of the time. Consumer cooperatives also meant a democratization of consumption in terms of consumers' active participation in the institutional and cultural sense. Cooperativism made this possible. Namely, cooperative members had a twofold role: as suppliers of consumer goods and as consumers. Ideological and economic regulation of consumption was not wholly autonomous to begin with, as the decisive role was still played by the cooperative associations' leadership. Nevertheless, cooperative members' possibility or feeling of participation was incomparably greater than in the case of classical commerce, where the local merchant was the monopoly arbiter.

Hence, it is also possible to understand the debate about consumer cooperatives as a struggle for the regulation of consumption. Not only for control over the flow of money, but also for the social meanings of consumption. Consumer cooperatives represented an alternative to the existing commercial network and broadened consumption, albeit minimally at that time, but still did, since their leaderships better sensed needs and the appropriately accommodated supply. Consumer cooperatives were a step toward abandoning the individual peasant-based, mostly self-sufficient economy. And with them, a new form of social self-sufficiency was being established – class sufficiency, as economic life went on within a bounded cooperative organization (credit, selling, buying) and, through centralized structures, integrated itself into the capitalist economy without the intermediation of local, already established structures.

7. Conclusion

As we have seen, theorists and protagonists of cooperatives sought to change society to a greater or a lesser degree. Cooperative leaders spoke globally, while the cooperatives' membership acted within larger or smaller communities.⁴⁶ That is why society and the economic order as a whole did not change, but only reordered themselves slightly within the existing order. An interesting paradox appeared – the anti-capitalist rhetoric and publications of the protagonists of cooperative work were diluted by the fact that cooperatives themselves rested on the fundamental postulates of the capitalist economy and the liberal order, even while acknowledging the advantages of economies of scale on the local and regional or supra-regional level. They did not negate individualism but only redirected it into a synergy of individual benefits and the benefits of the cooperative community as a whole. This was the way to ensure the economic survival of representatives of the civil middle classes and especially of the most populous peasant population. Over a certain period, cooperatives doubtlessly succeeded in that domain as well. They became an efficient way of integrating lower social classes into civil society and the capitalist economy. Here we must, of course, caution that this success was diluted by the great economic crisis of the 1930s. Credit cooperatives were powerless due to illiquidity and, in their struggle to survive, they primarily dealt with their own problems and waited for help from the state. And the entirely peasant production cooperatives (dairy, livestock, fruit, etc.) that were supposed to enable and facilitate, in an organized way, peasants' entry into the market, did not become well-rooted. Only five percent of Slovene peasants had stakes in them, and their trade volume was quite modest. Many of them failed during the crisis, while those that did survive looked more like lone, individual attempts than the fruits of planned work.

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⁴⁶ Fairbairn, *History from the Ecological Perspective*, p. 1224.

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VALORIZATION OF CULTURAL HERITAGE IN THE CONTEXT OF A SOCIAL POLICY OF SUSTAINABLE DEVELOPMENT**

– Developmental and economic potentials
of cultural tourism –

Summary

The paper analyses cultural tourism as a generator of economic development. Namely, cultural tourism is seen as a part of broader social activities, which are covered by the notion of cultural economy. These activities aim to link the cultural potentials of a region or a country with business ideas and to transform them from consumption factors to generators of sustainable development. The fact that all indicators say that tourist consumption is much higher in areas with a substantial cultural heritage is of key importance for Serbia.

Key words: *cultural tourism, cultural heritage, sustainable development, Serbia*

JEL classification: Z10, L83

All that is human is composed of continuity.

Andre Shestov

1. Introductory remarks

It seems that today's industrial society is no longer able to achieve its basic goals – economic growth and material enrichment, at the level of its previous results. The reasons for this should be sought in the fact that, in its orientation towards economic growth, industrial society has neglected the social processes that aided the achievement of the said results. Decades of greed embodied in the favoring of the free market, business and financial monopolies, speculation and irresponsible banking, class domination and war profiteering, have additionally

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increased social differences and the gap between the rich and the poor.¹ The forces of production that were identified with the industrial period and, on the other hand, the consumption of industrial goods that follows them and renews their power, have gradually exhausted their developmental potentials. Also, it has turned out that maximization, as one of the key principles of the industrial order, has a limited range, and that new mechanisms must be sought in order to establish a new, all-encompassing socio-economic “package of goals” (Adižes).

It seems that social goals no longer necessarily assume rapid economic growth. Instead, talk is more and more oriented towards the categories of “ecological economics” or the “steady state economy,” which would function in the interest of the entire population, satisfying the needs of each individual, with the lowest possible consumption of material resources and energy. Such a project assumes social organization according to the principle of a closed ecosystem. The development of such a social community occurs within the community itself, in accordance with natural laws, which make it functional, balanced and self-sustaining. Differently from the industrial economy based on physical growth, ideas regarding new concepts of sustainable social development see the changed image of the economy of the future in its reorientation towards the “mental, moral and spiritual field” (Herman Daly).

As for industrial production, its potentials, which have been relentlessly drawn from so-called non-renewable resources, are near exhaustion: *From the beginning of the 18th century, the use of natural sources has increased by a factor of 30. During the last forty years alone, the consumption of mineral resources has tripled and, since oil has come into use, 900 billion barrels have been burned.*² In one year alone, the US consumes the same amount of mineral energy, oil and coal that nature needed a million years to produce. With the current dynamic of exploitation, it is estimated that planetary reserves of all kinds of mineral fuels will not last longer than the next 30 to 50 years. Having realized the negative effects of industrialization, John Stuart Mill almost prophetically warned of just such an outcome back in mid 19th century, in his work, “Principles of Political Economy,” claiming that, in the long term, only *human activities that do not involve unreasonable consumption of irreplaceable materials, or do not damage the environment irrevocably* could be developed in the long term.

Industrial technologies have also practically reached the maximum of their productive efficiency.

Consumption, which kept renewing production with its potentials, also neared its zenith in the final decades of the 20th century. The market is no longer able to absorb everything that is produced. The rule that “every product has a buyer” no longer applies. It appears that the production and consumption

¹ In the US, which is considered to be the ruling society of the industrial order, 1% of the wealthy populace earns more than 25% of the entire US economic output.

² Ž. Atali, *Kratka istorija budućnosti*, Arhipelag, Beograd, 2010, p. 122.

of industrial goods are no longer occupying the central place of human activity and are, thus, no longer the pillars of social progress.

While circumstances change quickly, the human ability to follow these changes, to develop new relationship frameworks, “new models that relate to the new reality – in short the ability to accept is limited” (Adižes). This is certainly related to human cognitive, evaluative and conceptualizing abilities, but also to the fact that we are dealing with numerous “discontinuous changes” (Drucker) that are seemingly unrelated to each other – *radically new concepts, surprises and turnovers that require many years for readjustment within political, social and economic flows*.³ The consequence of the lack of balanced change is that the system is beginning to show certain “socio-economic cracks” (Adižes). This means that the values that determine our behavior and our system conceptualization do not always and fully match the environment in which we live, because the true meaning of social reality for “the man of production and consumption” is often unfathomable – *man is truly no longer the master of the world he has built*.⁴

Although both the framework and the contents of social life in the new era have substantially changed in comparison with the industrial epoch, certain industrial models still persist. Why? Because not all forms and contents of social life rooted in industrial forms of production and consumption have been completely abandoned. Traditional models have not completely exhausted their reproductive force and continue to appear as promising in certain segments, especially under conditions where it is hard to understand the true meaning of new phenomena.

If production and consumption were the fundamental determinants of the industrial epoch, what are the cornerstones of the new age?

The obsolescence of the industrial concept has necessarily put in motion an unstoppable process of change. In search for new resources and new technologies, and of course new markets, developed societies are moving further and further away from the industrial concept – in all its dimensions. The mechanical-electrical technologies on which industrialization relied are being succeeded by better and incomparably more efficient electronic technologies that belong to the new post-industrial concept.

Also, old non-renewable resources are being replaced by new ones. In that context, along with new and renewable energy sources, the present age most often advocates and emphasizes the role of *knowledge, information and art*. Already today, these resources are increasingly becoming a means of developing a new social consciousness that fits the new reality. They are the key potentials needed by society in order to interpret changes in the environment and adapt to them.

³ Dž. Nesbit, *Mentalni sklopovi – Promeni okvir i sagledaj budućnost*, Megatrend univerzitet, Beograd, 2009, p. 230.

⁴ E. From, *Bekstvo od slobode*, Naprijed, Zagreb – Nolit, Beograd, 1984, p. 87.

It is clear that the paths of the creation of information, knowledge and artistic values are long-lasting, complex and expensive. It is, thus, worth asking whether human society already possesses a certain quantity of these resources that can be put into the function of its sustainable development.

The impression is that, in our general fixation upon the future and new technologies, we have to a large extent overlooked the fact that the greatest sources of information, knowledge and artistic values actually lie in the accumulation of various results of human creative and active engagement, among the social contents that are defined by the cumulative concept of *cultural heritage*.

Any sort of thinking about cultural heritage inevitably leads to associations with the past and antiquities. In its essence, cultural heritage is indeed oriented toward the past, testimonies of human continuity and the cultivation of a “culture of remembrance.” Orientation toward the past and bygone times is, however, only one dimension of cultural heritage. The broader, deeper and in any case more current meaning of cultural heritage should be seen in its relations with the present, as well as in pronounced efforts to anticipate the future on the basis of experiences from ages past. Man needs to establish an adequate relationship with the past so that, both today and tomorrow, he can behave and act according to the measure of his socio-historical role. A particular synthesis of the past, present and future is realized through cultural heritage. Consequently, a consideration of the various characteristics and potentials of cultural heritage is not just a conversation about the past but also about the present and the future.

In contemporary society, which is increasingly turning toward new resources and in which the carriers of developmental changes are no longer the classical models of industrial production, whose role is now being taken over by processes with post-industrial characteristics, in which knowledge and information are becoming the central resources, the *communicational function* of cultural heritage is gaining in importance. If information is indeed the central product of the society of the future, along with mass communication media that are the main intermediaries in the dissemination of various knowledge, lessons and entertainment in the society of the new era, cultural heritage contents must also be supported by adequate organizational structures and practices that will be able, by way of adequate cultural communication and mediation, to fully respond to the creation of *knowledge*. Cultural heritage is a treasury of inexhaustible knowledge and rich experience. Objects and contents that represent the past can satisfy various human interests and forms of curiosity. It is often the case that the search for answers to the anxieties that are the result of the excessive dynamicity of contemporary existence takes place precisely with the framework of past times. Finally, many museum and monumental spaces are also viewed as particular types of oases in today’s turbulent environment.

However, the social role of cultural heritage as a recognized resource of the new era is no longer exhausted on the plane of communication, presentation

of artistic values and knowledge acquisition. The “hunger for culture” associated with the increased quantity of “liberated time” is viewed as a condition that encourages new forms of tourist practice known as “cultural tourism,” within which cultural heritage content holds the central position. Within the context of cultural tourism, cultural heritage contents are actively manifested as carriers of significant *economic capacity*. Apparently, the true economic effects realized in certain social environments through the inclusion of cultural heritage content in the business cycles of cultural tourism are not directly proportional either to the quantity or to the objective, i.e., universal values of the available cultural heritage. Our own social environment is characteristic precisely in this sense. What is noticeable at first glance is the lack of an active social policy and of strategic projects that would confirm the recognition of the important and manifold developmental potentials of the national cultural heritage – which would also assume their inclusion in business-economic activities that contribute to sustainable development and economic enrichment.

2. Heritage – testimonies and symbols of human continuation

The concept of heritage⁵ is of very ancient origin and is considered to be a creation of Roman civil society. In the historical context in which it emerged, heritage, i.e., *patrimonium*, denoted material values, that is, property belonging to an individual. The meaning of this term in the course of further historical development, which also included the transformation of private property into public property, became much broader and more complex, without losing any of the previous meanings.

From its initial denotation of property and, subsequently, material remains of the past, the concept of heritage has expanded to denote non-material values as well. Over time, the concept of heritage evolved into a symbol that more denotes the cultural and traditional non-material dimension of the object of denotation than its material dimension. *In other words, heritage refers more to the non-material, whether or not it is intermediated by a material or a non-material path. That means that the values of heritage can be intermediated by way of material means, but that the essence of its meaning lies in the non-material within the material.*⁶ Thus, the values of objects or structures that belong to heritage *should not be sought in the items' objective value, but in their ability to communicate value.*⁷

⁵ Heritage (lat. *patrimonium*) – certain, i.e., selected objects and phenomena that came about as a result of systematic human activity, which are by their characteristics carriers of aesthetic, historical and documentary values of an epoch or social context; in medieval Serbia, it denoted a heritable good disposed of by individuals (nobility) or the church.

⁶ I. Maroević, *Kulturna baština između globalnog i nacionalnog – umjetnička djela kao povezujući čimbenik*, p. 397.

⁷ V. Vercelloni, *Museo e comunicazione culturale*, Editoriale Jaca Book spa, Milano, 1994, p. 12.

Heritage does not encompass the entire historical legacy. The term “heritage” refers only to those material and spiritual creations that are carriers of a “human value act,” which contain a recognizable “social measure of value” or “everything that is worth saving and preserving for the future.” In the culturological sense, heritage is a carrier of “contextual values” (Mason), which came about from the interaction of the object with the context and, as such, it allows *knowledge* about the context to which it belongs. This potential is exploited in the process of inheritance towards the goal of satisfying various human needs, in the first place educational and aesthetic, and, in more recent times, economic.

It is hard or almost impossible to equalize, i.e., standardize value judgments. Efforts at agreeing on and forming a “catechism for the recognition of a cultural good” were seen during the 19th and the beginning of the 20th century, in the works of Alois Riegle and Max Dvořák. The most frequently mentioned characteristic in the process of assigning monumental value to an object or a structure is – *age*. Just by being old, an object awakens a particular mood within us, which brings us into spiritual contact with the context to which it belonged, with long-past times, events and people. The psychological motive on the basis of which monumental value is assigned to an object or a structure is contained in the *impression and mood* that “values of antiquity” produce inside a person.

The criteria of Riegle, Dvořák and their followers would subsequently broaden to other characteristics of antiquities – *originality, authenticity, rarity, aesthetic or artistic value*.

With the goal of broadening the standardization of heritage, UNESCO, the international organization entrusted with care for the cultural heritage, adopted the *World Heritage Convention* in 1972 and, on that basis, the *Convention Rules of Procedure*, which established unified criteria for defining goods that belong to the world’s cultural and natural heritage.

The most important condition that a cultural good must satisfy in order to be entered on the *World Heritage List* is that it *possesses exceptional universal value*. The world heritage belongs to all the world’s people, independently of territory (place) and, thus, has a universal character. It is precisely that criterion that distinguishes world heritage from national heritage.

The Convention establishes a definition of cultural and natural heritage (Art. 1 and 2):

The following shall be considered as “cultural heritage”: monuments, groups of buildings and sites that are works of man. Natural heritage encompasses natural features, geological and physiographical formations and natural sites or precisely delineated natural areas of outstanding universal value from the point of view of science, conservation or natural beauty.

The obligation of each member state of this convention is to identify and delimit the goods located on its territory, which have been enumerated in these definitions.

Cultural heritage, just like heritage or legacy as a whole, has two dimensions:

- material and
- non-material.

This tells us that it encompasses the most important values of material human creativity, but also inherited non-material values: *Non-material cultural heritage includes practices, depictions, expression forms, knowledge and skills as well as the associated instruments, items, artifacts and cultural spaces – recognized by communities, groups and, in some cases, individuals as part of their cultural heritage.*⁸ Non-material heritage is particularly manifested in oral traditions and forms of expression, performing arts, social customs, rituals, knowledge and skills associated with traditional crafts.

From the most general division of heritage into material and non-material heritage follows the same division of cultural goods – into material and non-material cultural goods. Further division classifies cultural goods into movable and immovable cultural goods.

If we are talking about objects of heritage that are classified as *movable cultural goods*, these fall under the competence of institutions that are caring for them *in fondo* (with a change from the original environment), such as *archives, film archives and libraries*.

Non-movable cultural goods, which include cultural monuments, space-historical entities, archeological sites and memorial sites, are under the *in situ* care (in the environment of their existence) of *institutes for the protection of monuments*.

For contemporary museology it is no longer decisive whether a museum object is a movable item located in a museum (*in fondo*) or outside of a museum space (*in situ*), i.e., within the natural framework of the heritage – if it is, by itself, a carrier of museality, i.e., museal values. Boundaries and differences are practically disappearing between museality as a museum object separated from genuine reality and transferred into a new, museum environment, and a cultural item in the broadest sense (cultural monuments), which is a real object that documents the reality in which it originated and in which it is presently located.

Inheritance itself, “as a designation of an area of occurrence” (D. Bulatović), as a term that denotes a process, is actually the central area of engagement associated with the recognition, collection, preservation, processing and presentation of cultural heritage. If that process, as is most often the case, takes place continuously and within an institutional environment, then we are referring to activities of institutions responsible for the protection and use of various cultural goods.

⁸ The UNESCO Convention for the Safeguarding of Intangible Cultural Heritage, adopted in 2003, was ratified by the National Assembly of the Republic of Serbia on May 5, 2010.

3. The economic capacity of cultural heritage

In today's social environment, characterized by the domination of the economic-market framework of existence, the initial interpretation of heritage as *patrimony*, i.e., *ownership* over a good that has its own economic value, is once again gaining currency. Historically standardized criteria of valuation are, thus, being joined by one more – the *economic* criterion.

The economic valuation of heritage is, to say the least, as complex and uncertain as the economic valuation of products of artistic creation, since it requires consideration of a number of categories that do not correspond with the value system of inheritance. In this domain, we will not recognize that sort of use value that serves to satisfy direct, pragmatic human needs, on the basis of which we could determine market, i.e., economic value. Even in cases when the item had a practical function before musealization and, thus, a use value due to which it had been created in the first place, it loses it in the process of musealization, while gaining a new use value that belongs to the museological context – use that has the goal of *experience, knowledge acquisition and enjoyment* (E. Paj).

Just as for works of art “aesthetic value” is primary, heritage possesses, beyond economic value in the narrower sense, a “non-use,” i.e., “cultural value” or “contextual value” that does not belong to the object itself, but is a product of the interaction between the object and the context – as a “value of existence, a value of choice and a value of legacy” (Mason), a “characteristic of an antiquity that is a value in itself.” It is, thus, more a matter of something that exists within the human value system as a psychological rather than a real phenomenon. Perhaps, for this sort of value, it is ultimately acceptable to say – *value is a characteristic of something that is valuable*.

In all ways, the valuative dimension of heritage is a complex and polyvalent category.

If we go back to the concept of “knowledge” as the central category of inheritance, then *information* is the basic value that can be associated with heritage. This circumstance associates the values of heritage with contemporary social practice which, as we know, recognizes information as a significant resource, but also as merchandise.

The increasingly intense orientation toward the economic dimension of heritage is also confirmed by the Framework Convention on the Value of Cultural Heritage for Society, adopted by the Council of Europe in 2005 and ratified by Serbia in 2007. The Convention interprets heritage as a *resource of sustainable development*, thus introducing typical business-economic categories into this area in the most obvious way. Despite the fact that the economic dimension of heritage is being treated as a value that is, like other heritage values, in the service of social welfare, it should nevertheless be observed that the contemporary age has promoted another new, i.e., economic way of heritage valorization. The

above-mentioned issue of “sustainable development,” which is most directly associated with the economic valuation of heritage, shifts the focus of valorization to a certain degree, associating heritage with the broadest area of social policy and economy. It is obvious that the predominant circumstances of the contemporary age are pushing the heritage sector, especially the museum community, into new modes of activity that portend the necessity of accepting the laws of the market. The economics of museums has always given rise to thoughts about costs and budgetary outlays. However, the idea about contemporary museum activity is increasingly approaching the categories of business and the business sustainability of these institutions.

Insistence on linking heritage with economics is especially reflected within the specter of activity marked by the term “cultural tourism” – of which more will be said below.

4. Cultural tourism as a generator of economic development – the “Bilbao Effect”

Liberation from the world of industry has itself become established as an industry, travel from the world of merchandise has itself become merchandise.

Hans Magnus Enzensberger

Despite the fact that movement and travel have always been a part of human existence, and that they have practically always been an important condition of human preservation, tourism and tourist travel are phenomena of more recent times. *Travel is one of the oldest and most general phenomena of human life; it is possible to trace it all the way back to the mythical past. People have always traveled... People have been compelled to travel by necessity, biological or economic compulsion... Travel as adventure, as an end in itself, was unknown deep into the 18th century... During the 18th century, travel was increasingly losing its strict purpose.*⁹ The ancient temporary and occasional travels away from home were moved by various motives – hunting, exploration of the nearer and farther surroundings, tours of religious and cultural places, visits, healing... Along with social progress, especially from mid 19th century on, these phenomena, once mainly the activities of enterprising and wealthier people, gradually became more mass-based, more frequent and filled with more content. In the ensuing search for enjoyment and new, extraordinary experiences, these activities took on the character of what we have come to know as “tourism.” Today’s statistics tell us that more than a billion people per year undertake tourist travel.

⁹ H. M. Encensberger, “Jedna teorija turizma”, *Kultura*, No. 60–61, Beograd, 1983, pp. 16-17.

Tourism and tourist movement assume the fulfillment of at least three pre-conditions:

- free time,
- surplus money needed to engage in tourism,
- infrastructure (everything that serves touristic purposes)

Only the newer era, thanks to the overall social development, has been able to secure the above conditions for large numbers of people.

With time, the motives behind tourist activities have become increasingly diverse. As a result, the organization of tourist offers has evolved in the direction of so-called *thematic tourism* – religious, hunting, health, speleological, rural, enological, etc.

Although certain culturological motivations for undertaking travel were also present in earlier ears – Dionyssian festivities, Olympic games, Roman festivals, pilgrimages to temples of worship and holy places – only the second half of the 20th century has seen an intensification of individual as well as mass tourist movements motivated by various cultural contents, museum visits or tours of cultural movements, by so-called cultural tourism, which denotes *movement of people motivated by cultural attractions away from their usual place of living, with the intention of collecting new information and experiences in order to satisfy their cultural needs*.¹⁰

In essence, cultural tourism represents a part of a broader body of social activities, encompassed by the concept of cultural economics, whose goal is to link cultural potentials with business ideas and transform them from factors of consumption into generators of economic development. All indicators show that touristic consumption is much higher in places with significant cultural treasures. *Cultural tourism is a phenomenon that, by definition, allows places that are not exclusively touristic and do not see tourism movements throughout the year to offer touristic content thanks to their cultural and artistic potentials*.¹¹

Cultural tourism also represents a specific form of the tourist economy's response to the various demands and cultural needs of different social groups: *the tourist industry has developed a large number of forms of travel and sojourn tourism within the framework of cultural tourism – trips into history, to other lands and regions, trips that allow the study of a specific sphere of art or the life and work of a particular artist, seminar-trips, nature trips, adventure trips, and various forms of sojourn tourism: recreational-creative, communicational, etc.*¹²

¹⁰ *Planning Cultural Tourism in Europe*, Boekman Foundation, Ministry of Education, Culture and Science, Amsterdam, Holand, p. 5.

¹¹ V. Đukić Dojčinović, *Kulturni turizam – menadžment i razvojne strategije*, Klio, Beograd, 2005, p. 10.

¹² M. Dragičević Šešić, "Turističke potrebe kao kulturne potrebe," *Kultura*, No. 60-61, Beograd, 1983, p. 168.

There are several basic and important aspects that justify the symbiosis of culture and tourist activity:¹³

- *economic* – cultural tourism allows the entrance of culture into the tourism market;
- *organizational* – intersectoral connection, that is, establishment of a partnership between culture and tourism;
- *tourismological* – the movement of tourists is guided by cultural reasons and toward places that are not touristically developed;
- *culturological* – promotion and revival of cultural values and goods;
- *educational* – tourist trips become an occasion to learn something new;
- *marketing-promotional* – allow the management of the reputation of a place, region or state, founded on cultural values.

Of the utmost importance for our analysis is to identify the relations of cultural tourism practice that point to the possibility of making a meaningful connection between economic and culturological functions.

Tourism and contemporary culture have at least one common characteristic – they are *mass-based*. From this stems a second common feature – significant *economic potential*. Statistical indicators from the last decade of the 20th century show that tourism ranks as the third, and culture, i.e., the so-called creative industries, as the fourth sector in terms of growth within the world economy. The share of tourism in the gross domestic product of European Union member states equals 4%.

The more intense worldwide development of the tourist economy is associated with the post-World War II years. The mass character of tourism became especially manifest during the 1950s and 1960s – first domestically and then on the international level. The annual growth rate in tourist travel during those years equaled 10.9%. In more recent times, this growth rate has settled at around 3%, which is a level that few other activities can match.

Today, within the framework of so-called international tourist movements, almost a billion people per year undertake cross-border tourist travel, and the economic worth of that activity exceeds 500 billion dollars. To this data should be added those that refer to national (domestic) tourist movements, which are 3 to 4 times larger than those of international tourism. It is apparent that tourism has grown into a highly profitable economic branch, the so-called *hospitality industry*.

In their tourist movements, large numbers of people are motivated by cultural heritage. As a result, more than a half of international tourist trips are associated with Europe. European countries with an exceptionally rich and well-organized

¹³ V. Đukić Dojčinović, *ibid.*, p. 15.

cultural heritage, such as Italy¹⁴ and France,¹⁵ are experiencing a huge volume of tourist visits precisely thanks to their cultural heritage. However, the fact that the United States has the highest annual earnings from tourism (over 75 billion dollars) tells us that, in addition to cultural heritage, exceptional business ability and enterprise are also needed in order to secure high earnings in this branch.

Throughout the world, there are exceptional examples that confirm the great economic potential of cultural heritage that is activated through forms of cultural tourism. In the countries of the European Union, the share of cultural tourism in total earnings from tourism equals almost 35%; directly or indirectly, cultural tourism employs 11% of the European population.

The most prominent example of this is certainly the city-museum of Florence, whose economy has been largely based on cultural tourism for decades. Large economic effects are also tied to the area around the pyramids and the Valley of the Kings in Egypt, the Acropolis in Athens, the Louvre in Paris, the cultural monuments of the Mayas and the Incas, etc. Naples, with the ancient Roman city of Pompey, buried under lava and ash during the eruption of the Vesuvius volcano in 79 AD, located in its immediate vicinity, earns 130 million euros a year just from ticket sales to the 11 million tourists that come each year!. Of course, this is in itself fairly logical, since the cultural-historical potential of these locations is representative of the cultural heritage of all of humanity.

Much rarer are the examples of culturological contents outside of the narrowest circle of rarities and the world cultural heritage list that have managed to impose themselves and achieve results in the area of cultural tourism. One such example is the "Guggenheim Bilbao," a museum built in a wondrous architectural style. With its 900,000 annual visitors and the indirect financial effects associated with their stays, this museum is an obvious example of how the activity of a museum institution can positively affect the economic picture of an entire region: *In an incredibly short amount of time, Bilbao has found a place on the international cultural and tourist map – the museum and the city itself have been flooded by a river of tourists, of people with money, of money itself... Quite simply, a city has flourished (economically, culturally, socially) exclusively thanks to the building of the new Guggenheim Museum.*¹⁶ In the space of only two years after its opening, the economic activity of the Basque Country has increased tenfold (775 million euros), and 4,100 new jobs have been created. Thanks to this experience, the phenomenon of social changes that come about as a result of the work of particular cultural institutions has come to be known as the *Bilbao Effect*.

¹⁴ Two-thirds of the world's registered cultural heritage is located on the territory of Italy, whose annual earnings from tourism equal about 31 billion dollars.

¹⁵ Thanks to its cultural offer, France was visited by 79 million tourists in 2008.

¹⁶ M. Mitrović, "Arhitektura muzeja – forma više ne sledi funkciju," *DaNS – časopis za arhitekturu i urbanizam*, No. 55, September 2006, Association of Architects of Novi Sad, p. 4.

Something similar can be claimed for the Turkish city of Kusadasi, which has transformed overnight from a fishing village into an exclusive tourist center, thanks to the activation of the cultural heritage that belongs to the ancient city of Ephesus.

Except for Viminacium near Kostolac, our country practically has no examples of a deliberate and active inclusion of cultural heritage into the tourist offering. Our rich cultural heritage, including several monuments that have been placed on the World Heritage List (the Stari Ras city with Sopoćani Monastery, Studenica Monastery, Visoki Dečani Monastery, the Patriarchate of Peć Monastery, Bogorodica Ljeviška Monastery, Gračanica Monastery), have been more-or-less left out of the scope of a more serious tourist offering – although it must be acknowledged that access to some of the monuments in Kosovo and Metohija has been made harder due to the well known situation there.

However, significant cultural-historic monuments do not make up the entirety of the cultural heritage offer. The trend of the museological activation of various types of collections, which have developed into small private museums of sorts, has greatly gained in strength throughout the world. These museums have become a genuine tourist hit all over Europe. According to our information, Serbia has several hundred private collections that could develop into exhibits that would be interesting for tourist visits. For now, we have seen only rare instances of such possibilities developing into a part of the tourist offer – such as, for example, the *Museum of Bread* in Pećinci, or the *Macura Museum* in Banovci.

With reason, cultural tourism management is oriented not just toward cultural and natural heritage but toward the total cultural-artistic production and what it offers. That is why many cultural activities of a regular or periodic character, such as exhibits, reviews, festivals and such, are totally integrated into the general tourist offering of certain regions and cities.

However, it should be born in mind that the activation of the cultural and natural potential through cultural tourism activities, besides the positive effects that are primarily reflected in significant financial profits, also carries certain misconceptions and dangers. Since the “reading of heritage” in tourist offers is founded in contemporary popular culture, it does not always correspond with the so-called key of protection and preservation of cultural goods that stems from museological principles. We are not just talking about the fact that the *artificially generated antagonism between traditionally understood museum activity and tourism actually expresses, in the first place, the distinction between elitism and shared recognized value systems within a significant portion of the social community at large.*¹⁷ Excessive and inadequate exploitation of the natural and cultural heritage for touristic purposes, motivated by financial reasons, can seriously jeopardize the contents of heritage.

¹⁷ M. Stojanović, “Muzeji i kulturni turizam: nematerijalno kulturno nasleđe,” *Glasnik Etnografskog muzeja*, No.73, 2009, p. 161.

One especially current problem concerns the damaging of conditions in which contents of heritage are protected and preserved. The examples of Paleolithic cave paintings (Lascaux, Altamira...) and their endangerment due to excessive tourist exploitation serve as the best confirmation of this.

As a result, the category of *sustainable tourism* is imposing itself as an imperative in this activity's future development plans. *In its purest sense, sustainable tourism is an economic branch that exerts minimal influence on the environment and the local culture, while simultaneously stimulating income earning, new job creation and protection of local ecosystems.*¹⁸

5. Potentials of cultural tourism in Serbia

So far, 2,229 items have been entered into the central register of immovable cultural goods in Serbia, kept by the Republic Institute for the Protection of Cultural Monuments. The status of immovable cultural goods of exceptional significance is currently enjoyed by 200 structures and entities: 155 cultural monuments, 11 spatial cultural-historical entities, 18 archeological sites and 16 memorial sites, while the status of cultural goods of great significance is enjoyed by 582 immovable cultural goods, of which 512 are cultural monuments, 28 spatial cultural-historical entities, 25 archeological sites and 17 memorial sites – making up a total of 782 categorized immovable cultural goods. Cultural monument status is currently held by 1,949 cultural monuments, 65 spatial cultural-historical entities, 149 archeological sites and 66 memorial sites. Six Serbian cultural monuments are entered on the World Cultural Heritage List: Stari Ras with Sopoćani Monastery, Studenica Monastery, Visoki Dečani Monastery, the Patriarchate of Peć Monastery, Bogorodica Ljeviška Monastery and Gračanica Monastery.¹⁹

Has this potential been recognized in an appropriate way, and has it received the place it deserves within our developmental social policy?

It is quite obvious that our country, which forms a part of the European natural and cultural-historical heritage, possesses huge potential for the development of tourism, in the broadest sense as well as in various forms of so-called thematic tourism, including cultural tourism. Unfortunately, the results that are being shown in all touristic domains are more than modest. The number of foreign tourists that visit Serbia each year is not proportional to its overall touristic potentials. According to data published in the Statistical Almanach of Serbia for 2010 (the data applies for 2009), that number does not exceed 646,000. We will not compare the number of foreign visitors to Serbia to those for France, Italy or Spain, but in comparison to some of the neighboring countries, the number

¹⁸ From the Strategy for the Development of Tourism in Serbia – presentation on the web site of the Ministry of the Environment and Spatial Planning of the Republic of Serbia.

¹⁹ Source: Institute for the Protection of Cultural Monuments of the Republic of Serbia.

appears quite modest – during the same year, Croatia had over 9 million, while Hungary had more than 40 million foreign visitors. Our country's foreign currency earnings from foreign tourists – the international component of tourism – barely exceed a modest 20 million dollars per year, as compared to the billions earned by countries with weaker touristic potentials than our own.

There are many things that need to be done in order to change this picture. As, in the general sense, tourism represents a particular kind of link between urban and densely populated centers and regions with spaces of original, untouched nature, *transport infrastructure* appears as an important aspect in the process of reviving tourist activities. Also, tourist sojourns require sufficient and quality *accommodation capacities* and other accompanying services. These are only two of the many general conditions dictated by contemporary tourist movements.

In comparison with general tourism, cultural tourism is even more delicate. In addition to basic conditions related to tourist movements and sojourns, this type of tourism requires not just the existence of general conditions but also the active linking of contents that additionally enhance tourist regions – cultural monuments, museums, cultural-artistic events, etc. We do not lack such contents but the problem is that they are insufficiently included in the general tourist offer. Also, most domestic museums and cultural-historical monuments lack adequate facilities and capacities for tourist activities.

In addition to the general conditions that we spoke about, in order for cultural tourism to develop in Serbia, the state must engage itself to a greater degree, in accordance with its deontological role (K. Molar), in the following directions:

- multidisciplinary education of personnel from the sphere of cultural tourism;
- financing;
- legislation in the area of cultural heritage protection and promotion.

The proposal to form a state-level Developmental-Research Center²⁰ is an idea whose realization would undoubtedly stimulate a more complete integration of culture and tourism. The idea is for the Center to unify the following sectors and activities:

- Sector for strategic research and analysis – activities of research, analysis and evaluation of supply and demand;
- Data base and internal information system – organized and systematic collection, processing, preservation, presentation and lending of data necessary for cultural tourism;
- Sector for permanent personnel education – establishment of educational processes oriented towards acquiring interdisciplinary knowledge;

²⁰ See: V. Đukić Dojčinović, *Kulturni turizam – menadžment i razvojne strategije*, Klio, Beograd, 2005, pp. 197-202.

- Sector of touristic-cultural animation – establishing a system of measures and activities whose goal is to stimulate various ways of reviving tourist interest for spiritual and cultural values;
- Sector for marketing and public relations – communication of offerings to potential consumers must be properly planned, directed, continual and permanent.

A reminder as to what we should do in the domain of cultural tourism development is contained in a recommendation given long ago by one of our prominent culturologists: *If the pursuit of tourism is contemporary man's most pronounced cultural need, which seems to be indisputable, then tourism must be understood as a way of life through which the homogenization of culture is achieved in today's world. In any case, this function is realized through the supreme works of national cultures.*²¹

6. A hopeful example: Itinerarium Romanum Serbia – Cultural Route of the Roman Emperors

This is a rare domestic project that, following the example of the best world experiences,²² seeks to put the huge Roman Empire-era heritage located in Serbia, whose present territory coincides with the former Roman provinces of Moesia Superior and Pannonia Secunda, into the function of cultural tourism. During the 3rd and the 4th century AD, a time of great crisis and divisive tendencies within the Empire, these Roman provinces, as a sort of crossroads of all events, gained in significance. A total of 17 Roman emperors were born on this territory – one fifth of the total number of Roman emperors, i.e., the largest number of emperors born outside of Italy.

The idea of the cultural-historical route is founded precisely on this fact: *The Route of the Roman Emperors – the Cultural Route of the Roman Emperors is supposed to connect a cultural route over 600 kilometers long, all the places with a rich antique heritage, and use them as resources for the development of cultural tourism. This heritage does not belong to Serbia alone, but to all of Europe and the world... On the route that begins in Sremska Mitrovica, tourists would receive a special imperial passport and seal; we would make it possible for them to put*

²¹ B. Jović, "Organizacija kulturnih delatnosti u turizmu," *Kultura*, No. 60-61, Beograd, 1983, p. 276.

²² There are many cultural-historical routes in Europe, America and other parts of the world that attract hundreds of millions of tourists: *The Castle Road (through Germany and the Czech Republic)*, *Castles of the Loire (France)*, *Dracula Tour (Romania)*, *Santiago de Compostela (Spain, France, Portugal)*, *Romantic Road (Germany)*, *UNESCO Tour (Czech Republic)*, *Looking for Lincoln and Route 66 (USA)*.

on Roman togas, ride in a chariot or a galley, spend the night in Roman pensions, drink wine and eat Dardanian cheese... (M. Korać)

The initiative came from the National Museum in Zaječar and, with the support of relevant state institutions, a project master plan was made at the Faculty of Economics in Belgrade in 2006. The entire project was presented to the general public that same year at the Tourist Fair. It was estimated that, with good organization and investment in the necessary infrastructure, the route could draw over 1,500,000 visitors and bring almost 300 million euros in earnings each year.

For the purposes of further affirmation of the project, the first multimedia encyclopedia on the Roman heritage in Serbia – *Cultural Route of the Roman Emperors in Serbia* – was promoted in 2009.²³ The offer to the visitors of the cultural-historical route *Itinerarium Romanum Serbia* is impressive:

- *Sirmium* (today's Sremska Mitrovica), a city in which four Roman emperors were born, the center of the Pannonia Secunda province – an occasional imperial residence, bishopric center and legionnaire camp.
- *Singidunum*, a large Roman fortification built by the Romans over older Celtic settlements. The fort is the symbol of present-day Belgrade.
- *Viminacium* (near Kostolac), a military camp and the capital of the Roman province Moesia Superior, with the following content: the mausoleum in which Emperor Hostilian, the son of Emperor Trajan, was buried; about 14,000 tombs found, the Northern Gate of the fortification, thermal spas, along with the recent discovery of a skeleton of a rare kind of mammoth.
- *Trajan's Tablet*, in the Đerdap canyon, a symbol of the construction of the Roman road along the Danube.
- *Diana* (near Kladovo), one of the best preserved Roman fortifications – castra on the Danube.
- *Felix Romuliana* (today's Gamzigrad), an imperial palace, with an exceptionally preserved floor mosaic, endowment of Roman emperor Galerius Maximianus.
- *Imperial palace* in Šarkamen (near Negotin), built by Emperor Maximinus Daia. The site is known for its rich treasury with the most varied kinds of gold jewelry and coins, discovered in 1996.
- *Naissus* (today's Niš), the birthplace of Constantine the Great, with the luxurious imperial residence Mediana.
- *Iustiniana Prima* (publicly known as Caričin grad – Empress' City – near Lebane), a city-fort and an important administrative, military and spiritual center built at the end of the 6th century by Justinian I, at the place of his birth.

The most recent archeological discovery (2010) of a portion of the so-called *Military Road (Via militaris)*,²⁴ which in Roman times linked Singidunum with

²³ Published by TIPON, Belgrade.

²⁴ Not far from Dimitrovgrad, a team of the Republic Institute for the Protection of Cultural Monuments explored a short portion of the Roman military road, build out of carved

Asia Minor, by way of Viminacium (Kostolac), Naissus (Niš), Remisiana (Bela Palanka), Tures (Pirot) and Serdica (Sofia), could also become a content that would be encompassed by the cultural-historical route named *Transromanica*.

In addition to the above-mentioned, there is increasing talk of establishing several other cultural routes in Serbia – *Forts on the Danube, European Industrial Heritage Route, Through Serbia on Mammoths' Paths*, etc.

With the belief that the ideas on the revival of cultural-historical routes will one day be realized in practice, thus significantly changing the image of cultural tourism in our country, at this moment we must conclude that, of all the above-mentioned sites that belong to the heritage of antiquity, only the Viminacium locality is achieving better and better results each year – in the exploration and discovery of new contents at the site and their presentation, as well as in the constantly growing number of visitors.

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stone, with two separated traffic lanes, each four meters wide. Many material remains testifying to the lively traffic along this road, built more than 2,000 years ago, were found on this portion.

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THE MEDIA SYSTEM AND PUBLIC POLICIES**

– Theoretical and methodological framework –

Summary

The paper sets a theoretical and methodological framework for examining the media system of Serbia in order to construct theoretical models that enable the formulation, coordination and implementation of public policies necessary for sustainable social development and the social security of citizens. The author has outlined a methodological approach to research and made a theoretical determination of the media system, including the structure and dynamics of one of the most important subsystems in the social system of modern times. Based on a critical review of the existing classification of modern media systems, an explanatory classification is offered as the theoretical basis of a comparative analysis of the media system of Serbia, identifying four types of modern media systems: statist, market, market-statist and social-civil. Also stressed is the importance of media systems for the formation of a democratic public sphere in society, that is, a relatively independent and authentic public as one of the most important social actors participating in the creation and promotion of public policies.

Key words: *media system, public policies, media complex, public sphere, public, social development, social security of citizens*

JEL classification: Z11, L96

1. Introduction: methodological approach

How does the media system influence, and how can it influence the advancement of public policies in Serbia?

This question represents the formulation of the problem in the project of researching the functioning of the media system in Serbia during the first dec-

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ade of the 21st century. The goal of the research is to, on the basis of a critical analysis of the present state, construct a media system theoretical model, which in contemporary social practice will represent one of the conditions for the democratic coordination and successful realization of public policies within the entire social system and its most important subsystems and, consequently, the improved security of citizens and sustainable social development of Serbia.

The research starts from two basic hypotheses. First: that in the period from 2000 to 2010, a media system that allows the harmonization of public policies within the framework of a democratic public debate on all relevant questions related to citizens' social security and sustainable social development – has not been constituted in Serbia.¹ And, second: that without a normative and genuine establishment of a media system with a public sphere open to all lines of public opinion that are relevant for the creation of public policies, it is not possible to formulate and harmonize public policies and, thus, successfully realize them in social practice.

In accordance with the starting hypotheses, the analytical-synthetic method, the comparative method and the modeling method will be used for the realization of the set research goal.

The analytical-synthetic method will be used throughout the research as a general method. This method is founded upon four rationalist precepts, without whose application it is practically impossible to research any social phenomenon. These four precepts, defined more than three centuries ago by René Descartes, are the following: 1) only that which is clear and distinct is true (“The first rule was never to accept anything for true which I did not clearly know to be such”); 2) each phenomenon should be broken down into as many elements as possible – analysis (“The second rule is to divide each of the difficulties under examination into as many parts as possible, and as might be necessary for its adequate solution”); 3) in researching a particular phenomenon, it is necessary to move from the simplest to increasingly complex elements – synthesis (“The third rule is to conduct my thoughts in such order that, by commencing with objects the simplest and easiest to know, I might ascend by little and little, and, as it were, step by step, to the knowledge of the more complex”); and 4) the description and classification of the social phenomenon that is the subject of research should contain all its essential elements (“And the last, in every case to make enumerations so complete, and reviews so general, that I might be assured that nothing was omitted”).²

The comparative and the modeling method will be used as separate models, complementary with the general method.

The comparative method, i.e., the method of confronting two or more comparable aspects of reality will be realized by comparing the present media system

¹ See: M. Miletić, “Konfigurisanje medijskog sistema Srbije,” *Kultura polisa*, No. 8/9/10, Udruženje za političke nauke Vojvodine, Novi Sad, 2008; M. Miletić, “Srbija bez četvrte vlasti,” *Kultura polisa*, No. 1, Udruženje za političke nauke Vojvodine, Novi Sad, 2004.

² R. Dekart, *Reč o metodi*, Naučna knjiga, Beograd, 1952.

in Serbia with media systems in other countries that are referent in the contemporary socio-historical context for a critical analysis of Serbia's media system, and noting the similarities and differences that are important for realizing the research goal – constructing a media system model that will be applicable within Serbia's entire social system, with a mind on all its specificities.

The modeling method will be used in the concluding part of the research, as an expression of a synthesis of the facts obtained through a comparative analysis of Serbia's media system and other media systems, by constructing an optimal media system model in terms of possibilities of creating a democratic public sphere that will allow the formulation and harmonization of public policies. The models may be proportional or analogous. "In both cases, the model performs a selection of a set of pertinent features of the object that it reflects... Proportional models seek to reproduce the original object's form, while analogous models seek to reproduce only the original object's abstract structures or relation systems."³ It is understood by itself that it is possible to construct only an analogous model of Serbia's media system, as it represents an immanently social phenomenon.

The research will be realized on the basis of the theoretical-methodological framework presented in this work, while the results will be presented through their systematization into four thematic wholes: the first will refer to the media systems of the world's most developed countries; the second to media systems in post-socialist countries; the third will analyze the functioning of the media system in Serbia during the first decade of the 21st century; and the fourth, as the research source, will represent a projected model of Serbia's media system, one that will continually allow the democratic formulation, harmonization and advancement of public policies in Serbia.

2. The media system: structure and dynamics

The hermeneutical presupposition of this research is the establishment of a theoretical determination of the meaning of the term "media system," bearing in mind the attained scholarly knowledge and open questions related to this aspect of social organization. The heuristic framework is the general system theory (Bertalanffy, 1968), that is, the postulate that it is possible to research any system on the morphostatic (structural) and morphodynamic (development) level. Thus the importance of understanding how the media system is structured and in what processes the dynamic of its functioning is spent. An explanation of media system structure and dynamics will allow us to theoretically recognize the different types of contemporary media systems and, via comparative analysis, to determine the one to which Serbia's media system belongs by its key characteristics. At the same time, this explanation will allow us to dimension the impor-

³ U. Eko, *Granice tumačenja*, Paidea, Beograd, 2001, p. 224.

tance of the media system for the advancement of public policies within a given social system.

A system can be defined as a recognizable whole of a structured set of elements (morphostatic aspect) that exist in a developmental interaction (morphodynamic aspect). Each system has a distinctive structure and functions in relation to other systems of a higher, equal or lower order. In that sense, the terms “system” and “subsystem” are relative – each is a system structured by its own subsystems but also, at the same time, a subsystem of a higher order system. The presupposition for the functioning of any (sub)system is internal and external homeostasis, i.e., the inner dynamic balance of the given system’s structural elements and its harmonization with other systems that, in relation to a higher order system, appear as subsystems.

This research will treat a social system that functions in a given country, on a territory bounded by national-state borders, as a higher-order system, structured by numerous subsystems (political, economic, security, educational, scientific, cultural, artistic, sports, etc.), including the media system, which is unavoidable in contemporary social systems, as it represents, metaphorically speaking, the “nerve system of society.”

Viewed “separately,” the media system is a socio-historically conditioned and normatively determined dynamic combination of different social actors (institutions, organizations, associations and social groups), whose function is to secure public, primarily mass communication within the social system.

On the morphostatic level, its structure comprises: agents of the media system, the normative bases of functioning, the media complex and citizens in the role of recipients of (mass-)media content.

Agents⁴ of the media system are social actors that, in a given socio-historical context, depending on their positioning within the social system, decisively influence the establishment, functioning and changes of the media system in terms of its normative definition, media complex configuration and public communication content. “They are characterized by the ability to initiate, direct or prevent communication processes, either vertically (through the entire global /in the sense of a given social – auth. note/ system) or horizontally (within specific subsystems).”⁵ These are: state organs, political organizations, owners of media organizations and capital interest groups, professional communicators’ organizations, labor unions, religious organizations, non-government organizations, scholars and experts engaged in researching media systems. The gradation of their concrete effect on the media system depends on the socio-historical context and characteristics of the social system within which the given media system functions as a subsystem.

⁴ From the Lat. *agens*: that which acts.

⁵ M. Radojković, B. Stojković, *Informaciono-komunikacioni sistemi*, Klio, Beograd, 2004, p. 47.

Before all, this effect pertains to the definition of social norms that regulate the functioning of the media system. There is no social or, consequently, media system, past or present, which is not regulated by certain social norms. They can be customary, religious, legal and ethical. Normative bases, as a structural element of the media system, today mostly comprise legal and ethical norms, the customary bases are, for the most part, relics of the past, while the religious ones are characteristic of media systems in theocratic societies. As a rule, legal norms are codified within so-called media laws, positive legal regulations that represent an inevitable part of a media system's normative bases, even in media systems in which, through a self-regulatory process, a high degree of balance between legal and ethical norms has been secured.

The media complex is formed within a given normative framework, as the production subsystem of the media system, an active set of media organizations, mostly media companies formed around mass media and the Internet, as their functional framework. It encompasses all publishing, newspaper, film, radio and television organizations, information agencies and Internet providers. Their common denominator is their specialization within the societal division of labor for the production and distribution of informative, educational and entertainment media content. The media complex is the most prominent, i.e., the most visible part within the media system structure, as its existence is the *conditio sine qua non* of public communication.

The same applies for the recipient subsystem of the media system, the media public composed of all the citizens in a particular social system, in the role of readers, listeners and/or viewers of media content produced in the media complex. Actually, the media public is a synonym for the mass audience that is immanent to mass communication. Theoretically, it can be understood as: (a) an abstracted group of citizens in a given social system, which is simultaneously exposed to all mass media and (b) a set of audiences of various mass media, in the individual (particular newspaper, radio or television program), specific (particular mass medium, e.g., only tabloids, only musical radio programs or television information programs) and general (only newspapers, radio or television program) sense. Such a stratification of the media public is the methodological presupposition for empirical researches of the presumed number of readers, listeners and viewers in the mass public, which is impossible to determine in the absolute sense, especially bearing in mind the continuity of reception of media content within the time vertical.

Public, primarily mass communication, as the source function of the media (sub)system within the social system, is realized within a given socio-historical context and a particular social system, under the influence of various social subjects as agents of the media system, through the interaction of the media complex and the media public.

Precisely because of that, the media system can be researched on the morphodynamic level only by taking into account the following relations: socio-historical context – social system; social system – media system; normative bases of the media system – media complex; media complex – media public; and, especially, media system agents – normative bases, media complex and media content. Namely: “Media systems are built into their social environment, which is culturally and nationally determined. Therefore, they must be considered within the territorial borders set by states. The media systems of different states (social systems – auth. note) differ. Why do they differ and in what aspects? What are the consequences of these differences (for public communication – auth. note)? What is the dynamic that causes media systems to change and develop? Those are the questions with which comparative analysis of media systems deals.”⁶

3. Types of media systems

Fred Siebert, Theodore Peterson and Wilbur Schramm offered the first comparative analysis of media systems and their classification through the recognition of their different types, in their well-known book, *Four Theories of the Press*, published in 1956. The authors identified four types of media systems within a chronological vertical, according to their time of appearance, starting primarily from the role of the press, i.e., newspapers in society, but also extrapolating their argumentation to other mass media as they became a part of the media complex. The first is the authoritarian type, which appeared in the 16th and the 17th centuries, whose function was spent in the transmission of the power of the authoritarian sovereign. After the bourgeois revolutions in Europe and the US, this type was pushed out by the liberal media system, whose sole regulator is the market and whose political function is – to control the government. Today it survives only in the US, Australia and New Zealand. A type of media system developed by mid 20th century, primarily in Europe, based on the social responsibility of mass media, with the state having the right to intervene in the structure and dynamics of the media system if the media are not carrying out the proclaimed public interest. The model of organizing media as public services was affirmed in these media systems. The fourth type of media system was referred to by the authors as communist, as it functioned in the countries of so-called real socialism, ruled by communist parties, and was exclusively characterized by state media in the service of the ruling ideology.

On the trail of these authors was the media system classification offered in 1978 by Franz Ronneberger. Within the geographical coordinates of North-South and East-West, besides the liberal media system (West, i.e., the US), the social responsi-

⁶ H. Kleinstaub, B. Thomass, “Comparing media systems: The European Dimension,” *CM – časopis za upravljanje komuniciranjem*, No. 16, 2010, p. 5.

bility media system (North, i.e., Europe) and the communist media systems (East), he also recognized the media systems of the South of the planet (developing countries) – in two versions: in one version were politically active media authorized and controlled by the government in realizing the leading role in society; in the second version, the media retained relative autonomy, but still in accordance with the policy of the government on whose support they had to rely.⁷

Both the media system classifications were based on ideological normativism, as were several later ones that appeared during the 1980s and the beginning of the 1990s, and recognized: pluralistic and Marxist media systems; open and closed media systems; Eastern real-socialist, Western liberal and Third World media systems.⁸

The classification offered by Daniel Hallin and Paolo Mancini is also somewhat burdened by ideological normativism, as they only deal with the media systems in the most developed Western countries, while insisting on the empirical bases of all three types of recognized media systems: the polarized pluralistic, the democratic-corporative and the liberal type of media system. The first pertains to the Mediterranean countries of the European Union; within it the state and the owners of the capital are equal agents of the system, primarily thanks to the fact that the state appears in the role of owner of not only broadcasting but also newspaper and publishing organizations, information agencies and even various marketing, advertising and public relations agencies. The second type functions in Northern and Central Europe, on the premise of limiting the state's powers as agent of the media system, which ultimately come down to securing the conditions for the functioning of media organizations in accordance with the public interest, whether we are talking about public services or privately owned organizations. In the liberal type of media system that, according to the authors, functions in the US, Great Britain and Ireland, privately owned media organizations dominate, the owners of the capital are the main agents, and the powers of the state, in comparison to the two previous models, are reduced to the smallest possible measure.⁹

Roger Blum opted for a pronouncedly empirical approach, using the following criteria: system of government, political culture, media freedom, media ownership, ways of media financing, political party and state influence over media, media culture and editorial orientation. On the basis of these criteria, the author recognizes six media system types: Atlantic-Pacific liberal (US, Australia, New Zealand), South European clientistic (Portugal, Spain, Greece, Malta, Cyprus), North European public service model (Germany, Scandinavian and Benelux countries, France, and the modernized countries of Eastern Europe, such as Esto-

⁷ According to: Kleinsteuber – Thomass, *ibid.*, p. 7-8.

⁸ Kleinsteuber – Thomass, *ibid.*, pp. 8-11.

⁹ D. Hallin, P. Mancini, *Comparing Media Systems: Three Models of Media and Politics*, Cambridge University Press, Cambridge, 2004.

nia), East European shock model (Russian, Ukraine, Belarus, Turkey), Arabian-Asian patriotic model (Syria, Tunisia, Morocco, Indonesia), and Asian-Caribbean command model (China, North Korea, Vietnam, Burma, Cuba). Based on the empirical characteristics contained within the said criteria, Blum considers the first three types of media systems to belong to democratic societies, the fourth and the fifth to authoritarian societies, and the sixth to totalitarian societies.¹⁰

By relying on the cognitive values of the outlined approaches in recognizing different types of media systems, while striving to avoid ideological normativism in their naming, we will offer here, as a theoretical basis for comparative research of Serbia's media system, a classification that recognizes four basic types of media systems: statist, market, statist-market and social-civil.

Statist media systems function under direct state control in all their structural parts. However, essentially the main actors in the system are social groups that make up the state apparatus: political parties, religious organizations, various oligarchies and military juntas. If they at all exist, the normative foundations of the statist media system are quite narrowed and ideologized, very frequently in the form of government regulations and decrees or party programs or, in theocratic societies, also based on religious norms. Media organizations and the entire media complex are state-owned. Although, in most cases, they are not institutionalized, there are two forms of classical censorship – preventive and suspensive, along with a resulting, continually active self-censorship. This type of media system does not possess even the minimum conditions for the functioning of a relatively independent and relatively authentic public, since the public sphere, which is for the most part formed in the media complex, is almost completely refeudalized. Statist media systems exist in China, Vietnam, North Korea, Cuba, Libya and some other African countries. A specific sub-type of such media systems is represented by so-called paternalistic media systems in occupied countries or social systems controlled by foreign factors. After World War II, a paternalistic media system existed in the western part of divided Germany, while today it exists in Bosnia and Herzegovina, Kosovo and Metohija, Iraq and Afghanistan.

A pure market media model functions only in the United States and, with certain variations, as Blum himself noted in his qualification, in Australia and New Zealand. Except for the publicly owned *Public Broadcasting System (PBS)* radio-television network, whose significance in relation to the total number of media organizations is negligible, all media companies and conglomerates in the US are privately owned. The most important agents in this type of media system are the media organization owners and advertisers, who form various capital interest groups. The state appears as the regulator of the media system's normative bases, but in accordance with the First Amendment of the US Constitution,

¹⁰ Blum, 2005; according to: H. Kleinstueber, B. Thomass, "Comparing media systems: The European Dimension," *CM – časopis za upravljanje komuniciranjem*, No. 16, 2010, pp. 12-14.

which protects precisely the market-capitalist way of media complex organization. "...According to interpretations of the First Amendment, freedom is truly guaranteed solely to media owners. They can, and do, prevent some voices from effectively being heard by denying them right of access to channels through which they can reach the entire complex, modern society."¹¹ If this observation is true, then the public sphere is permeable only to members of the economic elite and their political representatives so, in that sense, we can talk about a media complex that is much more engaged in the production public opinion than in allowing the articulation of various lines of opinion that express the heterogeneity (economic, social, political, ethnic, racial, etc.) of American society. The problem of access to the public sphere in this type of media system is not classical censorship, which has been totally eliminated by the First Amendment and the practice of the media system's functioning, but various forms of indirect censorship. Besides emergency powers, as a relic of classical censorship in exceptional situations that may befall the state (e.g., after the terrorist attacks of September 11, 2001), indirect/hidden censorship is also realized through armed secrecy, lying (activities of so-called PR makers – auth. note), state advertising and, especially, corporativism.¹² "Corporativist procedures are not obliged to publicly reveal, explain and justify their activity... Neither are they bound by *post hoc* obligations, for example, to publicly justify either their spending structure or their level of success or lack thereof in attaining the goals they have themselves set."¹³

Statist-market media systems presume a coexistence of media organizations under state and private ownership. The state configures the media system by defining its normative bases, but essentially the most important agents of the system are the political organizations that constitute the state power and capital interest groups, very often in various oligarchic combinations that came about in the process of reconciling political and profit-based interests. Fewer state-owned than privately owned media organizations function within the media complex. These, however, include radio-television and newspaper organizations, as well as information agencies of national significance, which greatly influence the recipient subsystem, especially in terms of affirming the dominant ideology in the social system. The more numerous privately owned media organizations are left to pursue the market of advertisers, who are interested in this part of the media complex because it attracts huge numbers of readers, listeners and viewers by shaping media content to pander to the basest tastes (from tabloids to "reality television" formulas). The information content produced in private media organizations cultivates the concept of so-called infotainment, which not only does not question the dominant ideology but actually supports and affirms it.

¹¹ W. Rivers, T. Peterson, J. Jensen, *The Mass Media and Modern Society*, Rinehart Press, San Francisco, 1971, p. 3.

¹² Dž. Kin, *Mediji i demokratija*, "Filip Višnjić," Beograd, 1995, pp. 74-82.

¹³ Dž. Kin, *ibid.*, p. 83.

In this type of media system, classical censorship exists in various degrees of its suspensive form, together with the predominance of all types of indirect censorship and the assumed self-censorship of professional communicators, who are either state “officials” or “mercenaries” of individual owners and capital interest groups. “On the whole, the media function in a way that reflects the united interests of powerful social elites, that is to say groups that are in the position to distribute social resources.”¹⁴ In this type of media system, the public sphere that is formed in the media complex has a transmissionary function, by creating media representations of reality that are in accordance with established mechanisms of allocation of political and economic power. Statist-market media systems are characteristic for countries that have undergone major social changes, with typical examples being all the post-socialist countries in periods of transition from so-called real-socialism to, as a rule, liberal capitalism. By their outlined characteristics, such media systems are best suited for the privatization of the largest portion of state ownership, followed by the creation of corporatist ties between state and private capital, which citizens, in the role of passive members of the media public, without possibilities of accessing the public sphere, i.e., the media complex – cannot control.

The social-civil type of media system is characteristic for most West European countries, especially Germany and the Scandinavian countries. It appeared and began to develop in mid 20th century Europe on the basis of the concept of so-called public interest, which assumes continual maintenance of an optimal relationship between the general, special and individual interests of citizens and majority and minority social groups within the social system. The media complex is formed by media organizations of national significance, which function according to the public service model, privately owned media organizations of national, regional and local significance – in a number proportional to the country’s economic capacities, and, what is especially important, civil media organizations that are formed by citizens themselves, in accordance with their various interests and pursuits. The state keeps itself “at arm’s length”¹⁵ from the media complex, which means that its powers in the configuration of the media system are minimal, which also implies minimal influence on the part of political organizations that constitute the state power. Its powers are limited to passage of systemic media laws, which allow the formation and, independently from the state, financing of media organizations according to the public service model (most often these are radio-television organizations of national significance), prevention of privately owned media organizations from attaining monopoly positions and engaging in socially irresponsible activity, stimulation and positive discrimination of civil media organizations, essential and formal support for processes of media system self-regulation, manifested through possible substitu-

¹⁴ R. Lorimer, *Masovne komunikacije*, Klio, Beograd, 1998, p. 64.

¹⁵ *Ibidem*

tion of legal norms with ethical norms and, for state organs that control responsibility in public communications – in the form of professional self-regulatory bodies (councils, commissions, boards) or prominent experts and professionals (ombudsmen), whose task is to secure the maximum permeability of the public sphere to the expression of various views and, thus, the establishment of a relatively independent and relatively authentic public. “In principle, control over media... is set up so that it is divided between the greatest possible number of social actors, thus significantly reducing the possibility for centers of economic and political power to gain a monopoly or dominant position within the media system. There are numerous mechanisms for securing this *relatively even distribution of communication power* – from the already mentioned existence of public and private media, legal prescription of maximum accumulation of ownership stakes in various media, media protectionism for marginal social groups, independent supervisory and control bodies, mandatory professional norms and codes, to the legitimacy of the demands of civil society institutions vis-a-vis the media, etc.”¹⁶ In this type of media system there is no classical censorship, while indirect censorship is subjected to permanent public criticism, meaning that inevitable self-censorship is a personal choice rather than the systemically-determined behavior of professional communicators.

Of course, the above mentioned types of media systems are just superficially outlined in this text, in the form of purely theoretical models, while each individual media system that belongs to any of them possesses many specificities. They will be analyzed in detail and considered during the next phase of the realization of the research project described in this work, by comparing Serbia’s existing media system with concrete media systems, with the goal of constructing a theoretical model of Serbia’s media system that will allow the formulation and harmonization of public policies regarding all relevant questions related to citizens’ social security and Serbia’s sustainable development.

4. Significance of media systems for the advancement of public policies

The achievement of this goal in the theoretical-methodological sense is not possible without previously defining the meaning of the term public policy, or public policies, and understanding the significance of the media (sub)system for the advancement of public policies in a given social system.

In this research, under the aggregate term public policy will be assumed the totality of conscious activities of various social actors on resolving contradictions stemming from the conflicting interests of social groups and individuals, and their integration into a sustainable social system on a specific territory and

¹⁶ Lj. Bačević, “Masovni mediji i politička kultura,” in: *Fragmenti političke kulture* (ed. Vasović, M.), Institut društvenih nauka, Beograd, 1998, p. 158.

in a specific historical period. As numerous different functional areas of social organization exist in every social system, the political activities located in each of these areas draw their own particular, separate public policies from the aggregate body of public policy. "They are practical, sectoral policies through which numerous problems of citizens, society and community life are solved... Public policies secure the conditions for the existence of a democratic and just society. Some of their most important characteristics are: transparency of power, responsibility of politicians, open decision-making processes, participation of citizens and civil society, democraticness, effectiveness, equality and accessibility in the realization of public policies, and distributive justice."¹⁷ Public policies, as opposed to secret policy or policies, can only come out of a public debate of all interested social actors regarding: the legal regulation of a certain functional area of social organization, the setting of priorities in the allocation of resources, primarily public revenues, and the quality of functioning of all branches of state power regarding ways of achieving a certain legally regulated and bound-by-allocated-resources public policy. The actors of the definition, harmonization and control of the implementation of public policies are citizens, individuals and organized social groups, in the first place citizens' political representatives and civil organization, while the actors of realization are state and para-state organs at various levels and in various functional areas of the social system's organization.

The said public debate between the actors of the definition, harmonization and control of the realization of defined public policies, i.e., the citizens and their political and non-political organizations, associations and coalitions, is possible only, in the case of public policies, in the public sphere of society, which in modern times is mostly established within the media system, i.e., its most prominent part – the media complex, the totality of all the active media organizations in a particular social system. "There is no system of power that would be capable of effectively abolishing the right to think... There are no special obstacles for the expression of individual views. But in order for them to begin the process of synthesis in groups, and subsequently into public opinion, it is more important to ensure the accessibility of the means by which initial opinions, i.e., views and preferences, can be expressed in public communication. Expressions and changes of opinion flow in part through an informal communication network. However, that is a long and relatively uncertain path. That is why the value of this right is judged by the degree of accessibility and mobility through the formal communication network, whose framework comprises the mass communications media."¹⁸

¹⁷ S. Đorđević, "Pojam javne politike i način dizajniranja politike," in: *Savremena država, struktura i socijalne funkcije* (ed. Pavlović, V. – Stojiljković, Z.), Konrad Adenauer Stiftung – Fakultet političkih nauka, Beograd, 2010, p. 273, 274.

¹⁸ M. Radojković, "Mogućnosti konstituisanja demokratskog javnog mnjenja u Srbiji," in: *Potisnuto civilno društvo* (ed. Pavlović, V.), EKO-centar, Beograd, 1995, p. 406.

The public sphere is the condition for the formation and functioning of the public as an astructural social group, whose members can publicly debate all questions that have been transformed into problems of public interest, which is the essence of the process of formulating, harmonizing and controlling the realization of public policies. Since the public sphere is mostly located within the media complex, creating the conditions for the existence of a relatively independent and relatively authentic public is possible if it can be ensured that the media complex can function as an “electric field”¹⁹ between the state and the citizenry, open and permeable to most, if not all organized and unorganized citizens and their public reasoning regarding the goals, priorities, possible alternatives, way of decision-making, control of realization and evaluation of the achieved results of public policies. “Since not all views can be heard equally and equitably, at least the equality of opportunity for all viewpoints must be ensured... The dimensions of the public sphere, as a symbolic place for discussion about questions related to the general welfare depend on the breadth of the information sphere.”²⁰ Only such an independent and relatively authentic public can, in modern times, realize theoretically recognizable social functions: critical in relation to the resolution of current problems of general interest, controlling in relation to all branches of state power, educational in relation to the mobilization and empowering of citizens for participation in the public debate and developmental – expressed through the stimulation of progressive social changes in a particular social system.

In accordance with the above theoretical postulates: if the media complex is not accessible and permeable for the majority of citizens, for individual and group, organized and unorganized members of the public, and if it does not secure conditions for their free public reasoning, it is quite certain that the basic precondition for the democratic formulation, harmonization and control of the realization of public policies within a concrete social system has not been secured; thus, such a system cannot be qualified as democratic, nor can the political actors that decisively influence the totality of social life be legitimated with that linguistic attribute and political qualification.

5. Instead of a conclusion: media system, social crisis and social development

Contrary to the expectations at the beginning of this period, Serbian society of the first decade of the 21st century belonged among the stagnant, one might even claim regressive societies, which is something to which all measurable indicators point, especially in the economic domain, but also in the remaining functional areas of social organization. It was showing all the markings of a deep

¹⁹ J. Habermas, *Javno mnenje*, Kultura, Beograd, 1969.

²⁰ D. Kornić, *Etika informisanja*, Klio, Beograd, 1999, p. 131, 139.

social crisis. "Social crisis is a state in which, on the one hand, people agree with each other the least and, on the other, a time in which the need for consensus is the biggest, in order for the crisis to be overcome. The deeper the social crisis, the bigger the disharmony between the degree of achieved consensus regarding some of the most important common questions and the degree of the social need to achieve the biggest possible consensus regarding these questions."²¹ The most obvious feature of the crisis in Serbia is the lack of consensus regarding how to exit the crisis. Theoretically, five ways of reaching consensus and, consequently, overcoming social crisis, can be recognized.²² The first is forced consensus, which is possible in totalitarian and autocratic societies. Despite the many weaknesses in the functioning of institutions and the oligarchic-partocratic tendencies in the political system, today's Serbian society cannot be classified as this type of social community. The second is consensus that is reached on the basis of accepted ideals about a "better future," which is characteristic for post-revolutionary periods. If it did exist immediately after the political changes in October 2000, it was very quickly "spent," due to the betrayal of the awakened hopes of most citizens. The third consensus is possible under conditions of threat to society from outside enemies. Although such imperilment can never be excluded as a possible reality, especially having in mind the present turbulences on the global geopolitical plane, it is more than likely that today's Serbia is not exposed to a high degree of such risk. The fourth consensus is what we have in Serbia today, if we can speak of consensus at all, and it is a consequence of a state of a society in which citizen apathy and listlessness prevail, which is interpreted through media manipulation as silent support for the present authorities. And, finally, true consensus in a society in the midst of crisis, which will first allow its overcoming, followed by sustainable social development and citizen social security, can come about and does come about only through the participation of the majority of citizens in discussions about all questions that have been transformed into a problem of public interest, i.e., the formulation and realization of public policies in all functional areas of social organization.

Such a consensus is not possible outside the public sphere in society, which for the most part exists within a media complex that represents a natural environment for a relatively independent and relatively authentic public. Hence, without establishing a media system that will allow the interaction of citizens and the public authorities, it is not possible to formulate and harmonize public policies whose realization would lead to the modernization and intensification of industry, increased material welfare, assured social security for citizens, freedoms and rights for man and the socially responsible citizen, stabilization of the political system and democratic procedures in the political process, and increased

²¹ M. Popović, "Društvena kriza i problem socijalnog konsenzusa," in: *Javno mnjenje* (ed. Bačević, Lj.), Institut društvenih nauka, Beograd, 1994, p. 173.

²² M. Popović, *ibid.*, pp. 173-174.

individual and collective responsibility for one's own and the future of coming generations, i.e., goals that in the present day and age represent a synonym for progressive social development.

Such an, at first sight, media-centric conclusion stems from the fact that any social system is indeed conceivable, but that its functioning is impossible without a media system, which, to use the language of set theory in mathematics, "intersects" with all other social subsystems, without exception. Thus the necessity for conducting an objectively and methodologically clearly defined scientific research project, since the first prerequisite for the development of science is its harmonization with the needs of socio-historical practice. The scientific and social significance of this research would be reflected in the body of knowledge gained regarding the characteristics of the current media system in Serbia, as compared to referent media systems in the developed world and, on that basis, the construction of a theoretical model of a media system that could be applied in practice, as an extremely important prerequisite for overcoming the social crisis, i.e., for Serbia's transformation from a stagnant to a progressive society. The construction of such a model would represent a methodologically logical completion of the comparative research of Serbia's media system in the 2000-2010 period, if we start from the principle that knowledge regarding a particular social phenomenon cannot stop only on the level of givenness, without taking a single step in the direction of eventual possibility, simply because, ultimately, the laws of social development represent, depending on the ideo-philosophical and evaluative-scientific framework, a more or less convincing hypothesis rather than a certainty that cannot be questioned. "That is why there will be a striving to bridge the chasm between the existing and the possible, that is, between facts and projections, by introducing a prescriptive approach, which also starts from analyses and hypotheses, but also poses the question: what can be done to change the presently existing and how, together with an awareness of the fact that posing the question is by itself already an important presupposition of its answer."²³ Also, we should not neglect the fact that a theoretically constructed model represents the most explicit criticism of the functioning media and, by extension, social system in Serbia.

²³ B. Stojković, *Evropski kulturni identitet*, Prosveta – Zavod za proučavanje kulturnog razvitka, Niš – Beograd, 1993, p. 17.

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THE IMPORTANCE OF INVOLVING NGO IN POVERTY REDUCTION STRATEGIES IN SERBIA**

Summary

The purpose of this article is to point out the relatively high, yet unused potentials of CSOs (Civil Society Organizations) in the implementation of various government strategies, projects and plans targeted to increase the social security of citizens. The Poverty Reduction Strategy of the Serbian government and the relatively successful involvement of several NGOs in its implementation are analyzed in this article as an example of efficiency of NGOs in the economic and social fields, areas in which access has been limited for them until now.

The article first reviews the previous activity of civil society organizations, especially NGOs, in Serbia during the period after the breakup of Yugoslavia. This is followed by an analysis of the problem of poverty in general, data on poverty in Serbia and the response of the Serbian government to this global challenge in the form of the Poverty Reduction Strategy. Most of the attention is devoted to activities and work results of the seven NGOs included in this project, which dealt with the poverty problem among seven different social groups: children, youths, the elderly, persons with disabilities, Romas, women, and refugees.

Key words: *civil society, non-governmental organizations, poverty in Serbia, Poverty Reduction Strategy*

JEL classification: D60, I30

1. Introduction

The concept of civil society first appeared in modern political theory in mid 18th century. However, the present-day concept of civil society was developed during the 1980s by the political opposition in the East European countries of the former Soviet bloc. During the 1990s, with the appearance of numerous non-governmental organizations (NGO) and new social movements (NSM) on the global

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level, civil society as the third sector (non-profit and non-governmental) became one of the main actors in the building of an alternative social and world order.

After the fall of the communist regimes in Eastern Europe at the beginning of the 1990s, and after the democratic changes in Serbia in 2000, new demands were placed before civil society organizations. The civil society concept is no longer just in the function of carrying out a transition from old communist (autocratic) regimes to “new” post-communist societies. It now also forms the foundation for the consolidation of the fragile, newly-created democracies in these countries. In order to create a stable democratic society in Serbia, as well as in other neighboring countries, a strong third sector is needed, one devoted to the goal of advancing democratic processes. In addition, the new tasks of civil society organizations are not just of a socio-political but also of an economic-social nature. NGOs are expected to direct their energies into social programs, new development projects and provision of services, as well as to cooperate with the state, especially in processes of inclusion of deprived social groups. Non-governmental organizations in today’s Serbia focus on social segments that have traditionally remained in the shadow: various marginal groups, problems of various kinds of invisible exploitation and indirectly applied forms of pressure, etc.

2. NGO activity in Serbia

In Serbia, it is very hard to precisely determine the number of non-governmental organizations, classify them according to a certain criterion or identify their mission. Today, there are a little less than 3000 registered citizen associations that we refer to as non-governmental organizations.

The dialogue between civil society organizations and the state in Serbia was established after the democratic changes in 2000, and it cannot be said that the state limits the development of civil society. Compared to 2000, we have seen a significant intensification of mutual dialogue and cooperation, as well as support for the activities of civil society. The state’s policy is reflected in smaller budget outlays, support for concrete activities or in the organization of tenders for projects. Still, its treatment of this sphere cannot be judged as being overly stimulative (the administrative procedure for humanitarian aid donors is fairly complicated, and the legal regulations inadequate).

NGOs are most often organized with the goal of solving a concrete common problem and such cooperation is usually short-term. In Serbia, this experience has been primarily gained through joint activities aimed at removing political obstacles. The beginning of the 1990s saw the establishment of the anti-war movement in Serbia, followed by the student movements (1992, 1994, 1996), the civil movement for the protection of election results of 1996/97, the NGO Union of Serbia, the Citizens’ Movement of Serbia and the Yugoslav Action (during the

NATO bombing), the NGO Cooperation Council, Otpor, Izlaz 2000 – NGO for democratic and fair elections, etc.

Today, as expected, NGO activities are being directed to other areas: education, culture, humanitarian aid, social services, art, environmental protection and human rights protection, student and professional organizations. There are also many groups for the protection of women, human rights, etc. Most of these organizations originate from the social protection area (see table) and mostly engage in humanitarian work.

Table 1: *Number of non-profit organizations according to area of activity*

| | |
|--|------|
| Organizations for social protection | 495 |
| Culture and art organizations | 249 |
| Educational and scientific research organizations | 225 |
| Ecological organizations and movements | 210 |
| Organizations for community development and building | 196 |
| Organizations for protection and advancement of human rights | 171 |
| Youth and student organizations | 154 |
| Autonomous women's groups | 102 |
| Professional associations | 97 |
| International organizations | 85 |
| Organizations for refugees and displaced persons | 55 |
| Peace groups | 54 |
| Think tanks (advisory development centers) | 26 |
| Organizations for international cooperation | 11 |
| Other | 135 |
| Total | 2265 |

Source: Center for Non-profit Sector Development, 2005

Civil society, especially in the form of non-governmental organizations, is considered to be an active promoter of democratic values. These organizations promote democratic values in Serbia through various actions intended to raise and strengthen citizen awareness, as well as by working to secure an adequate legal framework that would ensure the protection and realization of their rights.

In Serbia, humanitarian activities are an especially, perhaps even the most important sphere in which cooperation exists between the state and civil society. Still, "... social protection and help to persons in urgent social need have

remained primarily a concern and responsibility of the state and its specialized services and agencies.”¹

As the humanitarian-social domain is the area of activity of the majority of NGOs in Serbia and, at the same time, an area in which state support is undoubted, we will elaborate in greater detail the role of civil society organizations in solving the most important social problem in this sphere – poverty.

3. Poverty reduction strategy in Serbia

Poverty is one of the most important global problems, and the fight against poverty is becoming an imperative of our age. Poverty reduction and eradication is one of the UN’s millennium goals. UN General Assembly Resolution UN 51/178, which declared the years from 1997 to 2006 as the decade for the eradication of poverty, expresses “serious concern that more than 1.3 billion people in the world, a majority of whom are women, live in absolute poverty... and that the number of such people continues to increase.”²

Due to the seriousness of the problem and the poor results produced by various strategies, the United Nations have proclaimed the 2008-2017 period as the Second Decade for the Eradication of Poverty.³ According to this document, „... while there has been progress in reducing poverty in some regions, this progress has been uneven and the number of people living in poverty in some countries continues to increase, with women and children constituting the majority of the most affected groups...”⁴

According to the Survey on the Population’s Living Standard in Serbia, carried out for the purposes of formulating the Poverty Reduction Strategy and a better formulation of the social policy of the Ministry for Social Affairs, the poor make up 10.6 percent of Serbia’s total population. The basic goal of the Poverty Reduction Strategy was to cut absolute poverty in Serbia “in half” by 2010.

According to data collected by the Serbian government⁵ in its Survey on the Population Living Standard in 2002, 14% or almost a million people in Serbia were poor. A second survey on the living standard conducted in 2007 showed that poverty in that period had been substantially reduced, down to 6.6%. Joint activity on the part of the government and civil society organizations certainly

¹ Z. Stojiljković, *Konflikt i/ili dijalog*, FPN, SLA, Beograd, 2008, p. 352.

² First United Nations Decade for the Eradication of Poverty, General Assembly Resolution 51/178, United Nations, December 16, 1996.

³ Second United Nations Decade for the Eradication of Poverty (2008–2017), General Assembly Resolution 62/205, March 10, 2008, p. 1.

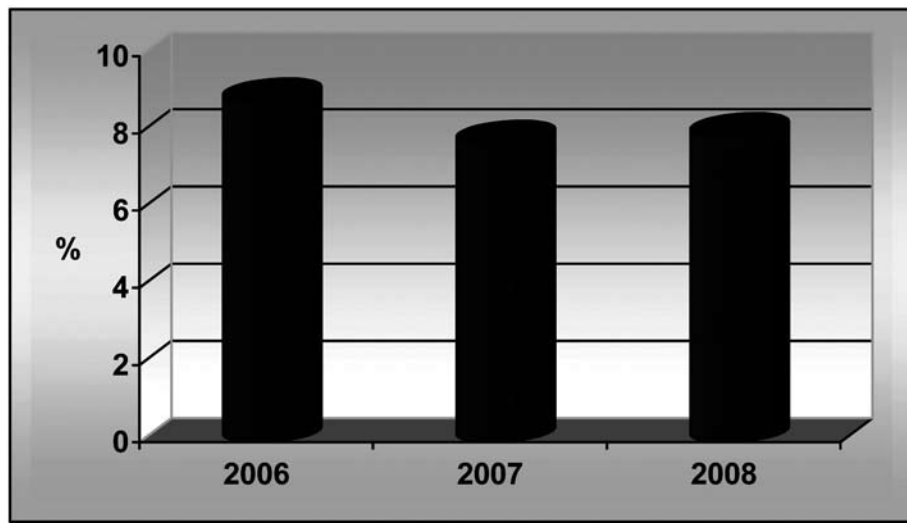
⁴ Second United Nations Decade for the Eradication of Poverty (2008–2017), General Assembly Resolution 62/205, March 10, 2008, p. 2

⁵ Poverty Reduction Strategy, Government of the Republic of Serbia, Belgrade, 2003.

did contribute to the reduction of poverty between 2003 and 2008, but the growth of the GDP, which was significantly higher in that period than in the one that preceded it, was undoubtedly another contributing factor. Data of the Statistical Office of the Republic of Serbia⁶ for the period between 2003 and 2007 also show that the consumption of the middle class and the poorest households grew at an above average rate relative to Serbia's general population.

Effects of the world financial crisis have also reflected on the state of vulnerable social categories. According to the latest official data of the Republic Statistical Office, 7.9% of Serbia's population in 2008 lived below the absolute poverty line (Graph 1). In comparison to the data of the Household Consumption Survey (APD) for 2007, when the poor accounted for 7.7% of the population, poverty had grown by 0.2%. Nevertheless, as can be seen in the graph, although the poverty rate slightly grew during 2008, the indicators were still substantially better than in 2006, when those living below the poverty line made up 8.8% of the population.

Graph 1: *Percentage of the poor population in Serbia*



According to the Household Consumption Survey of 2008,⁷ all households with a consumption lower than 7,937 dinars per consumer unit were classified as poor. The poverty line for a three-member family in 2008 was set at 18,652 dinars per month. The relative poverty line revealed that 13.2% of Serbia's population was living in poverty.

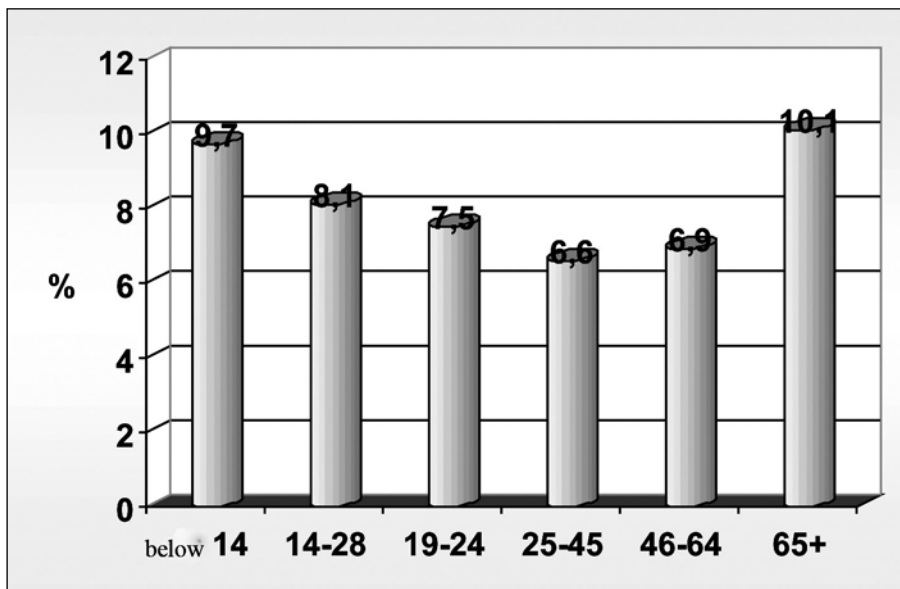
The largest number of the poor were found in the category of children up to age 13, and among the oldest population – 65 years of age and above – 10.1% (Graph 2). Compared to the picture in 2007, the poverty profile has not changed,

⁶ Statistical Office of the Republic of Serbia, webrzs.stat.gov.rs/axd/arhiva1.php

⁷ Statistical Office of the Republic of Serbia, webrzs.stat.gov.rs/axd/arhiva1.php

as the largest percentage of the poor could also be found in these two age categories in 2007. This is why these categories are included among the seven most vulnerable groups in Serbia.

Graph 2: Age structure of the poor in Serbia



In 2003, the Serbian government adopted its Poverty Reduction Strategy and several civil society organizations whose goals and missions are related to improving the lives of deprived groups were included in the project. The Serbian government's Poverty Reduction Strategy (SSS) is a plan of activities directed towards the reduction of the main forms of poverty in Serbia. It „... offers an analysis of the causes, characteristics and profiles of poverty in Serbia, as well as the main strategic directions for their eradication in the coming years.”⁸ This document gives the basic guidelines and directions in which poverty reduction measures should be developed and applied.

Poverty is still most often defined as insufficient income for covering the minimum consumer basket and services. This interpretation is known under the name of “material poverty” and is based exclusively on quantitative measurements. A more encompassing way of looking at poverty and poverty reduction strategies is to use a human rights-based approach.

In the starting framework of the Serbian government's Poverty Reduction Strategy, a broader definition of poverty is clearly recognizable. The Strategy is a complex project, which does not solely address the issue of material poverty

⁸ Brochure of the Civil Society Advisory Board, accessible on the Serbian Government web site, www.prsp.gov.rs/partneri/civilno1.jsp

– lack of income for the satisfaction of basic needs related to food and other needs. Poverty in Serbia is defined as a multidimensional phenomenon. Besides insufficient income for satisfying living needs, it also encompasses inability to find employment, inadequate housing conditions and inadequate access to social protection, health, educational and public utility services, all of which are necessary for the maintenance of basic human potentials. Also included as aspects of poverty are unrealized rights to a healthy environment and natural resources, before all to clean water and air.

The basic directions for the application of the SSS in Serbia, which have been elaborated in detail in the main document,⁹ are the following:

1. Increased employment possibilities
2. More efficient social protection
3. Better position of retirees and the elderly
4. Healthcare in the function of poverty reduction
5. Education in the function of poverty reduction
6. Regional, rural and urban aspects of poverty reduction
7. Ecological aspects of poverty reduction

The Poverty Reduction Strategy sets down three strategic directions:¹⁰

- 1) dynamic economic growth and development, with an emphasis on new job openings and wage increases;
- 2) prevention of new poverty creation as a result of economic restructuring;
- 3) efficient application of existing and definition of new programs, measures and activities directly targeted at the poorest and socially vulnerable groups (children, the elderly, persons with disabilities, refugees and internally displaced persons, Roma, the rural poor and uneducated populace), especially in the least developed regions.

The goal of the strategy is to apply existing and define new programs, measures and activities directly targeting the poorest and socially vulnerable groups (children, the elderly, persons with disabilities, refugees and internally displaced persons, Roma, the rural poor and uneducated populace), especially in the least developed regions.

4. Role of civil society in the poverty reduction strategy

Poverty assumes various forms in different social categories and, thus, requires specific solutions for each of these groups. That is why the inclusion of non-governmental organizations that are already dealing with special social groups as target groups in the sphere of public policy is a very useful move.

⁹ Poverty Reduction Strategy, Government of the Republic of Serbia, Belgrade, 2003, pp. 71-169.

¹⁰ Published on the web site of the Government of Serbia, www.prsp.gov.rs/tri_pravca/index.jsp

In the humanitarian-social sphere, a significant segment of civil society deals with poverty reduction in its activities, especially the humanitarian organizations that have incorporated it as part of their missions. Marginalized groups, such as the poor, persons with disabilities, Roma, single parents, refugees and internally displaced persons have gained public visibility only thanks to the engagement of NGOs in Serbia. Many activities such as direct humanitarian aid, legal and psychological aid and, subsequently, programs of education and capacity strengthening are oriented towards poverty reduction.

On the one hand, cooperation between the government and the non-government sector contributes to the solution of a problem – poverty in this particular case – while, on the other hand, it advances the engagement of the civil society sector, which in itself contributes to the stability and democraticness of the entire society. The implementation of the Strategy has greatly improved and intensified the two-way communication between civil society and government institutions.

Numerous state institutions were included in the consultative process during the creation of the Poverty Reduction Strategy document (e.g., Ministry for Human and Minority Rights of Serbia and Montenegro, Commissariat for Refugees of the RS), along with many representatives of the non-government sector, local self-governments, labor unions, companies, and international developmental partners. During the process of creating the Poverty Reduction Strategy document, 250 non-governmental organizations in Serbia were activated to participate in the consultative process.

In this way, the Strategy became profiled as a national document created as a result of political will, the work of domestic experts and a broad consultative process that included a large number of Serbian citizens. In January 2005, nine round tables were realized on the territory of Serbia, with the goal of promoting the Strategy and stimulating poor people and all governmental and non-governmental institutions and organizations to take an active approach to solving the problem of poverty, using the Strategy as the basis for action. A total of 66 NGOs took part in the work of the round tables.

At present, there are two projects within the Serbian government's Poverty Reduction Strategy for implementing the Strategy, which include even more civil society organizations than were included in the consultative processes and promotion. The first program is that of "Contact Civil Society Organizations for the Implementation of the Poverty Reduction Strategy," and the second is entitled "Civil Society and Responsible Government."

4.1. Contact Civil Society Organizations for SSS Implementation

The program "Contact Civil Society Organizations for the Implementation of the Poverty Reduction Strategy" (KOCD) began in 2007. The goal of the KOCD program is the active inclusion of CSOs in the implementation, monitor-

ing and evaluation of SSS implementation and the establishment of a cooperative relationship between state institutions and the non-government sector in SSS implementation. The basic prerequisite for realizing this goal is the establishment of mechanisms of two-way communication and information flow between the team of the Government vice-president for SSS implementation, other government institutions, competent ministries and the civil society organizations.

Contact civil society organizations are organizations chosen on the basis of the quality of the project proposals they submitted for the government competition process. Each of the chosen organizations represents a single vulnerable group, which is also the target group of the organization's activity. The Poverty Reduction Strategy recognizes seven areas of special importance for poverty reduction, within which it gives recommendations for improving the position of the following vulnerable groups:

- Persons with disabilities
- Children
- Elderly
- Refugees and displaced persons
- Women
- Youths
- Roma

Thus, the Strategy gathers seven representative contact non-governmental organizations that represent marginalized groups that are the hardest hit by poverty.

On the basis of previously defined criteria, the Selection Commission chose the following organizations, whose project proposals received the most points in accordance with the said criteria:

- 1) **Autonomous Women's Center** – KOCD for women's issues
- 2) **Civic Initiatives** – KOCD for youth issues
- 3) **Group 484** – KOCD for issues of refugees and displaced persons
- 4) **Association for Development of Children and Youth - OPEN CLUB** – KOCD for children's issues
- 5) **Romaki Information Center** – KOCD for Roma issues
- 6) **Amity** – KOCD for elderly-related issues
- 7) **Center for Independent Living of Persons with Disabilities of Serbia** – KOCD for disabled persons' issues

Besides these seven organizations that coordinate work related to the said vulnerable groups, also included in the SSS is the Center for Non-profit Sector Development (CRNPS) in Belgrade, as a *program management unit*. A program management unit is defined as a civil society organization with experience in providing support and coordinating the work of other CSOs. As such, it is

charged with establishing cooperation between the KOCDs and their mutual exchange of information, with the goal of supporting and promoting examples of good practice, monitoring KOCD work results, coordinating the activities of all KOCDs and exchange of information between clusters, and initiating activities with the goal of SSS implementation.

Contact civil society organizations are supposed to develop and use various communication mechanisms through which they will gather interested CSOs, in order to jointly deal with questions regarding specific vulnerable groups. Grouped in such a way, these organizations will represent CSO *clusters* for each vulnerable group. The clusters will primarily comprise civil society organizations working with relevant target groups, i.e., organizations with experience and expert knowledge regarding the position and needs of the vulnerable groups they are representing.

Information reaches end users through contact organizations, which are links in the chain. In turn, end user needs and interests are also transmitted to governmental institutions through contact organizations, which have gathered together 657 non-governmental organizations interested in the problems of marginalized groups.

The program is financed by funds of the Department of Overseas Development of Great Britain and the Norwegian Ministry of Foreign Affairs, while the seven contact non-governmental organizations monitor the allocation of funds from central and local state budgets for that purpose.

4.2. The “Civil Society and Responsible Government” program

This program for the implementation of the Poverty Reduction Strategy includes the same seven civil society organizations, whose target groups are the same as in the “Contact Civil Society Organizations” (KOCD) program. These organizations gather together entire groups (clusters) of other non-governmental organizations from the entire territory of Serbia, with significant experience and expert knowledge on the position and needs of the said groups. As a coalition, these organizations represent the best mechanism for the cooperation of the civil sector and the authorities on all levels (primarily on the local self-government level).

The “Civil Society and Responsible Government” program is being carried out on the entire territory of the Republic of Serbia and encompasses numerous activities that form a basis for public advocacy for the greater responsibility of the Government and local self-governments in taking on obligations in the implementation of the Poverty Reduction Strategy. The program’s key activity is to monitor the realization of measures defined by the Strategy and their inclusion in the system of planning and budgeting by the Government and local self-governments.

The activities of these CSOs within this program are: integration into the regular activities of competent institutions, active inclusion in the process of Strategy implementation, connecting with the process of EU-integration, increasing transparency through a clearer planning process, support for the implementation of the Strategy on the local level and building partnership relations.

As already said, poverty is a complex problem and cannot be viewed as a mere lack of financial resources. That is why this program also includes the monitoring of areas that, together with poverty, fall under a more generally descriptive concept – social exclusion. Thus, certain organizations have the task of monitoring national and local policies and their application in regard to the inclusion of specific target groups that have been identified as vulnerable. The CSOs monitor the processes of their employment, education, social housing, local integration, etc.

4.3. Poverty Reduction Strategy for people with disabilities

The *Center for Independent Living of Persons with Disabilities of Serbia* is an organization with a network of members that represents the rights of people with disabilities within the SSS and monitors SSS implementation in areas relating to this social group. As field work allows better data collection on people with disabilities, their numbers and their needs, the CSO cluster gathered around the Center is engaged in testing and recommending new solutions for the problem of poverty of disabled persons. Within the framework of its mission, this group of CSOs is engaged in poverty reduction through: the affirmation of the abilities possessed by persons with disabilities, testing and promotion of new support services for persons with disabilities, raising awareness on the need for creating an accessible environment, including housing and transport, activities on reducing double discrimination and promotion of rights of women with disabilities, etc.¹¹

4.4. Poverty Reduction Strategy for children

The *Association for Development of Children and Youth - OPEN CLUB* was chosen as the contact civil society organization for children. The cluster for children was joined by 54 organizations from 36 municipalities. Through their activities, these organizations have included more than 40,000 children, establishing cooperation with primary and secondary schools, pre-school institutions, centers for social work, healthcare and other institutions, local self-governments and competent ministries.

These organizations encompass all categories of children hit by poverty – Roma, displaced and refugee children, children with impaired development,

¹¹ Published on the web site of the Center for Independent Living of PWDs, www.cilsrbija.org/ser/index.php

children without parents, abused and neglected children, and children outside the system.

The CSOs carried out concrete activities that contributed to the enrichment of the children's activities, improvement of their material state, and improvement of their education. Some of the examples¹² were: free recuperation from asthma for children from socially vulnerable families, enabling children from socially vulnerable families to go on summer vacation and study in summer camps, organizing day care for children with impaired mental and physical development.

Through projects that secure day care for children with impaired development, parents were provided with the possibility of leaving their children in protected institutions, so that they could, among other things, work and earn additional income for their families. In addition, children were provided with a choice of activities appropriate to their needs and possibilities, so that they could maximally develop their remaining personal potentials.

In the course of their lengthy monitoring of children's problems, the CSOs in this cluster noticed numerous concrete problems in local communities and, on that basis, recommended solutions. These recommendations were sent to the competent institutions and published in the book *Ka smanjenju siromaštva dece* (Towards a Reduction in Children's Poverty).

The recommendations call for the urgent registration of children that are not covered by healthcare and education and that have become invisible for the system, as well as the establishment of mechanisms through which local communities can stimulate alternative social protection services, local support services for parents, creation of a Local Action Plan for children in all municipalities. There are also recommendations for changes of various rulebooks, regulations and laws in which, in the course of field work, shortcomings were noted – mostly in the case of pre-school institutions. Also interesting are proposals about special training for teachers that would allow them to keep children in the regular school system.

4.5. Poverty Reduction Strategy for the elderly

On the basis of data regarding population living standards collected during the last population census and published by the Serbian Statistical Office, we can conclude that, when it comes to the problem of poverty among the elderly in Serbia, we are talking about a mass social phenomenon. Old people (over 65 years of age) make up 17.7% of the total populace and a quarter of all the poor in Serbia.

To a significant degree, the problems of the poverty of children, Roma and some other vulnerable social groups can be solved on the national level. Contrary to this, each individual case of poverty among the elderly requires an individualized approach, as this category contains an exceptional variety of causes

¹² According to the book, *Ka smanjenju siromaštva dece*, Niš, 2008, pp. 28-37.

and effects of poverty (family conditions, health conditions, housing conditions). Such an approach can be organized only within the local environment and it seems, with due respect to other NGO missions, that the activation of NGOs in this area would be of immeasurable importance.

Within the KOCD program, the CSO “Snaga prijateljstva” – Amity (Amity) from Belgrade was chosen as the contact civil society organization for questions regarding the vulnerable group of the elderly. In the space of only a year, Amity managed to gather 74 CSOs from Serbia that work with or for the elderly within the cluster for the elderly. In its call for participation, Amity emphasized four key themes among which CSOs could choose:

- 1) Further development of extra-institutional protection of the elderly – services at local community level
- 2) Development and realization of local level action plans relating to the SSS, the Strategy of Social Protection Development and the National Strategy on Aging 2006-2015.
- 3) Further development of the pension system
- 4) Support for the introduction of social pensions as a mechanism for reducing the poverty of single older persons without income.

More than 400,000 retirees have been gathered within the eight retiree organizations-cluster members, while the CSOs that directly offer services to the elderly have more than 30,000 users, of which the majority are living in poverty.

Regarding the activities stemming from the SSS, Amity has published a handbook entitled *How civil society organizations in Serbia contribute to the development of extra-institutional protection of the elderly – examples of good practices*. This is a presentation of the good practices of Serbian CSOs-cluster members, and how they contribute to the development of extra-institutional protection of the elderly, through the realization of concrete programs, such as: “Home help for the elderly in Indija,” “Day center for the elderly and the helpless in Sremska Mitrovica,” “Volunteers of Red Cross-Trstenik for rural elderly people,” “Elderly groups for self-help in Kragujevac,” “Meeting the needs of the elderly, refugees and displaced persons,” “Tele-appeal for the elderly in Belgrade,” etc.

4.6. Poverty Reduction Strategy for refugees and displaced persons

In their surveys on low living standards and inequality, the World Bank and the Starting Framework for the Poverty Reduction Strategy have observed that refugees and displaced persons are the groups that are the hardest hit by poverty.

Several surveys and studies about refugees and displaced persons have shown that their biggest problem is lack of regular income. Unemployment among refugees and displaced persons is significantly higher than the official unemployment rate in Serbia (29% of those able to work, according to data of the National

Bank of Yugoslavia).¹³ According to data from the re-registration of refugees in Serbia (2001), almost 45% of the refugees were unemployed.¹⁴ Additional indicators of poverty in this vulnerable group are lack of housing, problems in the realization of social, economic, civil and political rights, as well as in the use of basic social services, such as healthcare, social aid, etc. There are also the property problems, limited freedom of movement, and many other problems.

The leading CSO within the SSS that deals with refugee poverty is Group 484. This non-governmental organization creates and realizes projects and programs for psycho-social help and life quality improvement for refugees, temporarily displaced persons and other marginalized groups in Serbia.

From the beginning, Group 484 has been an important actor in consultations with civil society. As an NGO with significant experience in work with vulnerable groups, especially refugees and displaced persons, it contributed to the creation of the SSS by collecting all available data and information on poverty among refugees and displaced persons, and on their specific weaknesses.

According to the activity report¹⁵ entitled *Monitoring poverty reduction among refugees and internally displaced persons in the Republic of Serbia*, Group 484 organized three focus groups during the process of the creation of the Strategy: 1) with representatives of local non-governmental organizations that work directly with refugees and displaced persons, 2) with refugees only and 3) with internally displaced persons.

Just like other CSOs included in the KOCD program, Group 484 is presently in the phase of monitoring the SSS implementation process. In order for this monitoring to be as efficient as possible, instead of attempting to monitor all activities linked with its target group this organization has developed indicators that will help measure human rights realization.

On the basis of its uninterrupted work in the field, this NGO published the study *Refugees and displaced persons as vulnerable groups and their inclusion in the poverty reduction strategy* in 2006. The study gives a complete overview of the state and the problem, a quantitative and qualitative analysis of refugee poverty in Serbia. The analysis gave birth to concrete proposals for the adequate inclusion of this population category, related to questions of coordination, expansion of the definition of refugee poverty, and even legal omissions.

¹³ E. Multanen, *Izbeglice i raseljeni kao ugrožene grupe i njihovo uključanje u strategiju za smanjenje siromaštva*, Grupa 484, Beograd, 2006, p 15.

¹⁴ E. Multanen, *ibid.*, p. 16.

¹⁵ M. Lazić, *Praćenje smanjenja siromaštva među izbeglicama i interno raseljenim licima u Republici Srbiji*, Grupa 484, Beograd, 2008.

4.7. Poverty Reduction Strategy for women

Within the KOCD, the poverty of women as a socially vulnerable category is the concern of a network of organizations gathered around the Autonomous Women's Center NGO. Through their numerous services for helping women, these organizations are able to gain detailed insight into the quantitative and qualitative indicators of poverty among women. Although women today have equal rights, there are numerous examples of discrimination of women in the course of employment in addition to poorer work conditions and lower income. This group of CSOs is expected to provide analyses and constructive proposals for reducing poverty in all its facets within this target group.

4.8. Poverty Reduction Strategy for youths

The central CSO for questions of youth poverty is Civic Initiatives. Even before the establishment of the SSS, in its work throughout Serbia this organization developed models of stimulating the young to find ways of including themselves in processes of formal and informal organization. The importance of education is emphasized precisely because education is the area in which the young most feel the effects of poverty, while its lack is also the root of future poverty. The higher the education level, the fewer people have access to it.

4.9. Poverty Reduction Strategy for Roma

The central CSO for issues regarding the poverty of the Roma population is the Romaki Information Center. This organization has formed the most numerous cluster within the KOCD program, consisting of 233 CSOs dealing with the problems of this group, which has been classified as vulnerable.

Each in their own midst, these organizations supervise the inclusion of the Roma population in all social systems, monitor and inform the Program Management Unit regarding levels of Roma poverty in all its aspects. Through the regular publishing of a bulletin (also accessible on the RIC web site), they offer information on key problems of the Roma to the public and to all interested institutions.

Within the Program framework, projects of Roma population work training are realized and campaigns and round tables in many Serbian cities are organized on topics devoted to various ways of reducing poverty among the Roma population.

5. Obstacles and challenges for the civil sector in Serbia

The participation of the non-governmental sector in the Poverty Reduction Strategy serves as an example of how the third sector can and should contribute to the elimination of weaknesses and the overall development of Serbian society. However, civil society organizations are not allowed to realize their full potentials for many reasons. The first group of problems faced by NGOs concerns internal weaknesses, which manifested themselves even within the presented successful example of their activity in Serbia. Analysis has shown that the NGOs included in the Strategy have given varied contributions to the realization of this program, and that some did not produce significant results.

As the goal of this paper is not to criticize the work of third sector organizations, but to stimulate their greater engagement in society, we will not analyze here the causes of individual omissions and weaknesses. Some of the common internal weaknesses of civil society organizations in Serbia are: low level of organization, lack of strategic planning manifested in all aspects of activity (lack of focus on specific problems, phenomena or user groups, unplanned personnel engagement). Human resources are one of the advantages of civil society organizations (they are educated, profiled in their knowledge, enthusiasts, persons of a critical spirit, capable of relatively quick reactions to problems they have observed in society), but there are also certain elements that can be viewed as weaknesses. According to some research,¹⁶ the entire civil sector is weakening because the most quality educated personnel are leaving for more profitable sectors. Also, even though the number of NGO members is relatively high, only a small portion is actively included in the work of these organizations, with an additional problem being lack of personnel with organizational knowledge and abilities.

Other than the internal challenges that some NGOs, as the above analysis has shown, are successfully overcoming, the limiting factors for the development and greater engagement of civil society in Serbia are mostly external: an inadequate legal framework, low level of interest on the part of the state, lack of strong media support and a constant lack of financial resources, which usually appears as a consequence of the previous two.

5.1. *The state and civil society in Serbia*

Generally speaking, the state has not provided a significant stimulus for the development of the third sector. It cannot be said that, since the changes of 2000, the state has been limiting civil society development, but rather that its attitude toward this sphere can be characterized as an ignoring one. A dialogue between civil society organizations and the state in Serbia has been established. In comparison with 2000, mutual dialogue as well as cooperation and support for civil

¹⁶ CIVICUS Civil Society Index – Report for Serbia, Argument, Belgrade, 2006, p 158.

society activities have significantly intensified. State support is reflected in budget outlays, support for concrete activities or tenders for civil society projects. Support for humanitarian activities is especially significant.

Still, NGOs have much greater potential to become social partners. For starters, the administrative procedure for humanitarian aid donors is fairly complicated, and the legal regulations are inadequate.

Second, if the goal is for NGOs to cooperate with the authorities in a more comprehensive way, the authorities should make information for NGOs more accessible, in a transparent way and under equal conditions. This also means the opening of public debates before decisions are made and policies are created concerning areas of NGO activities. This also includes consultations with NGOs about key questions regarding which organizations have substantial and relevant experience, such as, for example: integration and return of refugees, education and requalification, active inclusion of marginalized groups into society and various initiatives tied to local community development.

In addition, the state can organize public competitions in the domain of providing services in the social sector. Also, open contests for the allocation of state-owned commercial space in which NGOs can participate are also possible.

The work of non-governmental organizations and the development and functioning of civil society as a whole greatly depend on political stability. Frequent political changes, especially of local authorities, are a factor that has a destabilizing and limiting effect on the affirmation of civil society in Serbia. Changes in local administrations affect the continuity of cooperation between civil society organizations and local authorities and necessitate renewed efforts at establishing cooperation with the coming of each new administration.

5.2. Legal framework of non-governmental sector activities

According to present legal regulations in Serbia, citizens can freely connect, associate and, towards that end, found various forms of social and political organizations. Unfortunately, the legal regulations have mostly been inherited from the socialist period and, as such, are not harmonized with the new conditions in the civil society sphere. The legal framework does not interfere with the development of the third sector, but it does not stimulate it either.

An improved legal framework would be another important factor for the sustainability of NGOs. The new law on NGOs has been in the process of adoption for years. It provides for more favorable registration conditions and offers possibilities for alternative and commercial activities for securing resources for NGOs. However, although the said law would much improve the position of NGOs in Serbia, it does not offer the significant tax breaks necessary for the functioning of these types of organizations.

On the other hand, the legal framework sometimes serves as an excuse for justifying these organizations' weaknesses, even in the areas in which it is able to establish control, such as organizational development and capacity building. The legal and fiscal framework can be changed through joint lobbying efforts. NGOs in Serbia can collect their resources and unite their efforts in order to lobby and publicly advocate fiscal policy-related solutions, which are key for the sustainable financing of the third sector.

5.3. Social framework

The social environment for the development of civil society comprises a number of factors or actors, among which we will separate the citizenry and the media as the most important.

As for the former, clearly there is a need, as well as a positive response and a readiness on the part of the citizenry to participate in the development of civil society. Trust in civil society organizations, especially in non-governmental organizations, has grown significantly in comparison to what it was during the 1990s. On the basis of experiences from many volunteer actions, it is easy to conclude that citizens are prepared to help other people and join actions in their local communities. There is also the engagement and readiness of people that are not a part of the civil sector to participate in collective actions being realized in local communities, which can be interpreted as a desire on the part of citizens to take part in the solution of issues of broader importance for the community.

Another factor that speaks in favor of the existence of a positive response on the part of the citizenry is the fact that almost all social groups take part in the work of civil society organizations. The variety of actors and the inclusion of a large number of themes and target groups ensure social dynamicity.

The media are a very important social segment for the development of the third sector. Their treatment of civil society can be characterized as inadequate. In the period before the democratic changes of 2000, the attitude of the state media was detrimental for the development of civil society. NGOs were being accused of espionage, various forms of enemy activity against the state and the people, subversion, etc., which even made it possible to occasionally prohibit the work of some civil society organizations.

After 2000, the official media were equalized with private media, not in terms of stimulating and spreading the influence of the third sector but more in their neutral stance regarding the need to advance the cause of civil society in Serbia. Their activities are reduced to transmitting the news that non-governmental organizations submit to them regarding their activities. However, this is not nearly sufficient activity on the part of this important social factor. Namely, civil society is a much broader concept than just NGO activity, and the media have the power to be a key factor in its development, rather than a mere trans-

mitter of information on activities taking place in that sphere. In fact, the role of the media should be greater than or at least equal to the role of the NGOs themselves.

6. Conclusion

More than any other joint activity of the state and civil society in Serbia, the creation, promotion and implementation of the Poverty Reduction Strategy has contributed to the development of the mechanism of communication and cooperation between the governmental and the non-governmental sector. It has contributed to the definition of proposals and views of the broader community in Serbia, and for a much more intense inclusion of CSOs in a sphere that had been previously under the exclusive competence of the state. Civil society organizations have participated in numerous key processes related to the implementation of the Poverty Reduction Strategy (definition of policies, program implementation, monitoring and reporting).

In addition to advancing the relationship of civil society and the state, the implementation of the Poverty Reduction Strategy (SSS) has highlighted the significance and great potential of civil society organizations when it comes to conducting field research regarding the problem. Insight into the true state of affairs is only roughly accessible to state institutions, for which manifold variations of specific problems and even entire population groups can remain hidden, thus preventing the possibility of finding the right solutions. In short, the implementation of the SSS has shown the scope of society's need for cooperation between the state and civil society organizations.

Analysis of the role of civil society in the Poverty Reduction Strategy has shown that the capacities for the use of the non-governmental sector's services on the part of social segments that are not direct users of NGO services are to a great degree unused. We are talking, in the first place, about local (municipal) authorities, which became evident during the implementation of the SSS in the "Civil Society and Responsible Government" program. Qualified NGO personnel can be of help to municipal authorities in many activities, such as project creation, joint development and implementation, information exchange, contact with donors and institutions at the national level, contact with user groups. Also, NGO services can be used by labor unions for the advancement of human resources through training, and there is also the possibility for joint activities in special situations.

In order for civil society in Serbia to further develop, it is necessary to additionally research the problems within this sector in Serbia, as well as to conduct comparative research of the experiences of Central and East European countries.

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SERBIAN CULTURAL HERITAGE AND SOCIALIST REALISM**

Summary

The new political orientation of the late fifth and early sixth decade of the twentieth century encouraged a change of attitudes towards the cultural heritage of the early socialist period in Yugoslavia. Perceived primarily as an expression of political dictates and rejected ideological conceptions, the art of this period was seen as evidence of wrong political decisions that need to be corrected. The marginalization of the art and cultural heritage from this period continued in the following years, as part of the confirmation of the new political ideas. The demolition of socialist ideals during the 1980s and 1990s opened new perspectives for cultural policy, defining the relation of authorities to the cultural heritage from recent history. Acceptance of new values was accompanied by the introduction of cultural policies that did not see an interest in the protection of the national cultural heritage from this period. Although significantly politically directed, the development of Yugoslavian art from the early postwar period nevertheless appears as an important part of the national cultural heritage. It serves not only as testimony of past political views in Yugoslavia, but also of the ideals of an era, of the accepted values and artistic aspirations that marked the fifth decade of the 20th century in this region. This paper explores the conditions for establishing a different reading of early post-war art in Yugoslavia, towards a more comprehensive critical observation and redefinition of attitudes towards the cultural heritage of this period.

Key words: *cultural heritage, socialist realism, socialist Yugoslavia*

JEL classification: P27, Z10

1. Introduction

The changing of social circumstances in post-World War II Yugoslavia paved the way for the setting a new framework for the development of artistic theory and practice in the country. Thanks to changes on the cultural policy plane,

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social themes and left-oriented theoretical-artistic strivings became included in a broader process of social transformation and attained an official character. By institutionalizing party influence in the implementation and planning of cultural policy, as well as through party-directed artistic criticism, a strong mechanism of state influence on artistic life was constructed, securing the subordination of artistic theory and practice to prescribed political, i.e., party goals. The new art was supposed to express “the people’s thoughts and desires” and portray the efforts expended in the building of a new, socialist society, as well as furnish a new iconography for the coming era. Such an engaged art was partly a continuation of the leftist tendencies of the engaged art of the pre-war period, but much more a consequence of specific cultural frameworks that resulted from the establishment of political ties with the Soviet Union.

The influence of the Soviet Union and calls to accept socialist realism in art were noticeable in Yugoslavia even in the pre-war period, before all through the work of the Communist Party and the artists that were in some way linked to it. Still, until the establishment of the new state, following the defeat of the Axis Powers, as the official art of the international workers’ movement and the USSR, socialist realism caused polemical reactions in Yugoslavia. Some wholly accepted its ideas, while others rejected it, considering it to be unsustainable. However, this power balance changed already in the first post-war years. The newly established authorities demanded a redefinition of relations in all spheres of social life. The role of art was seen in the glorification of the revolution and socialist construction. The demands placed upon it were that it be thematically clear and ideologically pure in order to achieve the greatest possible effects.

2. Art in the function of Party ideology

Seen as a powerful means of shaping citizens’ consciousness, art was charged with the task of supporting the newly established ideology, being viewed as a reflection, explanation and document of contemporary reality.¹ Art was supposed to be “accessible and easily understood,” while artists were expected to act pedagogically, raising the socio-political consciousness of all citizens. Still, this “documentation of reality” rejected all possibility of naked naturalistic depiction or a free interpretation of social changes. There were established norms and conventions through which reality was to be shown. The artist was expected to express a clearly affirmative stance toward the process of socialist construction and show faith in the progressivity of the Party ideology.

Party-directed criticism demanded that artists go out into the field, connect their work with the reality that was taking place outside ateliers and libra-

¹ *Proglas Saveza likovnih umetnika Jugoslavije (Declaration of the Association of Artists of Yugoslavia)*, Beograd, 1949

ries, become chroniclers of a time that was promising great changes. They were expected process actual reality, communicate contemporary historical events, the country's renewal and industrialization, scenes from public works actions, political manifestations, to depict the image of the new man, scenes from the liberation struggle, the horrors of the concentration camps and other related things. Works that expressed such contents and communicated them through an easily readable form were considered to be "high-minded." In that way, in the minds of Party ideologues, art was gaining a pedagogical character. Not only that – it was being included in the ideological struggle for the achievement of the goals set down by the Party.

In post-war Yugoslavia art criticism was often seen as a tool of political guidance of artistic activity and, thus, placed in the function of achieving political, rather than artistic demands. Criticism was the domain of authors loyal to the Party. Among these, especially active in the early post-war period in Serbia were Radovan Zogović, Čedomir Minderović, Jovan Popović, Branko Šotra and, more rarely, Milovan Đilas. Art criticism was to be a vehicle of "Party ideas" and to direct artists' work. Everything that ventured outside the framework imposed by the Party was evaluated as "formalism," "decadence," "art for art's sake," "bourgeois tradition," etc.

The influence of directed art criticism was supported by a planned cultural policy and state control of cultural institutions. In addition to the work of professional artists' associations, which was guided by the Party, the work of publishing houses, galleries, theaters and other cultural institutions was also harmonized with the official party line. Control of cultural-artistic work was, in the first place, achieved through legal regulations, then through a hierarchically arranged relationship of institutions through which cultural policy was being carried out and, finally, by placing "people loyal to the Party" in responsible functions within the established institutional system.²

Cultural policy among workers was carried out through the United Labor Unions organization.³ An apparatus consisting of educational sections was built within the labor union organizations, from where publishing, mass-cultural work, theoretical-pedagogic work, etc. were run, while all work within the labor union was directly subordinated to the Party Agitprop apparatus. According to the First Five-Year Plan, the cultural policy towards the working class had the task of explaining to the workers the significance of their participation in the overall process of economic and state renewal. In that context, artists were to include themes from workers' lives in their work. According to Ljubordag Dimić, these works were primarily intended for the working class, their task being to mobilize the laboring masses and provide them with an example that the working class

² Lj. Dimić, *Agitprop kultura. Agitpropovska faza kulturne politike u Srbiji 1945–1952*, Rad, Beograd, 1988, p. 49

³ *Ibid*, p. 77

could accept as its ideal.⁴ In addition, a cultural policy carried out in a planned way was supposed to develop the workers' ideological consciousness, as well as increase the working class' general cultural level. This was to a great extent carried out through the inclusion of workers in amateur cultural-artistic societies, as well as the organization of numerous "appropriate" cultural manifestations that were supposed to stimulate working élan, enthusiasm and satisfaction with the initiated state reforms.

The development of post-war art in Yugoslavia was to proceed in step with the initiated political changes. In a time of great social shifts, art was seen as an inseparable part of the general course of events. On the symbolic plane, it was supposed to wage the same battle as the official ideology in changing existing social relations. Directed by the official art theory and art criticism, art was becoming a battle formation of Party policy in the cultural sphere.

Already at the beginning of December 1947 in Zagreb, the First Congress of Visual Artists of FPR Yugoslavia reflected the changed position of artists and art as a whole. Đorđe Andrejević Kun's headline presentation, "On the Possibilities, Tasks and Prospects of Our Art," emphasized that the Five Year Plan provided Yugoslavian artists with new themes and inspirations: "They have the honorable role of expressing and immortalizing this historic movement."⁵ This kind of standpoint was best manifested in works such as: *Exploring the Terrain in New Belgrade* (1948) by Boža Ilić; *Construction* (1951) by Đorđe Andrejević Kun; *Construction of the Bridge in Bogojevo* (1947) by Milan Konjović; *View of New Belgrade Under Construction* (1948) by Predrag Milosavljević; *Maiden with Sickles* (1949) by Milivoje Nikolajević; *The Worker Heroes of the Aleksinac Mines* (1950) by Mihailo Petrov; *Rade Stanković's sculptures Electrical Workers* (1948) and *Longshoreman* (1952); *Boško Karanović's lithographs from the Youth Railway*; *the painting Youth Constructing Railway (Us Constructing Railway – c. 1949)* by Boža Ilić; etc.

To a lesser extent, the construction theme was also expressed in literature, before all in the works of younger authors. An example of poetic glorification of work and the construction of the country is found in the verses of the *Song of the Vranduk Miner*, by Miroslav Mitrović, published in "Mladost" magazine no. 6 in 1947, as well as in the poem *The Danube-Tisa-Danube Canal*, by Bogdan Čiplić (1949), where the building of the Canal is connected with the transformation of Vojvodina's landscape from a swamp to an idyllic region, covered by fields of grain and new settlements.

The publication of works on the construction of the country were supported through visual and literary media, as well as through intensive photograp-

⁴ Ibid, p. 85

⁵ Đ. Andrejević Kun, "O mogućnostima, zadacima i perspektivi naše likovne umetnosti," paper presented at the First Congress of Visual Artists of FPRY, 1947

hic reports on the initiated mass process.⁶ This created a specific atmosphere of optimism around the new socialist society, with the authors themselves being included in the work on glorifying the “enthusiasm and the achieved results” in the renewal of the war-torn country.

Demands for artists’ more intense engagement in post-war Yugoslavia were mixed with evocations of the wartime horrors and casualties suffered by the Yugoslavian peoples, as well as emphasis of the role of the Communist Party and the Partisan movement in the liberation of the country. Among the most striking examples of the use of wartime themes in art were the paintings *Witnesses to Horrors* (1948) and *The Column* (1946) by Đorđe Andrejević Kun, and the graphics *Old Herzegovina*, *The Column* and *Battle Station* by Branko Šotra, *Sutjeska* by Đorđe Teodorović, and *From the Fifth Offensive* by Voja Dimitrijević.

Monumental sculpture played a special role in glorifying the liberation struggle in Yugoslavian post-war art. On the occasion of the announcement of a contest organized by the People’s Republic of Serbia for draft sketches and project designs for monuments in Jajnici, Kragujevac, Titovo Užice, Bela Crkva, Kraljevo, Priština and on Mt. Fruška Gora, Oto Bihalji Merin wrote in his text “On Monuments Worthy of Immortal Deeds” (1948) that these monuments were to achieve, in stone and bronze, an artistic materialization of examples of “... heroism, human greatness and courage in the struggle for national liberation and the achievement of socialism.”⁷

Thanks to numerous state-financed projects, post-war Yugoslavia was turned into a huge construction ground. Monuments glorifying the Partisans’ liberation struggle and ossuaries devoted to the war’s victims were sprouting in all parts of the country. They were meant to preserve the memory of the “heroic history” of the Yugoslavian peoples, but also to instruct newer generations in the spirit of “Yugoslavian patriotism”. One of the first monuments devoted to the national liberation struggle was made by Antun Augustinčić in Batina Skela on the Danube. Work on it began at the beginning of 1945, and lasted a little more than two years. Raised in remembrance of the meeting of Yugoslavian Partisan forces and the Red Army forces, it was a monumental depiction of the “unbreakable friendship” between the Yugoslavian and the Soviet peoples, as well as a symbol of the establishment of the new ideology on Yugoslavia’s territory.

Wartime themes were equally present in literary works, of which the following were undoubtedly among the most prominent literary depictions of the liberation struggle: *Daleko je sunce* (*Distant Is the Sun*, 1951) by Dobrica Ćosić; *Zapisi iz oslobodilačkog rata* (*Notes from the War of Liberation*, 1946) by Rodoljub Čolaković, written as a form of chronicle of events in Partisan units during

⁶ On more details regarding the use of photography as propaganda, see: M. Todić, *Fotografija i propaganda: 1945–1958*, JU Književna zadruga, Banja Luka, Helicon, Pančevo, 2005

⁷ O. Bihalji Merin, “O spomenicima dostojnim besmrtnih dela,” in: *Književne novine*, No. 21, yr. I, July 6, 1948, p. 2.

the initial war years; *the diary Za Titom (After Tito, 1945)* and the story *Oblaci nad Tarom (Clouds Above the Tara, 1947)* by Čedomir Minderović; and *Istinite legende (True Legends, 1944; second supplemented edition 1948)* by Jovan Popović, a literary treatment of certain episodes from the liberation war.

A result of the Party's powerful influence in all spheres of social life, the ideologically interpreted perspective of social development directed the development of the domestic art of the observed period, making it a vehicle for the achievement of Party goals, as well as for the glorification of the anti-fascist struggle of the Yugoslavian peoples, while providing support for the ideals put forward by the new society. A special role in setting the new course of Yugoslavian art in the early post-war period of all-encompassing struggle to implement social transformation was played by the First Congress of Writers of Yugoslavia, held in 1946,⁸ which established the Association of Writers of Yugoslavia as the "supreme forum and regulator of literary and book life." In his speech, Ivo Andrić saw the founding of the Association of Writers of Yugoslavia as active participation on the part of writers in the process of general state renewal, and their contribution to the construction of a "people's state."⁹ Of special significance in that sense was Radovan Zogović's paper "A Look at Our Literary Situation and Tasks" (1946), which in a certain sense defined the framework of literary activity in liberated Yugoslavia. In his paper, Zogović expressed the view that "progressive" writers' are interested in depicting testimonies from *the Partisan struggle and from occupied territories and portraying work and creative enthusiasm and testimonies of Slavic peoples' brotherhood and unity, along with producing so-called manifests on the struggle for the liberation of all Yugoslavian provinces.* In recognizing such interests as progressive strivings, Zogović called upon Yugoslavian writers to be even more productive in portraying the characters of fighters, workers, enemies, and women and child-participants of the liberation struggle, in offering an artistic portrait of the agrarian reform and the spread of culture, to write about the Red Army (referred to as the "liberatrix") and, ultimately, to portray the character of the new Yugoslavian man.¹⁰

Zoran Mišić also demanded a certain dose of documentarity, achieved by experiential proximity to the treated events. In his text "A Few Remarks on Beginners' Works" (1947), he mentioned essential separation from depicted events as a frequent mistake made by young writers. This primarily referred to authors who sought to portray the construction of the country and youth public works actions. He demanded that the authors themselves also take part in the

⁸ The congress was held on November 17 and 18, 1946, in the big hall of Kolarac University in Belgrade.

⁹ I. Andrić, "O statutu Saveza književnika," in: *Naša književnost*, no. 12, yr. I, December 1946, p. 506

¹⁰ R. Zogović, "Osvrt na naše književne prilike i zadatke," Paper at the First Congress of Writers of Yugoslavia in Belgrade, in: *Republika*, No. 11–12, yr. II, Nov.-Dec. 1946, pp. 868-869

construction process, in order to be able to portray those events in their works in the most successful way. That would allow young writers to offer a "... living and inspired portrait of the new youth" and, through genuine experience rather than acceptance of "hollow phrases," take in the "greatness and the beauty" of the new age.¹¹

The general tendency to have the Yugoslavian literatures develop in the "tightest connection" with the socialist construction and the country's overall economic, political and cultural development was also expressed at the plenum of the board of the Association of Writers of Yugoslavia, held on November 23-24, 1947 in Belgrade. The basic tasks placed before Yugoslavian writers in the presented papers included work on advancing the unity of the Yugoslavian peoples, as well as on intensifying the development of creative literary-artistic and social activities of all Yugoslavian writers.

Jovan Popović was another one to demand that the new reality be portrayed, asking writers to note all the "important moments of reality" and incorporate them in their creative work. "Great victories seek their literary witnesses, the characters of heroes and workers, characters made for songs, seek their bards," wrote Popović.¹² Contemporary Yugoslavian writers were asked to express the "entire dynamic" of current events, the "huge accomplishments" and changes that were happening in society, to express workers' feelings, thoughts, hardships, problems, passions and convictions. In his text "For a Theoretical Uplifting of Cultural Cadres and Increasing the Quality of Literary-Artistic Works," published in the "Literary Newspaper" in 1949, Popović called upon writers to even more strongly express "... élan in the construction of socialism, the growth of our industry, in which our workers and experts are waging battle for the plan, the process of the transformation of villages."¹³ In fact, these were precisely the tasks – which, by his own admission, were not at all easy – that Popović identified as the *main* tasks that were placed before contemporary Yugoslavian writers and artists.

In the text "The Party and Literature" (1948), Popović recognized *party-mindedness* as the basic characteristic of so-called progressive literature, i.e., as the category that makes writers into people's writers.¹⁴ In his opinion, the Party is the one that inspires writers in the new Yugoslavian society, the one that extends "help" in the ideological guidance of literary life and the "proper acceptance" of the cultural heritage. Relying on Lenin, Jovan Popović defined *party-mindedness* as the "... enrichment and strengthening of literary creation; it enables writers to *interpret reality in a true and prescient way, to, inspired by progressive*

¹¹ Z. Mišić, "Nekoliko napomena o početničkim radovima," in: *Mladost*, no. 7 - 8, yr. III, July-August 1947, pp. 100-101

¹² J. Popović, "Reč književnika," in: *Književne novine*, No. 1, yr. I, February 17, 1948, p. 1

¹³ J. Popović, "Za teorijsko uzdizanje kulturnih kadrova i povećanje kvaliteta književno-umetničkih dela," in: *Književne novine*, No. 1, yr. II, January 4, 1949, p. 1

¹⁴ J. Popović, "Partija i književnost," in: *Književne novine*, No. 20, yr. I, June 29, 1948, p. 1

science, deeply fathom and artistically perfectly express reality, to *draw strength from the people and instruct the people for socialism*, to construct *genuine heroes from life and create heroes in life* – to belong to the people and to humanity as a whole precisely because they are *party-minded*.¹⁵ Party-mindedness was seen as an important attribute of literature and art in socialist society because, as he went on, only socialist party-minded literature “... expresses the historical path of the working class at the head of the working people and genuinely points to the future.”¹⁶

Basing his standpoint on Lenin’s text “Party Organization and Party Literature,” Popović accepted the view that literature must not be an “individual thing.”¹⁷ In addition, Popović did not see Lenin’s view of literature as a “cog and a screw” in the social-democratic mechanism as a whole as a degradation of literature but as its orientation toward a new perspective of development, within which *party-mindedness* is placed as the basic direction marker of literary creation. Popović interpreted Lenin’s definition of *party-mindedness* as an enrichment and a strengthening of literary creation, linking the principle of *party-mindedness* with the basic principles of socialist realism. To Popović, this principle became a unifying principle, which encompassed not only the demand that art should harmonize itself with the Party’s goals and program, but also the demand that art be a reflection of reality, as well as its interpretation, that it play a pedagogic role, that it offer the image of the new man – the hero of socialist society.

In presenting a review of the development of Croatian literature in his text “Literature Faced with New Tasks” (1945), Marin Franičević highlighted the tasks that stood before domestic writers under the new circumstances, but also on the basis of established tradition.¹⁸ The basic task being imposed upon contemporary literature was to, while relying on the realist tradition (of Croatian literature, as well as that of other “brotherly peoples”) and “properly evaluating” current reality and the “magnitude of the events in our homeland,” treat current reality and serve as a document for future generations. It was expected to “... shape and artistically vivify the gigantic struggle and the heroic image of our man...”¹⁹ Before all, that meant that literature should offer a portrayal of the “... image of our hero-leader at the front and behind the lines, to paint the image of the hero-worker, the enthusiasm of our youth, the sacrifice of our mothers, to paint the image of the people’s strength in its creative ascent, to besing and paint

¹⁵ Ibid, p. 1

¹⁶ Ibid, p. 1

¹⁷ Ibid, p. 1

¹⁸ In his text Franičević was primarily concerned with analyzing the development of post-war Croatian literature, but his views are indicative of the accepted guideline for development, which other Yugoslavian literatures were expected to follow as well.

¹⁹ M. Franičević, “Književnost pred novim zadacima,” in: *Pisci i problemi*, Kultura, Beograd, 1948, p. 216

the creation of our peoples' brotherhood and unity, the love for the homeland liberated with the blood of its best sons, to nurture it and elevate it to the highest pedestal."²⁰ Writers were expected to take an active part in contemporary events, to be "participants, not observers" in the great social changes, to confidently and decisively take up their new position and participate in the development of the taste of the "broad masses."²¹

The development of theoretical understandings was moving in the same direction in the visual arts as well. In his text "The Question of Art among Us" (1946), written for the First Congress of Visual Artists, Sreten Stojanović expressed the view that their lack of political consciousness had separated artists from the people and subordinated them to the will of the bourgeoisie.²² According to Stojanović, such a relationship lay at the root of the lack of ideas, helplessness and aimlessness that characterized the great majority of artists.²³ He emphasized that the significance of the contemporary age lay precisely in the "... people's political struggle for power and its taking of economic goods into its own hands. Every artist has to know this. He has to participate in this struggle, because he is also a part of the people, and has to contribute to this struggle with his works."²⁴ Stojanović went so far as to make the artist's participation in the "people's struggle" an important criterion in the evaluation of a work of art.

Stojanović thought that it was necessary to view current social occurrences in a general context, as a mass movement of struggle for freedom and justice. And, according to Stojanović, precisely this struggle contained a "huge and inexhaustible source of beauty and strength," which should serve to stimulate artists and writers. And artists had to possess a certain political grounding in order to be able to draw closer to the significance of the entire process. Only in that way, he went on, would the artist be able to absorb himself in the people's strivings, to become one with the people and its paths and, ultimately, to identify himself with it.²⁵ Stojanović concluded his text by emphasizing the importance of understanding the spirit of the times and of "political unification" with the people. This ideal was to be achieved through artists' constant political education, in their acceptance of the themes of the Yugoslavian peoples' liberation struggle, as well as themes connected with current Yugoslavian reality, its character and the character of the soldier-worker.²⁶

²⁰ Ibid, p. 216

²¹ Ibid, pp. 216 - 217

²² The text was not made public due to the objections that came, of which the most energetic were those coming from the Association of Visual Artists of B-H.

²³ S. Stojanović, "Pitanje umetnosti kod nas," in: *O umetnosti i umetnicima*, Prosveta, Beograd, 1952, p. 95

²⁴ Ibid, p. 96

²⁵ Ibid, p. 96

²⁶ Ibid, p. 101

Grga Gamulin was another one who demanded that the new art be built on the foundations of the initiated social changes. In his text "Art at a Turn" (1947), Gamulin contrasted bourgeois art, which he tied to the conditions of bourgeois society, with the new, socialist art, which was being produced in a society "... which has an open perspective toward the future, in a people that approaches work and life with passion."²⁷ Thus, when speaking of socialist realism, he was referring before all to the "passionate reality of creative work," which should not only be realistically depicted in painting and sculpture but also molded "... in its passion, vivacity and fighting optimism."²⁸ In Gamulin's view, in order to truly attain socialist art and restore "true human meaning" to their work, artists should find a way to realize the romantic side of reality. He believed that this was the only way that contemporary Yugoslavian art would be able to turn itself toward the future.²⁹ Such interpretations of socialist realism brought Gamulin closer to its Stalinist-Zhdanovian interpretation as revolutionary romanticism, founded in support of the ideals of the new society set down by the Party.

The change in the country's political direction, brought by the conflict with the Cominform, also brought changes in cultural policy. Rejection of foreign organizational models and models and a return to domestic experience, but without a deeper analysis of work in the cultural and scientific fields, was already demanded at the Second Plenum of the Central Committee of the Communist Party of Yugoslavia in January 1949, and subsequently affirmed in Edvard Kardelj's speech before the Slovenian Academy of Sciences and Arts in mid December of that year.³⁰ One of the key events for the spread of the new ideas and for liberation from the exclusive cultural influence of the Soviet Union was the Third Congress of Writers of Yugoslavia. The congress condemned the dogmatic character of previous creative work and the influence of Stalinism on Yugoslavian cultural life. In his presentation, Miroslav Krleža sharply condemned the limitations of creative freedom in artistic, cultural and public life, emphasizing that, by taking an independent road to socialism, Yugoslavian reality was acquiring specific characteristics and contents, which would inevitably reflect on artistic creation as well. In addition, Krleža appealed for a revision of all the previous judgments regarding art and a redefinition of relations, both regarding works from the past and contemporary artistic accomplishments.

At the beginning of the 1950s, art criticism began to more and more openly free itself from Soviet influence and the principles of socialist realism. In writing

²⁷ G. Gamulin, "Umjetnost na zaokretu," in: *Republika*, No. 4, yr. III, April 1947, p. 251

²⁸ *Ibid*, p. 251

²⁹ *Ibid*, p. 25.

³⁰ At the Second Plenum of the CPY CC, of special significance were the speeches of Aleksandar Ranković and Milovan Đilas, along with the "Resolution of the II Plenum of the CPY CC on the Current Organizational and Agitation-Propaganda Tasks of the Party" (Texts published in: *Partijska izgradnja*, No. 1, yr. I, March 1949, pp. 3-46).

about the VIIth Exposition of Bosnian-Herzegovinian Artists, Branko Šotra lauded the fact that the presented works contained “no trace” of the vulgar, naturalistic understanding of socialist realism that characterized Soviet art.³¹ The official rejection of soc-realist experience was also expressed in the Resolution of the Second Congress of the Association of Visual Artists of Yugoslavia, which pointed to the need to resist the uncreative naturalism of Soviet art. This turning to new paths was subsequently manifested in Yugoslavia’s participation at the XXVth Venetian Biennial, its first after liberation.³²

The literature of this period produced works that represented an attempt to synthesize revolutionary topics and freer expression. A division was formed among writers, between the realists gathered around the *Literary Newspaper* (*Književne novine*) and the modernists gathered around *Youth* (*Mladost*) magazine. Book publishing saw an increased turning toward domestic and Western authors and the loss of primacy of Soviet literature. The thematic plans of the literary publishing houses became much more varied, and the number of published titles increased at the expense of circulation.³³

However, the loosening of reigns in artistic production and book publishing did not mean that the reigns were removed. The Party continued its sharp opposition to everything that departed from the official view of cultural policy, and all works that overstepped the set boundaries of “creative freedom” were rejected as reactionary and opposed to the “revolutionary” development of the country. The rejection of the Soviet cultural model was being carried out through the negation of Soviet artistic theory, but not through an abandonment of Party-controlled cultural policy. Under the changed social circumstances, portrayals of reality were to serve as the most obvious denial of the accusations that were arriving from the Eastern bloc. Art retained its “fighting,” propaganda character, with only the aims of its struggle being changed.

3. Turn on the plane of artistic theory and practice

Initiated by the change in the CPY’s political course, the turn on the plane of artistic theory and practice in Yugoslavia was indicative of a change in the approach to the subordination of art to political goals. The rebellion against the dogmatization of art and Party control over artistic creation that intensified at the beginning of the 1950s, having been initiated and controlled by the Party itself, did not herald an end of the process of politicization of the aesthetic in post-war Yugoslavia, but

³¹ B. Šotra, “Sedma izložba Udruženja likovnih umjetnika Bosne i Hercegovine,” in: *Književne novine*, No. 52, yr. II, December 27, 1949, p. 3

³² At the Venice Biennial, Yugoslavia was represented by: Kos, Lubarda, B. Ilić, Mujezinović, Augustinčić, Kršinić, Radauš, Bakić, K. A. Radovani.

³³ Lj. Dimić, *ibid.*, p. 260

rather a redefinition of the political tasks placed before artistic theory and practice in changed socio-historical circumstances. Thus, the departure from Zhdanovism and Stalinist culture did not yet mean a total liberation of artistic thought. Still, the turn on the political plane directed to a great extent subsequent readings of early post-war Yugoslavian art. Seen primarily as an expression of political dictate and rejected ideological views, the art of this period was seen as a testimony of wrong political decisions, which should be discarded. The change in political views of the late 1940s and early 1950s sparked a change in the way in which the cultural heritage of the early socialist period in Yugoslavia was treated. The marginalization of artistic works and the cultural heritage of this period would continue in the years that followed, as a part of the process of the affirmation of the new political standpoints. The destruction of socialist ideals that occurred during the 1990s has opened up new perspectives for cultural policy, defining the authorities' relationship toward the cultural heritage from recent history. Art that celebrated the revolution and the building of a new society was interpreted as an expression of an ideological consciousness that would not hinder future social development only if it was to be relegated to oblivion. Thus, the acceptance of new values was accompanied by a conception of cultural policies that did not see an interest in protecting the national cultural heritage from more recent history.

The marginalization of the cultural heritage from the early post-war period was carried out not just in the field of cultural policy but in the theoretical field as well. The art and art theory developed in the early post-war period in Yugoslavia was viewed exclusively as an expression of political-ideological dictate, which meant that the need for its deeper examination was rejected. However, in recent years, thanks to research done in the domain of art theory, there has been a change in the view by which Yugoslavian art of the early post-war period does not deserve the closer attention of researchers. In that direction, especially important has been the contribution of the historical-theoretical research done by Milanka Todić, Aleksandar Kadrijević, Lidija Merenik and others.

And, thus, more than half a century after the beginning of the project of transforming domestic art in the spirit of planned socialist development, the question of the perception of the found cultural heritage has been opened. Yugoslavian art of the early post-war period, to a great extent politically directed, represents an important segment of the domestic historical heritage, testifying not only to past political world views but also to the ideals of a specific age and its accepted values, as well as to the artistic strivings that marked the period. Hence, a definition of the relationship toward the art theory and practice of this period would have to be founded on a critical analysis of the preserved materials and their comprehensive evaluation.

It is possible to recognize the justification for this demand just on the basis of an analysis of the basic guidelines by which the development of the artistic-theoretical understandings of the early post-war period was defined. Understood

as an activity that influences overall social progress, art in post-war Yugoslavia was supposed to be included in the initiated process of social reform and socialist construction. This meant the imposition of a Party-determined development perspective upon Yugoslavian art theory and practice. Art was supposed to support the official ideology and, with its tendencies, actively participate in contemporary events; to achieve the Party-imposed vision of Yugoslavian reality; to, following the principle of optimism and expressing a *clear (socialist) world view*, influence the country's "revolutionary" development; to express the "greatness and beauty" of the new age and emphasize the importance of the initiated social reforms. The acceptance of such views determined to a great extent the perspective of artistic development in the country. However, as art has never in history been free of ideological influence, an achieved politicization of the aesthetic cannot stand as sufficient reason for marginalizing the artistic practice of the early post-war period, much less for neglecting its research.

On the other hand, the inclusion of artists in the process of changing social relations also assumed the imposition of demands to portray, by way of art, *the creation of the brotherhood and unity of the Yugoslavian peoples*, thus contributing to the establishment of stable interethnic relations in the country. Art was also supposed to be a vehicle for supporting the initiated process of construction and industrialization of the country on new foundations. Art was to present *testimonies from the Partisan struggle and from the occupied territories, to show the heroism of the fighters and glorify the liberation struggle of the Yugoslavian peoples during World War II*. Although the treatment of wartime themes emphasized the role of Josip Broz Tito and the Communist Party in the country's liberation, the portrayal of the war with all its sufferings and horrors also served as a tribute to the heroic efforts of the Yugoslavian peoples in the struggle for the liberation of the land.

4. Conclusion

Subordinated to the demand of supporting broader social reforms, Yugoslavian art of the early post-war period was supposed to contribute to the victory of socialist construction. Art was supposed to transmit the posited ideals of the era in which it was produced. It was supposed to support hope for a better world, express the humane strivings fortified in belief in a possible future society, built on the foundations of the anti-fascist struggle. Although it came about under the cover of a strong political dictate, early post-war Yugoslavian art was supported by a faith in the possibility of building a new, more humane society. It is precisely these humane strivings, although ideologically supported, that are opening up the space for a rereading of early post-war Yugoslavian art. Born out of the revolutionary struggle, the art of socialist realism represents a testimony of great ideals and the ruling zeitgeist of mid 20th century Yugoslavia. Regardless of the

question of the justification of the ideological views that supported its development, the art of this period represents a part of the cultural heritage that bears testimony of the beliefs that determined the course of events in the more recent past of these parts. Thus, its critical understanding can be seen as a key to a better understanding of the national cultural identity.

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STATE MONOPOLY OVER RADIO DIFFUSION IN SERBIA UNTIL THE END OF WORLD WAR II

Summary

The beginnings of the development of radio diffusion in Serbia are tied to February 1924, when the first radio station on Serbian soil began its work, in Rakovica near Belgrade. Radio Belgrade was officially founded on March 24, 1929, as a joint stock company with predominantly foreign capital. In fact, from its foundation until the present, this radio has enjoyed the status of a government institution. As part of the European regulatory framework, national legislation in the field of radio diffusion was organized until 1941 in accordance with the principles of the international laws of the time, which ensured an undisputed monopoly position on the part of the state. The regulations and contracts that regulated this field were expressive of an especially restrictive state policy and increased censorship, while the state monopoly that was established on the basis of the legal right of the founder was maintained by economic conditionality and financial pressures. Both practical and moral reasons were invoked as justification for the state's interventionism: establishment of regulated and optimal use of the frequency spectrum; delivery of the radio program to all citizens on state territory; meeting the public interest in mass communications. The Serbian state, i.e. the Kingdom of Yugoslavia defended its monopoly through legal acts, which at that time consistently adhered to the legal framework of developed European countries, participated successfully in international radio-phonetic associations, and adopted and implemented the principles of the European regulatory framework in the field of radio diffusion.

Key words: radio diffusion, regulation, state monopoly, Radio Belgrade, Serbia

JEL classification: L82, L43

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1. Introduction

As a part of the broader social milieu, the media system cannot exist in isolation from the entirety of social circumstances that characterize a social environment in a certain time. The media and the media system of a particular time are products of the prevailing specific societal, economic, political, administrative, cultural, technological and social conditions, just as the media system itself helps shape the social context, through a reciprocal, developmental combination of mutual influences.¹ Just as the entire media system inevitably shares the fate of the environment from which it has sprung, and is influenced by the dominant socio-economic circumstances which define that environment, the same can be said for one of its parts – the electronic media. The origin and the functioning of electronic media are primarily products of new technologies. These media appeared after print and the news agencies: first radio, then television, followed in contemporary times by new forms of electronic (and digital) communications – the new media.

The discovery of radio and the beginning of radio programming marked the start of radio diffusion, the media sphere of broadcasting radio and television programs. The Great Dictionary of Foreign Words and Expressions has the following definition: “Radio-diffusion is the media sphere of broadcasting radio and television programs. The word itself means radiation, emission. Radio is the emission of sound signals by way of electro-magnetic waves.”²

Regular radio program broadcasting began in 1920 – in Europe and America, having been preceded by almost a century of research that led to the creation

¹ As opposed to the “hard” socio-centric or media-centric approach (whose main proponents are representatives of critical social philosophy – Horkheimer, Adorno, Marcuse and functionalists such as Niklas Luhmann, on one side, and the authoritative Marshall McLuhan, on the other), in contemporary media theory the view on the complex nature of relations between mass media and society is the predominant one. According to this view, mass communication media are equally recognized as a social product and as a producer of social relations and changes. The extent to which mass media express their causal potential or their consequential character during a given period depends on a diverse set of socio-historic specificities. For more on this relationship, see: D. McQuail: *Mass Communication Theory*, SAGE, London, 1994.

² According to: I. Klajn, M. Šipka: *Veliki rečnik stranih reči i izraza*, Prometej, Novi Sad, 2006, p. 1021. This definition eliminates the terminological confusion that is usual among non-experts, according to which radio diffusion is limited to the broadcasting of radio programs – to the exclusion of television programs (the confusion is a result of the fact that the term radio is at the root of the terms “radio station” and “radio device”). The Serbian Law on Radio Diffusion defines it in the following way: “Radio diffusion: a general term for radio and television as electronic media of mass communication, which is achieved by way of analogue or digital transmission of text, speech, and still and moving images in the form of program contents offered to the public at large via receiving devices.” However, since only radio, and not television, existed during the time period covered by this article, we will here treat radio and radio diffusion as synonyms.

of radio. The first regular talk and music radio program began to be broadcast on November 6, 1919, in Holland (the PCGG station),³ preceded by an experimental program on February 7 of the same year. Regular radio program broadcasting in America began on October 27, 1920 (the KDKA station), after an experimental program that ran from 1915 to 1916. In Europe, long-wave radio programming first began to be broadcast in the German city of Königs Wusterhausen in 1920, while regular broadcasting began in Berlin on October 29, 1923. In Great Britain, experimental programming began in June 1920, before the BBC began regular broadcasting on November 2, 1922 – at about the same time that it began in France, in Paris. In 1923, regular radio program broadcasting began in Switzerland, Australia, Belgium, Czechoslovakia, Finland, Norway and Spain.⁴

Already during the initial phases, the development of the new medium on the old and the new continent was marked by fundamental differences in the role and intervention of the state: a commercial radio diffusion model was established in the United States from the beginning, while on the Old Continent the state supervised the development of radio (and, subsequently, television) by founding radio stations, investing in development and spreading the network of transmitters.⁵

2. Origins of Radio Belgrade

The beginning of the development of radio diffusion in Serbia can be traced back to February 1924, when the first radio station on Serbian soil began operating, in Rakovica near Belgrade. Its founding was made possible by the French telegraph company TSF – *La Compagnie Generale de Telegraphie sans fil*, which received concessions after World War I for building a radio-telegraphic network in the Kingdom of Serbs, Croats and Slovenes, which served as a transit between Europe and the Middle East.

In the interwar period, the right to found a radio station was a matter for the competent ministry and under strict state control. As the Ministry of Post and Telegraph did not have sufficient budget resources at its disposal, it organized a contest in 1922, inviting foreign capital owners to participate in the building of a new radio-telegraphic station,⁶ whose power and range would surpass that of existing stations, mostly inherited from the Austrian authorities. Two offers came to the address of the Ministry: from *Marconi's Wireless Telegraph Company*

³ I. Pustišek: *Radio Beograd 1924. Prva radio stanica u Jugoslaviji*, Beograd, 1990, p. 12.

⁴ According to: I. Pustišek, *ibid.*, p. 13.

⁵ Prema: I. Pustišek, *ibid.*, str. 13.

⁶ It was usual to mistakenly refer to such radio stations as radio-telegraphy or radio-telephony – wrong in the sense that radio-telegraphy assumes the transmission of messages by way of coded script, i.e., the Morse Code.

Ltd., London, and *Compagnie Générale de Télégraphie Sans Fils*, Paris.⁷ At that time, there were only three European countries that produced radio-telegraphic stations: besides England and France, the third was Germany, i.e., the German firms *Telefunken* and *Lorenz*. German companies were out of the question due to Germany's recent status as war enemy so, in spite of the efforts of the English company's representatives, the council of ministers approved the decision of the Ministry of Post and Telegraph that the agreement should be signed with the Paris-based General Society for Wireless Telegraphy TESAFI, while the TSF company – with which Serbia had already cooperated successfully during the wartime year of 1915, when the company built a radio-telegraphic station in Niš, the then provisional seat of the government – received concessions for the construction and use of a modern radio station. At the end of 1922, this company purchased 233,000 m² of land across the rail station in Rakovica, where it constructed a radio station building by the end of the following year, for the use of radio-telegraphy and radio diffusion. At the same time, a space located at Knez Mihailova St. 42 in Belgrade was renovated for use as a radio center, while a new radio-receiving center was built in Belgrade's Vračar district.⁸

Two domestic engineers employed by the company at that time, Mihajlo Simić and Dobrivoje Petrović, founded the first radio station in Serbia. The main offices of the Rakovica station were located in Knez Mihailova Street in Belgrade. The French TESAFI company defined the conditions under which the “radiophonic” station in Belgrade would operate:

- “the cost of operations of the radiophonic station were the responsibility of TESAFI;
- TESAFI would regularly inform the state regarding the time of the radiophonic broadcasts;
- according to the Agreement of August 27, 1922, the state has the right of free use of the radio station, for up to an hour each day, for broadcasting its official announcements;
- each radio receiver must be authorized by the state and an annual 300 dinar state tax is due for each, while, for the purposes of partly covering the expenses of exploitation of the radiophonic station, the state shall concede 50 percent of the tax proceeds to TESAFI.”⁹

⁷ Ž. Simović: *Vreme radija*, Radio Beograd, 1989, p. 12.

⁸ The monthly magazine “Telegraf i telefon,” renamed as “Radio, telegraf i telefon” in 1924, regularly reported on the founding and the work of the new Belgrade radio station. According to: I. Pustišek, *ibid.*, p. 13.

⁹ Letter from TESAFI sent to the chief of the Ministry of Post and Telegraph, M. Đorđević, of May 2, 1924, cited according to: I. Pustišek, *ibid.*, pp. 17-18. As a note, TESAFI's demands led to a change in the highly restrictive Rulebook of 1923, according to which the radio subscription equaled 240 dinars per year for apparatus with a frame and 360 dinars for apparatus with an antenna. A new rulebook was adopted in 1924, prescribing a single

The decision of the Ministry of Post and Telegraph to approve the beginning of regular operations of Radio Belgrade (by which the Ministry actually gave approval for program broadcasting to TESAFI) was published in the "Post-Telegraph Heralds"¹⁰ on September 19, 1924 – once all the technical and programming conditions for beginning operations were met, in accordance with the agreement concluded with the TFC company in 1922. According to this decision, the Main Radio-Telegraphic Station Belgrade-Rakovica officially began work on October 1, 1924, after which date TESAFI had a right to a portion of the subscription for program broadcasting. The entire property of the radio station was, at the time of registry, valued at 22 million dinars. The France Presse company invested 458,565 US dollars in the construction of the facilities in Rakovica.¹¹ Programming was broadcast three times a week for one hour each, consisting of information, stock exchange reports and live music concerts. As its program was broadcast over 25 kilowatt transmitters, the Rakovica radio station ranked among the most powerful in Europe at that time. It was the first true, that is, non-experimental radio station in the Kingdom which, differently from the experimental ones, broadcast regular programming. In addition, the broadcasting and the financing were carried out on the basis of a decision, i.e., approval, of the competent state body.

In any case, the progressive nature of this venture of enthusiasts who, with government support, institutionally introduced radio diffusion in the young and poor kingdom, is testified by the fact that, for example, Radio Belgrade began to broadcast its regular programming at the same time as Radio Vienna, and did not lag behind Radio Rome, either. Even Japan did not begin broadcasting its own regular radio programming until March 1925, similar to the USSR.

In addition to radio subscriptions, by 1925 Radio Belgrade had already started earning income from economic propaganda, with the state defending its interest by taking a ¹² share for its participation. The decision on broadcasting economic propaganda over the radio, in line with "the best possible exploitation of the radio station in Belgrade, after the example of the work of foreign radio stations,"¹² and on the basis of the Agreement signed with the French TSF company that allowed the "announcement of advertisements by way of radio-telephone, which would be performed after concerts or regular news broadcasts"¹³ – precisely stipulated the prices and length of advertisements, as well as the advertising tax to be collected by the Main Radio-Telegraphic Station in Bel-

subscription rate of 250 dinars per year, paid by the user to the state, plus 150 dinars per year for a company or a person with a broadcasting licence.

¹⁰ "Poštansko-telegrafski vesnik," No. 19, 1924.

¹¹ Ž. Simović, *ibid.*, p. 14.

¹² "Poštansko-telegrafski vesnik" p. 170, 1925.

¹³ *Ibidem.*

grade. This decision is also significant in that it was the first one in our country that concerned economic propaganda on the radio.

However, media historians are of two minds when it comes to the beginnings of radio diffusion in Serbia. Since the work of the radio station in Rakovica was interrupted already in 1926, because the Ministry of Post – which was responsible for its work and financing – stopped subsidizing it, there was a three-year discontinuity in program broadcasting. This is pointed to by media historians that view the radio station in Rakovica as only the first such station in Serbia, or the first experimental radio station and, thus, only a forerunner of Radio Belgrade – which truly opened the era of radio diffusion in Serbia.¹⁴

How did the discontinuity come about, and why? Namely, on the initiative of Radio Club Zagreb, the founding assembly of the Alliance of Radio Associations in the Kingdom of Serbs, Croats and Slovenes was held in Zagreb on September 19, 1925. The Minister of Post and Telegraph set the deadline for the installation of a broadcast radio-phonetic station in Zagreb for March 1, 1926, while deciding “to grant the station in Zagreb the aid provided for in Article 31 of the Rulebook on private radiophonic apparatus, not only from radio subscribers within 150 km of Zagreb, but from all subscribers throughout the country, under the assumption that the programs broadcast by the Zagreb station will be heard throughout our Kingdom....”¹⁵ This decision directly jeopardized the operations of the Main Radio-Telegraphic Station in Belgrade – Rakovica. The Ministry of Post and Telegraph informed the representatives of TESAFI about their decision, by which, beginning with January 1, 1926, the aid given to radiophonic broadcast stations would be divided equally between the Belgrade and the Zagreb station. The letter also contained objections regarding the “audibility and work” of Radio Belgrade. There ensued a worsening of relations between TESAFI and the Ministry of Post and Telegraph. TESAFI was defending its own financial interests, including the agreement signed on the basis of the Radio Belgrade project, claiming that the 12 percent tax prescribed by the state was not in the least justified; that the 50:50 division of subscription proceeds between Belgrade and Zagreb was not correct – since the capacity of Radio Zagreb was one fourth of that of Radio Belgrade, and such. Also, the objections of the Ministry regarding the quality of program broadcasting were firmly rejected. As the Ministry did not back down from its policy of conceding privileges to the Zagreb partner and was oriented toward building radio diffusion stations under its own ownership, while TESAFI expressed dissatisfaction with the large deficit and unprofitability of its large investment, the dispute was settled by the ending of operations of the Main Radio-Telegraphic Station in Belgrade – Rakovica. Two weeks after Radio Zagreb officially began operations, the Ministry of Post and Telegraph brought a decision by which payment of a part of the subscription to

¹⁴ According to: R. Veljanovski, R.: *Medijski sistem Srbije*, Čigoja, Beograd, 2009, pp. 65-66.

¹⁵ According to: I. Pustišek, *ibid.*, p. 35.

Radio Belgrade was stopped as of July 1, 1926. By this decision of the Ministry, the work of Radio Belgrade – Rakovica ended, since TESAFI had no intention of continuing to broadcast programming without being able to participate in the radio subscription.

Radio Belgrade was officially founded on March 24, 1929, as a joint stock company with majority foreign capital. As part of the European regulatory framework – from the origins and the earliest developmental phases of Radio Belgrade, the state had an undisputed monopoly position in its functioning. The Ministry of Post and Telegraph was responsible for granting concessions, while the applicant was solely responsible for securing the necessary financing for starting a radio station. Although the state as the concessionaire – aware of the potential of public information – insisted on domestic capital, the latter remained quite reserved. The state approved to the Joint Stock Company – the founder of Radio Belgrade, the purchasing of technology from the English “Marconi” company. It turned out that the concession for Radio Belgrade was granted to hidden foreign capital, as it was revealed several years later that “Marconi,” to which the authorities had turned after their dispute with the French partner, was in fact the majority shareholder of the radio station. Not counting associated shareholders, the company owned 970 shares of the station. In his book “The Time of Radio” (“Vreme radija”), Živomir Simović presented in detail the capital structure during the first year of operations of Radio Belgrade.

“Franz Liszt from Vienna had 885, Dr. Milan Stojadinović from Belgrade 1010, Julius Hanau from Belgrade 310, along with Stevan Rajčević, Baron A. Tizenhausen 305, as did Dobrivoje Stošević, Augusta Stojadinović 300, Vilm Štuks Ribar 300 shares... Among the initiators and founders, Stevan Karamata advanced the most. However, Dr. Gustav Braun had 30, while Zafir Stanković, Slavko Bokšan, Robert Vege and others had 10 shares each. Accordingly, it is obvious that, among the domestic capitalists, Stojadinović and “the first next to him,” Karamata, accumulated the most power during the first year of work, as they held the largest number of shares.”¹⁶

The shareholders and the state split the subscription proceeds 60:40. Concessions were granted for a period of fifteen years, after which ownership of the station would revert to state hands. The state supervised the work of the radio, which was obligated to broadcast news for the needs of the state. Thus, on the eve of World War II, except for Radio Ljubljana, all radio stations in the country were in state hands.¹⁷

The newly established Radio Belgrade began work in the present-day Serbian Academy of Sciences and Arts building, and quickly gained popularity: by the

¹⁶ Ž. Simović, *ibid.*, p. 33.

¹⁷ N. Maričić: *Profili radija*, Radio Beograd, 1994, p. 46.

end of 1929, it had almost 20,000 subscribers.¹⁸ The “state radio” went through various phases of development, whose continuity was interrupted by the World War II period, during which it functioned as the occupational *Zender Belgrade*, under the control of the Reich. After the end of the war, Radio Belgrade became the official voice of socialist Yugoslavia. During its eight decades of public activity and development, Radio Belgrade has become a part of not just the media history but of the general history of Serbia, giving an important contribution to the development of informative activity, culture, science, art and education while, most importantly, cultivating the literary spoken language.

3. The first forms of radio diffusion regulation in Serbia

The Law on Radio Diffusion was brought for the first time at the beginning of the 21st century.¹⁹ The regulations that initially dealt with the radio diffusion sphere were contained in legal acts that were not strictly media-related. Until 1941, during the period of its incipience on the territory of the independent Kingdom of Serbia, the Kingdom of SHS and, finally, the Kingdom of Yugoslavia, the national legislation in the area of radio diffusion was ordered according to the principles of international law of that time. The history of the domestic legislation testifies to the fact that numerous restrictive and stimulative provisions of legal acts that regulated the new models of exchange of ideas, information and aesthetic messages that were characteristic of this period, were in line with the particularities of national development, as well as the legacy of the world community.

The first association that regulated relations in wire-telegraphic communication on a world scale was the International Telegraph Union, founded on March 1, 1865, in Paris. The Kingdom of Serbia became a member of the Union on February 9, 1866. As new forms of information dissemination by way of wireless telegraphy appeared, new models of regulating relations between countries that accepted and participated in the implementation of new practices in the sphere of communication were developing. Thus, on August 5, 1903, the International Radio-Telegraphy Conference was held in Berlin, followed by the founding of the International Radiotelegraph Union on November 2, 1906, also in Berlin.²⁰

In 1912, Serbia joined the London International Radiotelegraph Convention, which represented the first multilateral international document regulating the use of radio on our soil. These were the first steps in the regulation of radio diffusion in Serbia.

¹⁸ R. Veljanovski, *ibidem*.

¹⁹ Law on Radio Diffusion, “Official Gazette of the RS” No. 42/2002. Adopted in July 2002.

²⁰ M. Nikolić: “Nacionalno zakonodavstvo u oblasti radija i radio-difuzije u periodu od 1918. do 1941. godine,” in: Maričić, N. ed.: *Anatomija radija*, RTS, Beograd, 2007, p. 182.

The initial success in the founding and exploitation of radio diffusion at the beginning of the 1920s led to a wave of new radio stations that were established in Europe and the United States.²¹ By the end of the 1920s, a total of 87 radio transmitters were registered in Europe, and 37 more were planned. In order for the first radio stations – which had a short range and were of local character – to form a network that would produce an efficient information system and be able to use the limited wave band without interference, it was necessary to carry out a systematization and allocation of frequencies, limit the range, i.e., the power of radio receivers and order the relations in this sphere. This led to the formation of the International Union of Radiophony²² in Geneva, on April 3 and 4, 1925, which was joined by 17 radio diffusion associations, including the Yugoslavian association.²³ Not long after, the first international legal act that regulated relations in the area of radio diffusion, known as the Geneva Plan, was adopted.²⁴ This plan on the allocation of frequencies was adopted by the Technical Committee, i.e., the Council of the International Broadcasting Union, on March 25, 1926, for the purposes of defining the relations between existing radio stations. The document was submitted for approval to European countries' PTT administrations, and came into power on November 14, 1926. According to the Geneva Plan, Yugoslavia was granted three frequencies: one for Radio Belgrade, i.e., the Main Radio-Telegraphic Station Belgrade – Rakovica, and one each for Radio Zagreb and Radio Sarajevo (the latter two stations shared frequencies with several other European stations). Between the wars, some additional new frequency allocation plans were adopted: the Brussels Plan (1928), the Prague Plan (1929), the Lucerne Plan (1934) and the Montreux Plan (1939).²⁵

²¹ The first US networks were established during this period; NBC (National Broadcasting Company) had a network of 24 radio stations, while CBS (Columbia Broadcasting System) formed its network in 1927. The tempo of founding radio stations was more intense than in Europe. The period of establishment of the basic principles that regulated broadcasting in the US lasted from 1919 to 1927, culminating in the Dill-White Radio Act passed by the Congress in 1927. Although they had the same purpose, the first regulatory documents that were adopted in Europe and the US were marked by important conceptual differences. Namely, the states were defined as the carriers of radio diffusion development in Europe, while in the US this role was assigned from the beginning to free initiative and big capital. – According to: N. Maričić: *Profili radija*, RTS, Beograd, 1989, pp. 14-15.

²² In 1929, this association was renamed as the International Broadcasting Union (*Union Internationale de Radiodiffusion in French*), as the term radio diffusion was considered to be more adequate than the term radiophony.

²³ Besides the Yugoslavian association, the Union was also joined by the following radio diffusion associations: one each from Germany, Austria, Belgium, Holland, Norway, Sweden, and Czechoslovakia, two each from Spain and Switzerland and four from France. – “Telegraf i telefon,” No. 3, Beograd, 1925, p. 911.

²⁴ According to: N. Maričić: *ibid.*, p. 15.

²⁵ For more details, see: M. Nikolić: *ibid.*, pp. 182-184.

The two above-mentioned unions – the telegraphic and the radio-telegraphic – were integrated into the single International Telecommunication Union, in Madrid, on December 9, 1932. The Kingdom of SHS, later the Kingdom of Yugoslavia, was a member of both the former, and then retained its status in the newly formed international telecommunication union after 1932. The Union's basic goals were concerned with the "organization, harmonization and planning of all types of international communications; improvement, diffusion and purposeful use of telecommunication services (telephone, telegraph, radio, television, space telecommunication, air and maritime communications, etc.); development of new technologies, standardization in the area of telecommunications and allocation of radio frequencies."²⁶

Thus, from the 1920s to the beginning of World War II, the normative framework and international cooperation in the area of radio diffusion developed within the framework of the International Broadcasting Union. In addition to frequency allocation, the first international agreements that were concluded in this field and under the auspices of this international body (international agreements on technical norms, the program content of broadcasting organizations and the protection of authors, performers and the broadcasting organizations themselves) also encompassed terminological standardization.

During the first years of its development, our national legislation in the area of radio diffusion strove to be in line with international standards and regulations. However, the first acts that regulated radio diffusion in Serbia were not media-related. Attempts at establishing legal regulations in the area of radio diffusion in Serbia were additionally hampered by the longtime confusion that reigned in this sphere on the issue of competencies. Namely, in its initial phases, from December 7, 1918 to April 3, 1929, the radio sphere in the Kingdom of SHS was under the competency of the Ministry of Post and Telegraph, which concluded agreements with owners of radio receivers and granted concessions to individuals or joint stock companies. This ministry adopted the first legal act that regulated the organization and functioning of the ministry itself, the "Organization of the State Post," which came into effect on May 1, 1919. Among the five Ministry sections provided for by the act, one was charged with overseeing radio diffusion – the Telegraph, Telephone and Technical Section. The competencies of the ministry in charge of radio diffusion were primarily related to the adoption of a rulebook on radio receivers, the issuance of licenses, and the conclusion of agreements with individuals, concessionaires and joint stock companies on the issuance of licenses for radio program broadcasting. This state body did not prescribe legal regulations on technical norms in the area of radio diffusion but was, rather, concerned with the ratification and implementation of international conventions in this sphere. The legal acts brought during the 1921-1923 period testify to the fact that the said ministry acted under explicit state

²⁶ M. Nikolić, *ibid.*

control.²⁷ Among these acts were: Regulation on the Organization of the Ministry of Post and Telegraph (February 20, 1921), Law on Regional and County Self-government (April 26, 1922), Rulebook on the Composition and Competences of the Sections of the Ministry of Post and Telegraph (March 15, 1923).²⁸

PTT and radio diffusion affairs passed under the competency of the Ministry of Construction on April 3, 1929. From December 12, 1930 to September 1, 1935, radio was the responsibility of the Ministry of Transport, within which the Law on Post, Telegraph and Telephone was brought. According to the Law, the state reserved the right of approving and limiting the construction and use of TT devices, including radio. Decisions regarding expropriation were brought in 1939, by which Radio Belgrade began to function as a state enterprise.²⁹ Another important law brought during this period was the Law on Copyright Protection of 1929, which encompassed rights deriving from radio performances. Affairs from the radiophonic sphere were returned to the competence of the Ministry of Post, Telegraph and Telephone on September 1, 1935 (until April 6, 1941, the day Germany attacked Yugoslavia).³⁰ During the observed interwar period, a total of 24 ministers had headed ministries in charge of radio, radio diffusion and radiophony affairs, including one that served two mandates.

Between 1923 and 1928, four restrictive rulebooks on regulating the rights and obligations of radio receiver owners were brought. They provided for high subscription fees, thus institutionalizing the basic way of subsidizing radio diffusion. Upon adoption, all the rulebooks were published in the "Post-Telegraph Herald," the official organ of the Ministry of Post and Telegraph of the Kingdom of SHS.

The first Rulebook on private radio-telegraphic-telephone receiving devices was brought on July 25, 1923. No radio station was broadcasting at that time in the Kingdom of SHS, but listeners could follow the programs of foreign stations. The rulebook consisted of five articles and was quite restrictive in character, as the state was seeking to efficiently protect itself from the "new means of information and culture."³¹ Among other things, the rulebook explicitly stipulated the following: that a license for installing radio-telegraph-telephone apparatus can be granted only to citizens of the Kingdom of SHS; that it is possible to apply for a license for installing a receiving apparatus, but that no private person may possess radio apparatus for transmission, and that each applicant for a license for possessing radio receiving devices must submit a written explanation to the Ministry – which practically amounted to signing a contract with the state.³² The

²⁷ I. Pustišek, *Istorija zakonodavstva o radio-difuziji u Jugoslaviji*, Beograd, 1987, pp. 21-28.

²⁸ I. Pustišek, *ibid.*

²⁹ I. Pustišek, *ibid.*

³⁰ "Official Gazette" No. 118, 1935.

³¹ I. Pustišek: *Istorija zakonodavstva o radio-difuziji u Jugoslaviji*, Savremena administracija, Beograd, 1987, p. 126.

³² According to: Rulebook on Private Radio-telegraphic-telephonic Devices, 1923, Art. 1.

Rulebook of 1923 stipulates that the applicant is obligated to purchase, install and maintain a radio receiver at his own expense, but that he is also obligated to submit to the competent ministry a description of his apparatus, the name of the producer and other general information, and to report in which room the apparatus will be installed and where the air antenna will be placed. Owners were prevented from moving their radio receiver from room to room “without the knowledge and approval of the Ministry of Post and Telegraph.”³³ The Rulebook explicitly obliges the owner of the radio receiver to secure access to the competent state organ – the Directorate for Telegraph and Telephone, which is charged with controlling the work of radio-telegraphic apparatus and telephone stations. The station owner is obligated to strictly preserve the confidentiality of the news he has received over his apparatus, which are not intended for him.³⁴

Article 4 of this rulebook regulates issues of material compensation, i.e., taxes on ownership of receiver apparatus; station ownership could not be transferred to a third party without the knowledge and permission of the competent ministry. The restrictiveness of the first Rulebook on radio receiving apparatus was also reflected by the fact that it allowed the minister in charge of post and telegraph to revoke a license for installing a station without having to provide any explanation to the owner.

The rigidity with which the state accepted the new medium during the 1920s testified to its extreme caution regarding the acceptance of the new medium and the forms of communication that were immanent to it.

Three new rulebooks were brought in quick succession, based on the guidelines set by the Rulebook from 1923: the Rulebook on private radio-telegraphic and telephone devices (1924), Rulebook on radio receiving apparatus for private use (1926), and the Rulebook on radio receiving apparatus for private use (1928). The new rulebooks were more voluminous and more complex than their predecessor, while expressing an equally restrictive state policy regarding the issuance of licenses and the contractual relationship with owners of receiving apparatus, towards which “the state is never and in no way obligated.” They were also characterized by a pronounced terminological unevenness, as radio receivers were variously referred to as: private radio-telegraphic and telephonic apparatus, private radio-electric installation, receiving apparatus, receiving radio apparatus, station and receiving station, while the owner was alternately referred to as a radio subscriber, apparatus owner, license applicant or license possessor, etc.

Differently from the Rulebooks of 1923 and 1924 – according to which licenses for possession of radio apparatus were issued by the Ministry of Post and Telegraph – the Rulebook from 1926 transferred this competence to the regional Directorate of Post and Telegraph, while the 1928 Rulebook entrusted the issuance of licenses to the nearest “Post, Telegraph and Telephone.” With this

³³ Ibidem, Art. 3.

³⁴ Ibid.

regulation, the competences for license issuance were transferred to the lowest organizational organ of the Ministry, by which a certain degree of liberalization on the part of the state vis-à-vis the possessors of these devices was introduced.

The right of possession of radio devices was still not transferable to a third party, but belonged exclusively to the “applicant,” and could be revoked without any explanation or compensation.

A novelty in relation to the older rulebooks, introduced in 1926, was the regulation of the right of foreign citizens to possess radio receiving devices.

Adding to the content regulated by the first Rulebook (1923), i.e., radiophonic reception, the first article of the 1928 Rulebook also included transmission, i.e., “transfer of images,” among the permitted contents, thus heralding the beginning of the regulation of the initial, experimental transmission of images, i.e., the precursors of television.

The succeeding rulebooks and their supplements did not bring significant novelties when it came to defining state instruments for controlling the use of radio diffusion. The smaller changes that were instituted dealt with the introduction of population categories exempted from subscription obligations: the Royal Palace, parts of the Ministry, the Armed Forces General Staff, the technical university colleges, etc. Of course, the rulebooks stipulated that all radio stations other than those belonging to the military and the state were to be turned over to the military or abolished in case of war.

4. Agreements between the state and radio stations in the interwar period

In the period from 1918 to 1941, five agreements were concluded in the Kingdom of SHS/Kingdom of Yugoslavia that legally shaped the guidelines of the subsequent development of radio diffusion. These normative acts, characterized, among other things, by strengthened censorship, were the following: Agreement on the installation and exploitation of a modern radio-electrical station in Belgrade or the vicinity (1922); Agreement on the installation and exploitation of a radiophonic broadcasting station in Zagreb or the vicinity (1925); Agreements between the Ministry of Post and Telegraph and “Prosvetna zveza” – Ljubljana, the “Radio” stock company – Zagreb and the “Radio” stock company – Belgrade (1927, 1928); Amendments to the agreements with the radio stations in Zagreb, Ljubljana and Belgrade (1931); Agreement on the construction and exploitation of the radio broadcasting station in Ljubljana and the relay radio broadcasting station in Maribor (1939).³⁵

The Agreement on the installation and exploitation of a modern radio-electrical station in Belgrade or the vicinity was signed on August 11, 1922, between the Ministry of Post and Telegraph of the Kingdom of SHS and the French part-

³⁵ For more details, see: I. Pustišek, *ibid.*

ner *La Compagnie Generale de Telegraphie sans fil*, Paris. Practically speaking, this was an agreement on the installation of the country's first radio station – the Main Radio-Telegraphic Station Belgrade – Rakovica. On the basis of the Agreement, the station received a license to broadcast its radiophonic programs each day, over a set wavelength, which it began to do on a permanent basis on October 1, 1924, after a period of test work in February 1924.

Official Zagreb followed Belgrade's practice and, thus, there soon followed an initiative from the unofficial "Zagreb" Radio Club to obtain valid state approval for the legal broadcasting of a radio program from Zagreb. However, this procedure was not without difficulties, as the competent Ministry did not recognize the Radio Club as a legitimate institution and legal entity with a right to conclude agreements. The solution was found in the formation of the Radio Zagreb Stock Company, with which the state finally concluded an agreement on August 5, 1925.³⁶ Through the Agreement on the installation and exploitation of a radiophonic broadcasting station in Zagreb or the vicinity, the state granted a license for the installation of a radio station that would serve, as regulated, "for reporting radiophonic news intended for general publication: daily news, meteorological reports, stock exchange quotes, music of all types and all the news that disseminate science and art, as well as entertainment."³⁷ The Agreement stipulated that the newly established radio station was obliged to broadcast news and concerts for at least 90 minutes each day. An unfavorable part of this agreement directly affected the operations of the Main Radio-Telegraphic Station Belgrade – Rakovica, through the provision that regulated the financial aspect of operations. Namely, Article 6 stipulated that the newly formed radio station had a right to 150 dinars per year from each subscriber within a straight line distance of 150 kilometers from Zagreb, which directly jeopardized the financial operations of the Belgrade station and threw it into losses, as it had to renounce a part of its subscription income, i.e., share it with the new station in Zagreb.³⁸

On December 29, 1927 and February 4, 1928, agreements were concluded and signed between the Ministry of Post and Telegraph of the Kingdom of SHS and "Prosvetna zveza" – a Ljubljana Catholic organization that was also the founder of Radio Ljubljana, the Zagreb-based "Radio" joint stock company – founder of Radio Zagreb, and the Belgrade-based "Radio" joint stock company – founder of Radio Belgrade.³⁹ The significance of these agreements was great – they were a vehicle for implementing a single normative-legal order for radio diffusion operations on the entire territory of the Kingdom. The common characteristic of the agreements signed between the state and the Belgrade and Zagreb-based joint stock companies was the pronounced rigidity and authoritative position of the

³⁶ According to: M. Nikolić: *ibid.*, pp. 187-188.

³⁷ "Poštansko-telegrafski vesnik" No. 15 and 16, August 15, 1925.

³⁸ M. Nikolić, *ibid.*

³⁹ M. Nikolić, *ibid.*, p. 189.

state regarding their organization and future activity. In comparison with these, the agreement concluded with the Slovenes had a more moderate and more liberal tone. The reason for this departure from rigid state interventionism lay in the ownership form of the said companies: the Serbian and the Croatian radio stations were owned by joint stock companies, i.e., private capital, while in the case of Ljubljana the party to the agreement was an educational-religious community. In the latter case, the state internal affairs organs were the competent body, while in the case of joint stock companies the competency belonged to the Ministry of Trade and Industry.

The Slovene "Prosvetna zveza" was, thus, just the initiator of the founding of the radio station, while the real investor and owner was the state by way of the Ministry of Post and Telegraph. Therein lay the main differences between the specific nature of the Slovene radio station model and the other two: the agreement signed with Ljubljana did not provide for a detailed presentation of the radio station's technical characteristics and working conditions; the prescribed duration of the state reports broadcast free of charge over Radio Ljubljana was twice as long as that for Radio Zagreb and Radio Belgrade – 60 minutes; and, differently from the radio stations in Belgrade and Zagreb, whose concession was to be terminated after fifteen years, their assets confiscated and ownership transferred to the state, the radio station in Ljubljana would be able to extend its Agreement for five more years after the expiry of the initial fifteen year contractual period.⁴⁰

The common provisions of all three agreements referred to the state control of the work of all stations through selected state employees, authorized to control the organization and the program content as well as financial operations; also, the conditions under which program broadcasting would be stopped were identical for all three stations; all were obliged to broadcast 150 minutes of programming each day, with at least 60 minutes being devoted to the broadcasting of live concerts, and all three also had the right to broadcast commercial content – advertisements.

5. Zender Belgrade

At the beginning of World War II, the Kingdom of Yugoslavia had five radio stations: Radio Belgrade, Radio Zagreb, Radio Ljubljana, Radio Skoplje (operated as a relay of the nationalized Radio Belgrade from January 27, 1941) and the shortwave radio station of the Central Press Bureau of the Government presidency (whose operations were not, it should be noted, regulated by any normative act, and which had functioned since March 8, 1936). The new political situation strongly affected the status and the position of the radio diffusion organizations

⁴⁰ According to: M. Nikolić, *ibid.*

in occupied Yugoslavia – all the radio stations in the country were placed under the newly established regulatory regime of the occupation forces, while Radio Belgrade was placed within the normative organizational order of the Reich, under which it operated as *Zender Belgrade*.

The propaganda policy of the Nazi occupiers was to create the appearance of normal life in the capital. In that context, the information media and cultural institutions, which had a status of authority among the populace, were among the priorities of the new authorities, which began to work pedantically on the establishment of the media and cultural life of the capital during the first weeks of occupation: new daily newspapers were launched, the theater scene was reopened and Wartime Radio Belgrade began broadcasting on April 21, 1941 (P. K. Zender Belgrad).⁴¹ The newly established radio station under the control of the occupation authorities operated as the main German propaganda center for Southeastern Europe and Africa during the war. The unification of the transmitters at Makiš and Batajnica created the strongest propaganda center of the German radio service, which covered the Balkans, a part of Central Europe and North Africa with radio waves from Belgrade – the Wehrmacht's mighty Zender Belgrad, whose recognizable sign-off became the love song about Lili Marleen. Broadcast for the first time during the war in Belgrade, the song grew into a symbol of the Nazi war machine, the most popular soldiers' song of World War II.

The media and cultural sphere in occupied Belgrade was regulated by a series of legal acts brought by the military commander in Serbia. Administrative acts that protected the racial and ideological identity of the new social order regulated the areas of media information, cultural life, film, cabaret, etc. Regulations issued by the occupation forces legalized the activities of cultural and media institutions in Serbia, and their character and purpose were defined by the war aims, i.e., the military-political interests of the occupiers. Hence, the regulations applied during the period of occupation (from April 1941 to November 1944) are not viewed as relevant from the standpoint of continuity of development of regulations on radio diffusion in Serbia, as an authentic national radio diffusion system.

6. Conclusion

When powerful electronic media appeared in the second decade of the 20th century, the state involved itself in their development in a monopolistic way. State interventionism was at that time justified by practical as well as moral reasons: ensuring regulated and optimal use of the frequency specter; delivery of radio programming to all the citizens on state territory; satisfying the public interest in mass communications. Differently from the United States, where the spreading of the media system was left to the laws of the market from the beginnings of

⁴¹ For more details, see: M. Nikolić: *Zender Belgrad*, Radio Beograd, 2009, pp. 29-42.

radio diffusion, in the European tradition media were created and developed as pronounced monopoly services, and were subjected to strong regulatory policies over various periods.

As part of the European regulatory framework, the genesis of the development of radio diffusion in Serbia was also marked by strong state control over the development of radio during the first decades, based on the state's right as a founder, and subsequently maintained through economic conditionality and financial pressures. The Serbian state, i.e., the Kingdom of Yugoslavia, defended its monopoly position through legal acts, which at that time consistently followed the legal framework of the developed European states – from the 1920s to the beginning of World War II. In addition, it successfully participated in international radiophonic associations and adopted and implemented the principles of the European regulatory framework in the area of radio diffusion.

Solid foundations for the development of the radio diffusion system were put down during the interwar period, mainly based on the technical-technological experiences and normative acts applied in developed European countries. The basic features of those regulations were a high degree of centralization and strong state control, implemented through the broad authorization given to the minister of post, telegraph and telephone and the president of the council of ministers. Nevertheless, numerous acts, decisions and standards that were defined during this period carried the prefix “provisional,” as the government realized the necessity of developing a body of regulations, i.e., of adopting more comprehensive and general regulations or laws on the organization of the radio diffusion service. However, no such document was ever adopted. Then came the wartime period, during which all the previous legal regulations were annulled.

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LAND PROPERTY RELATIONS IN YUGOSLAVIA DURING THE DICTATORSHIP OF KING ALEKSANDAR

Summary

The paper analyzes land property relations in The Kingdom of Yugoslavia in the inter-war period. After long lasting attempts aimed at solving the agrarian issue, King Aleksandar Karadžević introduced measures for liquidation of agrarian reform. Those measures were of a palliative character and they negatively affected the establishment of capitalist relations on the land and slowed down agricultural development. Although feudal relations were formally abolished, substantial legal property uncertainty continued to prevail.

Key words: *property relations, agrarian reform, dictatorship, Kingdom of Yugoslavia*

JEL classification: P14, N54

Only he that has the courage for his destiny is a hero.
Friedrich Nietzsche

1. Introduction

Property relations are the basis of all socio-economic relations in a country. If these relations are regulated by laws that clearly define property owners, and if the laws that define these relations are respected, it can be said that the foundations for property-legal security have been established. And without property-legal security, there is no political, economic or social security in society. In times of changes of political and economic systems, when property changes ownership, society is by definition unstable. Such changes bring property-legal uncertainty and represent fertile soil for various forms of social tensions and political dis-

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putes and tensions. While the changes are in progress, society's moral values are disturbed and the economy suffers from various crisis situations. Such circumstances require an efficient state with sufficient political strength to guide the changes in a desirable direction and efficiently carry them out.

On the eve of unification of the Kingdom of Serbs, Croats and Slovenes (SHS), there were two political lines that held contrary positions in regard to property relations.¹ As the newly formed state had a pronounced agricultural character, with 80% of the populace being rural, conflict broke out in the domain of agrarian reform. The political lines, representing the National Council of the State of Slovenes, Croats and Serbs (representing the South Slavic population from the former Austro-Hungarian Empire), on one side, and the government of the Kingdom of Serbia, on the other, held different views regarding this issue. Namely, in all the lands formerly belonging to the Austro-Hungarian monarchy, the peasantry most often demanded the elimination of feudal relations, distribution of the large landholdings and the establishment of new relations in the rural areas. On the other hand, in the name of the Kingdom of Serbia, King Aleksandar had promised to abolish feudal relations and adopt the principle by which the land should belong to those that cultivate it, while promising landowners that they would receive "just compensation" for the confiscated land. However, the king did not reveal how this compromise formula would be implemented without damaging either of the interested parties.²

2. Land property relations at the time of the creation of the Kingdom of SHS

The obsolete and, for most peasants, unfavorable agrarian property relations fell into crisis during World War I. The events of 1917, during the October Revolution, additionally deepened social differences and, at the same time, emphasized national contradictions. The anti-war and revolutionary sentiment among the impoverished peasantry culminated at the end of 1918, as the Austro-Hungarian monarchy broke up and the Kingdom of SHS was formed. Actions of the so-called green cadres, mostly made up of poor peasants, Austro-Hungarian military fugitives, were directed against government representatives, merchants and large landholders.³ Anarchy reigned. The peasantry attempted to change the agrarian property structure in its own favor in a spontaneous, unorganized and illegal manner, by occupying the large landholdings. The enrichment of individuals, speculators and the general favoring of capitalists and feudal owners, on the one hand, and requisitions and shortages of food, clothing and shoes, on

¹ N. Gaćeša, *Agrarna reforma i kolonizacija u Banatu 1919–1941*, Novi Sad, 1972, p. 33.

² M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941 godine*, Sarajevo, 1958, p. 154.

³ N. Gaćeša, "Agrarna reforma u Starom Bečeju 1918–1941," *Istraživanja br. 19*, 2008, p. 30.

the other, were causing unrest and deepening the conflicts. A chronicler of the Serbian Orthodox Church municipality in Modoš (today's Jaša Tomić) described the revolutionary events of the end of October 1918 in the following way:

... the soldiers have already started arriving home... They were the first to start spreading revolutionary sentiment in town... appearing as their leaders are Šandor Knežević, a tailor, and Laza Đakovački, a peasant, a man of restless spirit and filled with socialist sentiment... having gathered the poor around them, they demanded that the municipal grain be distributed to those without food... A People's Council made up of all the local nationalities was organized on November 4, and they started distributing the grain.... The Council constantly furthered its demands, threatening to overthrow all the local authorities and burn down the land registries... that is why Herman Kraus, a landowner from Modoš, whose property in Neuzdina had already been pillaged, brought a mercenary unit of 50 soldiers from Timisoara, which arrested all the members of the People's Council, put down the unrest on the Rudnjanski estate and killed Laza Đakovački.⁴

Most of the populace saw the fall of the Austro-Hungarian monarchy as their own victory. The feudal order immediately started being dismantled in Bosnia and Herzegovina. The people were destroying Muslim feudal lords' property, burning grain, houses, towers, and simply appropriating the land. The state apparatus could not protect the feudal owners, who thus lost all sense of legal and personal security. In the minds of most peasants, freedom was equated with the right to sate one's hunger.⁵

After the breakdown of the Austro-Hungarian military, the leftist socialists (followers of Vasa Pelagić – “Pelagićevites”) in Vojvodina called on the people to rebel and resist the authorities. The social-democratic leadership organized resistance to the Pelagićevites, pushing the Vojvodina countryside to the brink of civil war. Events in neighboring Hungary additionally influenced social conditions in Vojvodina. There was a tendency for the social unrest from Hungary to spread to Vojvodina. Towards that goal, leaflets with the following text were distributed:

We have sworn that we will never again be a means of oppression, that we will fight only for the interests of the proletariat, and sacrifice life and blood so that the factories, mines, large industry, banks, large landholdings become the property of the proletariat, the property of the soviet state... We shall seek a brotherly alliance with you. We shall support you with comradely love in the struggle for freedom, against our oppressors.⁶

The situation was similar in Croatia, Slavonia and Slovenia. On all the united territories, except for Macedonia, where with the arrival of the Serbian army the

⁴ N. Gaćeša, *Agrarna reforma i kolonizacija u Banatu 1919–1941*, p. 34.

⁵ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941 godine*, p. 144.

⁶ N. Gaćeša, *Agrarna reforma i kolonizacija u Banatu 1919–1941*, p. 36.

peasant movement was destroyed, there were serious revolutionary forces ready to fight for land and better living conditions.

In Serbia and Montenegro, the situation in the countryside was different. The peasantry, occupied by national and party-related issues, was fighting against war profiteers and demanding that land be distributed to them, basing their demand on a Serbian government decision of February 1917, according to which “each person that voluntarily joins the Serbian army and takes part in the coming battles shall be granted, after the end of the war in the liberated homeland, as a sign of recognition for their merits, sufficient arable land for settlement.”⁷

Under such social circumstances, the highest authorities of the Kingdom of SHS decided to undertake appropriate measures in order to pacify the peasant uprising. In order to win over peasants for a peaceful change of the existing agrarian property structure, the Provisional National Representative Office was formed to prepare changes in the property structure, in accordance with the law.

Under the pressure of the peasant uprisings, King Aleksandar himself also made a decisive political move,⁸ through his proclamation to the people of December 24, 1918, which included the following: ... *I desire that work on a just solution to the agrarian question start immediately, and the abolition of serfdom and large landholdings. In both cases, land will be distributed to poor peasants, with just compensation to its previous owners. Let every Serb, Croat and Slovene be a master on his own land. In our free state there can be and shall be only free land owners. That is why I have called upon My government to promptly form a commission that will prepare a solution to the agrarian question, and call upon the peasant-serfs to, with confidence in My royal word, peacefully wait for our state to legally grant them the land, which shall be solely God's and theirs, as has long been the case in Serbia.*⁹

With this well calculated move, the king pacified the revolutionary mood, and strengthened the monarchy and the social order, while fulfilling his promise to the people that the government would form the commission referred to in the proclamation.

The commission was indeed formed shortly after the proclamation, with the following permanent members: Vitimir Korać, Minister for Social Policy, Dr. Živko Petričić, Minister of Agriculture and Dr. Uroš Krulj, Minister of Public Health. Dr. Mehmed Spaho, Minister of Forestry and Mining, was named as an occasional member. The complexity of the commission's task was underlined by the fact that the agrarian reform had a political, societal, social and economic character. The political character was reflected in the lowering of social tensions,

⁷ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p 246.

⁸ The proclamation was made on the basis of conclusions adopted by the Ministerial Council of Serbia at sessions held on Corfu on November 17, 1916 and March 4, 1917 and, under the pressure of peasant uprisings (“agrarian revolution“), in the winter of 1918–1919. - B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, pf., 222.

⁹ [] “Službene novine Kraljevine SHS,” 28/1/1919

the societal – in the resolution of leftover feudal-agrarian property relations, the social – in the necessity of alleviating the problem of the impoverished population segment, before all the landless peasants, and the economic – in the problem of huge areas of uncultivated, abandoned and swampy land, brush, pastures, etc. This land needed to be cultivated and made productive.

During January and February of 1919, the government commission considered solutions to the agrarian problem several times, finally adopting a draft document on February 25, entitled Preliminary Provisions for the Preparation of Agrarian Reform. Article 3 of this document, “On the Distribution of Large Landholdings,” generally defined the categories of citizens with a right to receive land. According to Paragraph 9: *All large landholdings on the territory of the Kingdom of Serbs, Croats and Slovenes are hereby expropriated. Their land shall be distributed among citizens engaged in land cultivation, who possess no land whatsoever or do not possess it in a sufficient amount. They shall receive as much land as they can cultivate alone, together with their families. Priority in this distribution shall be granted to invalids, widows and orphans of soldiers, soldiers and volunteers, who fought for the liberation and union of the Serbs, Croats and Slovenes. The remaining areas of expropriated land, and the question of what constitutes a large landholding in accordance with these provisions, will be defined by separate laws, in accordance with existing property and economic conditions present in individual regions.*¹⁰

Property relations on productive land shifted between extremes, which made the implementation of this legal act especially difficult. The most numerous households were those without land or with insufficient land to be able to support themselves. On the other hand, a small number of large landholders held huge areas of productive land that was cultivated using other people’s labor. In addition, in some parts of the unified state various forms of feudal relations remained, depending on the system that previously existed, while developed capitalist relations existed in other parts. The differing historical development conditions in the lands that entered the Kingdom of SHS created a situation in which some of the lands lagged behind others by an entire historical epoch. Still, in all of them, agriculture was the most important economic branch.¹¹

The united state, the Kingdom of Serbs, Croats and Slovenes, had an area of 247,542 km². Serbia had brought in the largest territory, contributing 87,303 km² to the new union. Bosnia and Herzegovina contributed 51,199 km², while Croatia, together with Slavonia and Srem, brought in 43,308 km², Bačka, Banat and Baranja 19,702 km², Slovenia without Međimurje 16,197 km², Montenegro 14,180 km², Dalmatia 12,732 km² and Međimurje 775 km². Out of the total area, only 30% were plains, and less than 50% was arable land. Almost 90% of the landholdings were up to 10 hectares in size, which meant a high degree of agrarian overpopulation, with

¹⁰ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, Beograd, 2002, p. 223.

¹¹ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p. 145.

114 people for every 100 hectares of arable land. More than 80% of seeded land was under corn and wheat, while vegetable crops and industrial plants had minimal significance. Yields were small and dependent on primitive agro-technical tools. The wooden plow was a symbol of obsolete production, but even it was considered to be progressive in comparison to territories where the hoe reigned.¹²

Slovenia and its provinces, Kranjska, Koruška, Štajerska and Primorska, developed as separate administrative areas while they were a part of the Austro-Hungarian monarchy. Even though they differed in their specific problems, they all lacked arable land. These provinces had developed market-based manufacturing and their favorable geographic position and the Austro-Hungarian economic policy, especially in the area of transport, brought them under the strong influence of economically more developed countries. In agricultural production, they had reached the Central European level. Due to the characteristics of the land, livestock husbandry and forestry represented the main source of income for the majority of the population. This economic rise also had its negative sides. Foreign capital dominated, and the populace was overindebted.¹³

Croatia and Slavonia had the most complex agrarian problem as compared to the other united territories. Those problems were a result of the different development conditions in different regions, unequal population density and the unequal natural characteristics of different territories. Before all, there were large differences between the former civil region – “Provincijal,” and the former Military Frontier region. These regions developed as separate wholes all the way up to 1871, when the Military Frontier was abolished. A common characteristic of these territories was the fact that they were entering capitalist relations with a land ownership structure whose forces of production were totally undeveloped.

Within the Military Frontier, although a military feudal system existed, there were no feudal relations in the countryside. The frontiersmen (Krajišnici) were legally free, but bound by military duties that tied them to specific villages and border units. The land they were given was considered to be a military feud, i.e., pay for permanent military service.

The unequal population density and uneven distribution of large landholdings presented an additional problem, which was creating socio-economic differences between different regions. Namely, northwestern Croatia and the Croatian coast were among the most populated areas in the world. On the other hand, a part of the territory of the former Military Frontier had three to four times fewer people living over the same area. In some parts there were no large landholdings whatsoever, while in others they were numerous and occupied a larger area than all the small and medium holdings combined.¹⁴

¹² Lj. Dimić, “Socijalno-ekonomska osnova jugoslovenskog sela i kultura življenja 1918–1941,” *Vojno-istorijski glasnik*, No. 3, Beograd, 1991, pp. 109-148.

¹³ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p. 20.

¹⁴ M. Erić, *ibid*, p. 42.

Vojvodina and its regions were specific in their own right. During the revolutionary 1848, feudal relations were abolished in the civil region – “Provincijal,” which became a part of the Military Frontier. The former feudal lords managed to retain a large portion of their lands, i.e., all the lands without serfs. This was reward for service to the court, on top of everything they had purchased cheaply or usurped thanks to various court connections or positions in the social hierarchy. This secured a solid base for the development of capitalist agriculture. The transformation of feudal into capitalist property was performed through the use of classical methods of original accumulation of capital. Due to the rapid development of capitalism and the original accumulation that was linked to it, an accelerated process of stratification among the peasantry was taking place. The position of the vast majority of peasants was dire. The numbers of servants, farm workers and journeymen increased.

Large landholdings and latifundias were unevenly distributed in Vojvodina. For example, in 1919, the city of Subotica and the Topola district had 55 landowners each with more than 200 cadastral jutros (1 jutro = 0.5755 hectare) of land. The Kula district had 14 landowners with more than 200 cadastral jutros, and the Žabalj district only 9. The fewest latifundias and large landholdings were found on the territory of the former Military Frontier. The latifundists were mostly foreigners.

On the territory of Srem there were a relatively large number of landholdings under forest, while substantial areas of arable land were held by monasteries, the state and municipalities. In addition, in Bačka and Banat alone, salt marshes and difficult to cultivate land covered over 10,000 hectares and, despite the best farming efforts, could hardly produce anything. To this should be added the swamps and flood lands that could not be cultivated at all.¹⁵

Bosnia and Herzegovina entered a wholly new era of economic development after the Austro-Hungarian occupation of 1878. Guided by their own aims and the interests of those they represented, the Austro-Hungarian authorities aided capitalist development. At the same time, they preserved the inherited feudal relations in agriculture, despite the obligations they had taken on at the Congress of Vienna. Such an agrarian policy produced even bigger socio-economic differences. Religious divergences and national contradictions additionally deepened social differences, which were felt not just in the villages but in the cities as well.

After establishing its power on the territory of Bosnia and Herzegovina, Austria-Hungary proclaimed the validity of the Ottoman laws on agrarian-legal property relations, thus showing that it had no intention of bringing any changes in this area. The imperial proclamation of 1878 to the people on the occupied territory included the following: *Your laws and regulations shall not be automatically abolished. Your customs and habits shall be preserved. Nothing must be*

¹⁵ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941 godine*, p. 55.

*changed forcibly without careful consideration of Your necessities. The old laws shall apply until new ones are issued.*¹⁶

The most important law in that area was the Ramadan Law of 1858, which was a general law on land ownership. Its interpretation was based on religious teachings, that is, property rights according to Sharia law. It was adjusted in the meantime to the new circumstances, after the abolition of the military feudal system.

The existing Law on Title Deeds of 1859, which allowed the granting of documents that regulated land property rights, also remained in force.¹⁷ During the time of Ottoman rule, the title deed served as confirmation of a right to lease an immovable property. On the basis of a title deed, the authorities collected revenue each time the leasing right was transferred.¹⁸

The Safar Order of 1859, issued with the goal of sanctioning the customary law that regulated relations between feudal landowners (aghas and beys) and land tillers – serfs, also remained in force. The people had expected essential changes in agrarian-legal relations after Christian authorities replaced the Ottoman ones. However, the extension of the Ottoman laws further stratified the population and deepened social differences.

The Shawwal Law of 1868, which also remained in force, regulated property rights regarding the division of forests. It pertained to the four existing categories of beneficiaries: state, waqf, municipal and private. Conditions of use were defined for the first three categories while provisions of the Ramadan Law remained in force for the fourth. The Austro-Hungarian administration enforced the Shawwal Law only to the extent to which it suited its interests and the interests of foreign capital, without taking into account the interests of the local populace. The consequences of such a social policy were poverty and growth in the number of forestry crimes.

Dalmatia had specific agricultural problems. The prevailing feudal relations and small-sized landholdings, as well as a series of other factors completely halted agricultural progress and agrarian development on this territory. Thus, after unification and the creation of the Kingdom of SHS, the solving of open socio-economic issues was a necessity. Namely, the variety of agrarian-property relations on Dalmatian territory was a specific characteristic. In some parts, serfdom was similar to what existed in other areas under Ottoman law. Other parts had feudal-serf relations influenced by the medieval Byzantine and Serbian agrarian order. Additionally, there were parts in which the dominant relations were almost identical to those that appeared in Italy during the breakup of slavery and subsequently developed under Venetian rule. And there were also areas where agrarian relations did not differ in form from capitalist leasing models.¹⁹

¹⁶ M. Erić, *ibid.*, p. 64.

¹⁷ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 11.

¹⁸ S. Novaković, *Srpska baština u starijim turskim zakonima*, Beograd, 1892, p. 9.

¹⁹ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941 godine*, p. 86.

Macedonia and Old Serbia were under Ottoman rule all the way up to the Balkan Wars of 1912. Such long life under the rule of a declining empire negatively affected the socio-economic development of this area. Backward agrarian relations required modernization. Primitive agriculture and obsolete tools could barely ensure basic subsistence. Pressed by feudal rents, state taxes and usurious capital, agrarian producers were not able to modernize their technology and improve production.²⁰

The peasantry on the territory of Macedonia and Old Serbia was divided into two categories, free and obligated peasants (“čifčija”). The word “čift” is derived from Turkish and denotes an area of land that can be worked over a year’s time with one pair of oxen. The largest number of free villages was located in mountain regions, while the čifčija villages were found in the Vardar river valley and fertile basins. Land registries and cadastres did not exist, and property rights were determined exclusively with the aid of title deeds. The deeds had little proof value, so property rights had to be checked in each concrete case, even through witness statements. Such a state of affairs was often abused, especially during transactions. It was hard to determine the state of ownership of immovable property, and property-legal security was non-existent.

Montenegro, due to its scarcity of arable land, soil composition and climate conditions, was generally agriculturally backward. Animal husbandry and, to a much lesser extent, crop farming were practically the only economic branches. Agricultural technology was characterized by extremely primitive tools.

The state of agrarian relations and the land ownership structure were characterized by small landholdings, with no trace of feudal relations. The peasantry was free, while čifčija relations existed only in parts that were annexed after the Berlin Congress of 1878. The authorities in those areas intervened and freely distributed the land that had been considered “imperial” to soldiers, with the remains going to those who had worked it until then. The exception was the Zeta region, where feudal relations remained.²¹

In the Bjelo Polje, Pljevlja, Berane, Kolašin and Peć districts, areas liberated by Montenegro during the Balkan Wars of 1912 and 1913, feudal agrarian-property relations had remained, similar to those on the territory of Bosnia and Herzegovina.²²

Serbia was characterized by small landholdings in the structure of its agrarian-property relations. By the proclamation of Prince Miloš Obrenović of 1834 and the decision of the Sretenje Assembly of 1835, the feudal landlord (spahija) system was abolished in Serbia. With the subsequent Law on Land Return of 1839, the peasants won unlimited land property rights.

²⁰ N. Vučo, *Poljoprivreda Jugoslavije (1918–1941)*, Beograd, 1958, p. 29.

²¹ M. Erić, *ibid.*, p. 119.

²² B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 10.

The abolition of the spahija system eliminated feudal relations. Land tillers became the owners of the land they worked and from which they lived. Demarcations were drawn, deeds taken out and the land become subject to buying and selling. The title deed served as confirmation of unlimited private property. Title deeds were issued by national offices and courts. The peasant became a taxpayer and the sole owner of the land.²³ The state's tax base rested on his shoulders.

The whims of nature, floods, droughts, livestock diseases to which the peasant was constantly exposed threatened rural households. As there was no banking system at that time in Serbia, peasants borrowed from usurers. If they fell into debt and could not pay it back, they would pay it with their property. This ruined many peasants, thus undermining the state's tax system. In order to prevent rural household failures from becoming a mass phenomenon, Prince Miloš issued the following decree on May 29, 1836: *In order to prevent the poverty and ensuing ruin of many families, due to the fact that many are indebting themselves against their movable and immovable goods and, when they cannot repay their debt, all their goods pledged for their debt are sold off, and their wives and children, left bereft of their property, fall into utter ruin, we hereby order and conclude that in the towns, whosoever lives in a house with his family and in the villages, whosoever has a house, land, two oxen and a cow, cannot pledge these for debt, nor can intabulation of the said goods be made and be recognized as regular before any court, so that helpless women and children, upon the ruin of all they possess should at least retain a roof over their heads.*

*Just as stores, inns, houses other than the one in which he is living, and the surplus property of town residents are free to be pledged, so are surplus properties of the peasant, other than those mentioned above, i.e., house, land, two oxen and a cow, from which he makes his living.*²⁴

The variety of agrarian-property legal norms that were found on the unified territories of the Kingdom of SHS made the resolution of the agrarian problem all the more difficult. Social land distribution, the suppression of popular uprisings and the state's need to collect taxes, especially from the large landed estates, made the already complicated situation in the field even worse. As a result, seeking the best solution, the government commission left space and time for a subsequent definition of the division of the large landholdings in its Preliminary Provisions. According to Paragraph 14: *Until the distribution of the large landholdings can be definitely carried out in accordance with Paragraph 9, the state shall lease the landholdings enumerated in Paragraph 10 to persons listed in Paragraph 9, temporarily, in smaller or larger complexes.*

*The rent shall be defined subsequently, in accordance with local conditions.*²⁵

²³ Z. Njegovan, *Poljoprivreda srednjovekovne Srbije*, Beograd, 1997, p. 95.

²⁴ *Zbornik zakona i uredaba za Knjaževstvo Srbije*, No. 30, p. 19.

²⁵ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 224.

3. Agrarian question

The unrest that broke out in Europe after the end of World War I represented a first warning to the ruling elites. In some parts, the unrest was turning into a more organized, higher level of people's dissatisfaction and threatened, under the burden of newly established economic relations, to develop into a revolution. The authorities were facing difficult-to-solve social problems. The question of agrarian-property relations had to be resolved throughout Europe. They had to be reformed.

Agrarian reform was a powerful and, at that moment, the only means that could at least partially soften the anger of huge numbers of the agricultural proletariat and factory workers, which made up a solid 80% of the soldiers returning from the front. They were the hardest hit by the war. The peasant had lost faith in social justice. After all the wartime sacrifices, in order to feed himself and his family, he even had to resort to robbing public warehouses, wagons, cargo ships, etc. In a larger part of Europe, especially Eastern Europe, anarchy reigned. Government authority was broken and there was no organized force that could put a stop to the disorder and pillaging. Once the warehouses were emptied, the hungry turned to the large landed estates that were already abandoned by their owners.

In looking at the reasons for carrying out agrarian reform, it must be admitted that European governments adequately judged the scope and severity of measures that had to be undertaken immediately after the war ended. Sufficient wisdom was necessary for quieting the spirits of demobilized agricultural homeless masses, which at that time represented the nucleus of all European states' armed forces.

In the Belgrade daily newspaper "Politika," Daka Popović (1886–1967), an extremely well versed observer of global and local events, wrote the following: *The responsible governments were pressed by quite profound social and economic reasons in carrying out radical agrarian reform measures. In most cases, the principles that were set down regarding land expropriation were contrary to centuries-old property principles.*²⁶

It was in such a socio-economic climate that the governments of ten or so European states applied the above-mentioned measures for the expropriation of large landholdings. Landless peasants gradually received their plots. Others patiently waited, and the numbers of disgruntled elements gradually shrank. The measure helped pacify political passions, gradually brought peace, disciplined the populace, introduced order and stabilized the social order. Peace was restored to Europe. However, the peace did not bring equal economic prosperity to all countries. In the Kingdom of SHS, the authorities did not succeed in solving the problem of rural poverty.

²⁶ "Politika," June 9, 1929.

3.1. Legal framework for implementation of agrarian reform

As theorists put it, what is conquered by force and is not placed into a legal framework, cannot be kept for good. Economist Dr. Slavko Šećerov (1888–1967) was of the view that the agrarian reform that was being implemented on the unified territory of the Kingdom of SHS should have been placed on a firmer, legal basis and liquidated in the spirit of the principles of private property.²⁷

King Aleksandar's Proclamation of December 21, 1918, underlined the need for agrarian reform. A commission for the preparation of agrarian reform regulations was formed on the basis of the proclamation. Soon after, on February 25, 1919, the commission adopted a draft document entitled Preliminary Provisions on the Preparation of Agrarian Reform.²⁸ This regulation provided for the establishment of the State Agrarian Reform Office, under whose competence the reform would be carried out. The work of the Office would be supervised by the Ministry of Social Policy.

As it turned out, the agrarian reform question was too complex to be carried out by the Ministry of Social Policy. As a result, the government of the Kingdom of SHS abandoned the idea of forming the State Office and, on April 2, 1919, named the first minister for agrarian reform, Dr. Franjo Polak (1877–1939). The decision at that time only provided for the naming of the minister, not the establishment of the ministry itself. After his appointment, at an assembly in Vinica the new minister appealed to the peasantry to peacefully wait until the authorities granted them land, adding the following: *Power is in your hands, so if we are not good, you can elect other ministers. That is why all your fears are superfluous, and you should not use any sort of force. Beware of force. God forbid that what is happening in Russia and Hungary should befall us here, that would be the worst thing for you. The biggest enemy of your strivings, that everyone should be his own master, would then be yourselves, if you were to do that, for you would ultimately wind up at each others' throats. There must be some sort of authority that will deal with those things. If you should take agrarian reform into your own hands, what will happen is that the army will come, and then the wise men will say that the people are not ripe for freedom.*²⁹

The new regulation of the Council of Ministers of April 10, 1919, on the partial implementation of agrarian reform, stipulated that Minister Poljak name the necessary number of bodies, which were made up of legal professionals, economists, experts and surveyors. In carrying out the duties of agrarian reform trustees, and on the basis of the Regulation, the minister's instructions and expert findings, they had the task of temporarily leasing the land "honestly" to interested agrarian

²⁷ "Politika," June 14, 1929.

²⁸ "Službene novine Kraljevine SHS," No. 11/1919.

²⁹ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p. 281.

parties.³⁰ The same regulation required the minister to name the main trustees for specified areas, who would be in charge of supervising the trustees' work.

On the basis of the Preliminary Provisions, on April 10, 1919, the minister for agrarian reform issued an Order on the election of agrarian representative offices, on the basis of which municipal, district and regional agrarian representative offices were established on the territories of Croatia and Slavonia. The offices, i.e., territorial agrarian committees, were conceived as advisory bodies that would facilitate easier and more just land distribution. Their first task was to conduct a census of all the citizens of the Kingdom of SHS and to classify them into five categories. The first category encompassed all those that cultivated land but lacked their own; the second, those that cultivated land, but lacked a sufficient amount that they could work with their families; the third were those that cultivated land and had enough to work with their families; the fourth were landowners that worked the land with the aid of servants, day workers and agricultural laborers; while the fifth were other landowners, whose land was worked by hired workers.³¹

Subsequently, on the basis of this same ministerial Order, agrarian committees were elected in Srem, Banat and Bačka. On the territory of Bosnia and Herzegovina, within the Provincial Government, special committees were established in all the district offices. The heads of these offices performed the function of agrarian reform trustees and, in place of agrarian committees, village agrarian commissions of three members each were created. Their task was to intermeditate in the process of achieving an agreement regarding payment of agricultural fees for cultivated land.

The operative body within the provincial governments of Croatia and Slavonia for all tasks connected with the implementation of agrarian reform was the Trustee Office for the National Economy. The Provincial Government of Slavonia had a special section for agrarian reform. In Dalmatia, Macedonia, Old Serbia and Montenegro no special bodies for agrarian reform were initially formed, so all the related tasks were performed by the administrative police authorities. The executive and auxiliary bodies for the implementation of agrarian reform that were created in 1919 were temporary, and it was expected that they would be replaced or reorganized.

The solution of the status of military volunteers within the agrarian reform process was performed on the basis of the Decree on Volunteers of December 18, 1919. The implementation of this decree was in the hands of the Section for Volunteers and the Interministerial Committee, as the advisory body of the Ministry of Social Policy. The council of the committee was made up of representatives of ministries of: the army and the navy, agrarian reform, internal affairs, food and land renewal, agriculture and commerce, industry, and social policy. Within

³⁰ M. Erić, *ibid.*, p. 299.

³¹ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 67.

the trustee offices for social policy in Zagreb, Sarajevo, Ljubljana and Split, special officers for volunteer issues were appointed, while within the provincial governments committees for volunteers were established. In Vojvodina and on the territories of the former kingdoms of Serbia and Montenegro, the Ministry of Social Policy was responsible for volunteers. Volunteer interests were represented by the Main Association, as an advisory body, and regional volunteer associations, whose statutes were approved by the Ministry of Social Policy.

According to the address of the minister of the army and the navy to the National Assembly, of March 6, 1924, 32,219 volunteers had participated on the Salonika Front. Such a large number of volunteers represented a difficulty for the authorities engaged in resolving the agrarian question.³² Added confusion to the resolution of the volunteer question was contributed by the Instruction of the minister of agrarian reform. Namely, in the midst of a period of fierce political infighting and frictions, on the eve of voting for the St. Vitius Day Constitution, the said instruction recognized volunteer status for each person for which two volunteers would vouch.

Rights of participation in the process of agrarian reform were also recognized to Serb returnees from Hungary and Romania, the so-called optants. Thus, the number of interested parties within the agrarian reform process grew with time, which would subsequently make the process even more difficult to implement.³³

3.2. Decree on granting four-year leases on land from large landholdings

According to the first indicators, during the implementation of agrarian reform it was realized that there would not be nearly enough land to satisfy all interested parties. As a result of this realization and fear that agrarian reform would destroy agricultural production, the Decree on Granting Four-Year Leases on Land from Large Landholdings was adopted on September 3, 1920. The decree categorically stipulated that those to whom land was leased not only had to be landless but that they also had to be able to adequately cultivate the land they were leasing. In other words, economic capability was demanded of those that were resolving their own social problems through the agrarian reform process.³⁴

As agrarian reform was carried out, legal regulations were adopted and changed through various laws, decrees, orders, circulars and instructions. As a result, no proclaimed principle could be applied consistently. Most of the regulations were brought out of purely political reasons, i.e., as a result of a particular political party's temporary prevalence.³⁵ As the basis of all political power is eco-

³² M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p. 246.

³³ J. Tučković, *Agrarna reforma*, Zagreb, 1920, p. 270.

³⁴ N. L. Gaćeša, *Agrarna reforma i kolonizacija u Bačkoj 1918–1941*, Novi Sad, 1968, p. 53.

³⁵ M. Erić, *Agrarna reforma u Jugoslaviji 1918–1941. godine*, p. 245.

conomic power, this directly reflected on the implementation of agrarian reform. The main objection of Prime Minister Stojan Protić as he submitted the resignation of his first government was that Minister Poljak was solving the agrarian reform question through decrees. Protić referred to such a legal framework as anomalous and emphasized that such resolution of such important issues was extremely dangerous, especially if carried out without a legal basis or foundation.³⁶

It took a long time for the regulations regarding the organization of the Ministry of Agrarian Reform to be adopted – until the adoption Decree on the Organization of the Ministry of Agrarian Reform of the Kingdom of SHS on February 12, 1920, which defined its competences, tasks and internal organization. The ministry's competence covered the entire territory of the state, and it acted as a central state administration organ. Its tasks encompassed work on the proposals of laws, decrees and orders carried out by the ministry through its subordinate organs. Activities related to land organization and distribution, colonization, repatriation, resolution and settlement of feudal relations and care for the development of cultivation on agricultural land also fell within the domain of this ministry.

In order to carry out its tasks more efficiently, the ministry had an Agrarian Sector, whose organizational structure comprised the Section for the Supervision, Administration and Liquidation of Large Landholdings, Section for Colonization, Repatriation and Volunteers, Section for Cooperatives, Section for Finance and the Agrarian-Technical Section.³⁷

With the adoption of the Decree on Granting Four-Year Leases on Land from Large Landholdings, of September 3, 1920, regional agrarian offices received competencies regarding the leasing and distribution land for agrarian purposes. Complaints regarding such decisions were submitted to the agrarian directorate, while the Ministry of Agrarian Reform brought the final decisions. In order to prevent abuses and ensure the cultivation of large landholdings, in agreement with the minister of agriculture and waters and the forestry and mines minister, the agrarian reform minister adopted an Order on September 3, 1920, which introduced state supervision and administration over large landholdings. According to this legal act, the agrarian reform minister supervised through his regional organs agricultural complexes, forestry complexes and industry, in order to ensure responsible use of landed properties, and rational management and administration of ensuing revenues.

When it was politically opportune, legal norms were treated in extremely inventive ways, which resulted in the appearance of certain irregularities and abuses. Such irregular behavior had to be stopped, and the Provincial Government of Bosnia and Herzegovina and the Agrarian Directorate in Sarajevo sent a warning to all

³⁶ S. Milošević, "Agrarno pitanje – sveto pitanje: Ideološki okvir međuratne agrarne reforme u Jugoslaviji," *Tokovi istorije*, No. 1-2, 2008, p. 157.

³⁷ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 70.

district and regional offices and outposts in December 1921. Political party representatives were strictly ordered that they could not participate in disputes regulated by the decree on the property of beys without their party's authorization. Delegates of district agrarian offices and agrarian commission trustees were required to perform their functions, and the courts to be independent.

There were also irregularities in the implementation of agrarian reform on large forestry holdings, especially those under the competence of the Novi Sad, Zagreb and Ljubljana directorates. As a result, on August 31, 1923, the regional agrarian offices received an Order of the Ministry of Agrarian Reform, by which they were to inspect and report on conditions on forest properties. Namely, forest properties had been left at the free disposal of large landholders, who, however, began to engage in speculative and irregular activities that needed to be prevented.³⁸

Due to the fact that the municipal and district authorities were improperly interpreting regulations and methods by which colonization was being carried out in the southern parts of the Kingdom of SHS, on August 22, 1920, the Ministry of Agrarian Reform issued an Order on the Procedure for Submitting Requests for Colonization. As the order stated, there had been cases where municipal and district authorities were referring peasants that applied for colonization directly to the Ministry, which was supposed to grant them the land for settlement. They were referring them without the applications and documents necessary for receiving land grants. Not infrequently, not only individuals but entire families with their entire living and dead inventory were being referred. Some of these people were badly counseled, i.e., some had been talked into selling their land and setting off into uncertainty, to seek new, better land and a better future for themselves and their kin.

The legalization of optional buyouts of large landowner lands in 1925, on the basis of Article 38 of the Law on Budgetary Twelfths for the Months of August, September and October, only meant a new prolongation in the implementation of agrarian reform. Namely, all categories of agrarian interested parties received the right of buying out the land that they had been leasing up to then. Since the optional buyout of land represented a free agreement between the large landholder and the lessee, the landlords extensively abused the newly created opportunity. The legal circumstances in the implementation of agrarian reform were more suited to the interests of large landholders than to those of the poor peasantry. In addition, the large landholders had the right to sell forests, pastures and infertile soil to legal and natural persons.³⁹

³⁸ B. Lekić, *ibid*, p. 78.

³⁹ N. Gačeša, *Agrarna reforma i kolonizacija u Bačkoj 1918–1941*, p. 73.

4. Palliative measures for the solution of the agrarian question during the time of dictatorship

The violence of ruling elites is not just raw force applied against subjects. During the time of the introduction of King Aleksandar's dictatorship, this violence was embodied in the complete stoppage of social reforms. The state authorities decided that there was insufficient land for distribution to all the interested agrarian parties. Second, it turned out that the fragmentation of large land holdings was bringing a fall in the national income and, thus, emptying the states treasury, thus bringing into question the power of the ruling elites. That is why the newly instituted measures became palliative, while social reforms were halted. The new, irrational, palliative measures could not solve the accumulated socio-economic problems. They merely represented an attempt to heal and restore the deteriorating power of the ruling elites under the newly developed political circumstances. Problems gained a new form, while their solution was left for future times and better social economic circumstances, and a simpler political time.

4.1. *Legal liquidation of agrarian reform*

On January 6, 1929, the Ministry of Agrarian Reform was abolished and its competencies transferred to the Ministry of Agriculture. This entailed adjustments in relevant legal regulations. The process took some time, all the way until the adoption of the Order on the Organization of the Ministry of Agriculture on July 31, 1919, by which two sectors were created within the Ministry: the Sector for Agrarian Policy and the Sector for Agrarian Reform.⁴⁰

The Sector for Agrarian Policy contained two sections. The first was the Section for Agricultural Schooling, responsible for the establishment of new and the maintenance of existing schools and their supervision, training of expert personnel, organization of professional courses and the publication of agricultural literature. The second, the Section for Agricultural Organization, stimulated the establishment of agricultural associations, cooperatives and agrarian community affiliates, as well as the enrollment of peasants in cooperatives, extension of help through the agricultural chamber, issuance of loans through authorized agricultural institutions and supervision over these institutions.

The Sector for Agrarian Reform was responsible for activities of agrarian reform and colonization, and was made up of two sections, the Section for Northern Regions and the Section for Southern Regions.

The Section for Northern Regions had two basic tasks. The first was to carry out agrarian reform and the second to carry out colonization. The tasks of agrarian reform implementation were: basic preparation for the liquidation of large landed estates, setting aside of lands that lower agrarian authorities would

⁴⁰ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 82.

grant to agrarian interested parties, definition and identification of feudal and large landholdings, resolution of conflicts related to the separation of land from large landholdings, expropriation of land for households, approval of alienation and hypothecation of land that was barred from alienation and hypothecation, optional buyouts and other issues in accordance with agrarian regulations. The tasks related to colonization in the northern parts involved the resolution of applications for land grants to volunteers, local agrarian interested parties and those that opted to settle in the Kingdom of SHS ("optants"), determination of colonies, locating land for construction, commasation, etc.⁴¹

The Section for Southern Regions was responsible for tasks related to colonization, cases and applications regarding the limitation of land in South Serbia, and land distribution to and settlement of volunteers, optants and local agrarian interested parties. The Section also dealt with colonists' economic problems, prepared conditions and plans for colonization, approved purchases of land for new colonies, aided colonists in building houses, digging wells, and building water supply systems, contributed to the raising of hygienic conditions for colonists, etc. Tasks related to resolving agrarian relations in South Serbia, Bosnia and Herzegovina and Dalmatia were also carried out within this section. Thus, the Section for Southern Regions engaged in the temporary resolution of feudal land property disputes and worked on preparing the legal bases for the final liquidation of feudal land relations. On the territory of Bosnia and Herzegovina, it answered petitions in feudal-serf disputes, distributed empty land, performed tasks of social protection and aid to homeless people living on empty land. On the territory of Dalmatia, the Section resolved disputes relating to revenues from peasant land and prepared legal draft documents and regulations that dealt with these issues.

The liquidation of feudal land relations in Bosnia and Herzegovina was performed through the Decree on Procedure Regarding Feudal Lands in Bosnia and Herzegovina, of May 12, 1921, and the Law on Feudal Lands in Bosnia and Herzegovina of December 3, 1928. On the basis of these acts, those that worked the land became the owners of feudal lords' (aghas and beys) lands that were held without rights of inheritance. The previous owners of the land were compensated in the total amount of 500 million dinars. Towards that end, in 1930 the state began to issue bonds for the financial liquidation of compensation for feudal lands in Bosnia and Herzegovina. This was referred to as the "Begluk Loan" (Beglučki zajam), with a total issuance value of 150 million dinars in four installments, between 1930 and 1935, with an interest rate of 6% and a term of payment of 43 years.⁴²

Compensation for the feudal lands, i.e., the payout of coupons and amortized bonds, was carried out by the Sector for State Debt of the Ministry of Finance, the financial directorate, the tax administration, the board and affiliates of the

⁴¹ B. Lekić, *ibid.*, p. 83.

⁴² "Isplata beglučkih obveznica," *Novosti*, No. 177, Zagreb, June 29, 1930, p. 29.

Postal Savings Bank, and monetary institutions authorized by the Ministry of Finance, beginning with September 14, 1929. Namely, the Sector for State Debt of the Ministry of Finance issued bonds to the Agrarian Directorate in Sarajevo, with the approval of the Ministry of Agriculture, on the basis of which competent provincial authorities paid out the adjudicated compensations. A portion of the payments was given in bonds and the rest in cash.

The complex colonate relations in Dalmatia that had their origins in ancient Roman times were abolished by the Law on the Liquidation of Agrarian Relations on the Territory of the Former Province of Dalmatia, of October 19, 1930. Land was granted to the peasants who had cultivated it for more than 30 years, regardless of their agrarian relationship with the owners. Land was granted free of charge by those who had worked it prior to 1878, in which case the state covered all the expenses of compensation. Those that had begun to work the land after 1878 had to pay one half of the compensation to the former owners, while the other half was paid by the state.

On the territory of the former province of Dalmatia, the resolution of agrarian disputes was performed on the basis of the Law on the Liquidation of Agrarian Relations. The competent authorities for this were district courts in the first instance and the Appeals Court in Split, whose judgments were final. Amortization and purchasing of bonds were performed through the National Bank. The justice minister was authorized to implement the Law, while the finance minister issued orders for the printing of bonds and issuance of loans for paying out the cash portion of compensation.⁴³

In order to pay the state's part of the compensation to previous landowners on the territory of the former province of Dalmatia, the liquidation of agrarian relations began in January 1931, with the issuance of Dalmatian Agrarian Loan bonds.⁴⁴ The bonds were issued in a nominal amount of 400 million dinars, with an interest rate of 6% and a term of amortization of 30 years.⁴⁵

The question of the division of the large landed estates in the northern regions was resolved on the basis of the Law on the Liquidation of Agrarian Reform on Large Landholdings, adopted on June 19, 1931. All new landowners, except for volunteers, who received their land through the division of the large landholdings, had to pay compensation to the former owners. In order to ease this process, the state issued bonds in favor of the former owners through the Chartered Agrarian Bank, while the interested parties were obliged to pay compensation to the Chartered Agricultural Bank for the following 30 years. The bonds were issued in the nominal amount of 800 million dinars, with an inter-

⁴³ B. Lekić: *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 86.

⁴⁴ D. Mrđenović, *Ustavi i vlade Kneževine Srbije, Kraljevine Srbije, Kraljevine SHS i Kraljevine Jugoslavije*, Nova knjiga, Beograd, 1988, p. 247.

⁴⁵ Text of the Law on the Dalmatian agrarian question, "Yugoslavian Gazette," No. 24, October 24 1930, p. 11.

est rate of 4%. The interested parties that received land paid off their debt to the Chartered Agricultural Bank at an interest rate of 5%, with the bank receiving an intabulation on their new property.⁴⁶

In agreement with the forestry and mines minister and with the approval of the Ministerial Council president, the agriculture minister determined the compensation and method of payment through a special rulebook. The agriculture minister was authorized, in special cases, to determine measures for controlling the sale of expropriated immovable property, and was obliged to make rulings on the erasure of bans on the alienation and hypothecation of large landholdings. On the basis of Paragraph 50 of the Law on the Liquidation of Agrarian Reform on Large Landholdings, the agriculture minister brought a Rulebook by which a single commission was to be set up for the entire country, with the task of performing a revision of the super-maximum.⁴⁷

The Rulebook on the implementation of the Law on the Liquidation of Agrarian Reform on Large Landholdings of July 18, 1931, made available the agrarian sections that had been a part of district offices to the newly established ambulatory commissions. Their task was to implement the actual liquidation of the agrarian reform. The ambulatory commissions territorially covered the district, and they consisted of the following: president of the commission – a legal professional appointed by the Minister of Agriculture, a surveyor and an agricultural expert or, if such a person did not exist in the district, the district manager. Agrarian committees were established in municipalities as advisory organs to the ambulatory commissions, and consisted of the following: an alderman representing the municipality, the president of the agrarian community – or presidents if there were several on the territory of the municipality, a peasant from each village in which there were interested parties, appointed by the district head. The municipal agrarian committees participated in the work of the ambulatory commissions only as advisory organs. They had no right of appealing the ambulatory commission's decisions.

The various federal agrarian laws that were on the books in the southern parts of the country were liquidated in 1931, through the Law on the Ordering of Agrarian Relations in the Southern Regions. Those that worked the land according to feudal, sharecropping or lease-related law were granted the land, while the former owners were compensated. In order to pay compensation, during the same year the state issued bonds for the liquidation of agrarian relations in the southern regions in the nominal amount of 300 million dinars, with an interest rate of 5% and a 30 year term of payment.⁴⁸

Agrarian courts had competence over the regulation of agrarian relations and compensation for the lands and rents of the former masters and owners.

⁴⁶ *Ministarstvo finansija 1918–1938*, Beograd, 1938, p. 259.

⁴⁷ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 85.

⁴⁸ N. Vučo, *Poljoprivreda Jugoslavije 1918–1941*, Rad, Beograd, 1958, p. 29.

Beginning with December 5, 1931, in the southern parts of Serbia and Montenegro there existed two levels of agrarian courts: district agrarian courts and the Agrarian Appeals Court. The task of these courts was to hear cases regarding agrarian relations and disputes in parts that were annexed to the Kingdom of Serbia and the Kingdom of Montenegro after 1912, where agrarian relations had not been regulated. The district agrarian courts were named after the district for which they were territorially competent, and consisted of a court president and two member judges. In each agrarian court, the agriculture minister appointed an officer that represented state interests, a registrar and the necessary number of surveyors.⁴⁹

The Agrarian Appeals Court, seated in Skoplje, was the highest instance for agrarian relations and disputes. It was made up of an appeals judge, who was the court president, a higher official from the Ministry of Agriculture and another official – with both officials being required to have a law degree. The agrarian court's decisions were brought by a majority vote and were executable. The agriculture minister supervised the administrative work of the agrarian courts, and also issued special orders and instructions and controlled the work of the state representatives.

With the adoption of the Law on the Settlement of Southern Regions, as well as the amendments to the law of June 11 and December 5, 1931 and June 24, 1933, the Ministry of Agriculture became the supreme administrative organ for the implementation of agrarian reform and colonization. This ministry, upon the proposal of the supreme agrarian trustee, brought an annual settlement plan, in accordance with the available budgetary resources. It was responsible for controlling the implementation of regulations, adopting new and amending old regulations, proposing basic solutions for the distribution of land to institutions and controlling the realization of adopted settlement plans. Its executive organs were: the Supreme Trustee Office of Agrarian Reform, the agrarian trustee offices, commissions for the limitation of land and the Advisory Committee for Settlement.⁵⁰

The Ministry of Agriculture had the task of helping agrarian cooperatives and their Association with funds, interest-free loans and subsidies. Supervision over the work of the agrarian cooperatives and their Association was performed by the Ministry of Agriculture through its organs. Special attention was devoted to regulations, especially those related to the granting of interest-free loans. The Ministry of Agriculture issued orders and instructions and influenced the implementation of the decisions of the Association of Agrarian Communities. The decisions that were not in accordance with the regulations on land purchases for agrarian interested parties were rejected by the Ministry. The material resources were approved through the Association of Agrarian Communities in Skoplje.

⁴⁹ B. Lekić, *Agrarna reforma i kolonizacija u Jugoslaviji 1918–1941*, p. 87.

⁵⁰ B. Lekić, *ibid.*, p. 88.

These were received with a budget credit, as proposed by the Supreme Trustee Office. The funds were received at the Main State Treasury in Belgrade, and were earmarked for the construction of settlements, infrastructure works and the creation of better socio-economic conditions for settlers.

The repayment of these internal loans issued for the financial liquidation of leftover agrarian relations after World War I was incorporated in regular budget expenditures. As a result of the state's sizable financial outlays, feudal relations were definitely done away with in the United Kingdom.⁵¹

4.2. Results of agrarian reform

It was not until 1931, during the dictatorship of King Aleksandar, 12 years after the adoption of the Preliminary Provisions for the Implementation of Agrarian Reform, that the Law on the Liquidation of Agrarian Reform could be adopted. In the opinion of Nikola Vučo, the created provisional state had been purposely prolonged,⁵² in the interest of the large landowners. It suited them that the general principles of agrarian reform had already been essentially undermined with the adoption of the Decree on Granting Four-Year Leases on Land from Large Landholdings in 1920. While peasants were still lacking property-legal security for being denied the right to become land owners, the large landholders were haggling with the authorities about setting the maximum land area over which they could retain permanent ownership.

On the basis of the Law on the Liquidation of Agrarian Reform, serf and feudal property relations were liquidated in Bosnia and Herzegovina, but 235 large landed estates of between 100 and 450 hectares remained. Namely, there were 2,804,189 hectares of arable land in Bosnia and Herzegovina, out of which only 1,076,685 hectares were distributed to agrarian interested parties. Former serfs and workers on beys' lands were granted an average of 7 hectares of land, while invalids, volunteers and landless peasants received barely 2 hectares apiece. In the northern parts, in Slovenia, Croatia, Slavonia and Vojvodina, the large landholders retained 49.21% of the total land that had been initially marked for expropriation.⁵³ Out of a total of 2,185,883 cadastral jutros of arable land, forest and pasture, the large landholders had retained over 1,500,000 cadastral jutros.

The large landholders retained one half of their land thanks to constantly pressuring the authorities to increase the land maximum, which is known to be the most important element of any agrarian reform. Abandonment of the initially determined land maximum brings into question the success of agrarian reform, and that is precisely what happened in the Kingdom of Yugoslavia.

⁵¹ T. Đ. Ristić, "Borba za zemlju i naša agrarna reforma", *Ekonomsko-finansijski život*, Beograd, 1938, p. 72.

⁵² N. Vučo, *Poljoprivreda Jugoslavije 1918–1941*, p. 24.

⁵³ *Minutes the National Assembly of the Kingdom of Yugoslavia 1937–1938*, Vol. 3, p. 359.

When it came to determining the land maximum, the first and the most significant change already occurred with the adoption of the Law on the Prohibition of the Alienation and Hypothecation of Large Landholdings of May 22, 1922. This law meant the abandonment of both the narrower and the broader land maximum, in accordance with the economic conditions in various regions, as had been defined by the Preliminary Provisions. Now the maximum could range between 50 and 500 hectares of land, depending on the region. Already with the Law on Granting Four-Year Leases on Land from Large Landholdings, such a defined maximum was relativized, as it was stipulated that each large landholder could be left a super-maximum for the maintenance of agrarian industry. Thus, the legislator had found justification for relativizing the principles of agrarian reform in the economy of production of the large landholdings. New justifications for increasing the super-maximum were found during the dictatorship of King Aleksandar when, according to the Law on the Liquidation of Agrarian Reform on Large Landholdings, it was decided that a landholding could exist in the size "that could best serve the general economic development."

5. Conclusion

In the social sense, agrarian reform brought momentary political stability. However, in the economic sense, agrarian reform brought negative results. The years of palliative, provisional solutions negatively affected the agricultural activity of the agrarian interested parties. The small interested parties were granted land without inventory and with all the existing burdens. Land was even given to those that had never engaged in land cultivation before. As a result, due to neglect, primitive cultivation methods, and the unresolved issue of favorable agricultural credits, agricultural production on the entire territory of the state fell significantly. In the newly established circumstances, some alienated the land, selling it to rich peasants or returning it to the earlier owners, as in cases of the land of the Bosnian aghas and beys. Agrarian reform slowed the penetration of capitalism into agriculture, by creating large landholdings. As Dr. Nikola Vučo puts it, the consequence was the strengthening of the middle peasant class, which, due to its specific position, slowed the penetration of capitalism into the village. Vučo adds that the highly complex agrarian question in pre-war Yugoslavia could not be resolved by agrarian reform alone.⁵⁴

⁵⁴ N. Vučo, *ibid.*, p. 37.

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TOURISM AND ENVIRONMENTAL PROTECTION**

Summary

A dramatic change is presently occurring on the global tourism market. The newest tendencies are characterized by the onset of hypermobility, especially in the form of the large growth of air transport, the largest consumer of energy and CO₂ issuer. Hypermobility – made possible by the expansion of so-called “low-cost” airlines, growth of the general level of education, standard of living and extra free time – in industrially developed countries is rapidly leading to global effects that are increasingly negative for the environment. The further uncontrolled trend of hypermobility is, of course, in dramatic collision with the basic principles of sustainable development.

Key words: *tourism, hypermobility, concept of critical sustainable development, energy consumption, CO₂ emission*

JEL classification: L93, Q53

1. Introductory considerations

At first sight it may not be sufficiently apparent how faltering economic development and the accelerated process of globalization are irreconcilably opposed to the *concept of sustainable development*.

We can observe in the economic science itself fundamental differences in defining the **concept of sustainable development**. From the standpoint of economic development, literature contains three totally different approaches to this concept. Of course, all three approaches start from the same premise – *that the total volume/value of capital must not be reduced*.

The essential difference between them lies in the extent to which they allow for change in the structure of capital, i.e., the substitution of **natural** capital with so-called **man-made** and **human** capital:

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- If the substitution of natural capital with man-made and human capital is allowed/legitimate, then we are talking about the concept of **weak sustainability**;
- If the substitution of natural capital is not at all allowed, then we are talking about the concept of **strong sustainability**;
- If there is an insistence on the preservation of only a critical portion of natural capital, without which survival on the planet would be brought into question, we are talking about the concept of **critical sustainability**.

A separate aspect of *ecological sustainability* is the sustainable consumption of energy and resources. There is a question as to whether it is at all possible to make the current level of consumption and resource use sustainable *in the long term*. This is still possible when it comes to renewable resources (of course, at a high cost) but, by definition, impossible in the case of *non-renewable* resources – which will at some point become exhausted.

For example, air transport is currently totally dependent on fossil fuels and is, thus, unsustainable in the long term, unless some other, renewable sources of energy become available for this use in the future. However, chances are that the dependence of air transport on fossil fuels will be long-lived. Aircraft fuel from renewable sources is produced in limited quantities and is extremely expensive.¹

As Peter Hall sardonically observes: “Although everyone today enthusiastically supports the concept of sustainable development, the basic problem lies in the fact that no one is actually delving into what it exactly means. Or, to be more precise, although many are citing the definition of sustainable development given in the Brundtland report, no one is actually sure of how those principles can be transformed into decisions of everyday development.”² Truly, despite the clearly defined goals, it cannot be said at all that everything is going easily and smoothly.

Precisely because of its simplicity and, hence, broad interpretability, the definition given in the Brundtland report: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” – is the one most frequently cited and challenged.

Peter Ness posed the key question a long time ago: “Why isn’t development in the OECD countries occurring in accordance with the principles of sustainable development, even though it is precisely sustainable development and a sustainable mobility level that are today being proclaimed as the most important political goals?... The reasons surely lie in the profound collision between *sustainable development* and *economic development* itself. Namely, sustainable development is quite important, but not nearly as attractive as economic development! Thus, for example, for the globalized economy growth in the volume of transport is,

¹ P. Forsyth, “Environmental and financial sustainability of air transport: Are they incompatible?”, *Journal of Air Transport Management*, 17/2011.

² P. Hall, *Cities of Tomorrow*, Wiley-Blackwell, 2002, p. 412.

in fact, just a means of achieving economic development. Powerful interests are also included in the development of transport infrastructure... Ever larger private homes and office buildings are also an important element of economic development. All in all, the sum total of costs of transport, housing, heating and lighting makes up one half of total average household expenses... In other words, a change that would lead to lower consumption, i.e., lower expenses for housing and transport, would also bring lower demand in important sectors of the economy.”³

The following analysis will show the extent to which non-renewable energy sources – especially oil – are a critical factor of sustainable development and that, thus, it is precisely the concept of critical, *conditionally sustainable development* – that is the most acceptable.

2. Energy consumption

By placing the focus on the concept of *non-renewable energy resources*, which touches the very essence of the *concept of sustainable development*, we uncover an interesting paradox.

Just during the period between 1973-2007, global consumption of energy doubled – from 4,765 Mtoe (mil. tons of oil equivalent) to 8,286 Mtoe.⁴ Shutting our eyes before this global problem will not, of course, in the least bit contribute to its solution: numerous researches have clearly shown that *global energy consumption* will *triple* by 2050.⁵ No other aspect so clearly shows the extent to which the goals of sustainable and economic development are in dramatic collision as does the sphere of exhaustion of non-renewable energy sources.

Successive energy crises started shaking the world in the 1970s. As a result, already during the 1980s, the creation of the sustainable development paradigm brought the problem of energy consumption to the epicentre of scholarly interest.

As an OECD study reveals: “The energy market is dominated by the OECD countries (*energy hungry*) and several of the largest oil exporters.”⁶ It is obvious that the developed countries consume the most energy resources, and their energy consumption continues to increase unstopably. Total energy consumption in the OECD countries is growing at an accelerated pace.⁷ The problem is

³ ECMT/OECD: Land-Use Planning for Sustainable Urban Transport: Implementing Change (Linz workshop), Paris, 1999, p. 3.

⁴ National Academy of Sciences: *Limiting the Magnitude of Climate Change*, NAP, Washington DC, 2010.

⁵ OECD: *Energy: The Next Fifty Years*, Paris, 1999.

⁶ OECD: *Energy: The Next Fifty Years*, Paris, 1999, p. 50.

⁷ OECD/ECMT: *Urban Travel and Sustainable Development*, OECD, Paris, 1996.

that the developed countries have oil and gas reserves sufficient for only the next 10-20 years.⁸

Nevertheless, the real problems will appear only when the poor part of the world (which currently consumes a negligible amount of energy but also has an exploding population) achieves a much faster rate of economic development. According to OECD research, “the share of the underdeveloped world in total energy consumption will rise from 26% to 58-67% by 2050, and by 72-83% by the end of the 21st century.”⁹

The present-day share of the underdeveloped world in total world energy consumption is indeed quite low – only 26%. While the OECD countries are now consuming 4.5 tons of oil equivalent per capita, the average for the rest of the world (0.8 tons per capita) is 6 times lower!¹⁰

It is obvious that “if global energy consumption at least triples in the near future, as predicted by numerous models, the choice can presently be made between three energy sources, each of which has numerous limitations:

- 1) **use of fossil fuels** would at least triple atmospheric CO₂, which would seriously contribute to dramatic, irreversible global climatic changes;
- 2) the **solar option** is the least damaging ecologically, but still exceptionally expensive, requiring huge land areas, while
- 3) the **nuclear option** (whose technical suitability will need to be proven in the future) requires perfect global political stability.

Thus, the true challenge for our generation is not how to *develop new energy sources*, but how to find possibilities *to reduce the energy demands* of our society.”¹¹

The share of transport in total world energy consumption is enormous:

- 39% is consumed by the industrial sector,
- 27% by transport,
- 19% by the residential sector,
- 8% by the commercial sector, and
- 7% by agriculture and other activities.¹²

In addition, the share of transport in total energy consumption is rapidly growing parallel with economic development. Just in the last two decades of the previous century, the share of transport in energy consumption in OECD countries jumped from 24% to 31%.¹³

⁸ OECD: *Energy: The Next Fifty Years*, OECD, Paris.

⁹ OECD: *Energy: The Next Fifty Years*, OECD, Paris, 1999, p. 50.

¹⁰ OECD: *Energy: The Next Fifty Years*, OECD, Paris, 1999.

¹¹ OECD: *Energy: The Next Fifty Years*, OECD, Paris, 1999, p. 80.

¹² OECD: *Energy: The Next Fifty Years*, OECD, Paris, 1999.

¹³ OECD/ECMT: *Urban Travel and Sustainable Development*, OECD, Paris, 1996.

Especially significant is the share of transport in the consumption of oil, which continues to be the basic source of energy, as well as the most concentrated form of energy (except, of course, nuclear energy). Among all the types of fossil fuels, it is the easiest to extract, process and transport, and we have become quite dependent on it for most of our transport needs.¹⁴ In the US, the largest consumer in the world, responsible for 20% of the consumption of global primary energy, transport takes up 70% of total annual oil consumption!¹⁵

Although there have been numerous attempts to develop alternative fuels, it is obvious that they continue to be much more expensive than oil. Namely, no other fuel approaches oil's EPR (energy profit ratio – the ratio between energy produced and energy produced in the process of fuel production).

During the initial phase of oil exploration, the EPR was greater than 100; for undersea and new oil drillings, the EPR equals 5-10, while the EPR coefficients of alternative fuels, such as shale oil and biomass, equal only 1.¹⁶

Peter Newman makes an ironic comment: "Being preoccupied with technological solutions, we simply forget Jevons' principle. The economist Jevons predicted in 1865 that the exceptional increase in coal combustion efficiency of that time would result in – even larger coal consumption... In the US, oil and oil derivative consumption in transport increased by 20% between 1973 and 1988, despite the doubling of the technological efficiency of vehicles' fuel use... The principle of sustainable development is absolutely not being applied in transport, because the new, super-efficient motor vehicles are covering ever-increasing distances."¹⁷

The latest research of the US National Academy of Sciences also shows that energy consumption in transport can be significantly reduced only through:

- 1) Decreasing the volume of traffic;
- 2) Reorientation to types of transport that consume less energy;
- 3) Increasing the energy efficiency of different types of transport.¹⁸

¹⁴ M. Jovanović, "Critical sustainability and energy consumption in urban transport," *Bulletin of the Serbian Geographical Society*, Vol. 90, iss. 3, 2010, pp. 153-170.

¹⁵ National Academy of Sciences: *Limiting the Magnitude of Climate Change*, NAP, Washington DC, 2010.

¹⁶ P. Newman, J. Kenworthy, *Sustainability and Cities: Overcoming Automobile Dependence*, Island Press, Washington DC, 1999.

¹⁷ P. Newman, *Towards Sustainable Transportation*, (OECD International Conference, Vancouver Canada), EcoPlan International Paris, 1996.

¹⁸ National Academy of Sciences: *Limiting the Magnitude of Climate Change*, NAP, Washington DC, 2010.

3. Hypermobility in the sphere of tourism

In developed countries, tourism has undergone essential changes during the past decade. Travelling is now more frequent but shorter (in terms of time), and oriented toward increasingly distant destinations.

Globally speaking, a dramatic change has occurred. An increasing number of tourists is being directed toward faraway, exotic destinations, until recently reserved only for a well-healed minority. Such a sudden increase in the volume of tourist trips – hypermobility – has been made possible, in the first place, by the expansion of low-cost airlines, increased educational levels, living standards and additional free time.¹⁹ Hypermobility is today a recognizable *behavioural norm*, while travelling in one's free time is already considered to be a routine condition.

Hypermobility is, thus, characteristic for industrialized societies, supported by a good, extensive airport network that generates travel variety, including occasional deep discounts (especially in relation to other modes of transport).

The exceptionally high annual growth rates of global air traffic (5-6%) brought a fivefold increase in the 1970-2000 periods, while the share of air transport in international tourist travel reached 42%.²⁰ This trend is expected to continue and, for example, average distances traveled within the European Union are expected to rise from 1,150 km in 2000 to 1600-1700 km by 2020.²¹

Hypermobility has, thus, become a sacrosanct goal, unquestioned by the majority, even frequently being used as an indicator of progress and economic development. However, over the last fifteen or so years, there has been a growing, sobering realization about hypermobility's accompanying negative environmental effects, especially in the sphere of air transport.²² Thus, for example, it is estimated that, of all the elements of the average tourist trip, the *airplane* has the most influence on the process of global warming, as much as 60-95%²³

¹⁹ C. M. Hall, *Tourism. Rethinking the Social Science of Mobility*, Pearson, Harlow, 2004; J. Adams, "Hypermobility: A challenge to governance" in: C. Lyall, J. Tait (eds), *New Modes of Governance: Developing an Integrated Policy Approach to Science, Technology, Risk and the Environment*, Ashgate, Aldershot, 2005.

²⁰ WTO: *Tourism Market Trends*, WTO, Madrid, 2005.

²¹ Peeters et al., *European Tourism, Transport and Environment*, Final Version, NHTV CSTT, Breda, 2004.

²² Penner et al., *Aviation and the Global Atmosphere; A Special Report of IPCC Working Groups I and III*, Cambridge University Press, Cambridge, 1999; Sausen et al., "Aviation radiative forcing in 2000: An update on IPCC (1999)," *Meteorologische Zeitschrift* 14 (4), 2005; Schumann, *Air Traffic and the Environment*, Springer Verlag, Hamburg, 1990; Schumann, "Aviation, atmosphere and climate-what has been learned," in: R. Sausen, C. Fichter, G. Amanatidis (eds), *Proceedings of the AAC-Conference*, European Commission, Friedrichshafen, June 30 to July 3, 2003, pp. 349-355.

²³ Gossling et al., "The eco-efficiency of tourism", *Ecological Economics*, 54 (4), 2005; S. Gossling, M. Hall, "An introduction to tourism and global environmental change" in: S. Gossling, C. M. Hall (eds), *Tourism and Global Environmental Change. Ecological, Social,*

Airplane travel warrants particular attention, as its gas emissions mostly take place at altitudes of 10 to 12 km (in the upper layers of the troposphere and the lower levels of the stratosphere), where they have a significantly greater effect on the ozone layer, cloud cover and harmful radiation *than on the earth's surface*.²⁴ Thus, the RF (Radiative Forcing) factor of air traffic emissions equals 1.9-5.1 (which is two to five times higher than that of exclusive CO₂ emission).²⁵ On the other hand, the RF factor of road, rail and sea transport equals only 1.²⁶ It is, thus, tourism based on air travel that has the most negative effect on global climate changes.²⁷

The results of this research have only recently been included in more complex evaluations of the effects of tourism on the overall human environment, shifting the focus from the previous analysis of local effects – to the global effects of tourism on the ecosystem.²⁸

4. Energy consumption and carbon dioxide emissions in tourism

Of course, a particular activity's volume of energy consumption and CO₂ emission directly depends on what is exactly classified under that activity. Here, in accordance with the UNWTO definition, we shall under **tourism** assume "all the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes." Under domestic and international tourism we shall also include the category of so-called excursionists (persons with stays of less than 24 hours), as well as participants of tours and maritime travels.

Economic and Political Interrelationships, Routledge, London, 2005; Peeters – Schouten, "Reducing the ecological footprint of inbound tourism and transport to Amsterdam," *Journal of Sustainable Tourism*, 14 (2), 2006.

²⁴ Penner et al. (eds), *Aviation and the Global Atmosphere*, A Special Report of IPCC Working Groups I and III, Cambridge Un. Press, Cambridge, 1999.

²⁵ Sausen et al., "Aviation radiative forcing in 2000: An update on IPCC (1999)," *Meteorologische Zeitschrift*, 14 (4), 2005.

²⁶ Peeters et al., *Fuel Efficiency of Commercial Aircraft. An Overview of Historical and Future Trends*, NLR-CR, 2005-669. Peeters Advies/National Aerospace Laboratory NLR, Amsterdam; P. M. Peeters – E. Szimba, M. Duijnisveld, "European tourism transport and environment" European Transport Conference, Strasbourg, 3-5 October 2005.

²⁷ S. Gossling et al., "The eco-efficiency of tourism", *Ecological Economics*, 54 (4), 2005; S. Gossling, M. Hall, "An introduction to tourism and global environmental change" in: S. Gossling, C. M. Hall (eds), *Tourism and Global Environmental Change. Ecological, Social, Economic and Political Interrelationships*, Routledge, London, 2005.

²⁸ S. Gossling, "Global environmental consequences of tourism," *Global Environmental Change*, 12, 2002; K. G. Hoyer, "Sustainable tourism or sustainable mobility? The Norwegian Case," *Journal of Sustainable Tourism*, 8 (2), 2000.

Tourism, thus, includes: transport to and from a tourist destination, local travel at the trip destination, accommodations, and all the local activities tied to entertainment and/or business: conferences, meetings, visits to restaurants, bars, cafés, local excursions, etc.

In accordance with this, we shall divide energy consumption and CO₂ emissions in the sphere of tourism into the following segments:

- Transport to/from the tourist destination,
- Use of accommodation facilities and
- Other tourist activities (including local travel within the tourist destination).

Of course, most of the energy consumed in tourism is derived from fossil fuels, and only a negligible portion from so-called renewable sources.²⁹ As a result, the CO₂ emissions are high as well. The following table gives a classification of CO₂ emissions into three pre-defined spheres of tourism: transport, accommodations and other tourist activities.

Table 1: CO₂ emissions in tourism (in Mt)

| Total | | Transport | | Accommodations | | Other activities | |
|----------|--------|-----------|---------|----------------|-------|------------------|--------|
| 1,302 Mt | (100%) | 980 Mt | (75.3%) | 274 Mt | (21%) | 48 Mt | (3.7%) |

Calculated according to: UNWTO – UNEP: *Climate Change and Tourism – Responding to Global Challenges*, UNWTO, Madrid, 2008.

It is obvious that, within tourism, transport plays by far the most significant role in the global warming process – its share in CO₂ emissions is more than 75% and, when RF is included – the figure equals 90%.³⁰

Namely, global warming is (usually) manifested in changes in average temperature, which are a consequence of changes in our planet's radiation balance, which are, in turn, highly influenced by the concentration of GHG (Green House Gases) in the atmosphere.³¹

However, tourism's effect on global warming is not only expressed through:

- a) CO₂ emissions, but also through
- b) Level of RF (Radiative Forcing).

And, while CO₂ is the most important GHG gas largely produced as a result of human activities, other GHG gases also contribute to global warming. This is especially pronounced in air traffic, which at high altitudes additionally influences the global warming process.

²⁹ UNWTO – UNEP: *Climate Change and Tourism – Responding to Global Challenges*, UNWTO, Madrid, 2008.

³⁰ Ibidem, p. 133.

³¹ For more details, see: M. Jovanović, *Međuzavisnost koncepta urbanog razvoja i saobraćajne strategije velikog grada*, Geografski fakultet, Beograd, 2005.

For most GHG gases it is possible to calculate carbon dioxide equivalents, i.e., coefficients comparable to the CO₂ coefficient of influence on the global warming process. This is not possible for air transport, since its emissions (at high altitudes) poorly bind with the global atmosphere and because these are not long-term – which is why they are expressed by the level of so-called RF radiation. However, even without taking into account the RF indicators, the share of air transport in CO₂ emissions (expressed in kg/pkm) is higher than or close to the share of automobiles, which can be seen in the following table.

Table 2: CO₂ emission (in kg/pkm)

| Types of transport | Emission of CO ₂ (in kg/pkm) | Capacity utilization (in %) |
|--------------------|--|--------------------------------|
| Aircraft | 0.129 | 75% |
| Automobile | 0.133 | 50% |
| Bus | 0.022 | 90% |
| Rail | 0.027 | 60% |

Calculated according to: UNWTO – UNEP: *Climate Change and Tourism – Responding to Global Challenges*, UNWTO, Madrid, 2008.

Also, the energy consumption of air transport (expressed in MJ/pkm) is similar to the consumption of passenger automobiles – and substantially higher than that of other types of transport.

Table 3: Energy consumption of different types of transport in tourism (in MJ/pkm)

| Types of transport | Energy consumption (in MJ/pkm) |
|------------------------------------|--------------------------------|
| Aircraft | 2.0 |
| Automobile | 1.8 |
| Other types of transport - average | 0.9 |
| - train | 1.0 |
| - bus | 0.7 |

Source: S. Gossling, “Global environmental consequences of tourism,” *Global Environmental Change* 12/2002.

It is obvious from the above analysis that the main “rivals” in energy consumption and CO₂ emissions in the sphere of tourism are – air transport and automobile transport (their energy consumption and CO₂ emission *per kilometre travelled* is the same). Thus, a precise calculation of the *volume of passenger kilometres* produced by these two types of transport is of decisive importance for an evaluation of their role in the processes of exhaustion of non-renewable resources and global climate changes. For example, in his (oft-cited in schol-

arly circles) article, Gossling concludes that the main energy consumer and CO₂ emitter in the sphere of tourism is – the automobile, after all.

Table 4: *Energy consumption and CO₂ emission of different types of transport in tourism*

| Types of transport | Volume pkm (in bil.) | Energy consumption | | Emission of CO ₂ | |
|--------------------|----------------------|--------------------|------------|-----------------------------|----------------------------|
| | | MJ/pkm | Total (PJ) | CO ₂ (gr./pkm) | Total CO ₂ (Mt) |
| Automobile | 5,155 | 1.8 | 9,279 | 132 | 680 |
| Aircraft | 1,179 | 2.0 | 2,358 | 396 | 467 |
| Other | 1,643 | 0.9 | 1,479 | 66 | 108 |
| Water | ? | ? | 107 | ? | 8 |
| Total | 7,977 | - | 13,223 | - | 1,263 |

Source: S. Gossling, “Global environmental consequences of tourism,” *Global Environmental Change*, 12/2002.

Gossling, however, does not use sound estimates of the volume of *passenger kilometres* produced by different types of transport, which means that, unfortunately, his otherwise very good analyses are, in that regard, problematic, and that his conclusions regarding air transport are, thus, wrong. The following table gives estimates of volumes of passenger kilometres of different types of transport in tourism, according to Gossling and the UNWTO.

Table 5: *Estimates of volume of pkm of different types of transport in tourism according to Gossling and the UNWTO (in bil.)*

| Types of transport | Gossling Volume pkm (in bil.) | UNWTO and UNEP Volume pkm (in bil.) |
|--------------------|----------------------------------|--|
| Automobile | 5,155 | 3,354 |
| Aircraft | 1,179 | 3,984 |
| Other | 1,643 | 1,809 |
| Total | 7,977 | 9,147 |

Source: S. Gossling, “Global environmental consequences of tourism,” *Global Environmental Change* 12/2002, pp. 283-302; UNWTO and UNEP: *Climate Change and Tourism – Responding to Global Challenges*, UNWTO, Madrid, 2008.

Table 6 gives much more precise estimates of the role of different types of transport in tourism in *energy consumption* and the *global warming* process, not only in the domain of international tourism, but also of domestic tourism, as well as of so-called excursionists in domestic and international tourism.

Table 6: Number of tourist trips, total pkm per trip, energy consumption and emission of CO₂, for 2005

| Types of transport | Number of tourist trips (in millions) | Average km (both directions) per 1 tourist trip (km) | Total pkm (in billions) | Energy consumption in MJ (bil.) | Emission of CO ₂ in Mt (bil.) |
|--------------------|---------------------------------------|--|-------------------------|---------------------------------|--|
| Total | 9,750 | 938 | 9,147 | 15,633 | 982 |
| Automobile | 5,956 | 563 | 3,354 | 6,027 | 420 |
| Aircraft | 870 | 4,580 | 3,984 | 7,960 | 515 |
| Other | 2,924 | 619 | 1,809 | 1,628 | 45 |

Calculated according to: S. Gossling, "Global environmental consequences of tourism," *Global Environmental Change* 12, 2002, pp. 283–302; UNWTO and UNEP: *Climate Change and Tourism – Responding to Global Challenges*, UNWTO, Madrid, 2008.

The number of tourist trips *by airplane* is incomparably (6.8 times) smaller than *by automobile* but, at the same time, *average length of trip by airplane is 8.1 times greater than by automobile, which means that total passenger kilometres by airplane are higher by about 600 mil. pkm.*

Since the energy consumption and CO₂ emission per pkm for aviation and automobile transport are similar while, on the other hand, air travel achieves a higher amount of passenger kilometres, it is obvious that *air transport consumes more energy* (non-renewable resources) and more strongly influences the process of *global warming* than do motor vehicles.

5. Conclusion

A dramatic change is taking place on the global tourist market. The latest tendencies, as the above analysis has indisputably shown – are characterized by the appearance of hypermobility: especially rapid growth in the volume of aviation transport, the largest consumer of energy and CO₂ issuer.

Made possible by the expansion of low-cost airlines, growth in general education levels, living standards and additional free time, hypermobility in industrially developed countries is fast leading to increasingly negative global environmental effects.

Energy consumption and CO₂ emission in transport can be reduced significantly only by:

- 1) Lowering the total volume of transport;
- 2) Orientation towards those types of transport that consume less energy and emit less CO₂ and

- 3) Further increasing the technical-technological efficiency of different types of transport.

Of course, a continued, uncontrolled trend of hypermobility would dramatically collide with the said principles. It is obvious that the sphere of tourism will be faced with great challenges in the coming decades, ones for which it is hard to provide simple, unambiguous answers.

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GLOBAL BUSINESS ETHICS – UTOPIA OR REALITY

Summary

The existence of global business ethics is an undoubted reality and the needs of the modern society, but the question of its survival is at the same time associated with numerous problems and inconsistencies of a society in all spheres and areas of its existence. The global society, and consequently business ethics, is not yet able to define clear and universal underlying principles and values on which they function. And because of that, because of the necessity, but also the impossibility to fully realize global business ethics in these conditions, because of the loss of the past and finding no future,, because of the loss of identity and unrealistic goals set by society to the present man, and vice versa, the man to the society and all the existing world, including business, global business ethics should be a part of the culture and cultural and civilization values of the humanity, that is, the reality of the globalized world of business. However, business ethics is rather a utopia of the civilization development of the society burdened with numerous problems and uncertainties, the society of striking contrasts, the society that places values and at the same time cancels the underlying values, which is not unusual (even normal), without finding in them some basic and characteristic generality and universality.

In this regard, in the establishing global business ethics, culture plays an important role because it defines, in a culturally diverse and highly fragmented world, the basic and general forms and patterns of behavior, it directs spiritual guidance, refreshes historical memory, determines humane life values, shapes human intelligence, makes emotional experience. In the same way we attach importance to global civil culture which through the idea of human rights, justice and love for justice, of the principles of democratic legitimacy and transparency, as well as the need for genuine social responsibility, gives an answer to the question: is global business ethics the reality or its existence lies in the domain of Utopia? The importance of having a traditional moral teachings should be added to this, but also of religious ones, that one should behave toward others as to oneself, so that by raising awareness of unity and solidarity, and of course humanity, any normal and professional business strategy and business policy could be built, which would be based on the elements of business ethics.

Key words: *global business ethics, culture, religion, values, moral, business*

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1. Instead of introduction

The past, present and future are filled with challenges of time which followed us, which is following us and which will follow us. Also the time which we will always discuss and for which we will opt in various ways by presenting arguments in its favor and those against it. Therefore Charles Dickens was right, when he wrote, while describing the French Revolution: 'It was the best of times. It was the worst of times'. For indeed, for any time it can be said that there was a better time, or that even better time will come. In fact, the coming times have brought extraordinary achievements and unimaginable inventions in science and technology; they have brought even easier connections with the world, which is now realized by only one touch that quickly connects us to the computer network and enables us all kinds and forms of communication; much has been done to combat many diseases, but also to control their expansion; the extension of human life is no longer a dream; inconceivable comfort of living has been reached, the ease of traveling is now a reality; much else has been achieved, which has made our life really simpler and better. All this and much more, of course, was unthinkable for the people who lived only a hundred years earlier. And who knows what will be possible for people who will live only a hundred years after us, probably less than that. Therefore, this is our best of times.

However, this is also our worst of times. Because it is exactly that life which is the simplest and of highest quality, has never been less certain than it is today. Perhaps there has never been such misuse of natural resources and reserves in the world, there has never been such a differentiation among people and bigger social differences among them, there have never been so many poor people, so many food shortages and hungry people as today. There has never been so much racial hatred, struggle for dominance in all fields among the nations and states, there has never been so much injustice in the global society, there has never been so drastic disintegration of economic systems, the rapid disintegration of family values, the unprecedented lack of values and humanity, solidarity, equality and unity, justice and fairness; there has never been so much exploitation of man in all forms of human existence. Therefore, the man today justifiably raises the questions: Who am I and where does my world go?

The answers to these questions are different. Ranging from those that someone else can give answers to, mostly hiding behind the religious beliefs, then those that man was called upon to solve all his problems, and those, represented by the humanists, that only educated man will be able to make this world better and more beautiful for a comfortable and carefree life, up to those represented by transhumanists¹, who now advocate a radically new approach to thinking about the future. It is based on the idea that human species, as it is today, does not

¹ *Transhuman* ("transitional human") means: man with a moderately increased ability.

end the evolutionary development of man, but rather represents its beginning². Unlike humanism, from which, by the way, transhumanism was developed, and which is based on the belief that people are important and have value in themselves, and these humanist values refer to rational thought, freedom, tolerance, solidarity, democracy, transhumanists, although agreeing with that, emphasize that man can improve himself and human organization. This can be done by the use of rational resources to improve the external world without limiting the traditional humanistic methods, such as education and cultural development.

The rapid technological development and growth of scientific knowledge have announced a brand new stage in human history, a utopian vision of the future that drives one to think of the possible dangers of new technologies, in which the visible absence of morality dominates, whereby there is or there is no possibility of choice in their implementation. In these circumstances a man is free to choose to continue living the way he is used to, or to change everything, including himself. This is because this world is at the crossroads between the good and the evil, positive and negative, valuable and worthless. Because that is where different views of world meet, different cultures, religions, value systems, ideologies and policies, ways of thinking, life styles. However, if the world of diversity, torn apart between the union and disintegration, and the man who lost his true self because of such world, are to come to a change, the ways of thinking and life must be changed a lot. Many other aspects of life must be changed as well.

That change is based on the idea of a world where all people on our planet would be connected to each other, on the idea of the global society to function without the nationalist and extremist aspirations of the rich, powerful and big at the expense of the others, small, poor and disabled; in which ideas, scientific discoveries, and scientific achievements, as well as cultural heritage, and moral values of the good would be exchanged. Such a world could guarantee a total human welfare; democracy and understanding could rule in such a world. Of course, in such a world, the homogenization of world (global) culture that would take the right place would be welcome, instead of strictly divided national and local cultures. This is a good and right idea, because the global culture, as a reflection of the growing interdependence of the real world, could create conditions for the beginning of a new era of prosperity and peace for the whole global civil society. Also, the current world order could and would have to be much

² A philosopher Nick Bostrom defines transhumanism as follows: first, the intellectual and cultural movement that affirms the possibility and desirability of fundamental improvement of human condition through applied reasoning, especially by developing and using technologies to eliminate aging and greatly expand the intellectual, physical and psychological human capabilities and secondly, a study of the possibilities, promises and potential dangers of new technologies that will enable us to overcome fundamental human limitations, as well as ethical issues related to the development and use of these technologies. - N. A. Bostrom, "History of Transhumanist Thought", *Journal of Evolution and Technology*, Vol. 14, 2005; <http://jetpress.org/volume 14/freitas.html>.

more moral. Because, in the current absence of categorical system of values and vague and undefined values of the good, the good for an individual and the good for all, there is a subjective approach to understanding, behaviour and evaluation of the good. Therefore, it would be necessary to make assumptions about the existence and respect for those determined dominant values that would be the guiding idea to a more humane and just society of equals, both to the globalized world, and to the man as its creator. Is this Utopia or ..?

Utopia or not, the ethics is the need of the modern society - no matter what society and which way it moves. It is the need exactly because we have to know what should and what should not be done, how and in what way to behave and how and in what way to evaluate one's actions, and how to assess the actions of others. Therefore, culture is an inexhaustible source and a true resource of over-all human and moral values.

However, ethics was the need of every society in its history. It is present in human thinking and acting since the time when man established a customary and moral communication with himself, and, of course, with other people³. That is why ethics is an integral part of human life and all areas of social life. Of course, ethics is an integral part of business. Therefore one should have in mind that the current decline in moral values in business does not mean that there was no morality in business a long time ago.

Business environment in the broadest sense of the word dates back to the time in which the Sumerians began to trade, and that was approximately six thousand years ago. And that business environment – which is nothing unusual - required that the basic principles of fair business should be regulated. Therefore, the definition of fundamental ethical values and their practical application is related to the time of the existence of ancient Babylon state, and then the emperor Hammurabi, which is the time of about two thousand years before Christ. Otherwise, Hammurabi is known for his famous code, which includes approximately two hundred eighty-two laws. In fact, such a code of legal rules regulated a number of issues related to governance and operations of its administration. Also, in his laws Hammurabi regulated how people should behave and relate to each other. He also regulated business forms, penalties, and salaries of state appointees, their rights, obligations and responsibilities, systems of rewards, punishment, and control. And what is very important, he regulated moral issues and issues of quality of work and management, the issues that were regulated for the first time exactly by this law⁴.

Observing and analyzing the time which is behind us, it must be concluded that that was the time rich in events, the time which could be subject to critical thinking and theoretical and practical examination at any moment. Therefore, the issues and problems from the political, economic, legal or moral life and

³ B. Balj, *Uvod u poslovnu etiku*, Čigoja štampa, Beograd, 2005, p. 9.

⁴ S. Rakas, *Sociologija menadžmenta*, Megatrend univerzitet, Beograd, 2004, p. 48.

actions were always in the spotlight and always subject to adjustment and transformation. And all that with the aim of establishing better and more just life, establishing of a just political order for all, the imperial Athenian world order, then economic life and establishing of monopolies, as well as customary and moral actions of man and his desires to lead a good life full of virtues.

In ancient times, Plato divided knowledge into theoretical and practical, with the thesis that in practical life, i.e. political, economic, legal and moral action, the preference should be given to the idea of management, referring to the polis, which should be marked by the virtues of reason, courage and moderation. Aristotle points to the theoretical knowledge; its purpose is gaining knowledge for the sake of knowledge; the purpose of practical knowledge is improvement of human life, as well as overall life in the community. Aristotle mentions the poetical group of knowledge the aim of which is creation, but he also refers to the terms of iconomic action, which means earning assets for the needs of a household and hrematistic action the purpose of which is increasing wealth more than it is necessary through usury and the establishment of monopolies. Iconomic action is moral, necessary and appropriate, while hrematistic action is immoral and unjustifiable, and as such it is unnecessary. In his famous works 'The Iliad' and 'Odyssey', Homer points out that human action is respected and valued if it is imbued with hard work, honesty, integrity, loyalty and willingness to sacrifice for another man and for one's community. However, this question asked for its response in Aristotle's 'Nicomachean Ethics', which surpasses Socrates and Plato's discussion on virtue – which they identify with the knowledge stating that virtue is the best environment; that it is the knowledge linked to moderate enjoyment, enjoyment with measure, because man is a unity of soul and body, so it is wise that the mental part of the soul should guide the emotional and vegetative part of the soul.

Aristotle believes that moral action should involve other human activity, both in polis and oikos, and with a measure of friendship, i.e. love and justice. Likewise, Aristotle, unlike Plato, thinks that man owns private property, so he tries to enlarge it, whereby he must cause neither harm to others, nor do immoral acts. One has only to engage in legitimate work and use moral means. This means that, according to Aristotle, the very ethics is the philosophy on individual free working character of man whose birth and social position is: ethos, habits and inclination towards good deeds, as well as reasoning as a result of study and exercise⁵.

The request for moral mediation and running of economic affairs was pointed out by Xenophon in his work 'Iconomia'. As a contemporary of Socrates and Plato, he made a distinction between theoretical knowledge, which is science, and empirical knowledge, which is a practical way of acquiring property. His attitude refers to the fact that, whether the question is about the economy of the house or the state economy, the account is most significant, because it is

⁵ B. Balj, *ibid.*, p. 11.

only by acting on it that man acts economically, which means he acts honestly and ethically. Accepting Socrates' attitudes and thinking, he believes that the truth can not be made out of a lie, and that therefore it is more useful to stay in love with one's friends, than to make them enemies. This way of thinking suggests that ethics is a starting point and an introduction not only into politics, but into economics, whereby Xenophon clearly points out that practical philosophy represents a unity of the moral, political, economic and legal. In fact, what management includes now appeared in ancient times as the management of the house, property and people, and through a well-paid individual of the trust who is accountable for his work to his master. Otherwise, Aristotle later makes precise conceptual definition of the division of labor, supply, demand, and money. However, it could be said that all these thinkers are characterized by the view on morality, politics, economics and law as a whole, which is fundamentally conditioned, as well as mediated, by morality.

Combining the ancient and Hellenistic heritage with the 'Old' and 'New Testament', and starting from the critical observations of its time, but with the impact of visantology, scholasticism, and patristics, as well as the experiences following the fall of the Roman Empire, Christianity continues that civilization thread. In his work on 'On God's country' St. Augustine points out that Christianity has underlined the golden moral rule: 'Do not do to others what you would not like other people to do to you'⁶ ...'

Material wealth is not worth a man's moral life, because man - searching to attain wealth - feeds only his body and ruins his mind. In this way Christianity, in fact, announces the cosmopolitan idea of freedom, led by the love of God and of Christian moral standards, expressed in the Ten Commandments. In his 'Summa Theologica' Thomas Aquinas commits one to the Christian virtues: faith, hope and love. He states that free acting lives in the human will, but with the inevitable help of God expressed in the form of laws and grace. He also points out that economic life must be guided by the Christian and human virtues, with the aim of increasing the wealth which will bring benefit to all. The measure of such practice is expressed by setting the fair price, by distributive justice and the sin of taking the interest.

The following periods of the Renaissance and Niccolò Machiavelli are referred to as a revival in political philosophy, ethics and morals. The new era brings the philosophy of rationalism with Descartes, Bento de Espinosa and Leibnitz, the philosophy of empiricism with Hobbes, Berkeley and Hume, who turn the thinking energy towards knowledge and Descartes': *Cogito, ergo sum* ('I think, therefore I exist'). *This is the period in which the focus of interest is shifted to a civic need for trust in man and his mind, towards rationalization of the very experience.*

The representatives of the enlightenment (Voltaire, Rousseau, Diderot, Helvetius and Holbah) emphasized the view that man is a being of progress that can

⁶ *New Testament: The Gospel of Luke.*

save himself by his own edification from barbarism and enter the era of prosperity and practicing of life. In this regard, John Locke's work 'An essay on human reason' draws special attention. It establishes the concept of liberalism in economics and politics, but also underlines the belief that economic human action is determining for all other human actions: political, moral and legal. Locke emphasizes human individualism, striving for satisfaction, measuring value on the market and propagation of civic interest. Locke's liberalism thus turns man into a being who is turned to itself and its own interests.

Emmanuel Kant makes a shift within such thinking by building the subjectivity of the individual as a man's Being and in that way raises the primacy of practical mind over theoretical in ethics: 'You can, because you should ...'. Moral action is established as the true and only possible human action from which all other human actions should be derived. Human freedom also includes the radical evil, whereby man as a free being must have a measure as the supreme moral law, which unambiguously indicates the primacy of practical reason over theoretical. Within economic activity, whose main purpose is increasing property and its protection from other people, one should always act led by a categorical imperative, which refers to the duty to show humanity and personality. This Kant's position is particularly important today, having in mind that human person in modern economic operations is a forgotten category, because business puts to the forefront its primary objective, which is solely and exclusively profit.

Of course, during the nineteenth and twentieth century, there was a radical break with Kantian ethics. The twentieth century is the century of modern life, the century that made the assumptions for the life of another and different world in economic, technical and technological terms; this is the century of the greatest extremes of human history. This is the century in which this world has come a long way from Fascism, Nazism and Bolshevism to neoliberalism and the global economy, in which politics, law and morality are without their identity and independence. This is the century of the power of capital and capitalists, multinational corporations, crime, consumer society, culture with no culture, indifference and apathy, moral hypocrisy. That is why the concepts of utilitarianism and pragmatism are given most prominence, science and technology are slowly being managed by ideology, and globalization becomes an imperative of the coming time. The man identifies himself with the level of benefit, nature and other people become important resources for exploitation, the critics of society are more and more prominent, the modern era is dominantly marked by the phenomenon of globalization.

The accelerated process of globalization has increased economic and technical power, while poverty and misery are still on the rise; the dominance of one culture is manifested, in the first place the consumer's, one language, one way of life; nature is threatened, quite degraded and even destroyed; the conflicts are necessarily imposed on the divided world; there are double standards, double morality,

even immorality, there is the increase of brutality and aggression of the powerful, their lack of understanding and unwillingness to negotiate flexibly and make compromises, to make responsibility the mark of contemporary civilization.

However, in relation to all that has been said, there is a crucial question: what is the possible role of business ethics in neo-liberalism, which was designed by multinational companies, powerful states and big managers? And the possible answer to this question would be: it is only global business ethics, that would respect cultural diversity and cultural identities, and that would encourage human self-respect and dignity, which could achieve some results.

Now we are once again coming back Dickens' famous question of the best and worst of times. Because who could such a global human society be good for, and who would it be bad for? To who would a global business and business ethics based on humane principles be helpful, and for who would it only be a necessary evil and load?

2. Business Ethics at the Crossroads

Modern society has progressed in line with the changes brought about by the industrial revolution and its new technologies, scientific discoveries and technological innovations, the changes that occur in the process of globalization and some new geopolitical relation of powers and dominance of the world market, changes in the natural environment that led to the threat of ecological imbalance and that resulted in the global ecological crisis. In fact, the development of modern society is accompanied by changes that are spread through all areas of social life. That kind of the development of society has necessarily and inevitably influenced the shaping of a new organization that had to adapt to all those contemporary social changes in every sense, not only in organizational and functional terms, but also ethical⁷, and not only because of the form, but because of the contents. Namely, within the new civilization changes, collisions and meetings of cultures, conflicts of interests and the growing conflicts primarily in economics and business, in communication and information technologies, conflicting ideologies and expressed political conflicts about the world dominance, there is a general decline of moral values and moral standards. Those are, presumably, the reasons for initiating those unavoidable and inevitable questions on morality and ethics in business, on very practice of business and ethical conduct. But that is, without any doubt, the need too, particularly in circumstances when corporate standards are put in question, that were mainly related to procedural rules on the realization of self-interest, and which consisted of certain instructions to the state expressed by the responsible allocation of funds. This need is particularly associated with free markets which, within the limits of the laws and

⁷ S. Rakas, *Uvod u poslovnju etiku*, Megatrend univerzitet, Beograd, 2006, p. 105-122.

customs, create its own moral laws. However, it is exactly that familiar spirit of the controlled free-market greed that got out of control, so that already thin and fragile relationships among people broke down and slowly disappeared, while traditional methods of leadership, focused on personal contacts and communication with the top, have become obsolete and vanished. The overall situation is further aggravated and complicated by the strong destruction of traditional corporate values due to the change in company ownership and growing depersonalization of work because of the inexorable penetration of technology into all aspects and segments of operations. Large social differences appeared, as well as employee dissatisfaction, and decrease of confidence; teamwork slowly disappeared, together with cooperation, and self-sacrifice, spontaneity, enthusiasm, and risk taking have begun to vanish in the economic and social turmoil; the conditions for fraud were created, and contemporary environment and a higher level of education of both clients and consumers added the additional dose of confusion in relation to the products, market production and the financing. The period of identity crisis arrived, followed by the fall of business ethics; the changes were imposed as a necessity and inevitability of the present.

Business ethics thus found itself at a crossroads. Therefore, during the fifties, and especially the last decades of last century, there was the accelerated search for the answers to questions about accumulated problems in this area and a new business ethics began to be created essentially.

Namely, the development of business developed parallel to the development of the society. In this sense, business ethics defined and redefined its values and rules in line or parallel to the current social phenomena that were its primary measure of value. That is why in some periods some theoretical, but before all, practical approaches changed, related to the field of business ethics. Starting from this approach, during the fifties of the twentieth century, business ethics was much occupied with current social issues related to the dehumanization of labor, which then emerged to the forefront, as well as with mutual agreement on pricing among the companies that sell the same type of products or services, which influenced the business policies, because sales was often illegal. During the sixties the war in Vietnam seriously undermined the ruling moral principles and standards, since it launched numerous moral issues related to political and military aggression of military-industrial complex, but of multinational companies as well. In response to such business operations, especially abroad, a number of limitations followed with regard to protection of the environment and many reforms were caused both within the companies and in legislation, so that in these circumstances management had to take care of environmental pollution control. Of course, in addition to increasing problems with pollution of the environment and man's protest against the military industry, this period was also marked by the increase in nuclear and toxic waste. Also, this is the period in which the domination of the counter-culture starts, where the consumer move-

ment grows; business found itself under the strong attack because of the lack of social consciousness. All this led to the evident need of raising social consciousness to a higher moral level. In response to such a request of the society, many business schools started introducing courses in the fields covering numerous social issues looking for adequate responses in the field of relation between ethics and business, but there were also great debates about the standards determining equal employment opportunities.

Corporate internationalism and new markets in Asia and the Middle East directed national awareness to the problems of accepting bribes, both at home and abroad, so the period of the seventies was characterized by these problems. The response to these problems brought about the gradual emergence of ethical codes of business conduct. At the same time, the 'Watergate' affair in America sparked protests because of the involvement of politics in business, which led to the revival of the forgotten institution of submitting reports and internal control of business activities. Consumer movement and the demands of students from the sixties grew stronger, and spread to most of the population that now reacted more clearly to numerous frauds in trading of goods, in the areas of development, advertising, packaging and labeling of goods. The media reacted too, so that many companies decided not only to introduce codes of ethics, but to work more on defining ethics programs, and ethics training was introduced. Already at that time, business ethics became significant enough for the world of business that it turned into a movement⁸ and significant enough for all business activities, so that the outlines of business ethics as a distinct scientific discipline can be seen.

At the beginning of the eighties practice of ethical control within the company was retained, whereby the regulatory law enforcement related to violation of the human environment is intensified, as well as the law enforcement related to consumer rights violation and bribery, especially in a foreign country. However, underlying problems and approaches in dealing with ethical issues have not changed. Business morality still meant the same orientation on self-interest and realization of one's own profit. Therefore this is the period of loss of confidence in the company, a period of great opposites and a significant gap in the global market. This caused an identity crisis for many managers because their material goods, faced with economic crisis, also reduced and failed to meet their spiritual needs. In the eighties business ethics was largely oriented towards cultural differences that were already clearly manifested, and as such affected business, so the attention was focused on the moral ability of the individual, because the internal trade, corporate takeovers and the collapse of many large companies pointed to the long-lasting problems of personal greed and dishonesty. Thus, in the second half of the decade the focus was on collective morality, which gained a new shape. Namely, the ethical issues moved from the problems of institutional responsibility and institutional mechanisms of their resolution towards moral responsibility of individuals.

⁸ R. T. Di Džordž: *Poslovna etika*, "Filip Višnjić", Beograd, 2003, p. 30.

Business ethics becomes particularly important in the twentieth century. Namely, it is a period of economic recession in many areas of business, fierce competition in the world market, thereby also reducing the possibility of establishing universal relations among the people of similar attitudes. It was a period of great downsizing, mergers and exceptional mobility of labour, which becomes international, since it comprises members of several races, both sexes, while it is at the same time more diverse and better educated. Value systems that rely on the homogeneity disappear, education on values is abandoned; the crisis of values becomes dominant mark of this time. In these circumstances when legislation redefines all standards of companies, those thin ties among people disappear in the market and, the traditional methods of leadership quickly become obsolete. Companies are becoming larger, extending to all wider geographical areas, but at the same time, there is a strong destruction of the tradition of the company, not only because of the change of ownership, but also because of the increasing depersonalization of work by penetrating and introducing of new technologies in all business activities. The impact of these changes is not reflected only in the moral ability of companies' operations and people who work there, but these changes also created new conditions for 'frauds'. Thus, the total business was on the crossroads. Solutions began to be sought in business-ethical practice, so in order to boost personal integrity and courtesy in the market in the changing and competitive context in most areas of business, ways and means of acquisition and maintenance of virtue are searched for, as well as ethics in business. It is on such moral foundations that the theory of success arises, which emphasizes the importance of individual integrity and personal moral values in order to make remarkable success.

However, business ethics in the nineties faced with numerous social problems that had arisen as a result of the accelerated process of globalization and even more accelerated development of new technologies, which, in turn, significantly threatened man's natural environment and overall conditions of life. This trend continues at the beginning of the third millennium, so that the following are labeled as current and dominant issues of business ethics in the contemporary society: globalization, information technology and environmental crisis. In line with this approach, business ethics, certainly, must be placed on a new basis, different and more appropriate for the time. Thus, global business ethics, at least in a theoretical sense, can be a reality; although in its practical application can be a utopia.

Since its inception, i.e. since the seventies of the twentieth century business ethics⁹ has been burdened with problems that primarily focused on the issues: why managers have to be ethical and is ethical behavior always in the interest of the company? Specifically, business ethics was created in response to the neo-classical economics, whose theorists believed that the motivation driven by self-interest is not immoral, but for many business ethicists mixed motives do not

⁹ Dž. Dramond, Bil Bein, *Poslovna etika*, CLIO, Beograd, 2001, p. 24.

deserve to have any moral credibility¹⁰. In response to the dominant view that personal interests will be jeopardized due to the interference of ethics in business, those demands emerged which started from the point that market should be a measure of success of any company and that as such it will reward ethical behavior. That is why John Shad claimed that 'ethics pays' in 1950.

The emergence of business ethics in this respect was followed by the general introduction to the basic categories of moral philosophy, in order to define an analytical and specific conceptual framework necessary for the understanding of ethical values which meant their adjustment to and acceptance of business as the dominant ethical behavior. Over time, ethics has become an integral part of business conduct and business ethics as a discipline has developed harmonizing general and specific values, focusing the individual on the moral relationship to others, creating standards of conduct and applying the principles of business ethics to the practical business behavior.

By defining a new concept of business conduct the traditional materialist concept of business ethics was abandoned, focused only on making profit and the realization of personal interest, because it became clear that the business practice of unethical behavior can be neither afforded, nor rewarded. A new concept of business conduct was created, which is based on respect for the rights and interests of others and which is based on the realization of general social interests that, among other things, include a quality work environment in which business success, competitiveness and making profit do not depend on anything other than the rights and duties which are applied in the decision-making¹¹. Therefore, the issues and problems of business ethics started being dealt with much more than before, not only in highly developed countries, but also in countries in transition, that are only trying to build up a new system of values, and therefore the values related to business ethics. In these circumstances, the theory is slowly returning to the fundamental principles of ethics, to those forgotten traditional values and virtues; practical business practice is increasingly taking care of responsibilities in all types and forms of activity in business. In these circumstances, business ethics is becoming a scientific discipline, without which business operations simply can not be successful and profitable.

The need for a definition of business ethics as a distinct scientific discipline was imposed by its emergence. And that was despite numerous disagreements and conflicting opinions on whether it should be based as a separate discipline or it should just be viewed as a movement, as a practical activity related to business; despite disagreements over whether practical business functions or ethical ideals are more important or the combination of these two stands; despite the differences between managers who show open disagreement towards the pos-

¹⁰ A. Stark, "What's the Matter with Business Ethics?", *Harvard Business Review*, May-June, 1993, p. 4.

¹¹ A. Stark, *ibidem*.

sible relationship of the morale and business ethics and those who supported morality in business; despite the fact that some supported respecting values in business while others denied it. However, business ethics is necessary and this is so if the nature of ethical decision making is to be understood.

Disagreements about business ethics are largely based on a different understanding of ethics and morality, and are often of essential in nature; they are the result of different approaches to defining moral and ethical business practices in real practice. In fact, ethics is defined as the science of ethos, which is examined and explained, whereby ethics is the theory, but also an expression of the practice it represents. The practice in this regard is a combination of good intentions and objective truth, what leads to success of the business ethics set on this basis¹². Ethics also implies social codes that point to a particular behavior or restrict it¹³. Ethics involves the process of decision making based on social responsibility and respect to the external environment and organizations which do not need to be harmed¹⁴. Similarly, what is important for the decision-making process in the concrete business practice is ethical standards, and those standards established by individuals or particular organizations¹⁵. Ethics is defined as the systematic application of moral rules, standards and principles that relate to specific problems¹⁶. A number of authors conceptually equate morality and ethics¹⁷, while others distinguish between them, indicating their strong correlation¹⁸. Some suggest that morality is a matter of personal beliefs and ethics a matter for all people; others suggest that ethics is the search for justice, fairness and equality and that it refers to the development of standards that are used to judge the conduct of one side, which affects the behavior of the other¹⁹. However, there are some authors²⁰ who deny the need for ethics, and therefore for business ethics. Their efforts are directed towards the achievement of organizational goals and profit at any cost. This thesis was represented by Milton Friedman,

¹² A. Zigler, *Unterneh mensethik – schone Worte oder dringende*, Notwendigkeit, 1986, p. 39.

¹³ Shaw – Barry, *Moral issues in Business*, 4th edition, Belmont, Wadsworth Publishing company, 1989, p. 3.

¹⁴ T. M. Jones, “Ethical Decision Making by individuals in organization: An issue Contigent model”, *Academy of Management Review*, 16, 1991, pp. 366-395.

¹⁵ K. S. Getz, “International codeks of conduct: An Analysis of ethical reasoning”, *Journal of Business ethics*, No. 9, 1990, p. 567.

¹⁶ P. V. Lewis: “Defining business ethics: Like Nailing Jello to the wal”, *Journal of Business Ethics*, Vol. 4, No. 5, 1985, pp. 337-383.

¹⁷ V. E. Henderson, *What’s Ethical in Business?*, McGraw-Hill, Inc., New York, 1992, p. 22.

¹⁸ G. F. Shea, *Practical ethics*, AMA, Management Briefing, New York, 1988, p. 191.

¹⁹ J. Rawls, *Justice as Fairness: Political not Metaphysical, philosophy and public affairs*, No 14, 1985, pp. 223-224.

²⁰ H. S. Schwartz, *Narcissistics process and Corporate decay*, New York University Press, New York, 1980, p. 79.

who says that the only real goal of any business is to make profit, whereby each society should proclaim certain moral rules that restrict business. Of course, the moral rules in business as universal rules in market societies are necessary and inevitable, while their existence and functioning is associated with the increase of profit, but also with their respect.

In this diversity of approaches to business ethics, mainly those elements are underlined that make up its composition, and assuming that 'good ethics produces good business, the ethical principles important to business success are commonly pointed out.

Thus, business ethics includes obligations (commitment) to get the job done properly and involves the responsibility for its (dis)approval²¹. In this sense, the morally responsible person is obliged to perform work and to accept responsibility for failure or error²². Responsibility can be personal, when the ethical norms are violated and the individual gains a personal benefit at the expense of the general interests of the company. There is also corporate social responsibility. It is on this relationship between personal and social responsibility during the sixties and seventies of the last century that a new concept of social responsibility was established, related to ethical behavior, social roles and the level of social responsibility of corporations.

Organizational or corporate culture also makes one of the essential elements of business ethics, and refers to the rules of ethical conduct, the basic value systems, ethical principles and specific ethical rules that the company is trying to implement. These projected elements of corporate culture in form of the rules of ethical conduct, to be applied and achieve are: keeping promises, benevolence, helping other people, respect of others and respect for property²³. These elements created moral rules that companies should follow, as well as ethical norms that determine behavior.

Similarly, business ethics implies the principles and rules of conduct based on the general and business culture, the principles and rules that dominate interpersonal communication. Knowledge of these principles and rules is important for understanding the models of civilized behavior which, in turn, depends on the general cultural patterns, but also on ethical and religious characteristics.

Business communication arising from the relationship between business culture and ethics in business is an integral part of business ethics. Corporate culture is important because it is based on general culture, the culture of speaking and etiquette, the culture of oral and written communication. All this is, undoubtedly, important for the contact of business partners, although it seems that public relations are a more important element of business communication.

²¹ A. J. Oswald Mascarenas, "Exonerating Unethical Marketing executive Behaviors: A Diagnostic Framework", *Journal of Marketing*, 2/1995, p. 43.

²² N. Figar, "Etika menadžera – nevidljiva imovina preduzeća", *Ekonomске teme*, Vol. XXXIII, No. 1-2, Ekonomski fakultet, Niš, 1995, p. 586.

²³ D. Subotić, *Poslovna etika*, KIZ Centar, Beograd, 1997, p. 15.

Business ethics implies the values of moral behaviour, as well as the norms of ethical conduct embodied in codes of professional or business conduct, or business etiquette.

Therefore, numerous beliefs that under the business ethics involve various elements of morality in business are certainly relevant to the determination of the subject of business ethics as a distinct scientific discipline. The elements forming parts of business ethics are: responsibility, personal and social, especially corporate social responsibility; decision making; corporate culture; business communication, particularly public relations; and standards of business conduct. Of course, what is relevant to the definition of business ethics is also the overall ethical thought, which rests on the definition of the basic principles of morality, on the moral relation of man to man, but also of man to society. In the study and evaluation of the value it indicates what should and what should not be done and defines standards of conduct by which people evaluate their and actions of others. Also, it specifies the criteria and rules of moral conduct, with the virtues and duties in practical relation to the world. Moral practice is also very important; it is the starting point for establishing business ethics, with all elements that it consists of. In this unity of theoretical knowledge of ethics and business practice based on the principles of morality in business, one can find basic starting points for defining the subject of business ethics as a distinct scientific discipline.

Starting from the basic principles of ethics and their application to business behavior, business ethics as a separate scientific discipline can be defined as a set of moral norms on the behavior towards the socio-cultural and business environment, to other people with whom one enters into a business contact and to the decision making, duties, obligations, rights and responsibilities in all aspects and areas of business²⁴.

Therefore, the subject of business ethics is a set of moral rules of conduct in all business activities aimed at successful and profitable business. Norms are based on the values that are rooted in fundamental ethical principles, their content is expressed by judgments of the good and bad, successful and unsuccessful business practice, and their goal is to bind all participants in the overall business processes of ethical behavior.

Determined in that way, business ethics is a theoretical discipline that analytically approaches an explanation of different moral views about the fundamental values and ethical principles that are applicable to the entire area of business operations. However, business ethics is a normative discipline since it formulates those standards of value that would be respected in all business relationships. Finally, business ethics is the practical-normative discipline because established ethical rules of business conduct apply in actual practice.

As business ethics has always been strongly influenced by the society and the environment in which it developed, with its organizations and institutions, its

²⁴ S. Rakas, *Uvod u poslovnu etiku*, III izdanje, Megatrend univerzitet, Beograd, p. 113.

culture, habits and values, the society has created an appropriate legal and political environment that has influenced ethics in business. Ethics in business operations was also influenced by human behavior, which is again a product of society and social relations within which the moral attitude of the individual is formed in terms of what is good and right and what isn't. This provides the possible basis of moral behavior of individuals, and that includes respect for moral values in decision making and taking action concerning the respect for what is right and just.

3. Instead of conclusion: global business ethics as part of the future?

The reviewing of formal and content definitions of business ethics, but also proving the fundamental existence of social, and personal responsibility increasingly occupy theoretical thought, but immediate practice as well. Harmonizing its way to the development of society, business ethics too faced the inevitable challenges of the future: which way to go further? Because, despite all the positive signs and developments in contemporary epoch, the present is burdened with so many problems, contradictions and ambiguities which certainly do not predict a bright future to it, neither to society, business, nor business ethics.

Of course, when one mentions business ethics or global business ethics, or just business or global business, some questions arise spontaneously: to what extent can business be ethical, i.e. how far are the individuals moral as compared to the groups in which they work; how much morality there is in the way and style of work; how much in the use of natural, economic, technical and organizational resources, as well as human, of course; in relation to the ownership structure and relationships, principles and management systems; in the relationship with others, all employees and bosses, the quality of work and products; how much morality there is in relation to the wider community, society and state? The answers to these questions are very complex, and no matter what they are or what they may be, they are very debatable. Because if we start from the claim that ethics and business are in close and unbreakable connection one can get to the numerous and verifiable counter-arguments, which the historical development of economic relations is really rich in, and which point to something directly opposite. But we can say that ethics and management have nothing in common, or that economics does not have the need to be moral, because its essence is simply very different. The proponents of this position point out that all those who seek moral conduct in business should 'go to church' and, as they say, 'should deal with religion rather than business'.

In the modern world the dominant view is that business without moral criteria, like economics without ethics, can not achieve any results in terms of improvement of one industry or progress of a society. So it is often spoken of the need to introduce codes of ethics, which, in turn, points to a dilemma: whether business ethics is a matter of the individual or business ethics is the result of

the common ethics of some company, which has at its core the value systems of the environment and the society in which it operates? Whereby one dilemma certainly stands out: in the terms of extremely opposite interests, the battle over world dominance, the deep gap between the rich and the poor, instability of the world economy, energy, raw materials, food, environmental crisis, political and legal crisis, conflicts between civilizations, but also cultures, the crisis of morality – is it possible to establish global business ethics? And whether such global business ethics could be exercised by the current morally unstable individuals?

The answers to all these questions, especially during the global connectivity of the world, but also global problems that are a direct consequence of globalism, are becoming more necessary and require an interdisciplinary approach in their study and research. Perhaps the starting point in this approach would entail the relationship of personal and business ethics particularly in making business decisions in all business activities. Because, there is a fundamental question: how is it possible that personal values, such as trust, honesty, sincerity, tolerance, diligence, and keeping promises and a given word, respect for others and so on, simply disappear when an individual is to make decisions related to money, status, power, profit, benefit, and gain. In fact, why is a man, as an educated, moral, tolerant and fair person in private life, transformed into his exact opposite, when he is supposed to make important business decisions related to money? That question can be asked in a different way: are business people more exposed to ethical dilemmas and moral challenges and therefore much more prone to errors to the detriment of others, than it is the case with other spheres of human life? And that is where the answer may lie, especially in the analysis of individual influence on the working group and vice versa. Because a group can change the notions and attitudes of an individual of moral dignity, moral values, moral standards, in the same way as the individual may alter or reconcile his views in relation to the moral attitude of the group or another individual.

So, in the immediate business practice, all employees inevitably face many challenges and problems, they face many dilemmas, as well as the truths, because the wrong decision can cause great harm and injustice to others, but it can also bring personal gain or benefit to one's company. Therefore, it is said that what decisions will be made, when and to what extent they will be within the frame of business ethics and whether they will have effects of collective or personal gain depends on the moral profile of a manager and his personal sense of fairness and responsibility. This is particularly important when it is known that it is not really easy to harmonize one's personal requirements with collective attitudes. That is why there are many business scandals, serious damage in business, bribery and corruption, various forms of crime, as well as other harmful phenomena.

In addition to the numerous and growing problems that visibly burden, but also determine modern civilization, what especially erodes its foundations is dominantly expressed corruption and immorality in all spheres and aspects

of social life. Corruption, which has existed since the beginning of the world, especially characterizes developing countries where organizations and institutions are still not well shaped for normal functioning, in which the control systems function poorly, which have underdeveloped and poorly organized police, in which widespread criminalization is dominant, and where the reforms do not give the expected results; in these countries democracy has failed to realize its legitimacy and the right to undisturbed existence. These countries also have unstable economic conditions, low living standard, constant reforms of economic and political life are an inevitable side effect, while the petit bourgeois morality becomes the most influential or it does not exist at all. Therefore in all these countries more effort should be put into setting up and implementation of effective legislation, and into those institutions that will properly implement the necessary reforms. On the other hand, one should not lose sight of the role of the state, where both public and private sector deserve equal attention. Of course, what should be noted here and what asks for a great deal of work refers to the creation of new values, since the old, traditional values got lost somewhere along the way. The attention should be paid to the creation of the new or old-new categorical systems of values that would be accepted and respected in behaviour.

However, corruption and all social phenomena that accompany it, is perhaps even more pronounced in highly developed countries. These countries are more vulnerable to scandals and high crime, they are much more associated with the excesses and greed and particularly so at the times of economic enthusiasm that after political and institutional interventions slowly declines; they are dominated by highly unethical behavior and socially irresponsible behaviour is expressed.

In fact, morality should be brought back again as a set of rules of conduct on what is right, and what is wrong, fair and unfair, desirable and undesirable, permissible and impermissible, free and unfree, whereby it should be accurately determined and known what a good deed is, what the values on which the good rests are, and why one should do good without asking why.

Questions and problems relating to economics and ethics get new overtones when the world is viewed in the light of globalization. Because, in this period of social development which is today marked by mutual linking, merging, unification-detachment of humanity, some phenomena become more prominent: international terrorism, environmental problems, illegal immigration, trafficking in people and human organs, poverty and misery, crime, corrupt individuals and unethical management of international financial markets, but also of international legal institutions and organizations. In these circumstances international institutions should be reshaped and directed towards providing more effective global management at all levels. The creation of global business ethics should go parallel with this which will combine ethical needs with social and economic needs.

However, the present denies the future. This is because today's business ethics is created by economically powerful companies or politically powerful public

figures, who have given themselves the right to form generally acceptable opinion that will make people think to their own disadvantage. Consequently, the moral codes created in large companies for the most part direct the employees to the desired behavior within the organization and to the environment, and much less talk about their rights and obligations, both to others, and to the external environment, and especially to the wider community. In this way, a new ethics is created, some people call it the liberal ethics²⁵, which attempts to establish universal norms of desirable business conduct. These standards are thus imposed as the dominant ones, as opposed to the European social democratic practice that seeks to mediate and reconcile the world of labour and the world of capital, by which, otherwise, nothing is changed in the capitalist way of life.

At this attitude one should stop and ask: what makes multinational companies and their management impose their models of behavior, or what makes the governments of particular countries unquestioningly accept everything? Is that excessive accumulation of money, the creation of more wealth, realization and coming to power? Or there is the reason? Or something else? Perhaps quite a simple answer could be given to these questions – that is interest, the power of having everything that someone else has. This refers to the natural resources, money, body, and outer beauty.

Of course, realization of interests is not always immoral; interest can be realized with dignity, with understanding of others, different from oneself. This is From's opinion, according to whom this is the case of a fragile creature, a being who cares for self-respect, dignity, pride, i.e. the being who cares about existence, and not only about possessions. And all this together means that man is actually a moral being; it is a being of moral judgments and moral actions. Starting from this, business ethics could protect human rights by its standards, it could achieve social security, but also define the right to search for happiness, dignity, self-esteem, pride, as well as ecologically healthy environment, and education related to civilization, moral purity, freedom, and good business practice. In order to achieve these conditions, it is necessary to redefine the rights and responsibilities of multinational companies, but also of economically and politically powerful states and exactly in those international institutions and organizations in which they smoothly, by force or not, realize their own interests. Also, it would be necessary to re-evaluate human labor, workers' rights in relation to a fair wage, freedom which without dignity is not really possible. Of course, that should be done also by many governments in relation to new legislation that is necessary, to the moral condemnation or moral praise.

Starting from the basic assumptions, it is possible that greedy businesses should give way to business ethics. Only then it will be possible to put to the forefront all moral principles and standards that emphasize universal moral business

²⁵ V. Velš, *Naša postmoderna moderna*, KZ Zorana Stojanovića, Novi Sad – Sremski Karlovci, 2001, p. 12.

norms by moral code; the primary principle of these norms that lie on respect for all the specifics of individual cultural identities and different moral systems. Only in that way could global business ethics make those assumptions that point to its humane character.

In this sense, the basic elements of global business ethics, or values that could be the basis of universal ethical norms common to all cultures and every type of business might be: justice and fairness, responsibility, both personal and social, solidarity, tolerance, honesty, sincerity, self-esteem, integrity. Of course, one could establish general moral values on this basis, the values related to respect for human rights, equality, freedom, human dignity, democracy, security, respect for diversity; also one could define ethical values in business, and they are related to the trust, taking all kinds and types of responsibility, respect for personal integrity, elimination of all forms of discrimination, including: racial, ethnic, religious, of gender, and age. It should be added that the global business ethics should include the ten principles of the United Nations Global Response to the issues within human rights, labor standards, environmental protection and the fight against corruption²⁶. Namely, within the issue of human rights companies should undertake to support and protect internationally proclaimed human rights and ensure that they violate human rights in no way. In the area of labor standards companies must commit themselves to respect the freedom of association, to recognize in practice the right to collective bargaining; to eliminate all forms of forced or compulsory labor; to abolish child labor, to eliminate discrimination in employment and choice of occupation. In the field of environmental protection, companies must commit themselves to support a proactive approach to environmental protection, to take the initiative to promote a responsible attitude towards the environment and to encourage the development and diffusion of environmentally friendly technologies. In the fight against corruption, companies are obliged to fight against all forms of corruption, including extortion and bribery.

In today's globalized world business ethics has really become an indispensable part of business practice and a prerequisite to achievement of successful business. It has strategic significance for the organization because management is based on ethical principles which enable it to respond to the requirements of all stakeholders, namely: customers, employees, shareholders, and those interest groups that are indirectly related to the organization, i.e: community and the environment, and society as a whole. Is this a reality? Or perhaps a Utopia? And the reality is, perhaps, the fact that successful organizations are those that do not separate ethics from profitability, but successfully harmonize them in their business, while working for the benefit of the whole society. It is normal for organizations in today's global environment and global economy to have responsibility not only for their own survival, but operate in accordance with community and

²⁶ *Global Kompakt Network*, Centar da demokratiju: www.centaronline.org

social circumstances and requirements. Organizations today are conditioned by social responsibility which lies on the fundamental ethical principles. Is this reality or utopia?

And the character profile of every person and every expert, and there is nothing unusual about it, is based on moral grounds, which are built up from the very birth through family, social groups in which he/she moves or through personal life experience. Why should we mention this now? Isn't it normal that in his moral development, through education and upbringing, man should adopt positive values, generosity, civic manners and social grace, to build himself as a being who understands and has his own developed critical attitude towards the complex and problematic ethical situations? Isn't it normal that a man does good, not evil, that he is fair and just according to his conscience, and that he does his best in work, not only to his own benefit, but to the benefit of others?

The crisis of values and crisis of morality are present in today's world. This may be normal because the crisis of morality becomes prominent exactly in turbulent socio-economic times, when the entrenched systems of values change, because they no longer function as before, and the new ones have not yet been profiled. Human nature is such that man likes safety, regularity and predictability. Today's globalized world, in addition to the moral crisis, is disturbed by other numerous crises. Various contradictions, problems and concerns follow it inevitably. In these circumstances there is the crisis in the global economy and on the global market. It is a reality. Where's the exit? In the creation, as an essence of existence, as the primary global business, but also as any other value. That's how profit is, in fact, the result of quality and quantity of human labor - of course, if it is achieved in an ethical manner. Namely, in the process of creating new values, and they may apply to new products and profits, it is neither normal nor ethical for a man to be sacrificed to a purpose, such as the profit to which one can come through extortion and damage of employees' health.

Creativity and work, as a means of achieving human well-being, are the main purpose of man's existence. The man, as the sole bearer of intelligence, vision and development, is the greatest value, both economically and in humanistic terms. Therefore the man has intergated with his system of values what is related to: *I know, I will, I can. And threfore our values, interests, attitudes and habits, our moral system, are essential for our existence and the choice of targets that we aspire to. Perhaps that is why the necessary global moral education is also a humanistic education. A myth or a reality?*

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COMPARATIVE ANALYSIS OF INDICATORS OF INTERNATIONAL COMPETITIVENESS**

Summary

In a global economy, the need for the realization of business activities in the international market in order to achieve and increase competitive advantage is the priority and concern of all economies – developed, undeveloped and transition. In this context, of great importance are analyses of competitiveness indicators, based on which the success of company and industry business can be shown, by comparing numerous macroeconomic (macroeconomic policy, market infrastructure, institutional development) and microeconomic factors (business environment, sophistication of company operations and strategies).

For the purposes of this study we analyzed the different methodologies that contribute to a better understanding of the competitiveness profile of certain countries and how they improve and specialize. Indicators of certain international organizations such as the World Economic Forum, Institute for Management Development, World Bank, European Bank for Reconstruction and Development and Heritage Foundation allow analysis of factors that best represent the performance of economies and the competitive advantages of analyzed countries.

Key words: *competitive advantages, international indicators of competitiveness, international organizations, comparative analysis*

JEL classification: F02, O47

1. Introduction

Starting from the theory and practice of creating competitive advantages for companies in countries with a developed market economy, we can see that competitive advantages are a development phenomenon and a subject of special interest in economic and business circles.

“Competitiveness is the aggregate expression of global characteristics – micro, meso and macro – that are specific for each national economy. Competi-

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tive advantages are a combination of corporate and sector-specific and general national characteristics.”¹ The models that are used for measuring the competitiveness of different countries are based on this definition. The greatest difficulties are posed by comparisons, estimates and evaluations of national characteristics. Among the most sophisticated models for measuring countries’ international competitiveness are those developed by the Institute for Management Development, the World Economic Forum and the World Bank.

In order to perform a competitiveness analysis adequately and reliably, it is of the utmost importance that the concept of competitiveness is well conceived. According to Manić (2008), if the competitiveness analysis is valid, then the indices of competitiveness can help determine standards of comparison between countries. Certain rankings help economic policy creators to shape and evaluate national results in terms of competitiveness, which further helps companies in improving their competitiveness in relation to other companies.

In analyzing different international competitiveness indices, two approaches stand out: the microeconomic and the macroeconomic approach to competitiveness. The microeconomic approach, formulated on the basis of the Porter Theory of competitive advantages, concentrates on the microeconomic factors of competitiveness, based on analyzing the quality of the microeconomic business environment, sophistication of company business and strategy and the degree of cluster development. For the purposes of a more detailed analysis of this approach, the paper presents the methodology of the World Economic Forum.

The macroeconomic approach pertains to macroeconomic competitiveness indices, where results of competitiveness are reflected in economic growth that ensures increases in employment and quality of life. At the macro level, competitiveness is defined as a country’s ability to achieve economic growth more rapidly than other countries and to increase wealth, so that its economic structure changes and adjusts to international trade flows with increasing success.²

In order to adequately understand certain countries’ competitiveness profiles and the way in which they improve and specialize, we will give an overview of different methodologies of competitiveness on the basis of analyses of different international organizations. The goal of the analysis is to determine the causes and differences of certain countries’ competitiveness (or lack thereof), as well as the differences or similarities in the results of an analysis based on “hard” statistical indicators” and “soft” survey data.

¹ M. E. Porter, “On Competition” – Updated and Expanded Edition, *Harvard Business Review*, 2008.

² W. Bienkowski, “How much are studies of competitiveness worth? Some critical theoretical reflections on the issue,” The Second Economic Forum on “New Europe,” Lancut, 28-29 April 2006.

2. International indices and different competitiveness methodologies

Indices produced by international organizations such as the World Economic Forum, World Bank, European Bank for Reconstruction and Development and Heritage Foundation make it possible to analyze factors that best represent the economic performance and competitive strength of analyzed countries, as well as the mutual connectedness of rankings based on various surveys and the consistency of their results.

Also, a broad overview is made of competitiveness evaluations according to the methodology of the Institute for Management Development, which practically wholly encompasses both external and internal factors of competitiveness. However, due to a lack of harmony in ways of data compilation for this methodology, Serbia was not included in this institution's analysis, which means that less will be said in that regard.

2.1. World Economic Forum

According to many eminent experts that deal with the influence and analysis of the competitiveness of economies and companies, such as M. Porter, X. Sala-i-Martin and others, the World Economic Forum (WEF) stands out as the institution that deals with the topic of competitiveness, both on the macro and the micro levels, in the most encompassing way.

World Economic Forum reports are based on company surveys and the same format is used in all countries encompassed by the survey. On the basis of the survey and additional secondary data, countries are ranked by their international competitiveness. In addition to a general index, the study also ranks countries by components that are significant for international competitiveness. This allows a precise identification of the specific advantages and problems of individual countries in a broader context.

National competitiveness is defined by the World Economic Forum (2010) as a set of factors, policies and institutions that determine the level of a country's economic prosperity and productivity, with productivity increase being linked to better use of available factors and resources.

In the words of the WEF's leading figures (2009), this institution has been researching and measuring complex competitiveness phenomena for the past thirty years, and strives to apply the latest theoretical achievements and available practical knowledge at all times. Simply put, at the end of the 20th century there was no critical mass of clear theoretical views and necessary empirical results that would allow such an all-encompassing integration.

The World Economic Forum bases its competitiveness analysis on the Global Competitiveness Index (GCI), which encompasses both micro and macroeconomic bases of national competitiveness. The Global Competitiveness Index starts from the premise that competitiveness is a complex phenomenon, influenced by many factors, which are grouped into 12 pillars of competitiveness (institutions, infra-

structure, macrostability, health and primary education, higher education and training, market efficiency, technological readiness, company sophistication and innovation), organized into three groups (basic, factors of efficiency and innovation). The significance of individual groups of competitiveness pillars depends on the degree of country development, while for middle developed countries (including Serbia), besides the basic factors, *efficiency factors* are of great importance.

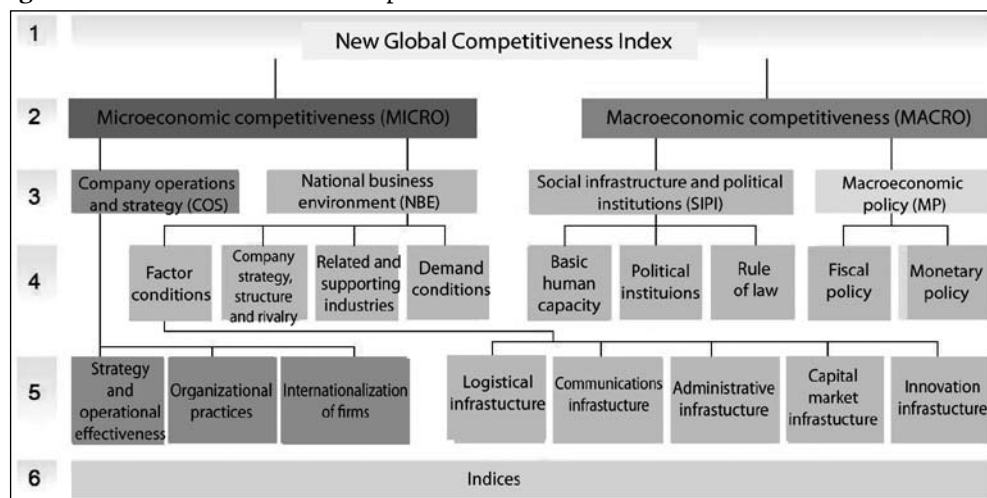
The top ten countries on the list are ranked in the following order by the Global Competitiveness Index for 2009: Switzerland, USA, Singapore, Sweden, Denmark, Finland, Germany, Japan, Canada and Holland.

The GCI ranks Serbia at number 93 out of 133 countries covered by the survey.³ The value of Serbia's competitiveness index equals 3.8 out of a possible 7. The worst results were recorded in the field of basic factors (97th), within which macroeconomic stability had the lowest ranking (111). The best ranking was achieved within the efficiency factors (86), which is highly important, as these are the most significant factors for the development of transition countries.

Since competitiveness stems from and depends on both macroeconomic and microeconomic factors, for the sake of a more complete analysis a detailed review of the New Global Competitiveness Index (NGCI) is also given.

In order to achieve the highest productivity, priority is given to the specificities of a country and its changes over time. The NGCI represents the overall ranking of countries' competitiveness, including all factors. The NGCI is designed to be the best parameter in analyzing the total productivity of all countries. Its indicator grouping is organized hierarchically, so that each part of the model represents the whole, but is also connected to the next level (Figure 1).

Figure 1: *The New Global Competitiveness Index*



Source: World Economic Forum, The Global Competitiveness Report 2008–2009

³ World Economic Forum: *The Global Competitiveness Report 2009–2010*, New York, 2009.

Microeconomic and macroeconomic competitiveness are presented at the second level. Macroeconomic indicators of competitiveness create possibilities for productivity but are insufficient for the achievement of high productivity. Microeconomic indicators of competitiveness directly affect company productivity.

At the third level, ranking is presented at four sub-indices of macroeconomic and microeconomic competitiveness. In the macroeconomic field, indices of *macroeconomic policy* (MP) analyze economic policy that strongly affects short-term fluctuations of economic activity and can have long-term effects on productivity. *Social infrastructure and political institutions* (SIPI) collect indices of multiple general human conditions and institutions. In the microeconomic field, sub-indices cover the *sophistication of company operations and strategy* (COS) and the overall *quality of the national business environment* (NBE).

At the fourth level the subcategories of the third level are formed. In the MP category, indices are grouped into *fiscal and monetary policy*. In the SIPI category, indices are grouped into *basic human capacities* (basic healthcare and education), *political institutions* (decision-making and executive branch efficiency) and the *rule of law* (corruption and legal process efficiency). Within the NBE category, indices bring out four diamond elements: *factor conditions, related and supporting industries, demand conditions and strategy, company structure and rivalry*.⁴

At the fifth level, some fields of microeconomic competitiveness are further differentiated into narrower subcategories. Within factor conditions, indices are grouped by *logistical infrastructure, communications infrastructure, administrative infrastructure, capital market infrastructure and innovation infrastructure*. Within COS, indices are grouped by *strategy and operations efficiency, organizational practice and internationalization of firms*.

2.2. The Doing Business Index of the World Bank

The concept of the business environment is fairly vague. Components of the business environment are numerous. One of the best international comparisons dealing with the business environment is the Doing Business (DB) index series published each year by the World Bank. This report measures business regulations and their enforcement in a large number of countries.

Doing Business 2010: Reforming through difficult times is the seventh annual report of tracking business possibilities and regulations since 2004. This report presents quantitative indicators of business regulations and property protection, comparing 183 countries, from Afghanistan to Zimbabwe.

DB measures the ways in which state regulations of analyzed countries strengthen business activities or limit them. Indicators are used to analyze the

⁴ World Economic Forum: *The Global Competitiveness Report 2008–2009*, New York, 2008.

economic results of regulations and to identify successful reforms, the places where they were successful and the reasons for their success.⁵

The Doing Business index analyzes indicator values by areas:⁶

- 1) *Starting a business* (legal procedures for starting a business, average time necessary to complete procedures, costs, paid-in minimum capital).
- 2) *Dealing with construction permits* (number of all procedures for legal construction, average time spent on procedure, procedure costs).
- 3) *Employing workers* (difficulty of hiring index, rigidity of hours index, difficulty of redundancy index, redundancy cost).
- 4) *Registering property* (legal procedures for property transfer, time necessary to complete procedures, costs).
- 5) *Getting credit* (strength of legal rights index, depth of credit information index, public registry coverage, private bureau coverage).
- 6) *Protecting investors* (extent of director liability index, ease of shareholder suits index, extent of disclosure index).
- 7) *Paying taxes* (company tax payments per year, time necessary to comply, total tax rate).
- 8) *Trading across borders* (necessary documents to export and import, time necessary to perform all necessary export and import procedures, costs of all export and import procedures).
- 9) *Enforcing contracts* (contract enforcement procedures, procedure completion time, costs).
- 10) *Closing a business* (time and costs of bankruptcy procedures, recovery rate).

The methodology of the DB (2009) reports offers several advantages, by using studies of laws and procedures – with inputs and verification by more than two hundred attorneys, construction experts, accountants, business people and public officials that deal with legal and regulatory demands on a daily basis or offer advice on them. It uses factual information on the provisions of laws and regulations and allows multiple interactions with local survey respondents in order to clarify potential misinterpretations of questions.⁷ The relevance of the respondent sample does not present a problem, as the texts of relevant laws and regulations are collected and used to check response accuracy, which allows analysis of a large number of countries.

The top ten countries for ease of doing business in 2009 are ranked in the following order: Singapore, New Zealand, USA, Hong Kong, Great Britain, Denmark, Ireland, Canada, Australia and Norway.

⁵ World Bank: “Doing Business 2010: Reforming through Difficult Times,” Washington D.C., 2010.

⁶ World Bank: “Doing Business 2010, Country Profile for Serbia,” 2010.

⁷ World Bank: “Doing Business 2010: Reforming through Difficult Times,” *ibid.*

According to this index, Serbia was ranked 88th.⁸ As in the previous year, it achieved its best ranking in getting bank credits – 4th place – which is considered to be an exceptionally good ranking even for developed countries. On the other hand, its worst ranking continues to be in the field of obtaining construction permits (174th), which indicates large gaps in the reform process in Serbia, which makes doing business in Serbia more difficult – as the analyzed index confirms.

2.3. European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) defines transition as a process of building market economies, which requires the creation of markets and market-oriented companies and financial institutions, so that competitive interactions between producers and consumers can direct production and investment decisions. Transition also requires a large reorientation on the part of the state from a command and control function in the economy towards the creation of a market and its increased efficiency as the arbiter of economic success and failure.⁹

Since 1989, the EBRD has been analyzing and summing up transition countries' structural and institutional reforms and improvement in their macroeconomic performances. Each year, the EBRD's transition report presents each country's position on its transitional road. Nine transition indicators encompass four main elements of a market economy:¹⁰ *enterprises* (large-scale privatization, small-scale privatization and governance and enterprise restructuring), *markets and trade* (price liberalization, trade and foreign exchange system and competition policy), *financial institutions* (banking reform and interest rate liberalization and securities markets and non-bank financial institutions) and *infrastructure* (overall infrastructure reform).

The EBRD report publishes indicators that show a country's transition progress, and allows comparison across countries. Indicators range between 1 and 4+, where 1 represents small or non-existent changes in transition, while 4+ represents the standards of developed market countries.

According to E. Berglöf, the chief economist of the EBRD report, even though the global economic crisis, whose institutional roots lie in the highly liberalized financial market of the US,¹¹ has brought crisis to the countries in the transition

⁸ World Bank: Doing Business 2010, *ibid*.

⁹ M. Schankerman, P. Aghion, "Growth in Transition Economies: Sources and Obstacles," Transition Report, Growth and Enterprise Performance, European Bank for Reconstruction and Development, London, 1997.

¹⁰ EBRD: Transition report 2009: Finance in transition, 2009.

¹¹ D. Gnjatović, A. Jovancai, "Nestabilnost finansijskih tržišta kao uzrok globalne finansijske krize – momenat Minskog," *Megatrend revija*, vol. 7, no. 1, Megatrend University, Belgrade, 2010.

region, it has also revealed the resilience of the reforms and integration processes achieved during the past 15-20 years.

The EBRD considers that Serbia has progressed significantly in the direction of regional and European integrations during the past several years, and that this has occurred thanks to the strengthening of the financial sector and trade liberalization.

2.4. *The Heritage Foundation Index of Economic Freedom*

The Index of Economic Freedom is produced by the Heritage Foundation (HF), founded in 1973 as a research and educational think-tank, whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government and individual freedom, which are important for individual and national prosperity.

The Heritage Foundation defines economic freedom as each man's basic right to control his work and property. In an economically free society, individuals are free to work, produce, spend and invest in the way they see fit, protected and unimpeded by the state. In economically free societies, the state secures freedom of movement of labor, capital and goods and abstains from compulsion or denial of freedom outside measures necessary to protect and maintain those freedoms.¹²

The Index of Economic Freedom represents an average of ten individual freedoms: *business freedom, trade freedom, monetary freedom, government spending, fiscal freedom, property rights, investment freedom, financial freedom, freedom from corruption and labor freedom.*

The top ten countries according to the Index of Economic Freedom for 2009 are: Hong Kong, Singapore, Australia, Ireland, New Zealand, USA, Canada, Denmark, Switzerland and Great Britain.

According to the methodology that encompasses measurements of the degree of freedom in ten relevant fields, Serbia is ranked 104th, with a result of 56.9% among 179 analyzed countries, which ranks it among "mostly free countries."¹³ Serbia ranks below Macedonia, which is 56th, Montenegro at number 68 and Croatia at 92. Only Bosnia and Herzegovina is ranked worse, at number 110. Serbia showed the best results in the areas of fiscal policy (83.2%) and trade freedom (75.2%), while it was worst in the areas of freedom from corruption (34%) and property rights (40%).

3. Comparative analysis

On the basis of the said methodological approaches of different international institutions, a comparative analysis of competitiveness indicators was performed, on the basis of an analysis of secondary data and Spearman's correlation coefficient.

¹² <http://www.heritage.org/index2009>.

¹³ Ibid.

A comparative analysis of international indicators of competitiveness is based on a comparison of results obtained by the application of different methodologies, the valorization of their advantages and shortcomings and the determined statistical correlation between certain countries' positions regarding different competitiveness surveys and statistical indicators.

The analysis highlights the factors that influence deviations in Serbia's competitiveness rankings as compared to that of other countries in the region: Albania, B-H, Bulgaria, Hungary, Poland, Croatia, Romania, Macedonia, Turkey, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Montenegro and the Czech Republic.

In the analysis shown in Table 1, which compares the rankings of Serbia and selected countries from the region according to different competitiveness surveys for 2009, the best ranked countries are the Baltic countries (Estonia, Lithuania and Latvia), the Czech Republic and Slovakia. Compared to them, B-H, Serbia, Croatia and Albania are the worst ranked.

Table 1: Comparison of the rankings of Serbia and selected countries from the region according to different competitiveness surveys for 2009

| Country | Rank GCI 2009 | Rank DB 2009 | Rank HF 2009 | Rank EBRD 2009 | Average rank | Standard deviation |
|------------|---------------|--------------|--------------|----------------|--------------|--------------------|
| Albania | 16 | 14 | 8 | 13 | 14 | 3.40343 |
| B-H | 17 | 17 | 17 | 16 | 17 | 0.50000 |
| Bulgaria | 13 | 6 | 7 | 7 | 9 | 3.20156 |
| Estonia | 2 | 1 | 1 | 2 | 1 | 0.57735 |
| Croatia | 12 | 16 | 16 | 8 | 15 | 3.82971 |
| Latvia | 11 | 3 | 6 | 6 | 6 | 3.31662 |
| Lithuania | 6 | 2 | 2 | 5 | 2 | 2.06155 |
| Hungary | 7 | 7 | 5 | 1 | 4 | 2.82843 |
| Macedonia | 14 | 4 | 12 | 12 | 12 | 4.43471 |
| Poland | 4 | 11 | 13 | 4 | 8 | 4.69042 |
| Romania | 10 | 9 | 9 | 9 | 10 | 0.50000 |
| Slovakia | 5 | 5 | 3 | 3 | 3 | 1.15470 |
| Slovenia | 3 | 8 | 10 | 10 | 7 | 3.30404 |
| Serbia | 15 | 15 | 15 | 14 | 16 | 0.50000 |
| Turkey | 8 | 12 | 11 | 11 | 11 | 1.73205 |
| Montenegro | 9 | 10 | 14 | 15 | 13 | 2.94392 |
| Czech Rep. | 1 | 13 | 4 | / | 5 | 6.24500 |

Source: Calculated on the basis of data published by the World Economic Forum, World Bank, Heritage Foundation and the European Bank for Reconstruction and Development.

Based on the standard deviation we can see that the biggest deviations are present in the cases of the Czech Republic, Poland, Macedonia, Croatia, Albania and Slovenia, most often in relation to the competitiveness rank of the WEF and EBRD surveys relative to the Heritage Foundation (HF index) and Doing Business surveys. In Serbia's case, competitiveness rankings according to different institutions are almost equal, which can also be seen from the relatively small standard deviation.

For an illustration of the connectedness of the results of different surveys and "hard" statistical indicators, see Table 2. It analyzes statistical indicators by comparing the rankings of Serbia and selected countries in the region according to certain macroeconomic indicators for 2009, which encompass GDP ranking, FDI inflows and share of exports in GDP for 2009. Besides Serbia, larger differences in rankings can also be observed for Croatia, Poland, Turkey and Bulgaria. In the cases of these countries, macroeconomic indicators, which indicate expected competitiveness levels, are significantly better than the competitiveness indices, which are constructed on the basis of different indicators in accordance with certain methodologies.

Table 2: Comparison of the rankings of Serbia and selected countries from the region according to certain macroeconomic indicators for 2009

| Country | BDP rank (PPP) | FDI rank | Export rank | Average rank | Standard deviation |
|------------|----------------|----------|-------------|--------------|--------------------|
| Albania | 15 | 10 | 15 | 16 | 2.88675 |
| B-H | 13 | 13 | 14 | 17 | 0.57735 |
| Bulgaria | 7 | 4 | 7 | 3 | 1.73205 |
| Estonia | 14 | 8 | 3 | 9 | 5.50757 |
| Croatia | 8 | 5 | 10 | 7 | 2.51661 |
| Latvia | 12 | 14 | 9 | 13 | 2.51661 |
| Lithuania | 10 | 11 | 5 | 10 | 3.21455 |
| Hungary | 5 | 17 | 2 | 8 | 7.93725 |
| Macedonia | 16 | 12 | 8 | 14 | 4.00000 |
| Poland | 2 | 1 | 11 | 2 | 5.50757 |
| Romania | 3 | 3 | 13 | 4 | 5.77350 |
| Slovakia | 6 | 15 | 1 | 6 | 7.09460 |
| Slovenia | 11 | 16 | 6 | 12 | 5.00000 |
| Serbia | 9 | 7 | 16 | 11 | 4.72582 |
| Turkey | 1 | 2 | 17 | 5 | 8.96289 |
| Montenegro | 17 | 9 | 12 | 15 | 4.04145 |
| Czech Rep. | 4 | 6 | 4 | 1 | 1.15470 |

Source: Calculated on the basis of data published by the World Bank for 2009.

Further analysis will show the significance of the perception characteristic for research surveys that are largely used in the construction of various institutions' indices in determining Serbia's relatively poor position in surveys of certain aspects of competitiveness. The interdependence of rankings according to different surveys and "hard" statistical indicators is shown in Table 3, as represented by Spearman's correlation coefficient. The data was processed via the SPSS statistical software package.

Table 3: Spearman's correlation coefficient for analyzed indicators for the presented countries

| | | GCI | DB | HF | EBRD | GDP | FDI | EXPORT |
|-------|-------------------------|-----------|-----------|-----------|-----------|--------|--------|-----------|
| GCI | Correlation coefficient | 1.000 | 0.404 | 0.578(*) | 0.688(**) | 0.370 | 0.010 | 0.632(**) |
| | Significance level | . | 0.107 | 0.015 | 0.003 | 0.144 | 0.970 | 0.006 |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| DB | Correlation coefficient | 0.404 | 1.000 | 0.725(**) | 0.629(**) | -0.174 | -0.331 | 0.652(**) |
| | Significance level | 0.107 | . | 0.001 | 0.009 | 0.504 | 0.195 | 0.005 |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| HF | Correlation coefficient | 0.578(*) | 0.725(**) | 1.000 | 0.738(**) | 0.110 | -0.252 | 0.728(**) |
| | Significance level | 0.015 | 0.001 | . | 0.001 | 0.673 | 0.328 | 0.001 |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| EBRD | Correlation coefficient | 0.688(**) | 0.629(**) | 0.738(**) | 1.000 | 0.441 | -0.118 | 0.765(**) |
| | Significance level | 0.003 | 0.009 | 0.001 | . | 0.087 | 0.664 | 0.001 |
| | N | 16 | 16 | 16 | 16 | 16 | 16 | 16 |
| GDP | Correlation coefficient | 0.370 | -0.174 | 0.110 | 0.441 | 1.000 | 0.480 | 0.027 |
| | Significance level | 0.144 | 0.504 | 0.673 | 0.087 | . | 0.051 | 0.918 |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| FDI | Correlation coefficient | 0.010 | -0.331 | -0.252 | -0.118 | 0.480 | 1.000 | -0.473 |
| | Significance level | 0.970 | 0.195 | 0.328 | 0.664 | 0.051 | . | 0.055 |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| IZVOZ | Correlation coefficient | 0.632(**) | 0.652(**) | 0.728(**) | 0.765(**) | 0.027 | -0.473 | 1.000 |
| | Significance level | 0.006 | 0.005 | 0.001 | 0.001 | 0.918 | 0.055 | . |
| | N | 17 | 17 | 17 | 16 | 17 | 17 | 17 |

* Correlations significant at the 0.05 level.

** Correlations significant at the 0.01 level.

Source: Author's own calculations.

Several conclusions can be drawn from the analysis of Spearman's rank correlation coefficient for the presented countries' analyzed indicators:

- Spearman's rank correlation coefficient shows that the interdependence of rankings from different surveys is statistically significant for all indicator pairs.
- Rank interdependence is especially pronounced between macroeconomic indicators of export and the EBRD, with a correlation coefficient of 0.765, which represents a very strong positive correlation between these two indicators.
- There is also a positive stronger correlation between the HF index and the EBRD indicators, with a correlation coefficient of 0.738.
- Among macroeconomic indicators, the link between direct foreign investment and export is very weak, which may also be a result of the beginning of the global economic crisis, when all investment into export expansion dried up; this relationship is shown through a weak negative correlation (-0.473).
- No statistically significant link between GDP and analyzed competitiveness indices has been determined, except in the case of the EBRD, albeit with a weak positive correlation.
- The level of statistical connection between rankings on the basis of direct foreign investment inflows and different competitiveness indicators is disappointing. In fact, there is a weak negative correlation (with the exception of GCI, but only in the sense that it is not a negative correlation), which is also considered to be an effect of the global economic crisis.
- As for the ranking of countries according to share of exports in GDP, there exists a positive stronger correlation with all indices of competitiveness, and especially with the HF and EBRD indices.

4. Conclusion

When two or more different international institutions, on the basis of different measurement instruments and parameters, together with "hard" statistical indicators, come up with similar or at least close results on the state of analyzed countries, their business and their competitiveness, we can make the following conclusions. All the said results indicate as well as obligate countries, especially transition countries and developing countries, to identify problems, to analyze and to try to find solutions that affirm the economy and enterprise and stimulate faster economic growth. The creation of a highly competitive economy is a complex and continuing task for each country that wishes to develop and, in that context, the role of the state in creating an environment that will stimulate

competitiveness is paramount, as that is the way to soften the effects of recession and set the speed of economic recovery.

On the basis of the above, we can conclude that, for the sake of business success in Serbia, it is necessary to perform more active comparisons with the best practices of developed countries and to be oriented towards raising the level of company innovation and productivity, as well as recognizing the potential and the development of one's own competitive strengths and abilities, which stimulate and support international trade and investment in the domestic economy.

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PROSPECTS OF THE TRANSFORMATION OF THE ELECTRIC POWER SECTOR OF SERBIA**

Summary

Since the effective functioning and development of the national economy are not possible under conditions of “belated transition,” inter alia, without the transformation of public enterprises, the goal of this paper is to analyze the economic implications of the business performances of the public sector thus far, identify developmental priorities and consider the consequences of the transformation of the electric power industry of Serbia. The analysis of possibilities and prospects of transformation through the restructuring and privatization of public enterprises in the electric power sector in Serbia is based on a review of previous experiences of transition economies, assessment of potential benefits and identification of the problems of this process. Thus we consider a range of factors that determine the business effectiveness of firms in the power industry sector. The current economic adaptation process of large public enterprises in Serbia was considered with the intention of inducing a stimulative debate on the reform of public enterprises on the road to European integrations.

Key words: *transformation, economy, power industry, development*

JEL classification: L32, O13

1. Introduction

The transformation of public enterprises and their further development is highly important for Serbia, due to the influence of this process on the entire economy. Since public enterprises are the biggest loss-makers and debtors in the state, it is necessary to carry out essential changes in order to enable them to operate under market conditions. The situation is made even more difficult by

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the high degree of fixed asset write-offs in this sector, obsolete technology with a low level of productivity and a permanent illiquidity that is reflected on the entire economy.

In the case of public enterprises, the state's primary role is to, on the basis of strategic economic, security and other state needs, interests and orientations, produce a plan of transformation of all public enterprises that will define the percentage of state ownership of their capital. Most often we are talking about large, overindebted companies, which actually have no capital at all, i.e., whose liabilities are higher than the value of their net assets. These are primarily large systems, with a significant number of surplus employees. The inefficiency of most public enterprises is the main cause of their adverse financial position and loss-making operations. Loss accumulation is primarily a consequence of unused capacities, loss of markets and lack of working capital. Data of the Republic Development Agency indicate that public enterprises, a total of 666 on the national and local levels, employ 164,676 people, possess 34.5 percent of the value of the assets of the entire economy and produce 10.6 percent of the earnings, 9.8 percent of the profits and 7.5 percent of the losses – as shown by an analysis of public enterprise operations for 2009.¹

Republic-owned public enterprises (a total of 16) were profitable in 2009 (with a net profit of 3.7 billion dinars, or 39.8 million Euros). The positive financial result is not just a consequence of the privatization of NIS (the national oil company) but also of the fact that the state telephone operator, Telekom, had profits three times greater than in 2008 (15.5 billion dinars or 165 million Euros). In addition, the losses of five public enterprises of state importance (EPS – electrical power company, Železnice – national railway, JAT – national airline, Resavica coal mine and Putevi Srbije – the state road construction company) were three times lower than in the previous year.

On the basis of the analysis of the Republic Development Bureau, the republic's public enterprises employ a total of 93,532 people, produce 7.5 percent of the total earnings, 8.1 percent of the net profits and 5.1 of the net losses of the economy. Between 2001–2009 salaries in public enterprises grew faster than work productivity. Real growth in 2009 relative to 2001 equaled 72.6 percent, while productivity growth for the same period equaled only 12.2 percent (as compared to 97.9 percent in the rest of the economy). The largest concentration of public enterprise asset value is contained in four companies: EPS, Železnice, Telekom and Putevi Srbije. EPS and Telekom alone possess 63.1 percent of the current assets of the 16 republic-owned public enterprises, or 3.3 percent of the entire economy. Public enterprises are operating under conditions of illiquidity and high indebtedness (9.3 percent of the liabilities of the entire economy). The total liabilities of the 16 public enterprises in 2009 equaled 46.5 percent of their capital value.²

¹ According to: <http://www.naslovi.net/2010-08-01/seebiz/u-javnim-preduzecima-niska-produktivnost-i-visoke-plate/1891484>

² Ibidem.

The above data point to the need to restructure public enterprises, which should be based on introducing competition, i.e., ending monopolies wherever competition is possible, and creating conditions for attracting the capital of strategic partners as well as the private sector through concession agreements and similar arrangements.

As the creator of economic policy and the price regime in the area of infrastructure systems, the state should play the most important role in increasing attractiveness for foreign investors. It can use supplemental mechanisms towards that end, such as systemic concessions, linking of concessionary and other arrangements, selling of capital and similar options.

Particular problems for the state are public enterprises' debts. Expert circles are discussing the possibility of applying the model of converting debt into ownership shares owned by banks and other creditors. The creditors should be additionally motivated by discounts. In most cases, conversion of debt into ownership share is not only a desirable but a necessary model of ownership transformation for public enterprises, in order to improve their rating in negotiations with partners. Reducing the total debt of the public sector would significantly improve public enterprises' balance sheets, thus automatically improving their credit capacities. Public enterprise restructuring should be preceded by a process of determining state priorities and interests, the putting together of balance sheets and the formulation of a development strategy for each individual enterprise.

The fate of public enterprises is tied to their financial consolidation. A major portion of this sector's foreign currency liabilities originates from the 1980s, and these have been since reprogrammed many times. As they came due, these liabilities were transformed into short-term ones and booked in public enterprise balance sheets. Unfortunately, the issue of whether or not the debt write-off and reprogram equally applied to banks and enterprises was not clarified even after the agreement reached with the Paris Club. As the owner of the public enterprises, the state took on the liabilities held by the liquidated banks.

Lack of working capital and development capital are everyday problems for public enterprises. The possibility of securing the said funds through a permanent ownership share would mean the sharing of risk with the investor and would have the character of an irreversible investment. The way to accomplish this is through capital increase, which is additionally stimulated by the legal provision by which all capital obtained in that way is left to the company. Due to existing deficits and the need for securing added revenues in order to cover adjustment costs, the state is interested in selling a part of state enterprises' capital to strategic partners, by defining the location and scope of capital increase, i.e., sale. These facts indicate the necessity of restructuring large public enterprise systems, while respecting and acknowledging economic criteria. Namely, they are in need of an ownership, market, organizational and management transformation, towards the goal of generating profits and further development. Making a

decision on ownership transformation, through change of ownership and constitution of the person of the enterprise's private owner, is a necessary condition for the enterprise's management and organizational restructuring.³

The process of transformation through restructuring has begun in all public enterprises, but with varying intensity and uneven dynamics. In order for the public enterprises to approach world standards, some estimates show that they need as much as 27 billion dollars in investments, most of them in telecommunications, energy and the railways.⁴ The question drawing the special attention of professional and academic circles relates to the possibilities and eventual consequences of the transformation of EPS. Since this is a large economic system that has accumulated losses for years do to lack of investment, some experts think that EPS should first be corporatized, creating a company operating on principles of profit, without elements of the so-called social component. Under such an arrangement, EPS would engage in the production of electrical power, while the state would engage in social policy, i.e., take over care for the poorest population segments by introducing special tariff regimes or providing social aid.

2. Comparative analysis of the efficiency of the economy of the Republic of Serbia and the electric power sector

The effects of the world economic crisis have slowed economic activity growth in Serbia. The basic characteristic of the macroeconomic trends in recent years has been a fall in economic activity caused, before all, by a fall in aggregate demand – both domestic and export. The fall in export demand is a consequence of the recession in developed countries, which has affected the Serbian economy through decreased demand for basic metals, rubber and plastics and chemical industry products, bringing a significant decline in production in these sectors. Although the fall in export demand has been much more pronounced than the fall in domestic demand, its share in overall demand is relatively low, meaning that it is the fall in domestic demand that has dominantly influenced the fall in economic activity. This decline in domestic demand has been primarily caused by a dramatic slowdown of credit activity.

In the 2001–2009 period, Serbia's gross social product – the most important macroeconomic aggregate – grew at an average annual rate of 4.8%, despite registering a moderate fall for the first time in this century – 3% in 2009 – due to the negative effects of the global crisis. Between 2001 and 2010, Serbia's economy had an unfavorable economic growth structure. The main growth

³ N. Cvetković, S. Grgurević, "Stvarno i moguće – poslovni ambijent i reforme u Srbiji 2000–2007," introductory presentation, DEB, topical proceedings: *Poslovni ambijent – efekti na razvoj realnog i finansijskog sektora privrede Srbije*, Banja Koviljača, 2007.

⁴ Report on the Transition in Serbia and Montenegro, Institute G-17, Belgrade, 2005, p. 266.

generators were service activities: commerce, transport, storage and logistics, financial intermediation services, postal-telephone-telegraph services and telecommunications. In addition to these, agriculture and the processing industry also made a certain contribution to economic growth. The share of indirect taxes (minus subsidies) in the formation of the GSP also increased, from 12.3% to 16.3% (to 16.6% in 2007). On the other hand, the sectors of material goods production had below average GAV growth: agriculture at 2.3% annually, the processing industry at 1% (with total industry at 1.2%). Production of GAV grew somewhat more rapidly in the construction sector (about 2% annually). Also, the share of these production sectors in the formation of total GDP fell from the initial 40% in 2001 to 31% in 2007 and 2008.⁵

The direct effect of the said structural deformation is reflected in the increase in the share of the merchandise and services deficit (negative net export) in the satisfaction of total internal demand. As a consequence of lagging production growth and exchangeable goods GAV, export growth is limited and the share of domestic supply on the internal market is substituted by import supply. Serbia's foreign trade is registering a constantly growing trade deficit, as shown by official data for 2010. Namely, *the total value of merchandise trade* is 17.6% higher than in 2009, or 12.7% higher than in 2008. The value of exported merchandise rose by 25.1% (merchandise exports totaled 7,446.9 mil. Euros), and of imported merchandise by 13.6% (imports totaled 12,709.0 mil. Euros). The increase in export is a consequence of increased export of ferrous and non-ferrous metals, as well as agricultural products. In 2010, there was a *deficit of 5,262.1 mil. Euros* in external merchandise trade, which is slightly above the figure for 2009.

By country, the biggest deficit was registered in exchange with the Russian Federation (1230.5 mil. Euros, or 23.3% of the total deficit) and China (982.1 mil. Euros, or 18.7% of Serbia's total deficit in 2010). The largest surplus was registered in merchandise trade with Montenegro (500.1 mil. Euros), Bosnia and Herzegovina (415.0 mil. Euros) and Macedonia (157.4 mil. Euros). Coverage of imports by exports equaled 58.6%, which is slightly better than in 2009, when it equaled 53.2%. By groups of countries, Serbia's most important trade partners were the EU countries, where it exported 4,272.0 mil. Euros in goods, or 57.4% of total exports. At the same time, Serbia imported 6,977.8 mil. Euros worth of goods from the EU, or 54.9% of its total imports.⁶

The second most significant partners are the CEFTA countries, with which Serbia registered a trade surplus of 1090.6 mil. Euros in 2010, as a result of significant agricultural exports (grains and grain products and various sorts of beverages),

⁵ I. Stojanović, "Restrukturiranje javnih preduzeća i problemi nezaposlenosti," *Ekonomski vidici*, No. 4, Društvo ekonomista Beograda, Beograd, 2005.

⁶ <http://www.pks.rs/Privrednasaradnjasainostranstvom/tabid/2324/language/sr-Latn-CS/Default.aspx>

as well as iron and steel. Coverage of imports by exports in trade with the CEFTA countries equaled 203.8%.⁷

The net inflow of foreign direct investments in the January-September 2009 period equaled 1 billion Euros, which was 607 million Euros less than in the same period the previous year. Portfolio investments registered a net outflow of 55.8 mil. Euros, as compared to 59.2 mil. Euros over a comparable period in 2008. Company privatization proceeds in the first ten months of 2008 equaled 79.6 mil. Euros. Worsened company liquidity comes in a situation where the company is making losses, i.e., when its accumulation (realized net profit plus amortization) cannot cover long-term obligations for loans coming due over a one year period. Taking into account the fact that 2.5 billion Euros of long-term loans came due in 2010, while the economy's results were not positive, it is almost certain that liquidity additionally worsened. Especially worrying is the fact that 2.9 billion more Euros of long-term loans are coming due in 2011.⁸

The key precondition for the recovery of the economy and the creation of a stable basis for long-term sustainable economic growth is to base GDP growth on fixed capital investments, for that is the only way to create new jobs and increase the potential of the entire economy and society as a whole.

A constant fall of net profits can be observed in the financial results of Serbia's economy in the 2006–2009 period. The best business conditions and results were achieved in 2006. A significant fall in the economy's net results began in 2007 and, by 2008, Serbia's economy had registered a negative net financial result of over 35 billion dinars, or 400 million Euros. This was further worsened in 2009, due to the effects of the current economic crisis (the economy's net result was negative, equaling 95 billion dinars, or almost 1 billion Euros). This result was most influenced by financing costs (primarily interest, which had a dominant share, and negative exchange rate differences). Growth of financing costs exploded in 2008 and 2009.⁹

The rise in financing costs resulted in a worsened financial position of the economy and the transfer of capital from the economy to the banking sector. Financing costs in 2008 came to more than 470 billion dinars, or almost 6 billion euros according to the average exchange rate in 2008. They were slightly lower in 2009, equaling about 410 billion dinars. The same period also saw significant growth in obligations in the economy (primarily long-term and short-term financial obligations). Long-term borrowing within the economy grew by 30% in 2008 relative to 2007, and by 15% in 2009 relative to 2008, while growth in short-term borrowing was exceptionally high, equaling 70% in 2008 and 2009. The growth of short-term borrowing in

⁷ Ibidem.

⁸ <http://www.porezi.rs/Arhiva/Download/Memorandum.pdf>

⁹ ADM Konsalting d.o.o. Vršac: study entitled "Sector Analysis of the Economy of Serbian Banat (2006-2009/10)," Part of a cross-border cooperation project between Serbian and Romanian Banat: "Analysis of the Competitiveness of the Economies of the Two Banats and Measures for Improving Cooperation," Pančevo, 2011.

the economy is a reflection of the lack of a revolving fund, which means that economic operations were mainly financed by short-term borrowed capital.¹⁰

According to the latest data of the National Bank of Serbia, the number of blocked companies at the beginning of 2011 had increased, equaling 23,609, plus 39,422 entrepreneur shops. Taking into account the fact that Serbia presently has 109,364 registered companies and 221,800 registered entrepreneur shops, it is easy to calculate that every fourth company and every fifth entrepreneur shop are blocked. The total due debt of the blocked companies equals about 227 billion dinars or 2.2 billion Euros. The blocked enterprises are not able to meet their obligations toward suppliers, which reflects on the latter's own business and drags them into the illiquidity chain.¹¹

Serbia's macroeconomic indicators have been presented for sake of comparison with the financial state of the *Serbian Electric Power Company (Elektroprivreda Srbije - EPS)*. The goal is to show that, besides the public sector's inefficiency, Serbia's poor business climate is also a product of stronger inflationary flows, the economy's illiquidity and the contradictoriness of the economic policy creators. All this creates significant obstacles for the arrival of foreign investors.

EPS ended 2010 with a negative financial result of 3.2 billion dinars, which nevertheless represents a reduction in losses of almost five billion dinars compared to 2009. EPS operating profit equaled 13.2 billion dinars in 2010. However, the operating profit was not sufficient to cover other expenditures of 23 billion dinars, including 4.1 billion dinars for compensation of salaries of employees from Kosovo and Metohija and corrected claims for used electrical energy, which had not been collected within 60 days. The achieved financial result is a consequence of palpably higher earnings and reduced costs, as consumption and import were reduced due to the economic crisis, while export increased at the same time, reaching about 60 million Euros in 2009.¹²

In addition to losses, companies from the electric energy sector are also registering a high degree of fixed asset write-offs. If we add to this the fact that these companies have high fixed costs and that many of their capacities have not been overhauled for years, the significance and currency of the said problem become apparent. This is possible to overcome through restructuring, i.e., capital increase.

In spite of the economic crisis, the EU and international financial institutions are prepared to support projects through which EPS would harmonize the work of its facilities with current standards and European directives in the area of environmental protection. However, the said support is risky for the country, due to the obligation to produce the expected results within planned deadlines, which does not depend on EPS alone but, before all, on support from the state. Namely, EPS is the first domestic company that has presented its Green Book to the EU, in mid 2011. This is a strate-

¹⁰ Ibidem.

¹¹ <http://www.sef.rs/makroekonomija/preporuke-za-poboljsanje-likvidnosti-privrede.html>

¹² http://www.b92.net/biz/vesti/srbija.php?yyyy=2011&mm=05&dd=25&nav_id=514295

gic document, the first of its kind in Southeast Europe, presenting the company's results in the area of environmental protection thus far, as well as priority projects for the accommodation of the work of its thermal energy facilities by 2017. "This is an obligation stemming from the ratified Agreement on the Energy Community for South Eastern Europe, according to which EPS became an EU member in the obligations it has taken on but, unfortunately, not in rights. Besides EPS's development projects, the projects that have been presented are the backbone of Serbia's development, as 70% of all problems in the area of environmental protection in Serbia stem from activities of the electric power (energy) sector. As a third of all the country's obligations during the EU accession process represent the meeting of environmental protection standards and regulations, and the electric power sector is responsible for 20% of these obligations, we are not just talking about a company goal, but about a national goal."¹³

Over the last 10 years, in cooperation with EPS, the European Bank for Reconstruction and Development has realized projects worth over 200 million Euros. The EBRD plans to continue its cooperation with EPS, especially in projects related to the use of the latest technologies in the area of environmental protection, increased energy efficiency and use of renewable energy sources. The basis for future cooperation will be EPS's technical potentials, previous projects for which the EBRD provided credit support, and the future law on energy and the position of EPS in the process of market opening.

Work is being done with the EBRD on the project of revitalization and construction of small hydroelectric power stations, worth 45 million Euros, as well as on a 160 million euro project in the "Kolubara" mining basin. It is also expected that this financial institution will participate in financing the construction of the new "Kolubara B" thermal power plant.

Serbia is a very important member of the Energy Community for South Eastern Europe. Ties between the EU and Serbia are growing closer, especially in the economic sphere. Gas supply connections running through Serbia towards the EU are equally important for both partners. In Serbia, energy production is based on thermal and hydro-energy, which currently represents a significant comparative advantage. Towards the goal of reducing carbon-dioxide emissions, the plan is for Serbia and EPS to stimulate energy production from renewable sources. Having in mind the dependence on energy imports from countries outside the EU, it is important that an open and competitive market that will stimulate investment in renewable sources, such as the wind and the sun, is being developed.

Advancement in the development of the energy market is not possible without a state institution that will, on the basis of a clear regulatory framework, allow companies to base their plans on predictable economic conditions, develop new and advanced production technologies and use the model of EU laws. The application

¹³ <http://www.bifonline.rs/tekstovi.item.391/mihajlo-gavri%C4%87-eps-%C5%A0tap-iza-%C5%A1largarepe.html>

of EU laws is exceptionally important for European partners such as the EBRD, the European Investment Bank and other European financial institutions, so that they can continue to co-finance, ensure security of supply and help the economic development of Serbia and the region.

Great challenges are ahead for EPS and the Serbian state in the energy sector, since it is expected that this sector will be the motor of recovery and economic development in Serbia and other countries, and that investments in new production capacities, gas pipelines, oil pipelines and other energy infrastructure projects will be in the function of creating conditions for a stable energy supply of not just this region but the EU as a whole.¹⁴

From a developmental-propulsive system, EPS has devolved into a dilapidated, degenerative reproductive system, as witnessed by the fact that 53% of its energy-producing facilities are over 30 years old. A fundamental reconceptualization, embodied in EPS's ownership, organizational and technical-technological reformation is the path to this corporation's revitalization. A search for solutions outside of this scenario and their reduction to a "naked," unprepared and full privatization and sale is an unacceptable solution, stripped of any future prospects for EPS and its employees. Namely, the sale of EPS and other vital, large infrastructural systems would risk a total destruction of Serbia's economy for the sake of short-term repayment of due foreign currency-denominated debts. As new annuities come due each year, the question is from which sources will these be repaid once "everything is sold," especially due to the fact that the domestic economy is "staying afloat" under conditions of an unprecedented economic crisis.

The ownership transformation of EPS should be carried out through capital increase, which would secure the funds for the already begun strategic projects of construction of two new thermo-electric power plants, "Nikola Tesla B3" and "Koluvara B." As EPS's investment plan anticipates investments of over nine billion Euros for the 2012-2015 period, one of the more important sources of the said investments must certainly come from capital increases on the part of strategic partners as well as credits. The said structure of financing sources for EPS's future investments (production of electrical energy from new capacities) will inevitably bring higher electrical energy prices, i.e., higher electricity bills for Serbian consumers.

Capital increase should be carried out in such a way so that the state retains its majority stake and control, while the growing participation of private shareholders will secure the creation of a desirable climate for public and private investments in this field, which would bridge the problem of electrical energy scarcity. Still, the securing of access to private shareholders, i.e., strategic partners, can help in the building of a local (national) capital market, thereby creating investment conditions that will bring confidence to foreign investors, thus providing an impulse to such a gradual and partial privatization without derogating the role of state policy in the realization of national interests. However, although one of the most impor-

¹⁴ <http://www.eps.rs/novosti/saopstenja.htm>

tant motives for foreign direct investments by strategic partners are modernization and capacity increase, practice has, unfortunately, shown that foreign investors most often buy existing capacities with borrowed funds, especially under conditions of induced financial crisis and local decline of market share values. At the same time, they build expensive new capacities (so-called independent electricity producers), insufficiently protecting the environment and the interests of the local population, and repatriating profits that have been additionally pumped up by state subsidies.

The restructuring of EPS's internal organization should be based on a strengthening of the principles upon which today's corporations are founded. Thus the interpretation that the time has come for numerous state enterprises in developing countries to follow the experiences of similar companies in developed countries and gradually begin searching for markets outside their national borders.

Although the capital increase of EPS by way of its technical-technological reshaping should be secured by "strategic partners," through the purchase of new technologies and increased productivity, attention must be paid to potential problems that call for caution in the said approaches, related to the fact that, as a rule, privatization is followed by massive layoffs¹⁵ and the breakup and reduction of expert teams for maintenance and repair, while statistical data do not show that privatized electrical power companies have achieved greater efficiency. Under the guise of environmental protection, the Brussels bureaucracy has been ordering new EU members to close mines, thermo-electrical power plants and nuclear plants that are necessary for supplementing the production of hydro-electrical power plants at times of high energy consumption, thus turning electricity exporting countries into importers (Bulgaria).

The current decline in economic activities caused by the crisis has temporarily lessened worries related to the securing of reliable energy sources. Gradual economic recovery, for its part, would be accompanied by increased energy demand, which cannot be met without new investments in the energy system. On the other hand, without a secure supply of electricity, investors will not invest in Serbia – and, without new investments, there will be no economic recovery.

3. Consequences of the privatization of EPS

Numerous experiences have confirmed the negative consequences of the entire privatization process, especially that of the public sector. In trying to justify and explain the failures and negative effects experienced by, for example Turkey, proponents of privatization and market regulation are forced to modify their initial assumption about privatization as a cure-all. They offer ad hoc explanations to the effect that the privatization of the public sector in the relevant countries failed only

¹⁵ For example, more than one half of those employed in Australia's electrical power industry were laid off.

because it was premature, as not all the necessary political conditions had been met (desirability, feasibility, credibility).

Experiences of the last decade of the 20th and the first decade of the 21st century have shown that the privatization of state-owned companies and public service systems had either “only partial and limited success” or brought negative effects not only in poor countries but in highly developed ones as well. The limited success and negative effects of public enterprise privatization can best be observed through a comparative analysis of the arguments and promises offered by proponents of the privatization of state-regulated natural monopolies before implementation and the true consequences of privatization in accordance with the recommendations of Hayek and Friedman’s neoliberal theory and the Thatcherite and Reaganomic practice of deregulation, liberalization and privatization.

The most frequent real consequences of implemented privatizations of electrical energy production and distribution can be summed up under several viewpoints:

- 1) The restructuring, privatization and market regulation of national state-regulated electrical power systems can lead to the establishment of private monopolies, large private transnational companies for the production and reselling of electricity, as well as to energy dependence.
- 2) As a rule, after privatization, cartels force increases in the price of electricity significantly above the production price.
- 3) The most profitable parts of state electric power companies are sold below their market value, while the one-time privatization profits are quickly spent on current consumption and repayment of due annuities used for the construction and modernization of precisely those and other companies that were sold at fire sale prices.
- 4) The abandonment of reserve planning for allowed consumption leads to a manipulative limitation of electricity supply at times of great demand, accidents, shortages and blackouts (California, Great Britain, Brazil, Germany, France...).
- 5) At times of electricity supply disruption, private companies resort to state guarantees and financial injections from the budget in order to finance capital-intensive investments in infrastructure.

Reasons for the unfavorable results of privatization of the electrical energy sector, not only on the periphery but in the center of the global capitalist economy, should be sought in the fact that capitalist private property as such has an internal tendency of causing capital hyper-accumulation crises. These are manifested as surplus production, i.e., insufficient consumption due to reduced aggregate demand, amidst a constant reduction in wages in order to maximize profits. The crisis temporarily delays the increased redirection of capital investments from merchandise and service production into the crediting of consumption and financial speculation. The owners of controlling interests and transnational company managers, freed from all control

in accordance with the neoliberal dogma on the self-regulating capabilities of the “invisible hand” of private interest competition on the free market, have ultimately pulled off a multi-billion fraud and robbery through falsified financial statements, as in the case of the Enron transnational energy company.¹⁶

The potential partial privatization of EPS is also linked to considering the possibility of listing its shares on the stock market. The future listing of EPS on the stock market would be based on an analysis of its financial state, its value and the possibility of giving investors recommendations to invest in its shares. Since EPS has been operating at a loss for years, it is thought that the best way for it to be listed on the stock market would be tied to the financing of its development by collecting non-redeemable share capital. Thus, issuance of share capital or capital increase is one of the most important preconditions for EPS to be listed on the stock market under present conditions.

One of Serbia's priorities is to create an environment for private investments in the electric power industry, in order to contribute to the development of a competitive market for selling electricity in Southeast Europe and integration into the European market. In creating a regional market, significant savings can be made if electricity is bought and sold at auctions. For that reason, the process of acquisition and selling of public enterprises should be transparent.

The most frequent promise given as an argument in favor of privatizing the electric power industry is that the distribution or sale of a part of electrical companies' stock to citizens under favorable conditions will bring so-called people's capitalism. However, owners of controlling interests in transnational companies (TNC) and the politicians, directors, media, research institutes and non-government institutions can combine to prevent the inclusion of the public in decision-making concerning privatization (contract confidentiality), conceal the lack of small shareholders' influence on decision-making, induce artificial falls in share prices through disinformation and intimidation of small shareholders and ignore opposition to privatization and criticism of its consequences, sabotage tripartite negotiations at national and industry level, break up the unions by winning over some union leaders with individual collective agreements within certain privatized companies.

EPS expects the support of international companies (Alstom, Siemens, Babcock-Hitachi, Doosan Babcock, Bilfinger Berger Power Services, Rafako, SES, Siloviye Mashiny, Toshiba, ABB, Sulzer, Takraf, Krupp, Areva, Voit, KSB, Litostroy) through their participation in the new investment cycle being launched by EPS, by investing in new power plants in Serbia that would produce for the needs of EPS. These can be either greenfield investments or investments through the privatization of Serbian firms that once produced the necessary quantities. In inviting foreign companies to invest in the Serbian economy, the management of EPS expects concrete plans and suggestion in order to, in cooperation with the competent state authorities, subse-

¹⁶ Dharan, Bufkins, 2004.

quently launch initiatives for creating the legal conditions for EPS partners' more decisive entry and investment in the Serbian economy.

The low business efficiency and the non-economic price of electricity are a consequence of an imbalance between the selling price and the costs of electrical energy production, as well as of losses resulting from an inadequate price policy, the low level of bill payment by consumers and losses in the electrical grid. Under such circumstances, increasing the attractiveness of the electrical energy sector for private investors is tied to the improvement of its financial position through a "depoliticization" of the price-setting process. The question of setting a tariff that covers the price of production should be delegated to an energy regulatory agency, which would inevitably result in reduced losses for the electric power industry, on the one hand, and increased electricity prices, on the other. Therefore, the creation of a profit-making company will bring new social problems, linked to the inability of a large portion of the populace to pay the real price of energy. Under such circumstances, the state should take over care for the poorest population segments, or introduce special tariffs or provide social aid.

Under conditions of a jeopardized electrical energy balance, a secure electrical energy supply and significant delays in paying off obligations toward partners, as well as expected growth in electrical energy consumption by more than 20 percent by 2025, *investments by way of capital increase and rationalization of consumption represent a way to bridge the contradiction between uncollected claims and due obligations*. The state maintains low electricity prices, but must finance from the budget the difference between the economic price and the true (social) price in order for there to be electricity at all. In such circumstances, the question is – whence does the state get the money? Money can be obtained by increasing taxes, which will cause a reduction in investment activity and employment, growth of GDP, and a fall in the purchasing power of the populace, which will be left with even less money to pay for electricity. There is, thus, essentially no way out without new investments and growth of GDP, employment and the population's purchasing power. All else are just palliative measures.

In the absence of investments, Serbia will fast become a major importer of electricity at high prices, while EPS might lose a portion of the domestic market. For these reasons, the development of EPS should become a state priority.

Rationalization of consumption is the first, the most urgent and the most economical measure for balancing needs with EPS's production capacities. In cooperation with competent ministries and state institutions, it is necessary to undertake appropriate measures and activities that will contribute to a lower consumption of electrical energy for heating and more rational consumption (improved isolation, improving consumer meters for the purposes of consumption management and improving services, consumer education through information programs and media campaigns, etc.).

4. Conclusion

The restructuring of public enterprises and their further development are of great importance for Serbia because of their effect on the entire economy in case of eventual social, political and economic problems. There is a high degree of agreement that essential changes are necessary in order to enable public enterprises to operate in market conditions. The goal of restructuring public enterprises is to improve their management and efficiency, making them more attractive for domestic and foreign investors. As this is far from an easy task, it is not surprising that there are various expert opinions and debates regarding the way and degree of public sector transformation and the expected effects, especially when it comes to large companies that represent entire industries, such as the electric power industry, the oil industry, forestry, etc. These public enterprises most often enjoy a monopolistic market position, and offer services necessary for the normal functioning of the population. A problem that particularly “endangers” public enterprise operations is the need for large investments, whose period of return on capital ranges between 10 and 30 years, which, in turn, carries numerous risks.

The restructuring of the energy sector brings some unavoidable risks, in the first place reduction of excess numbers of employees and changes in the decision-making process. Managers must be capable of running the company in a changing international environment. The restructuring of EPS should be a thorough and gradual process. For example, their international structure will change along with a concomitant increase of their interest in opening up to private shareholders and increased independence from excessive influence on the part of the public factor.

One way to increase the efficiency of the electrical energy sector is to attract foreign direct investments. This will create conditions for resolving mounting economic problems during a time of global economic crisis. Foreign direct investments are a vehicle for establishing long-term partnerships and confidence, which are gained only under conditions of a favorable investment and business environment. Towards that end, it is necessary to link the strategy of the investor country with the strategy of the global companies that are making the investment decisions.

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CORRELATION BETWEEN ECONOMIC, CORPORATE AND NATIONAL SECURITY**

Summary

The economic relations within the production and distribution process are among the most important relations in society, for they determine a country's social and political order, its population's quality of life, the level of development of its national security system, and the country's economic and political influence in international relations. All this makes them an important factor of national security.

The national economic system is evidently in the function of all other state resources and areas of social life. Its development and protection are vital national priorities and interests for every modern state that strives for economic stability, independence and security. That is why the national economy is protected from dysfunction, stagnation, regression and all other threats to the social relations in the production and distribution process. This is achieved by means of national economic policy and penal legislation, which are carried out by specialized state organs as integral components of national security policy. At the same time, the protection of property, business activities and employees is in the domain of specialized state and other security actors that comprise the so-called corporate security sector.

This paper touches upon the development of the theory and practice of economic security, as well as the relationship between economic, corporate and national security. Special attention is paid to the risks and threats to economic and corporate security, as well as their effect on national security. Finally, measures for enhancing economic and corporate security are proposed.

Key words: national values, national interests, national security, economic security, corporate security

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1. Introduction

National security is the oldest security concept, according to which the focus of security is the state, i.e., its “survival,| vital values (sovereignty, territorial integrity, political independence, state survival, national unity and the national economy) and state interests in foreign policy, which are protected from direct threats coming from other states. The primary means of (self)protection of states is their “strength,” which generally refers to military, followed by economic power. That is why this concept is also referred to as the *state-centric* approach to security.¹

The contemporary – expanded understanding of national security is a synthesis of citizens’ security and state security, as well as the state’s contribution to international and global security. It assumes a state of unhindered realization of the development, enjoyment and optimal protection of national and state values and interests, which are attained, maintained and advanced by the function of citizens’ security, the national security system and supranational security mechanisms, as well as an absence of (individual, group and collective) fear of their endangerment, and a collective feeling of tranquility, certainty and control over the development of future phenomena and events of significance for the life of society and the state. The values that are protected within this state are, in the first place, the peace, freedom, rights and security of people and social groups; quality of life, national unity, dignity, pride and identity; a healthy environment; energy stability, economic and social prosperity; information resources; the legal order and the rule of law; territorial integrity; the political independence and survival of the state and society. The referential interests are in the function of the referential values.²

¹ The traditional concept of national security is based on the *Doctrine of Inviolable Sovereignty*, which dates back to the Peace of Augsburg of 1555, the year in which the sovereign gained the right to decide his state’s religion (*cuius regio, eius religio* – whose realm, his religion). This right was confirmed and revised by the Peace of Prague of 1635 and the Peace of Westphalia of 1648, which ended the Thirty Year religious war between Catholics and Protestants in Europe. Thereafter, European rulers refused to recognize the secular power of the Roman Catholic Church, replacing the medieval system of papal power with geographically and politically separated states that recognized no higher authority. The newly liberated lands were granted equal legal rights: a territory under their exclusive control, unlimited control regarding questions of domestic policy and economy (internal sovereignty) and freedom to conduct foreign policy, economic relations and to conclude agreements with other states (external sovereignty - independence). See: J. S. Jr. Nye, *Understanding International Conflicts: An Introduction to Theory and History*, Longman, New York, 1999, p. 207; K. J. Holsti, “States and Statehood,” *Perspectives on World Politics* (eds. Little, R. – Smith, M.), Routledge, London – New York, 2006, pp. 17-23; A. Heywood, *Political Ideas and Concepts – An Introduction*, MacMilan Press LTD, London, 1994, p. 49.

² For more details regarding the “transition” of the concept of national security, see: S. Mijalković, “Nacionalna bezbednost – od vestfalskog do posthladnoratovskog koncepta,” *Vojno delo – opštevojni naučno-teorijski časopis*, No. 2, *Ministarstvo odbrane Republike Srbije* (Ministry of Defense of the Republic of Serbia), Beograd, 2009, pp. 55-73.

Thus, the national economic system is a vital national value, while its protection and advancement, as important needs, benefits and advantages of special significance for the survival of the nation – are a national interest.

This is additionally confirmed by the fact that, besides military power, economic power is a traditional “lever” of national security and the state’s role in the international community: economic power is to a large measure “adaptable,” meaning that it can be easily transformed into military power – money buys arms, while the work force can be redirected from the civil sphere to the military industry and military service; thus, wealth can be equalized with the potential for military mobilization. In addition, economic power can also be viewed as an achievable functional substitute for military power, for both offensive and defensive purposes. Economic wars, blockades and sanctions are applied with the goal of disabling the enemy country’s economy and, indirectly, its military potential. Also, economic power can give a huge contribution to national security by, in case of economic warfare, making the country invulnerable. For this reason it was thought that “economic self-sufficiency” (economic independence, i.e., the existence of sufficient domestic raw material and production capacities and a sufficient domestic market, i.e., economic independence from imports and exports) is a means of successful defense, i.e., of national security.³

This is why the national economy has the status of a “high security issue” in the theory and practice of national security. One of the consequences of this is also the development of the concepts of economic and corporate security, as integral components of national, as well as human and international security.

2. Economic and corporate security as national security sectors

It is doubtless that the national economy is a vital social and state value: it is necessary for the survival, development, everyday functioning and progress of state and society. Its importance for citizens’ social security and the development of a national security system is evident. At the same time, economic power is one of the determinants of national power that define a state’s position on the international political-security scene. This certainly justifies the fact that economic policy is an integral component of the modern state’s national security policy, which is the current orientation of the Republic of Serbia as well.⁴

³ B. Møller, “Nacionalna, socijetalna i ljudska bezbednost – Opšta razmatranja sa prikazom balkanskog slučaja,” *Ljudska bezbednost*, No. 1, Fakultet civilne odbrane, Beograd, 2003, pp. 44-45.

⁴ See: *Strategija nacionalne bezbednosti Republike Srbije*, Beograd, april 2009 (from the official web site of the Government of the Republic of Serbia: www.srbija.gov.rs); G. Milošević, S. Mijalković, “Nacionalna ekonomija kao faktor nacionalne bezbednosti – slučaj Srbija,” *Suzbijanje kriminala i evropske integracije*, Kriminalističko-policijska akademija – Hanns Seidel Stiftung Belgrade, 2010, pp. 414-423.

The national economy is not and does not represent a simple sum total of economic values. Its goal is to: explain the way in which society makes decisions about the production, consumption and exchange of goods; offer knowledge and answers regarding questions related to why the economy functions, how it functions, how it reacts under changed circumstances, when it reacts and under what conditions.⁵

In fact, the national economy encompasses a number of activities pertaining to the production and distribution of goods and the provision of services necessary for people's lives and the functioning of society and the state. Production is prerequisite for a society's survival and a stimulant through which are satisfied human needs for goods and services that are constantly renewed and multiplied. Starting from production as the initial process, the question of the limited nature of economic resources inevitably arises. Limitedness of resources is an indicator of an economy's limited production capacity. Economic choice under conditions of limited economic resources demands rational allocation, since resources can be used in alternative ways. From the aspect of the national economy, resource allocation is possible through the application of alternatives: the market and state interventions.

The goal of production is consumption, i.e., the satisfaction of various human and social needs. Distribution appears as a necessary intermediary between production and consumption, because it determines the quantity of products and services used for the satisfaction of the needs of individuals, groups and communities, as well as for the continuation and expansion of the production process. It is performed both directly and indirectly, through different forms of exchange and commerce. The market is an ordered space established by people, within which a free exchange of goods and services takes place.⁶

The relations within the process of production and distribution are the most important social relations because they determine society's vertical stratification, its social and political order. That is the reason why they are not left to themselves, but are subject to organized ordering and guidance. Such systematically ordered relations, based on the form of ownership over the means of production, make up a *country's economic system*. This is a specific complex of institutions and human relations within which scarce resources are used with the goal of satisfying various private and public needs for goods and services. Serbia's economic system is based on social, state and private ownership over the means of production.⁷

⁵ G. Milošević, N. Golubović, "Ekonomska aktivnost i društvena struktura – društvena ukorenjenost ekonomske aktivnosti," *Ekonomске teme*, Ekonomski fakultet, Niš, 2009, p. 70.

⁶ G. Milošević, *Osnovi ekonomije*, Kriminalističko-policijska akademija i Hanns Seidel Stiftung, Beograd, 2007, p. 60.

⁷ *Ekonomska i poslovna enciklopedija*, Savremena administracija, Beograd, 1994, pp. 1209-1210. According to the Constitution of the Republic of Serbia (Art. 82, "Official Gazette of the RS," no. 83/2006), "the economic system in the Republic of Serbia shall be based on a market economy, an open and free market, freedom of entrepreneurship, independence of business entities and equality of private and other types of assets. The Republic of Serbia shall represent a unique economic area with a single commodity, labor, capital and services market."

Due to its above-mentioned significance, societies and states protect the national economy from dysfunction, stagnation and regression, as well as all other threats to social relations in the process of production and distribution. This is achieved through national economic policy, penal legislation and corporate security mechanisms.

Economic policy's areas of interest are a country's economic development goals, the actors that are its agents (and whose interest is built into the goals), and the instruments for its realization. The object of economic policy activity is, globally speaking, the social reproduction process. Its basic goal is the reproduction and the constant increase of a given society's material wealth. Economic policy is the vehicle for achieving economic goals, but it can also serve the accomplishment of other goals. These other goals, which can be achieved through the use of economic instruments, may be: social, political, health-related, cultural, demographic, security-related, etc. Thus, the state cannot achieve its role in the economic sphere unless the demands of the citizenry and the social community in other spheres of needs are satisfied to a sufficient extent.

The national economic system is evidently in the function of all other state resources and spheres of social life. Because of this, and primarily due to their significance for the security system, the development and protection of the economic system certainly represent vital national priorities and interests for each modern state that strives for economic stability, independence and security.

Economic security is the protectedness of economic potentials from physical endangerment, and an absence of threats that might threaten economic stability and independence.

Economic stability assumes a consistent, regular functioning of the economic system, i.e., the attainment of the desired and planned state of economic development, and its permanent protection and the protection of the interests of its producers and users (consumers).

Economic autonomy assumes independence from foreign economies (imports), international donations and aid. We are talking about a degree of *economic independence*, i.e., *self-sufficiency*, which is a national interest for many countries. Of course, such tendencies should not transform into so-called *economic nationalism (isolationism)*, economic autarchy that renounces imports and exports. That would be a risk for national security, having in mind the need to establish a single international economic order within which economic resources and products would be exchanged in accordance with clearly defined rules. This is all the more the case when we know that *economically underdeveloped* and *dependent* nations and states, which must satisfy their own and their populations' needs through imports, do not have the capacities and power to be on an equal footing in international relations with wealthy and developed countries. As a result, they are more prone to making concessions as a result of pressure and blackmail, which is reflected on all levels of their state security. This is especially apparent in the context of the possibility of *economic crisis*, whose consequences might be "catastrophic," in the form of ram-

pant unemployment, poverty, hunger, disease, social unrest, international conflicts, etc. Economic security is in many ways conditioned upon the level of *information development and security, the country's technological development and energy security*. A state's ability to efficiently satisfy its own energy needs with its own sources of energy also allows it to achieve unhindered economic development, as it is clear that "there is no economy without energy." The digitalization and automatization of production and energy facilities are obvious prerequisites for the development of a country's economic and energy power. And the reverse: poor countries are not materially capable of devoting greater attention to technological development and are, thus, oriented towards traditional production techniques. As a result, the rich become even richer, and the poor even poorer, adding to the gap between the "prosperous North and West" and the "impoverished South and East."

The economic security of importing countries depends on the political-security stability of exporting countries. At the same time, countries' economic dependence can make them vulnerable to the use of various types of force against them, such as economic sanctions and political conditionality. This further indicates that economically independent countries are also economically secure, but that national economic security often depends on a country leadership's political skill as well. Thus, energy dependence reflects on a country's political power and represents a security threat to the country and its citizens, while economic crisis leads to political crisis. Economic factors are directly correlated with diplomacy and, thus, with national and international security: the "economic connecting" of countries through various trade-service arrangements is one of the methods of "connecting countries and nations through economy," which is an unquestionable guarantee of national and regional, i.e., political and geopolitical security.

The sector of so-called *corporate security*, i.e., the security of economic entities – corporations, was developed in order to more efficiently protect economic values. It encompasses the autonomous or combined activities of the specialized services of corporations and state and non-state security actors in the spheres of: physical and/or technical protection of persons, property and business operations; security (physical, technical and counterintelligence) protection of intellectual property and accompanying rights, business and other secret data; fire and anti-terrorist protection; security of personnel, material-technical systems and operations in emergency situations caused by human, natural and technical-technological factors; environmental protection, etc.

In the countries of the global North and West – and this is rapidly becoming our own reality as well – corporate security is, besides private military companies and investigative-detective activities, a dominant sub-sector of the non-state security sector, better known as "private security" or the "security industry." Its primary mission is to protect the security of property, business operations and employees in certain economic entities, as well as to provide other security services.

The goal of the mechanism of corporate security is at least twofold: protecting one's own interests and improving one's personal position in the domestic and international competitive economic environment, as well as allowing society and the state to satisfy their own needs.

3. Economic coercion against the sovereign state as a threat to the national economy and national security⁸

Coercion against a state is an instrument that excludes that state's aims: it is not stimulated towards the desired behavior but, rather, forced to it by the coercing party, which may also perform the desired actions in its place. In reality, coercion is a combination of direct physical pressure combined with serious threats, aimed at totally disabling the coerced party's resistance capacity. Thus, there is no sharp boundary between coercion and the effects of a serious threat or punishment. The prohibition of the use of force in international relations by international law does not presume an absence of force. In the form of policy of force, coercion is a constant in international relations, which has contributed to the development of a number of international security concepts.⁹ Coercion can be military, political and economic.

Economic coercion measures assume that one or more countries or international organizations are making threats against a country or group of countries, by letting them know that it/they will prohibit imports of its/their goods, services, rights and capital, its/their exports, or both, or prevent it/them from disposal of its/their resources abroad (*economic pressures*), or adopting and implementing measures for preventing imports and/or exports and from disposal of its/their property abroad (*economic sanctions*), in order to, by way of potential or real economic harm or impoverishment, force it/them to make the demanded political concessions.

Economic pressures are manifested in the form of threats and a policy of conditionality – blackmail and extortion. In connection with that, cooperation with the state and its economic entities is obstructed, and the conditions under which it can participate in the international economy are made more complicated and difficult, as is the obtainment of financial preferences or credits from international finan-

⁸ The imposition of economic sanctions against our country in 1992 brought numerous negative consequences for the country's economy: during the first months of sanctions, as their direct consequence, industrial production fell by 40%. Official and registered foreign trade fell to 10 to 15 percent of the pre-1992 level. Foreign trade was reduced to humanitarian aid and individual cases of food imports. The remainder was left to sanctions violators and the black market. The loss of foreign markets and of the markets of the former Yugoslavian republics brought huge losses to Serbia. Per capita social product in 1993 fell below 700 USD, i.e., to only 30% of the value of the social product in 1989.

⁹ V. Dimitrijević, R. Stojanović, *Osnovi teorije međunarodnih odnosa*, Službeni list SFRJ, Beograd, 1977, p. 256; S. Mijalković, "Bezbednost države i koncepti međunarodne bezbednosti," *Defendologija*, No. 25–26, Defendologija centar za bezbjednosna, sociološka i kriminološka istraživanja, Banja Luka, 2009, pp. 69-83.

cial institutions, signed agreements are cancelled and disadvantageous ones offered, special, additional and unusual contract performance guarantees are demanded, funds and property are frozen abroad, and the targeted state's air and water traffic and transport are limited.

Economic sanctions are most often manifested in the form of: embargo, when the country is blocked from importing; *boycott*, when the country is prevented from exporting, and *economic blockade*, in cases of simultaneous application of measures of embargo and boycott.

Embargo is the term used in jargon to denote measures of international economic coercion. In the broadest sense, an *embargo* represents a prohibition, while in international relations it represents a prohibition of shipping and commerce with a certain country or countries. It can be either civil or aggressive. A civil embargo is an order by which a certain country prohibits vessels sailing under its flag from landing at specified foreign ports and conducting trade with a specified country. An aggressive embargo is one in which an economic blockade is imposed against a specific country and when access to foreign ports is not prevented solely through the civil disciplining of the citizens of a specific country, but when those under other flags are also prevented from access to certain ports.¹⁰

The effects of economic pressures and sanctions are often disastrous for a country's economic system (fall in production, obsolescence of production technology, loss of foreign business arrangements and strategic foreign partners, inability to buy raw materials for manufacturing or to sell products, artificial creation of economic dependence) and, indirectly, for the quality of life inside it (decline in the social product and gross national income, poverty, unemployment), the country's military and defense capabilities, internal security (social unrest, anti-government pressures, rise in crime and its internationalization), etc.

Economic coercion is a consequence of abuses of mechanisms of political power, decision-making and influence vis-à-vis the targeted state, for the sake of achieving the aims of the party applying or instigating the pressure. Most often, it is applied in order to force political decisions and views regarding the needs and ways of resolving an important internal or international security issue, or to obtain certain political concessions (such as political changes in the state order, policy or government, fulfillment of concrete demands) by breaking a country's leadership through a policy of intimidation and conditionality.

It is carried out *directly or indirectly*. Directly, it is carried out either by states or state alliances that have the appropriate "capacities," i.e., political power stemming from military and economic power. Indirectly, it is carried out by weaker states that are "hiding" behind stronger states or alliances to which they belong due to their "modest capacities." Similarly, international organizations are often instrumentalized, controlled and abused for the purposes of exerting pressure on certain states.

¹⁰ *Mala politička enciklopedija*, Savremena administracija, Beograd, 1966, p. 287.

They are most often preceded by public statements, threats, warnings and conditionings, advice and instructions from high officials of states, international organizations, international missions, negotiating and observer bodies at public forums, debates, meetings, sessions of parliamentary bodies of international organizations, or diplomatic meetings that frequently receive media coverage. That is the way in which, “elegantly and politely, openly or symbolically,” messages with the effect of political and economic pressure are sent.

So-called *double standards* are used to “legalize” economic coercion, i.e., present them as legal methods, even measures that are beneficial for the targeted country, as they are supposedly helping it solve internal problems. The double standards are reflected in different interpretations of international law and in different reactions to equivalent cases from different states’ security practice.

From the point of view of the coercing party, the coercion has succeeded if, after a certain amount of time, the other side, while essentially unchanged, accepts the demands it had initially rejected. If that is not possible, the coercing party will seek to cause such changes with the coerced party as to push to the surface decision-makers that are ready to make the demanded concessions.¹¹

We have unhappy memories from recent history (1992-1995), when the Federal Republic of Yugoslavia was the victim of most unscrupulous economic sanctions, which greatly and for the long term damaged the country’s economy and standard of living. After the change of power in Serbia in 2000, through the process of privatization, our exhausted and impoverished economic system was placed at the mercy of companies and investors from the very countries that had applied the measures of economic coercion and armed aggression against Serbia.

4. Economic crime as a threat to the national economy and security

Economic crime encompasses criminal behavior and activities that originate in economic relations and in connection with these relations in both economic and non-economic activities. It is directed against the economic system, regardless of the forms of ownership within it and, as such, sanctioned by penal legislation.¹² It represents an increasingly significant sector of organized crime.

Illegally accumulated economic power is a strong lever for expanding influence in all spheres of social life, especially for achieving criminal goals through infiltration of legal economic flows.¹³ This makes contemporary economic crime extremely destructive, which is confirmed by its basic features: parallel use of criminal and legal methods in economic relations for the purpose of achieving criminal goals;

¹¹ V. Dimitrijević, R. Stojanović, *ibidem*.

¹² M. Bošković, *Kriminalistika metodika*, Policijska akademija, Beograd, 2005, p. 285.

¹³ G. Milošević, “Evazija poreza,” *Nauka – bezbednost – policija*, Kriminalističko-policijska akademija – Hanns Seidel Stiftung Belgrade, No. 2, 2006, p. 67.

existence of criminal organizational models that can be ordered according to functional and market principles, the building of crime networks adjusted to the needs of functioning on the criminal market and within legal economic flows; evolution of criminal methods that have contributed to its sophistication, through the use of expert knowledge in criminal operations; a profit-making orientation in the realization of continual legal and illegal economic activity; adaptability to the needs of legal and illegal markets; the finding of new profitable areas in economic-financial operations that are open to criminal exploitation; multitude and variety of phenomenal forms, adjustability to tendencies in economic-related legislation and models of behavior of competent state organs devoted to the suppression of organized economic crime; disguised forms of activity (the “aura” of successful businesspeople with good contacts in politics, sport, state organs, political parties, media, etc.) and a tendency of acquiring economic and political power and influence over social flows in the service of personal criminal goals.¹⁴

Contemporary criminal organizations are profit-oriented and market-based which, along with a combination of criminal methods and methods of contemporary business organizations, endows them with professionalism and efficiency of action. The penetration of organized crime into economic activities is evident, as is the commitment of economic crimes with elements of organization. Penetration into legal economic flows allows the “learning” and abuse of contemporary business techniques, contributes to sophistication of operations and expansion of spheres of influence. The economic power of organized crime is used for gaining political power, while political power is, in turn, used for the achievement of criminal goals. In this way, economic crime is becoming a threat to national and international security. Its internationalization is making its effects increasingly harmful, because it is able to adjust quickly to the conditions of the international economic environment. This gives it the opportunity to access global economic flows, various criminal markets and off-shore financial centers, as well as increased capacities for evaluating risk of criminal prosecution for individual categories of already committed or planned crimes.¹⁵

“Dirty money” allows the inclusion of criminal organizations in legal economic activities and the corruption of state organs. This conceals criminal activity, its nature and origin and the existence of illegally gained resources, i.e., allows the unobstructed enjoyment of criminal proceeds. This endangers the economic system and market competition, and affects economic, political and social flows on the national and international level. In using legal business structures and accepting the business world’s rules of behavior, the structure of criminal organizations becomes

¹⁴ See: L. Paoli, “The Banco Ambrosiano Case: An Investigation into the Underestimation of the Relations between Organized and Economic Crime,” *Crime, Law and Social Change*, No. 23, Netherlands, Springer 1995, pp. 345-364.

¹⁵ L. I. Shelly, “Transnational Organized Crime: An Imminent Threat to the Nation-State,” *Columbia Journal of International Affairs*, No. 48, Columbia University, New York, 1995, p. 464.

similar to that of legal business actors. Not infrequently, legal business organizations find themselves under pressure of competition from the underground, which compels them to use illegal methods. This is the phenomenon of organized crime's symbiosis with "white collar crime" and "criminal corporations."¹⁶

Economic crime is a threat to many countries that are carrying out economic reforms through privatization. Criminal organizations are able to force out legitimate buyers of state-owned companies from auctions by offering more (*dirty*) money and using blackmail, violence and corruption. Through the acquisition of companies, criminals increase their potential for added criminal activity and corruption, while denying the country in question a legitimate, market-based, tax-paying company.

The proceeds from economic crime are deftly pushed through national and international financial systems, which they undermine in an efficient way. Especially significant are the economic and social consequences in transition countries. Their markets are most often small and more vulnerable to disruptions that can occur as a result of criminal activity. Their vulnerability is particularly pronounced due to: insufficiently developed institutions of their economic-financial system; the inability of their financial institutions to use measures for identifying and preventing concealment of the origin and investment of criminal profits; a low level of implementation of measures for suppressing organized crime or their insufficient or selective implementation; inefficient punishment, including difficulty in executing provisions on the confiscation of illegally gained profits, and the low level of training and expertise of organs responsible for the suppression of economic crime, which are, in addition, often insufficiently developed.¹⁷

Economic crime generates even more crime and corruption, increasing the degree of use of bribery at "key gates of the system," such as employees and management of financial institutions, attorneys and accountants, legislative bodies, agencies for the implementation of laws, supervisory institutions, police authorities, prosecutors and courts. It has a negative influence on a country's financial security and the stability of its financial institutions, primarily the banking sector, securities brokerage firms, insurance companies and investment management companies. Loss of profitable business operations; problems with liquidity as a result of funds withdrawal; disruption of correspondent bank options; costs of investigating problems; confiscation of funds and punishment; loan losses; reduction in the total value of financial institution shares; endangered business reputation, loss of confidence in institutional integrity and business closure – are just some of its consequences.¹⁸

¹⁶ G. Bošković, "Organizovani kriminalitet i legalno poslovanje," *Organizovani kriminalitet – stanje i mere zaštite*, Policijska akademija, Beograd, 2005, p. 596.

¹⁷ B. L. Bartlett, "Negative Effects of Money Laundering on Economic Development," Economic Research Report for Asian Development Bank, Asian Development Bank, Manila, 2002, p. 31.

¹⁸ R. Bosworth-Davis, "Living with the Law: A Survey of Money Laundering Reporting Officers and Their Attitudes towards the Money Laundering Regulations," *Journal of*

The use of business entities that appear legitimate and are supposedly engaged in legal operations (so-called *front companies* – which are not active and are not located at their registered address) mixes together illegal and legal funds in order to “mask” illegally gained profits. “Dirty money” is used to subsidize products and services, even at prices lower than the market ones. The only goal is to preserve, protect and legalize illicit funds, not to produce at a profit. As a result, legitimate companies have a difficult time competing. At the same time, criminal profits are used to control entire industries or economic sectors of certain countries, which increases their monetary and economic instability. Organized crime’s penetration of legal financial flows allows their use for the purposes of tax avoidance, thus denying revenues and inflicting material damage to the host country.

Some countries’ reputation of being havens for organized crime and money laundering affects their development quite negatively. Foreign financial institutions may limit transactions with their institutions, subject those transactions to greater scrutiny or even break off economic relations. Even legal companies and business ventures from such countries may suffer due to more limited access to global markets or at higher cost due to safeguards instituted regarding their ownership, organization or control systems. Each country that becomes known for failing to undertake adequate measures for suppressing organized economic crime will have a harder time in attracting foreign investors, while eventual support from other governments will be seriously limited.¹⁹

Generally speaking, the negative effects of economic crime are most often manifested through: increased rates of crime and corruption in society; legal economic actors being faced with unfair competition and, thus, becoming weaker; reduced tax revenues due to money being channeled to illegal financial flows; damage to the country’s international reputation; the weakening of financial institutions and destruction of their credibility; a compromised economy and private sector, as well as an impaired process of privatization.²⁰

The most frequent economic crime activities in our country are related to unscrupulous business practices, abuse of authorization in business, illicit commerce, tax avoidance, abuse of office, official malfeasance, forging of official documents, embezzlement, accepting bribes, offering bribes, corruption in state administration, public procurement and the privatization process, and other criminal acts

Money Laundering Control, Vol. 1, No. 3, Emerald Group Publishing Limited, Bingley UK, 1998, pp. 257-262.

¹⁹ See: N. Courakis, “Financial Crime Today: Greece as a European Case Study,” *European Journal on Criminal Policy and Research*, 9(2), Springer, Netherlands, Summer 2001, p. 212.

²⁰ Compare with: G. Bošković, “Efekti prodora organizovanog kriminala u legalne ekonomske tokove,” *Revija za bezbednost*, No. 7, Centar za studije bezbednosti, Beograd, 2008, p. 38.

against the economy and official duties. In Serbia, economic crime is a very well developed and the most profitable and least risky type of crime.²¹

5. Endangering corporate security and effects on national security

Due to their importance for the functioning of the state and society, as well as their nominal and utilization value, each country's economic potentials are a "desirable and attractive" target for many carriers of security threats. Despite the developed architecture of national security systems and economic system security sectors, their unwieldiness and spatial dispersion, without the possibility of absolute physical-technical monitoring and control, make them "easy targets." Endangerment and dysfunction of the economic system can take on various forms, as can their primary and secondary harmful effects. In principle, they can be divided into those originating from within the system (*internal*), those coming from the outside (*external*) and threats of combined origin (*combined*).

Among security threats of internal origin, the most frequent are material damages, defects and malfunctions that appear accidentally, due to inactivity or neglect on the part of employees or responsible or management personnel. Certainly, the most dangerous are the threats produced by conscious and deliberate actions of the human factor. They have a broad range, from theft of work equipment and materials, to various (above-mentioned) forms of economic crime and sabotage, as a form of political crime.

External threats to economic systems are also varied. The most frequent are certainly those from the sphere of so-called property crime (usurpation of raw materials and products), but cases of endangerment by way of political crime are not unknown, either. In that context, there is the globally known phenomenon of so-called economic terrorism/diversion, which threatens the economic-energy capacities of states on land, sea and in the air. Not to be ignored, either, are cases of sea piracy, which can be lucratively and politically motivated, or attacks on personnel employed in the economic-energy sector. And there is certainly no need to additionally comment the effects of endangerment of economic entities in cases of armed aggression or intervention – especially in cases of post-modern armed aggressions for which it can be said with certainty that they are "oil and economically motivated,"²² i.e. the fruit of imperial "geo-petroleum" ambitions that are pursued through cleverly conceived "humanitarian" interventionism.

²¹ For more details, see: G. Bošković, *Metodi suzbijanja organizovanog kriminaliteta u oblasti privredno-finansijskog poslovanja (PhD dissertation)*, Pravni fakultet, Kragujevac, 2007, pp. 133-158.

²² Contemporary wars are also "energy motivated" and are waged in order to occupy sources of oil and natural gas. A. Vondra, W. M. Martin, "Introduction to Energy & Security," *Energy & Security: Global Challenges – Regional Perspectives, Program of Atlantic Security*

Most of these types and forms of energy system endangerment may also have a combined origin. Conspicuous among these are various types of computer and other forms of high-tech crime: unauthorized entries into economic entities' information systems; copying, alteration, physical theft or destruction of business data; deliberate causing of economic entity dysfunction; industrial espionage, redirection of financial resources to private accounts, the driving of certain economic entity parameters to "self-destruction"; performing computer sabotage, diversions and terrorist attacks, and many others. Also not infrequent are instances of endangerment of economic products during transport.

Finally, it should additionally be emphasized that economic entities can also be endangered by natural catastrophes and disasters (earthquakes, floods, landslides, etc.) and technical-technological accidents (fires, explosions, accidents), when consequences for people's safety, and for energy, economic, ecological, national and even international security can be incalculable.

The consequences of jeopardizing the economic system vary in form and intensity, so it is needless to enumerate and describe them all. From the aspect of national security, it is appropriate to classify them in accordance with the significance of their harmful effects into primary, secondary and tertiary.

Primary effects refer to material damages inflicted upon economic systems and subsystems themselves, their technical malfunction, and endangerment of health and safety at the workplace.

Secondary effects refer to all consequences produced as effects of already occurring primary effects, and are reflected, before all, in environmental degradation, endangerment of human lives and health on a bigger scale and over a bigger area, endangerment of quality of life, the dysfunctioning of certain sectors of the economy and the state system, potential endangerment of the country's international security, etc.

Finally, *tertiary effects* are most often of a material-financial character, i.e., costs of remedying already occurring primary and secondary effects.

Specific forms of endangerment of economic security are manifested as inadequate, wrong or even malevolent economic policy on the international and the domestic plane. These are abuses in international trade, economic conditionality, blackmail and pressures, economic sanctions, great powers' neocolonialist strategies on the international plane, i.e., lack of or limited physical access to economic raw materials and products for citizens and legal entities, and their high prices at the national level.

At the same time, control over the economic sector opens up possibilities of terrorizing the populace, i.e., of the manipulation of not only citizens but even states and the international community. Such practices are widely used by the leadership of the self-proclaimed, illegal "Kosovo Republic."

Studies, Prague Security Studies Institute, Prague, 2005, p. 8; also see: P. M. Galoa, *Krv petrola – Bosna, Naš dom*, Beograd, 1996.

6. Conclusion

The importance of the economic system for national security is unquestionable: the surplus value created in the production process is necessary for the organization and functioning of the state apparatus, before all the national security system, which is one of the biggest budget users. A country's economic power is also the measure of its power in international relations, as it has a direct bearing on military and political power. Poor countries are "weak" and rich countries "strong" players on the international scene. It is, thus, doubtless that economic power is an important determinant of national security.

This situation, as well as the state of continual potential endangerment of the national economy (from natural phenomena, technical-technological accidents and destructive human behavior and the activity of other states or international organizations), has resulted in the "securitization" of the economic system in the theory and practice of national security. In that context, maintenance, improvement, development and protection of the economy are among the priority and constant national interests. This vital national value also has an undoubted correlation with the social, ecological, and defense sectors, i.e., the sector of national and international policy and security in general. Thus, the development of the theoretical thought and practice of *economic and corporate security* has certainly had its justification.

The importance of a country's economic system, as well as its vulnerability, justify the need for constant special protection. In addition to the protection of economic resources and the securing of economic and national prosperity, the positive effects of fighting against economic crime are also reflected in the prevention and suppression of networked types of crime and corruption, the improved stability of financial institutions and markets, positive economic development and one's own positive reputation within the international community, improvement of risk management techniques for financial institutions and an increased level of market integrity. The overcoming of these national security challenges requires a greater degree of coordination and cooperation between the police, banking systems, customs, specialized bodies for the prevention of money laundering, the foreign currency inspectorate, the financial police, the commerce inspectorate and other security actors.

It is also necessary to develop integral sectors of economic system and sub-system security, based on the combined application of traditional measures of physical, technical, fire and anti-terrorist security, as well as contemporary methods of criminalistic, electronic, satellite-based and counterintelligence security. Before that, it is necessary to adopt primary and secondary legislation that would define the organizational and functional determinants of the non-state security sector.

At the same time, it is also necessary to develop the methodology and software for efficient analysis of security risks and threats within and outside of economic entities, as well as cooperation between the internal sector of economic sub-system

security and national security system actors, relevant scientific-research institutions, the local community and international specialized institutions and organizations.

Finally, of special importance for the protection and advancement of the economic system is the security culture – of personnel (professional) and the citizenry (mass security culture), as well as of the state itself (national security culture).

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THE ROLE AND IMPORTANCE OF REPORTING ON MONEY FLOWS FOR STRATEGIC AND OPERATIONAL DECISION MAKING IN CORPORATIONS

Summary

In present business conditions, managing liquidity is an important precondition for effective operations. The analysis of cash flow enables detection of potential adverse events. Limited cash inflow can place a company and its constituents in financial difficulties, while slow turnover of cash is ineffective. Taking into account the importance of management of liquid assets, cash flow statement is considered as an inevitable instrument for presenting important information on the position and movements of liquid assets. Regarding the strategy of a company as well as the interests of its key constituents, planning, analysis and management of cash flow should cover basic needs for cash and the ways for meeting such needs, while taking into account primary business goal: profit maximization. Money should always be engaged in profit generating. The role of cash flow statement is to help key company constituents: shareholders, managers, investors, creditors and other stakeholders to make adequate strategic and operational business decisions.

Key words: *cash flow, liquidity, analysis, decision making*

JEL classification: G32, M21

1. Introduction

The success of management in decision making and therefore in corporate governance depends on the quantity and quality of available information. The dynamic environment, continuous changes, economic crisis and the illiquidity of national economy are all reasons why more attention should be directed towards optimal cash flow management. In this sense, cash flow statement represents an indispensable tool both for the top management and all the stakeholders, and the

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information that can be obtained by analyzing the statement has become a strategic resource for business entities, shareholders and board of directors.

In Serbia, the concept of cash flow has been used since the 1990s, primarily in medium and large enterprises in form of a legal obligation of preparing cash flow statement. The absence of full financial transparency obligations in measuring and assessing the financial strength of a company resulted in both relatively low practical application, and in theoretical correlation analysis of financial indicators with the aim of strengthening the efficiency of business operations. The negative connotation was further increased, keeping in mind the possibility to use high information technologies in this field. In this regard, the aforementioned findings emphasize the necessity of opening a field of research (course), designed to highlight the importance of cash flow statements, in the form of official statements. This can serve as the basis of possible directions for planning, analysis and making appropriate decisions with the aim of improving business performance of companies.

The main purpose of the cash flow statements consists in providing a higher degree of reliability and accuracy for investment decisions by stakeholders, based on the assessment of solvency of a company and its capacity to generate cash flows. Based on the information on the current condition and cash flow and based on predictions, creditors and investors take risk with a greater degree of safety.

Reduced capacity of domestic companies for investing in the development concepts implies the necessity of extending the domain of basic purpose of cash flow statements in order to provide a reliable basis for faster and more effective inflow of public and private funds. The importance of extending reliable basis in times of the current economic crisis bears an importance of a strategic approach, given the condition and strength of domestic companies and the continuous problems of liquidity in the economy as a whole.

One of the conditions for successful business operations is to maintain optimal cash (money) flow. If the inflow of money (cash inflow) is inadequate, the operative activities of a company are at risk (repayment of loans, purchase of raw materials and other current assets, as well as payment for services, payroll, etc.). On the other hand, blocking cash in the form of keeping cash on current accounts creates a smaller turnover ratio and greatly contributes to a decreased efficiency. In this view, cash equivalent should constantly remain within active financial flow, i.e. serving the purpose of generating profit. For these reasons, it is useful to perform a systematic analysis of cash flows and on the basis of that perform operational, tactical and strategic planning.

The starting point for defining the topic of this paper is the fact that the cash flow statement is a relatively new financial statement in relation to the traditional ones, the balance sheet and the income statement, as well as the fact that our professional reference books do not cover dealing with cash flow issues in practice sufficiently. Therefore, the starting hypothesis is that the cash flow

statement can provide important information for making strategic and operational decisions. Thus, the objective of this paper is to highlight the importance of cash flow analysis for making future decisions that will substantially, directly or indirectly, positively influence business results, and therefore the recognition of this analysis in practice, while using the results of scientific research.

2. The importance of corporate cash flow statements in the contemporary business situation

“Dramatic changes in the world, as a result of: technological development - especially the development of information and telecommunications technologies; political changes, changes in the balance of economic blocs, overall globalization of international and national business,”¹ the global economic crisis, “affect all segments of global economy and thus business operations as well. Business environment of an organization is getting more dynamic, with constant changes, full of discontinuities in relation to previous experiences, complex with multiple layers of possible impacts, undetermined due to many influencing factors, difficult and dangerous, of which condition the application of modern concepts of governing”² liquidity through the use of new methods, techniques and instruments.

Accounting information based on the IAS has a particular importance in the conditions of globalization. The application of the IAS should result in the fact that the financial statements of companies, wherever they may be located, are prepared according to the same rules, through harmonization of standards, in order to ensure equal quality of accounting reports. Harmonization of accounting standards is necessary to protect the interests of investors and creditors, as they operate in different financial markets in the world. In this respect, it is in the interest of the Republic of Serbia to create reports, in terms of their basic elements, in accordance with the IAS, with the view of attracting foreign investors.

The main positions of the cash flow statement are: flows of cash (inflows and outflows) and cash equivalents. Cash flow statement provides information for assessing liquidity and solvency of a company. When combined with the information from other financial statements, it provides information about changes in net assets of a company, its financial position (liquidity and solvency) and its ability to affect the amount and timing of cash flows, in order to accommodate to the changing circumstances in business. The information on cash flow and cash equivalents is useful in assessing the ability of a company to generate cash and cash equivalents and enables its users to develop models to assess and compare current value and future cash flows of different companies. This

¹ S. Stamenković, *Strategijski menadžment u saobraćaju Srbije*, INOROG, Negotin, 2007, p. 4.

² S. Stamenkovic, *ibid.*, p. 17.

information enhances the comparability of reports on the performance of different companies because it eliminates the effects of using different accounting standards for similar transactions and events. Cash flow information from previous periods is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful for checking the accuracy of past assessments of future cash flows and for examining the links between profitability and net cash flows and the impact of price changes.³

Cash flows are inflows and outflows of cash and cash equivalents from:

- business activities,
- investment activities,
- financial activities.

In these activities, cash inflows increase cash and cash equivalents, while outflows reduce them. The difference of inflow and outflow of cash and cash equivalents is recorded as the net inflow or outflow of cash and cash equivalents.

Business activities are the main income-generating activities of a company and other activities, except for financial and investment activities. The amount of cash flows (inflows and outflows) resulting from business activities is a key indicator of the extent to which these activities capable of producing enough cash to repay loans, sustain business capacity of the company, pay dividends and make new investments without external sources of financing, as well as for predicting future cash flows. Depending on the activity of the company, cash flows are realized through sales of goods or services, and cash outflow from operating activities, such as: payment of liabilities toward suppliers, cash payments of wages and salaries, insurance premiums and taxes.

According to the IAS 7, some transactions, such as the sale of facilities, may lead to a profit or loss, which is included in determining net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

A company may hold securities and loans for the purposes of resale or trade in which case they are treated as stocks that are acquired specifically for resale. Accordingly, the cash flows arising from the purchase and sale of securities intended for resale or trading are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main activity that generates revenue for the company.

Investment activities represent the acquisition and disposal of long-term assets and other investments not included in cash equivalents. The data relating to investment activities can be obtained from the account of fixed assets and insight into business transactions in the accounting period, which affect these

³ In the IAS 7 this position is explained in paragraphs 4 and 5, "Official Gazette of RS", no. 133/2003.

accounts. Also, one should consider individual transactions that affect individual short-term investments, and strong emphasis should be placed on profits and losses realized from the sales of fixed assets (capital gains and losses from sale of assets) that are listed in the income statement. Capital gains and losses affect the determination of net income shown in the cash flow statement under operating activities. Cash flows (inflows and outflows) from investment activities show the scope of the expenditure incurred for the resources that are intended for the creation of future income and cash flows.

According to the IAS 7, the investment and financial transactions that do not require the use of cash or cash equivalents are excluded from the cash flow statement. Such transactions are disclosed elsewhere in the financial statements so as to provide all relevant information about these investment and financing activities (paragraph 43). Excluding non-cash transactions from the cash flow statement is consistent with the purpose of the cash flow statement, as these items do not involve cash flows in the current period (paragraph 44).

Thus, for example, purchase of fixed assets through borrowing⁴ would have no effect on changes in cash and as such the transaction does not belong to the statement of cash flows. This and similar non-cash activities are included in the specific plan that follows the cash flow statement.⁵

Financing activities are activities that involve any monetary transactions with shareholders and transactions related to lending and settlement of debts⁶. Financial activities include: inflows from the owners or outflows to the owners of financial assets, as well as securing the return on their investment, and inflows of funds from lenders/creditors and repayment of amounts borrowed or the payment of liabilities in any other manner. Consideration of future cash flows (inflows and outflows) from financing activities is important for understanding the future cash flows to which those who raise capital for the company lay claim.

Borrowing funds in the form of loans⁷ and loan repayments (except the non-cash transactions, such as dividends in the form of shares) are classified as financing activities. The non-cash transactions, which comprise a significant in the financing activities (e.g. conversion of debt into equity) are not presented in the cash flow statement but in a separate report or in the form of notes (notes).

⁴ Long-term loans are commonly used for the financing of fixed assets. By granting loans, banks typically settle liabilities towards suppliers for fixed assets to the amount of the loan, which means that funds are not paid to the current account of the company.

⁵ N. Cvetković, *Analiza poslovanja preduzeća*, Megatrend univerzitet, Beograd, 2004, p. 195.

⁶ V. Pavlović, *Teorija i analiza bilansa*, Megatrend univerzitet, Beograd, 2008, p. 196.

⁷ Interest rates can be classified into business activities because they affects the net result, or financing activities because they represent the costs of obtaining financial resources, or financing activities based on the inflow on interest rates.

With regards to the method of calculation and presentation of cash flows, the IAS 7 prescribes two methods: direct and indirect. A characteristic of the direct method is that it provides the data on gross cash flows by major types of inflows and outflows, and the data are taken from accounting records, while the indirect method does not present either the types, or the total inflows and outflows of money, but only the total amount of net cash flow. This means that the application of indirect flow is less informative than the direct method presentation of the cash flows generated. The only difference between these two methods is in the presentation, and not in the results of cash flow from business activities. The cash flows from investing activities and financing activities are identical for both methods, i.e. these are reported only through the direct method. Accordingly, and taking into account the recommendations of the Standards as well, the legislator has chosen the so-called direct method in Serbia as well.

3. The place and role of analysis of cash flow statements in the financial analysis of corporations

The analysis of cash flows should provide an insight into a company's ability to generate cash, as well as its solvency and liquidity. The starting point in the process of analysis and reporting of cash flows is with the cash flows generated in the current year, but the cash flows from the previous year are also considered, with the aim of observing changes and trends in the cash flows, in particular net cash flows arising from operating activities. The observed trends in the cash flow are considered with respect to the results of the analysis of financial position and performance the company. One role of the analysis of the cash flow statement is the analysis of the relationship between cash flow and profitability trends.

In addition, the analysis of cash flows balance should provide a basis for understanding and evaluating the present value of future cash flows which, in essence, is used to estimate the asset value and performance of the company which eliminates the effects of applying different accounting policies. Since the existing and the potential investors and lenders want to know the real present value of the assets, and based on that make assessments and decisions, it is assessed based on the present and future cash flows, by using the investor's preferred discount rate⁸.

"The cash flow statement makes the third essential component of corporate financial reporting. Although a relatively new invention, it is now considered to be the key to the process of financial reporting.

In this way, in addition to the balance sheet and the income statement, another important financial statement was introduced into the financial report-

⁸ M. Stojiljković, et al.: *Finansijska analiza (teorijsko-metodološke osnove)*, Ekonomski fakultet, Niš, 2000, p. 134.

ing system that contains the combined data from both of the aforementioned balances, in order to enable the users to evaluate the company's capacity to generate positive cash flows, that is, to assess its liquidity and solvency. Partially used cash flow statement is limited in scope, and in combination with other tools of financial analysis can yield positive effects (ratio analysis, net turnover analysis).⁹

Information on cash flow is useful when assessing whether business entities can generate cash and cash equivalents. This enables users to develop models to assess and compare the present value of the future cash flows of different business entities.

Unlike balance sheets and income statements which are prepared according to accounting principles and appropriate accounting assessment policy (subjective assessment), in the statement of cash flows for a business entity there is only one cash flow. It cannot be changed due to certain assessment principle or price changes, that is, inflation intensity or some other circumstances which can affect the values in basic financial statements - balance sheets and income statements. Such cash flow 'immunity' to different changes affirms the preparation of the statement which is used as for making essential business decisions.

The role of the statement of cash flows is to help key company's constituents – stakeholders, managers, investors and creditors. It is analytical tool to:¹⁰

- determine the amount of cash accumulated from business operations in a certain period. The amount is then compared to the revenue achieved in the period;
- assess the ability of companies to meet their obligations, as well as their ability to pay dividends. If a company does not have enough capital, it cannot pay out dividends, salaries to its staff and loans. Staff, creditors and stakeholders should be interested in the statement since it displays cash flow in an operation;
- determine the amount of invests in new resources (real estates, facilities, equipments and other fixed assets) during a certain period;
- determine type and range of financing necessary for long-term assets or continuance of business operation. By examining investment and financial activities of a company, the reasons of increasing and decreasing of resources and company's obligations in accounting period are established. In this way you can get answers to the following questions: how has a company increased cash when it has operated at a loss; how has the cash received by issuing bonds been used; how has the expanding of company's production capacity been financed; which resources have

⁹ D. Milojević, "MRS 7 – Bilans tokova gotovine", I seminar "Primena međunarodnih računovodstvenih standarda u našoj poslovnoj praksi", SRRS, Zlatibor, 2000.

¹⁰ Đukić, T.: "Dinamički aspekt likvidnosti", *Ekonomске teme*, No. 6, Ekonomski fakultet, Niš, 2002, p. 223.

been used to decrease or pay off loans; how much cash has been borrowed during specific accounting period;

- assess company's ability to achieve positive cash flow in future periods; primary goal of financial statement is to provide information which will help forecast amount, time and probability of future cash flows by examining the relation between positions such as sale revenue and net cash flows from certain business activities. In this way we can forecast amount, time and probability of future cash flows much better.

“Companies which generate enough amount of cash flows are able to decrease their dependence on external financing sources, pay outstanding liabilities, finance investments, reward stakeholders with appropriate dividends etc.

On the other hand, companies which are not able to generate enough cash have to stop operating regardless of their profit.¹¹

On the one hand, cash flow should be planned to maintain liquidity and it presents the instrument of implementing the plan of cash flow. On the other hand, it is used as the instrument of financial analysis for measuring additional annual results and analysis of investment alternatives (projects).¹²

“The aim of preparing and presenting cash flow is to provide to the users of financial statement the information of the level of company's ability to generate cash, as well as to forecast dynamics and probability of generating cash. In other words, the aim is to display to the users of cash flow statement what are the activities or sources from which the cash is generated and in which activities the generated cash is used, that is, how business activities are financed, where the capital is used and how it is invested.”¹³

The analysis of the aforementioned flows is essential for the assessment of liquidity, solvency and company's ability to generate cash which makes the assessment of financial situation complete, as well as the successfulness of company's performance, since it helps assess company's financial solvency, liquidity in the long term and its power to generate cash. It determines place and role of cash flow balance analysis in financial analysis.

However, cash flow statement has certain disadvantages. Cash flow statement does not comprise non-cash transactions which can in future accounting periods affect cash flows. According to IAS/IFRS, the use of direct methods for establishing cash flows has not been fully operationalised. In this case some positions require the application of net inflow or outflow, for which there are no clear reasons.

¹¹ D. Milojevic, *ibid.*, p. 105.

¹² J. Rankovic, *Financial standing and creditworthiness of companies*, Proinkom, Belgrade, 1997, p. 43.

¹³ G. Ilic, “The methodology of cash flows in companies”, *Accounting Practices*, no. 4/99.

By using direct methods for establishing cash flows, essential cash inflow and outflow in business, investment and financial activities should be displayed in gross amount. In official cash flow balance certain positions are presented in net amount.

Therefore, ***the first thing to do is to present all inflows and outflows in gross amount.*** This should not be only done to adjust the form of cash flow balance to IAS, but to make the statement richer in information. Namely, it is not enough to have the information that some resources are increased or decreased during a year, but also to present how it happened.¹⁴

4. Instruments of cash flow analysis regarding key constituents in corporation

For enterprises, strategic constituents are: stakeholders, that is, owners and potential investors, while the other constituents are: staff, creditors, suppliers etc. Since all interest groups have various demands and interests, the indicators based on cash flow statement are specific for every group which leads to a great number of indicators. Hardly any management system can meet the demands of all interest groups and all liquidity and efficiency criteria. Therefore, holistic approach is vital for making decisions based on cash flow, since the success of a company depends on how much its constituents are interested in the company.

Cash flow as an instrument of financial analysis is only used to estimate financial position of a company, but to interpret and explain the height and change of ratio numbers and net working capital fund based on which managers, investors, creditors and other stakeholders draw conclusion on financial position of a company and its profitability.¹⁵ Cash flow is used as an instrument of financial analysis since it is a part of total revenue which exceeds the height of costs due to cash outflow.

It presents excess revenue which after income tax deduction is used to pay out dividends, profit share, investment in fixed assets and outstanding long-term loans. The part of cash flow which is not used increases current assets and can be used to pay out short-term liabilities, investment in stocks, profitable placement or increase of cash reserves.

In financial analysis, cash flow is an instrument of measuring financial potential of internal financing, repaying loans, calculation of upper limit of debt obligations and possibility of improving financial position of a company by using internal financing. Cash flow presents the cash in business activities which can be used for the aforementioned purposes. Solvency is not endangered in this case.

¹⁴ T. Đukić, "Analitičke mogućnosti i dometi izveštavanja o novčanim tokovima", 2007, p. 309.

¹⁵ J. Rankovic, *ibid.*, p. 45.

Financial indicators that are based on cash flow can be classified in four groups:¹⁶

- indicators of assessing solvency and liquidity (proofs on cash interest coverage, current liabilities, total liabilities and dividends);
- indicators of profit quality (indicate the relation between cash inflow from business activities and sale income, as well as the relation between cash inflow and profit);
- indicators of capital expenditure (bring together various kinds of cash flows and consider the possibility of purchasing capital assets, financing and investment);
- indicators of return on cash flow (indicate cash flow per share, cash return on total capital and equity capital, that is, they are monetary presentations of profitability).

4.1. *The instruments of cash flow analysis regarding the interest of stakeholders*

Key constituents in a joint stock company are its stakeholders.¹⁷ Their interest is different from the interest of other constituents considering the fact that their capital is permanently linked to the company.

Stakeholders invest reluctantly in a company which does not have enough financial resources gained by business activities to pay out dividends. Therefore, they are quite interested in cash dividend coverage ratio. The numerator of cash dividend coverage ratio consists of net cash inflow from business operations. The denominator contains paid-out dividends. This coefficient must be higher than one. Otherwise, the company would have to borrow some further funds to pay out dividends.

Indicators of return on cash flow are important to current and future stakeholders. These coefficients are similar to the coefficients of the market value of shares and global indicators of profitability, and refer to the following indicators:

- 1) cash flow per share,
- 2) refund on invested assets,
- 3) refund on equity capital.

Cash flow per share presents is one of the most important indicators for stakeholders. It is calculated when considering both the available funds for paying out dividends to ordinary stakeholders and the number of ordinary shares. This coefficient is the same as the coefficient of earnings per share and it is vital for collecting comparative data on paid-out dividends with cash flow which could be used for that purpose. Cash flow per share indicates how many cur-

¹⁶ T. Djukic, *ibid.*, p. 303.

¹⁷ M. Vasiljevic, *Corporate governance*, Faculty of Law, Belgrade, 2007.

rency units of net earning per share are real and charged and which can be really distributed.

The following two indicators present how many currency units a company has collected on every 100 dinars out of totally invested resources, that is, of equity capital.

Refund on invested assets presents the ability of total assets of a company to generate enough financial resources. It is estimated as the relation between net cash flow from business operation, before interests and taxes. This ratio presents the percentage of the assets which are generated in the form of cash. Its aim is to measure the ability of a company to generate cash flow from the resources created during business operation.

Refund on equity capital provides essential information to stakeholders, as well as creditors, financial analysts, management of an enterprise since it shows the level of the ability of the enterprise to refund invested equity from the achieved net cash flow generated during business operation. It is calculated by comparing cash flow from business operation and equity capital. The indicator then displays the level of refund on invested equity with net cash flow from business activities in certain, that is, analysed year.

If the risk of stakeholders is minimised and the value of their shares maximised, the interest of other constituents will be maximised – managers, creditors, state, staff.

4.2. The instruments of cash flow analysis regarding the interest of creditors

Creditors as an interest group are interested in the payment of their claims and the preservation of guarantee substance of a company, that is, that the company can meet its obligations within the maturity. In order to make its creditors' secure, the company has to be solvent.

Coverage of total liabilities in cash presents a strong indicator of the company's solvency, that is, the ability of the company to meet its obligations with the cash gained in business activity. It is essential that the company does not have to liquidate assets used in business operations. The numerator of the coefficient is net cash flow collected in business activities (it is taken from cash flow statement). The denominator is the average of total liabilities (including long-term reservations) based on the balance sheet of the accounting period. Set coefficient indicates the period necessary for meeting total liabilities, while assuming that all net cash flow from business activities is directed to meeting liabilities.

As the coefficient is lower, the company has less financial flexibility and probably that there will be problems in future. However, if the coefficient is higher

than 0.2, that is, above 20%,¹⁸ it is considered that the company can finance its total liabilities with the financial resources provided from business activities if external sources of financing become too expensive or limited.

4.3. *The instruments of cash flow analysis regarding the interest of potential investors*

Nowadays, decisions on long-term investment are the most complex and rather different from other financial undertaking. Investment analysis should help investors find answers to two groups of questions: 1. how much to invest and 2. to forecast the effect of investment regarding return and return on investment.

In order to make decision regarding investment less risky, cash flow statement should simplify analytical process and make it operative and reliable enough. Bearing that in mind, we can say that investors, as well as stakeholders, use the same information and cash flow instruments, that is, the indicators of cash flow return.

4.4. *The instruments of cash flow analysis regarding the interest of the management of a company*

Primary interest of management of a company is successfulness of business operation. Therefore, they make operative and strategic decisions to make the business operation efficient and effective. The interest of management can collide with the interest of other constituents. Managers are interested in capital accumulation, since they need it for investment. Being a strategic decision, managers have a scope of instruments for assessment and investment planning.

Capital expenditure coefficient shows the ability of a company to meet its needs for capital expenditure by using cash generated in business activities. Namely, it has to provide information whether the company is able to generate enough cash from operative activities to pay off debts after investment regarding maintenance or extending production capacity. The numerator of the coefficient is net cash flow from business activities or net cash flows from business activities decreased by the outflows regarding dividends. The denominator of the coefficient is capital expenditure. If capital expenditure coefficient is 1 or more than 1 it means the enterprise is able to generate cash for capital expenditure and paying off its debts from business activities. The higher it is, the more successful the company is to generate cash for possible servicing and paying off debts. Otherwise, if the amount is less than 1, the enterprise cannot generate enough resources from business activities to modernise production process. It has to generate additional resources through debts.

¹⁸ M. J. Samuels et al, *Financial Statements Analysis in Europe*, Chapman & Hall, London, 1995, p. 20.

Investment outflows compared to total outflows show whether the company has developed cash investment strategy regarding up-to-date technology not to get to 'outsider' position. The index is important since it displays how much the company spends on technology and new equipment. It is dangerous when the level of capital expenditure stagnates or decreases which can lead the company into financial difficulties in the long run.

The relation between investment, business and financial activities is used to assess cash flow management of a company in relation to investment activities. This indicator tells us how much cash provided by business and financing activities (new loans) is used for investment activities. If the relation is 1:1, this means that every dinar made in business and financing activities goes for investment purposes. Otherwise, if the relation is less than 1, the margin of safety regarding investment is bigger. In other words, less cash is used for investment requirements than the funds provided by business and financing activities, which indicates a high degree of financial ability of the company.

The relation between investment and financial activities is an indicator which shows dependence of the company on external sources of funding in terms of investment activities, i.e. it shows how much cash provided by financing activities is used for investment activities. This indicator tells us how many currency units concerning investment activities the company invests on every dinar of investment provided by financial activities.

Observed from the aspect of shareholders, each investment represents to them a reduction of the amount that would remain available for the payment of dividends, so it may be conflict of interest. The same goes for employees. They are primarily interested in higher salary, which reduces the resources for investment. As the management of a company is between conflicting interests, it must make optimal decisions that will meet requirement of both the company and other constituents. Some of these decisions are operational and relate to the liquidity and quality of business activities of the company. Therefore, management can use the following instruments.

1) **Coefficient of cash coverage of short-term obligations** is used to assess the liquidity of the company. The numerator of this coefficient is net cash flow from operations or net cash inflow from business activities of the company after the necessary investments in current assets and settling of business obligations during an accounting period. This data is taken directly from the cash flow statement and represents the difference between cash inflow and cash outflow for business activities. In the denominator there are short-term liabilities (taken from the balance sheets in the previous and current accounting periods) and average short-term obligations, because it is a reporting period from one year. The quotient indicates the ability of the company to pay current liabilities, that is, how much cash generated from business activities covers every monetary unit of short-term obligations. As this coefficient is higher, it is less likely that the

company will have liquidity problems. It is believed that the company is liquid if the coefficient is 40% or higher.

2) **Coefficient of sales quality** is used to determine the degree to which sales revenues are realized in the form of cash inflows. It is significant mostly to the management. The numerator of this coefficient is cash inflow from sales from cash flows, and the denominator is sales revenue from the income statement. Companies that sell their products for cash or charge for their services in advance, coefficient can be 1, which is the most desirable. In other words, everything that is sold is also charged at the same time. When the coefficient is closer to 1, profitability is easily converted into cash flows, that is, the cash needed for obligations is provided.

In order to discern trends in transforming sales income, it is necessary to analyze several previous years, provided that this coefficient is always considered in correlation with other coefficients, because the sales quality coefficient largely depends on the credit policy of companies, debt collection efficiency etc.

3) **Coefficient of profit quality** is used to determine the percentage difference between business profit of the accounting period and net cash flow from business activities of the same period.¹⁹

If the coefficient is closer to 1, the difference is smaller as the result of converting accrual to cash basis, that is, compliance of revenue earned with collected revenues and accrued expenses with spent cash. The difference is caused due to the items such as depreciation, long term reserves and changes in assets and liabilities that have not caused cash inflows and outflows. This coefficient helps management assess the difference between business income and related cash flow.

The management of a company makes strategic and operational decisions to create a balance between conflicting interests in terms of managing in the best interests of the company, taking into account the interests of all constituents.

4.5. *The instruments of cash flow analysis regarding the interest of a society*

Society, an element of the environment where companies operate, wants companies to do business successfully. Only liquid and profitable company can be generators of economic growth through expansion of its business and increase of employment, to set aside funds for preserving and protecting the environment, for scholarship, sport and cultural activities and so on. Cash flows can provide relevant information on the amount of available liquid assets that can be used for such purposes.

¹⁹ T. Đukić, *ibid.*

5. Application of analytical possibilities of cash flow statement in domestic surrounding

On 1st January 2004 pursuant to the law on accounting and auditing, International Accounting Standards and International Financial Reporting Standards were introduced. They are used for recognition and evaluation positions of financial reporting, bookkeeping and preparing financial statements, as well as disclosure of information in the Notes on all relevant issues in all enterprises of Electric Power Industry of Serbia. Cash flow statement is prepared in accordance with IAS 7. However, its analysis is not present in practice, and its preparation is done only to meet legal obligations. None of the indicators based on cash flow (presented in the previous presentation) are used in assessing financial situation.

In order to determine significance of applying cash flow statement in financial analysis of companies, 30 economists have been interviewed out of 57 who work in directorates for financial affairs²⁰ in three companies. The survey was anonymous, and it had the set of five questions that respondents answered in writing. The survey results are the following:

- All the respondents gave affirmative answer to the question: “Do you have any problems with liquidity?” and “Do you have any problems with profitability?”.
- The following questions were asked related to the financial indicators based on cash flow: “Are you familiar with the following indicators?”. It turned out that the respondents were familiar only with the liquidity indicators, while they have not heard for the other indicators.
- When asked: “Do you think that the indicators will be useful in financial analysis?”, 11 respondents gave affirmative answer, three respondents did not, while the others believed that it might be useful. The replies are given in the following table.

Table 1: *The structure of the responses to the question: “Do you think the indicators will be useful in financial analysis?”*

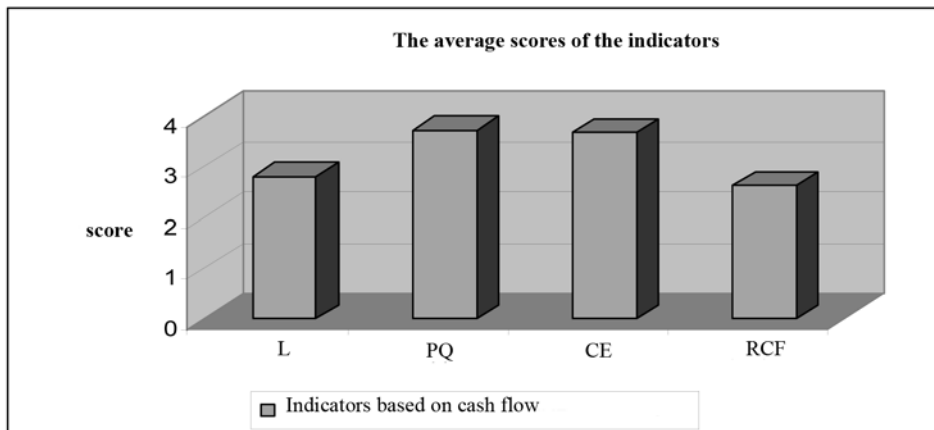
| ANSWER | NUMBER OF REPLIES | % |
|--------|-------------------|-----|
| Yes | 11 | 37 |
| Maybe | 16 | 53 |
| No | 3 | 10 |
| TOTAL | 30 | 100 |

The next question concerned the evaluation of indicators based on cash flow, where respondents had the task to evaluate the significance of the pre-

²⁰ Directorate of financial affairs includes the following departments: distribution, systemic issues, general economic relations, planning and analysis department etc.

sented indicators from the grade 1 to 5. After processing the data average score for each indicator was calculated, and the results are presented in the following bar graph.

Figure 1: *The average scores of the indicators based on cash flow*



As it can be seen in the graph, the highest average score was given to profit quality (PQ) - 3.73, and the lowest rated coefficient was return on cash flow (RCF) - 2.63. The coefficient of liquidity (L) was assessed with an average mark of 2.8, and capital expenditures (CE) with the score 3.67.

We can conclude that few respondents considered that the analysis based on cash flow is useful in financial analysis (only 37%); while a relatively larger number of respondents (53%) do not clearly defined views on the usefulness of applying the analysis, and the remaining respondents believe that the indicators will not be useful (10%).

The ratings of the indicators based on cash flows are relatively low, which indicates to the lack of knowledge of these coefficients by economic analysts and their not usage in practice. It is obvious that for years the companies will still use the classic indicators of liquidity²¹, whose importance is not disputed, and that the analysis concept based on cash flow will not be introduced in practice in the near future. This suggests the need to continue to research the concept of cash flow, which will provide a dynamic approach to business analysis and practical application of this concept in domestic practice.

²¹ General liquidity ratio and reduced liquidity ratio.

6. Conclusion

The changes at both national and international levels impact significantly all the segments of companies including financial potentials, that is, liquidity management. Of all the trends in the environment the global economic crisis and illiquidity of the economy have the biggest impact on liquidity due to dynamic systems that are under the influence of the environment in which companies conduct their business. Therefore, during the development and application of new instruments and liquidity management techniques based on cash flow statements, there are more requirements for their application in local practice. Namely, contemporary concepts require new knowledge and professional staff. Cash flow statements are immensely important, both for efficient operation and for future growth of the company. The statement should provide answers to the following questions:

- how much liquid assets is necessary for a company to respond to the challenges and changes in line with modern trends of development of the company;
- how to provide necessary liquid funds, how much and of what quality;
- how to stimulate and motivate the staff for the efficient and effective achievement of the goals of the company;
- how and how much liquidity excess to invest?

This is essential due to the global economic crisis. Its consequence is illiquidity of national economies, when cash flow statement should be inevitable for strategic and operational management of cash and cash equivalents since it provides relevant information to management of the company and all its stakeholders who are bonded because of mutual interest and therefore, interested in the company's future.

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PERSONAL SELLING ON FOREIGN INDUSTRIAL MARKETS – Study case of Finland –

Summary

In this paper the author attempts to prove on the example of Finland that cultural uniqueness affects greatly the way that personal selling is realized on industrial markets. He also tries to define what practical implications it has for foreigners who wish to take up canvassing abroad. To do so, he reviews the definitions of this notion provided by both Polish and foreign authors. Then he points out the role of this promotion-mix instrument on the specific industrial market. The most extensive part of this study aims to recognize Finland culturally as the final field of the activity in personal selling. On the basis of the research results, the author presents the uniqueness of this country and considers in what way it determines the realization of personal selling there. In conclusion, he presents universal activities which should be undertaken by each tradesman in order to canvass effectively abroad.

Key words: *Personal selling, culture diversion, foreign markets, industrial markets, Finland*

JEL classification: L84

1. Introduction

The profession of a salesman is nowadays underestimated in many parts of the World. It is also the case in Poland where dominates an improper stereotype of a salesman behind the counter in a shop who charges the clients for the purchased goods. As a result, salesmen do not have the respect of other citizens of their country. The survey of Polish Center for Public Opinion Research carried out in November 2008 shows that a salesman in a shop is appreciated by 45 % of Poles (a rather distant 23rd place in the ranking of the most prestigious professions).¹

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¹ Brief. Pierwszy Magazyn Marketingu i Sprzedaży, 2009.

However, we should not forget that the name “salesman” refers not only to shop assistants but also to stockbrokers, brokers, pharmacists, negotiators of grand trade contracts and many more. Among them we can also find people whose profession is to conduct personal selling on industrial markets. Their profession requires hard work, mobilization and personal engagement. Not only must good tradesmen have suitable, specialized education, but also many extraordinary abilities.

Conducting personal selling on foreign markets requires particularly uncommon abilities. It results not only from the obligatory necessity of speaking a foreign language fluently, but also or even most of all, from the necessity of coping with cultural differences. The author devotes this paper to the latter. He attempts to prove that a national culture determines considerably the way one should conduct personal selling in the particular area. The author expatiates on this subject on the example of Finland. The choice of the country is determined by the fact that he has stayed in this country for a long time, studying there during his participation in the international programme of student exchange. At the same time, he has had an opportunity to make some observations and experience the problems connected with the issue described in this paper.

2. Personal selling on industrial market

There are a lot of definitions of personal selling, which are more or less different from each other. According to P. Kotler, one should interpret it as “a direct contact of a salesman with one or more potential purchasers, whose aim is to sell something”.² Likewise, G. E. and M. A. Belch define it as “a form of person-to-person communication in which a seller attempts to assist and/or persuade prospective buyers to purchase the company’s product or service or to act on an idea”.³ C. Futrell recognizes it as “giving information personally in order to persuade a potential purchaser to buy a product, service, concept or anything else, which meets his requirements”.⁴ According to P. Baines, C. Fill and K. Page, in its basic dimension, one should interpret personal selling as a “use of interpersonal communications with the aim of encouraging people to purchase particular products and services for personal gain and reward”.⁵

² P. Kotler, G. Armstrong, J. Saunders, V. Wong, *Marketing. Podręcznik Europejski*, PWE, Warszawa, 2002.

³ G. E. Belch, M. A. Belch, *Advertising and promotion. An integrated marketing communications perspective*, McGraw-Hill Irwin, New York, 2009.

⁴ C. M. Futrell, *Nowoczesne techniki sprzedaży. Metody prezentacji, profesjonalna obsługa, relacje z klientami*. Oficyna Ekonomiczna, Kraków, 2004.

⁵ P. Baines, C. Fill, K. Page, *Marketing*, Oxford University Press, 2008.

In Polish technical literature one can find a lot of definitions of the term “personal selling”. T. Kramer states that its essence “is based on the personal contact of a salesman with a potential purchaser and at the same time the role of a salesman resolves itself into familiarizing a potential purchaser with the qualities of a product, as the need arises demonstrating it, making a deal and often rendering after-sale services”.⁶ Waclaw Smid thinks that it is “an oral product presentation and a trade conversation with one or more potential purchasers aimed to make them buy offered products”.⁷ T. Sztucki gives a similar definition of this term. In his opinion, personal selling is based on “a product presentation and a trade conversation with one or more clients in order to make them buy the product”.⁸

It may be well to add that although all of the definitions mentioned above are different from each other as far as some details are concerned, in each of them the emphasis is on the interpersonal character of the contact between a tenderer and a purchaser. So the personal selling takes place in the case when a salesman has a direct contact with a purchaser regardless the place of its realization. As a result, it may also appear as a “salesman’s advice in a retail shop, as an encouragement for a purchaser to buy a product or as an agent’s or canvasser’s activity on the production market”.⁹ Most often this act of selling is realized as a face to face contact of a canvasser and a client.¹⁰

Directness, which is mentioned above, is one of the main characteristics which distinguishes personal selling from other promotion-mix instruments. Otherwise than an advertisement or Public Relations, it enables two-way communication.¹¹ The contact between a sender and a purchaser makes it possible to realize information feedback and an uneventful, direct flow of information which is of a two-way character.¹² “A direct conversation, during which a salesman dispels doubts, answers the questions and notices the matters interesting for a purchaser, is a factor which determines the high effectiveness of this instrument”.¹³ That is why personal selling is considered to be the most effective form of promotion. “Because of the personal character- state researchers- it enables an adjustment to purchasers’ requirements and fast reaction to their

⁶ T. Kramer, *Podstawy marketingu*, PWE, Warszawa, 2004.

⁷ W. Smid, *Encyklopedia promocji i reklamy*, Wydawnictwo Profesjonalnej Szkoły Biznesu, Kraków, 2001.

⁸ T. Sztucki, *Encyklopedia marketingu. Definicje. Zasady. Metody*, Agencja Wydawnicza Placet, Warszawa, 1998.

⁹ H. Mruk, B. Pilarczyk, B. Sojki, H. Szulce, *Podstawy marketingu*, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań, 1996.

¹⁰ E. Michalski, *Marketing. Podręcznik akademicki*, PWN, Warszawa, 2004.

¹¹ J. Mythe, 2002.

¹² J. W. Wiktor, “Promocja osobista” in: J. Altkorn (ed.), *Podstawy marketingu*, Instytut marketingu, Kraków, 2006.

¹³ J. Mythe, *ibid.*

behaviour during negotiations”.¹⁴ It is a flexible tool which makes it possible to react fast and enables to adopt the communication policy to the changeable requirements and needs of the market.¹⁵

Personal selling is widely used on an industrial market as a result of its peculiarity. This kind of market, which is also called a company market, “consists of all the organizations which purchase goods or services to use them to produce other goods or services, which are sold, rented or delivered to others”.¹⁶ Market is a place where sellers and purchasers meet in order to exchange valuable goods.¹⁷ Władysław Mantura points out that it is the exchange process that is the constitutive feature of the market.¹⁸ If on the consumer market, goods and services are bought by an individual person, family or household (which is the final consumer who purchases them for their own consumption) then on the industrial market they do not participate in the exchange process. In this case clients are industrial or institutional subjects which use the purchased goods as production sources in their own production process.¹⁹ The research shows that these units often purchase products directly from producers.²⁰ It especially concerns untypical products or constructionally complicated ones. Some of them are produced on order. Their sale requires knowledge of many technical details and individual approach to every client. That is why wholesalers play a minor part on the industrial market and the part of retailers resolves itself into minimum.²¹ The most important is personal selling. Qualified sellers – producer’s representatives take care of the client and all of them have the detailed knowledge of the subject of the transaction.

3. Cultural uniqueness of Finland in the light of the research

Cultural differences of societies are basis for the distinguishing of many cultural groups, orientations or even cultural dimensions - all of these terms are used interchangeably. They refer to a particular society or a group of societies

¹⁴ J. Mazur, *Decyzje marketingowe w przedsiębiorstwie*, Difin, Warszawa, 2002.

¹⁵ J. W. Wiktor, “Promocja osobista” in: J. Altkorn (ed.), *Podstawy marketingu*, Instytut marketingu, Kraków, 2006.

¹⁶ P. Kotler, *Marketing*, Dom Wydawniczy REBIS, Poznań, 2005.

¹⁷ R. Palmer, J. Cockton, G. Cooper, *Managing marketing*, Published by Elsevier Ltd., 2007.

¹⁸ W. Mantura, “Przedsiębiorstwo przemysłowe na rynku”, in: *Marketing przedsiębiorstw przemysłowych*, priradio W. Mantura, Wydawnictwo Politechniki Poznańskiej, Poznań, 2000.

¹⁹ F. E. Jr. Webster, *Industrial marketing strategy*, Third edition, Wiley, 1995.

²⁰ H. Mruk, B. Pilarczyk, B. Sojki, H. Szulce, *Podstawy marketingu*, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań, 1996.

²¹ M. Urbaniak, *Marketing przemysłowy*, Wydawnictwo Prawno-Ekonomiczne INFOR, Warszawa, 1999.

which are characterized by similar qualities distinguished on the basis of a specific criterion. They also give some information about the main characteristic qualities of particular groups, which are in many cases generalizations, but they make successfully a starting point for research and study.²²

G. Hofstede and R.R. Gesteland are, among others, the authors of well-known models of national culture classification. Table 1 presents their systematics:

Table 1: Selected cultural orientations

| Author | Division criterion | Cultural groups |
|-----------------|---|---|
| R. R. Gesteland | Approach to time Behaviour Approach to work and business The meaning of social hierarchy and status | Monochronic/Polychronic Expressive/Reserved Pro-transactional/Pro-affiliated Non-ceremonious/Ceremonious |
| G. Hofstede | Approach to hierarchy and power Orientation to an individual or a group Approach to risk Degree of assertive, competitive, self-confident attitude | Power distance (low/high) Individualism/Collectivism Uncertainty avoidance (high/low) Masculinity/Femininity |

Source: own study and processing

According to R.R. Gesteland, what makes two cultures different from each other is:

- *Approach to time.* ‘One group of world societies honours a clock and venerates diaries and agenda²³ (monochronic cultures). Another one treats diaries and agenda flexibly - it treats time as if it was made of rubber. It pays more attention to people and relationships rather than to punctuality. Being late is common and is treated as normal²⁴ (polychronic cultures).
- *Behaviour.* There are three basic ways of communication between people: verbal (with the use of words), paraverbal (e.g. how loudly we speak, what timbre our voice has and how important is silence during conversation) and non-verbal (body language). Expressiveness of paraverbal and non-verbal behaviours is, according to R.R. Gesteland, a second criterion which differentiates representatives of particular cultural circles from

²² M. Bartosik-Purgat, *Otoczenie kulturowe w biznesie międzynarodowym*, PWE, Warszawa, 2006.

²³ R. R. Gesteland, *Różnice kulturowe a zachowania w biznesie*, PWN, Warszawa, 2000.

²⁴ A. Pabian, “Kulturowe uwarunkowania tworzenia więzi z klientami na międzynarodowych rynkach instytucjonalnych”, in: O. Witczak (ed.), *Budowanie związków z klientami na rynku Business To Business. Teoria i Praktyka*, CeDeWu Wydawnictwa Fachowe, Warszawa, 2008.

each other.²⁵ People from expressive cultures can use conversation overlaps during their conversation, for example they can often interrupt the conversation, gesticulate lively, they may not be able to keep the spatial distance, they can pat the speaker on the shoulder. These kinds of behaviour seem to be unacceptable from the point of view of a person from a country which is on the opposite cultural pole (reserved cultures). Some of them can be perceived as unnecessary and unceremonious behaviour or simply lack of respect and kindness.²⁶

- *Approach to work and business.* People from certain cultural circles prefer working with family, friends and other well-known, reliable people. It can be seen in the way these people make business. The most important task for them is to have the best relationship with the negotiating partner (pro-affiliated cultures). It is just the opposite in the case of people from pro-transactional cultures. They do not need to have intimate relations with partners in their business. On the contrary, they do not mind cooperation with complete strangers. For them the most important is the transaction itself.²⁷
- *The importance of hierarchy and social status.* “Organization of societies with ceremonious culture is based on a visible hierarchy which reflects great differences in social status and the range of power among people. Non-ceremonious cultures, on the contrary, appreciate more egalitarian organization with less differences in social status and the range of power”.²⁸

Finland is characterized by pro-transactional culture, moderately ceremonious, monochronic and reserved. It means that the Finns concentrate on completing the task instead of paying attention to people. They are characterized by not so unrestrained approach to time. Punctuality and keeping to diaries have the key significance to them. They are less devoted to social status and they do not stand on ceremony. They are more reserved in showing their emotions.

R.R. Gesteland is not the author of just one, well-known model of national culture classification. Geert Hofstede is a creator of another model. On the basis of the research carried out among IBM employees, he proved that particular countries differ from each other as far as their cultures are concerned. He analyzed the questionnaires completed by 116 000 employees in 72 subsidiaries of his company located in almost 69 different parts of the world.²⁹ Like R.R. Gesteland he came

²⁵ R. R. Gesteland, *ibid.*

²⁶ A. Pabian, *ibid.*

²⁷ M. Bartosik-Purgat, *ibid.*

²⁸ R. R. Gesteland, *ibid.*

²⁹ K. Gillespie, J. P Jeannet, H. D. Hennessey, *Global Marketing*, Houghton Mifflin Company, Boston – New York, 2007.

to the conclusion that cultural differences between countries concern four fundamental issues. But his issues are not identical with Gesteland's division:

- *Power distance.* G. Hofstede's considerations about the cultures of low/high power distance are similar to those of R.R. Gesteland's about non-ceremonious and ceremonious cultures. Although both divisions are different in their terminology, both of them refer to identical issues. Generally, power distance states how important hierarchy in society is. In some countries people are judged by their status in a given structure (e.g. family background). In other countries it is not so crucial and more attention is paid to individual predispositions e.g. skills and experience. It shows what degree of distance of manner or reserve is between people on different levels of hierarchy.³⁰ "Some cultures are characterized by fixed, vertical social structure (e.g. Japan), whereas others (United States) prefer more equality and lack of formalism".³¹
- *Uncertainty avoidance.* It means to what degree members of a given society are ready to accept uncertainty or instability.³² One should not identify it with aversion to take risks. People who avoid risk are afraid that something unfavourable can happen but their anxiety is justified and its source is an objective condition showing that something may really go wrong. Meanwhile people referred to as "uncertainty-avoident" are generally suspicious and distrustful. They are always anxious even when nothing gives a sign of danger. Future is a mystery for all of us. However, people from cultures with low level of uncertainty-avoidance accept that fact and are sure they will handle every situation. A person from a country with high uncertainty-avoidance tries to control and minimize uncertainty connected with the future. He or she is a follower of predictability in life.³³
- *Individualism/Collectivism.* "In individualistic cultures a human being is perceived as a basic element of a community. People pay a great attention to individual decisions because every person is the architect of their fortunes and takes responsibility for their acts. Any activity and initia-

³⁰ M. J. Browaeys, R. Price, *Understanding Cross-Cultural Management*, Prentice Hall, London, New York, Boston, San Francisco, Toronto, Sydney, Singapore, Hong Kong, Tokyo, Seoul, Taipei, New Delhi, Cape Town, Madrid, Mexico City, Amsterdam, Munich, Paris, Milan, 2008.

³¹ M. R. Solomon, *Zachowania i zwyczaje konsumentów*, Wydawnictwo HELION, Gliwice, 2006.

³² R. T. Moran, P. R. Harris, S. V. Moran, *Managing Cultural Differences. Global leadership Strategies for the 21st Century*, Elsevier, Amsterdam, Boston, Heidelberg, London, New York, Oxford, Paris, San Diego, San Francisco, Singapore, Sydney, Tokyo, 2007.

³³ K. Gillespie, J. P. Jeannet, H. D Hennessey, *Global Marketing*, Houghton Mifflin Company, Boston – New York, 2007.

tive are of great importance and leadership is an ideal".³⁴ In collective cultures, for a change, there is no place for too much independence of a human being. "Every person is a member of a bigger community (family, clan, nation) and one gains his identity thanks to the fact that he belongs to this community". A human being cannot, as he can in an individualistic culture, follow his own aims, "in collective cultures people conform their own aims to the group they are members of".³⁵ A collective person must be able to devote themselves for the public welfare, the group he belongs to.

- *Masculinity/Femininity*. In "male" cultures both women and men tend to take assertive and self-confident attitude, generally more aggressive ones than people who come from female cultures. The latter appreciate modesty and sensitivity more – the features generally associated with the fair sex.³⁶ These differences in the behaviour of the representatives of both groups are a reaction to the aims which are to be achieved. In male cultures economic success, the one connected with work, is a priority. To achieve it, they sometimes need to be more aggressive. On the other hand, people from the opposite circle of culture are more orientated towards personal aims (cooperation, building good relationships).³⁷

Geert Hofstede's research methodology assumes that particular countries included in the research, get a point grade in each category mentioned above. Table 2 presents the notes received by Finland.

Table 2: *Finland's score in each category*

| Country | Power Distance | Individualism/ Collectivism | Masculinity/ Femininity | Uncertainty avoidance |
|---------|----------------|--------------------------------|----------------------------|--------------------------|
| Finland | 33 | 63 | 26 | 59 |

Source: own study and processing

As far as "power distance" category is concerned, Finland, which got 33 points, achieved one of the lowest scores among all the countries (the lowest score among all 69 countries was 11 and the highest one 104). That means the Finns do not pay too much attention to hierarchy in their mutual relations. For

³⁴ M. Bartosik-Purgat, *Otoczenie kulturowe w biznesie międzynarodowym*, PWE, Warszawa, 2006.

³⁵ M. R. Solomon, *Zachowania i zwyczaje konsumentów*, Wydawnictwo HELION, Gliwice, 2006.

³⁶ K. Gillespie, J. P. Jeannet, H. D. Hennessey, *ibid.*

³⁷ M. J. Browaeyns, R. Price, *Understanding Cross-Cultural Management*, Prentice Hall, London, New York, Boston, San Francisco, Toronto, Sydney, Singapore, Hong Kong, Tokyo, Seoul, Taipei, New Delhi, Cape Town, Madrid, Mexico City, Amsterdam, Munich, Paris, Milan, 2008.

example, if they have to do a certain task, the people engaged in it are treated as almost equal partners, even if they are at extreme levels of hierarchy or come from different social class.

Almost the same situation appears in “masculinity/femininity” category. Finland got 26 points here, which is also a low score (the highest Slovakia 110, the lowest Sweden 5). That means the Finns appreciate assertive and competitive behaviours. They are decisive, self-confident, success-orientated and not so delicate in the manner as some other nations. Undoubtedly, it corresponds with a stereotype of tough “north people” or “Viking ancestors”.

59 points for Finland in the category “uncertainty avoidance” (Finland is more or less in the middle of the classification: the highest score in this category is 112 and the lowest is 8) means that the Finns do not worry about the future too much.

63 points achieved by this Scandinavian country in the “individualism/collectivism” category locates that country above the average stake of evaluated countries (minimal result is 8, maximal 91). That means that the Finns appreciate the role of a group in an individual life.

4. The influence of Finland’s cultural uniqueness and the ways of personal selling realization on industrial markets there

Cultural features, which are characteristic for the Finns, determine the way a foreigner conducts a personal selling conversation. Let me look into some of the most important issues connected with that matter.

Pro-transactional Finns are open to making deals with foreigners and prefer immediate passing on the business matter. A tradesman from the opposite culture circle must be aware of that fact. If he prefers making business with familiar people (and because of that in his culture he wants to get to know a business partner or even make friends with him at the beginning), he should concentrate on the essence of the transaction in case of a Finnish client. During his conversation with a Finn, it is inappropriate to get to know him well. Such a behaviour can only discourage him as a potential client because he would treat such a conversation as a waste of time and an act of unnecessary unceremonious behaviour. What is more, pro-affiliated cultures, which are interested in creating close relations with people, prefer face to face meetings with business partners. Unsurprisingly, salesmen from such cultures wish to make all the deals in the form of direct meetings with clients. In case of the Finns such a behaviour is a mistake. The Scandinavians accept less personal form of communication between business partners. In their opinion, such a communication can be realized in the form of a telephone conversation or via e-mail or fax. A canvasser’s attempts to meet a client face to face may be considered by the Finns as a sign of insistence and a waste of their time.

A salesman from polichronic culture must remember that the Finns, contrary to his behaviour, pay a great attention to punctuality. Keeping to diaries/agenda has a key significance for them. That is why, it is crucial to realize everything in agreement with the imposed time regime. If a Finnish client notices that a salesman is late for meetings, he can realize that it is a facetious business partner and may not wish to co-operate.

The fact that Finnish culture is reserved influences the way a foreigner must realize personal selling. He ought to keep spatial distance, should not gesticulate lively or touch a speaker (e.g. pat him on his shoulder) because it may be tactless.

Finnish culture is egalitarian (moderately ceremonious with low power distance). A salesman who comes from the culture where people pay more attention to hierarchy and social status (e.g. Japan) should remember about that fact. He should not be too formal while contacting the Finns. What is more, it would be advisable if he could be more direct because a Finn can acknowledge that a tradesman repeating words of courtesy makes the conversation last too long and at the same time he creates a barrier between them which is not conducive to the cooperation.

Salesmen from female cultures may use a language which is not so open, highly contextual because they want to avoid confronting or offending a speaker. They try to be sensitive and avoid direct negation. They often restrain to reveal their true opinions in order not to offend the speaker. The Finns, who come from assertive culture, may treat this kind of expression as a sign of a salesman's dishonesty.

The next cultural feature of the Finns is a quite high degree of collectiveness. For a salesman it means, among other things, that the final decision to buy an offered product will be a resultant of opinions of many people representing a client. It is not enough therefore to give arguments to persuade just one person. Even if he/she is certain that it is a good decision, he/she will accept the opposite decision if a group decides so. As a result, a salesman must remember that the advantages of an offer must be formulated in such a way that they are received by the highest amount of different people taking part in the process of making a purchase decision.

5. Conclusions

Finland's example shows that cultural uniqueness defines the way in which personal selling should be realized. Lack of knowledge about a visited country and its culture may create a barrier for a foreign canvasser in realizing a sale. If a salesman does not know the artefacts and symbols which were created and passed from one generation to another and which at the same time are determinants and regulators of its behavior,³⁸ he will make a lot of blunders and mistakes

³⁸ W. J. Santon, M. J. Etzel, B. J. Walker, *Fundamentals of marketing*, McGraw-Hill, New York, 1991.

and in the selling process and that will prevent him from completing the transaction successfully.

That is why, a salesman, who is planning a trade activity in the industrial market of a foreign country, should precede it with a theoretical recognition of the country's culture. Identification of cultural differences, present between a mother country and the country you bend your steps to, makes it easier to integrate with the community representatives and later on it enables better functioning in the existing realia. One should get to know the culture of a visited country first and then adjust to the requirements in agreement with two principles obliging salesmen working on foreign markets. The principles are the following: "in international business a seller is supposed to adjust to a purchaser" and "a stranger should obey local customs".³⁹

It should be pointed out that recognition of a culture of the visited country should be done every time one visits that country, regardless if the country is near or far away. It is evident from the fact that countries in the world, more or less but always, differ culturally from each other and these differences may be huge. There are cases that they are minor but one should not assume that there are no differences at all. Even within the pale of one country there are cultural differences among the regions. All the more, such distinctions will exist in foreign countries.

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³⁹ R. R. Gesteland, *Różnice kulturowe a zachowania w biznesie*, PWN, Warszawa, 2000.

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DOES GENDER MATTER IN PERFORMING ARTS MANAGEMENT LEADERSHIP? - Case Study of Belgrade Music Festival (BEMUS) - **

Summary

In this paper we are going to present some results of the research project on leadership in performing arts management, based on case study of Belgrade Music Festival (BEMUS), which shows that gender in leadership in performing arts management is not important. According to the case study focused on its social, economic and artistic impact in Belgrade and Serbia, there is no gender specific difference in leadership in performing arts management, in spite of some contemporary theories on women as better managers in art organizations. As to governing and leading classical music events, artistic personalities and values are more important in performing arts/classical music anagement than gender issue, related to the quality of BEMUS programs over years.

Keywords: *leadership, arts management, festival, classical music, gender*

JEL classification: Z11, L30

1. Introduction

Publicly funded culture is not defined through theory but by practice: what gets funded becomes culture. What to fund is a matter of considerable public interest. In Serbian case it means classical music concerts, big orchestras, opera and ballet. Creative work, brain work, artistic productions are increasingly important features of successful economies. It is this part of the economy that has shown the most rapid growth over the last twenty years. This strikingly successful performance in things like classical music has created economic benefits in the pre-war Yugoslavia for all included in the process (performing artists, arts management, state), but not so in transitional times Serbia. It seems that people

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were valuing arts/music experiences and the things that give their lives meaning more before than after 1990.¹

Besides economic impact, arts have become lately also important in foreign relations, as part of the national interest strategy in forming and maintaining international relationships. In the times of SSSR, before signing some important economic treaty in the world, Bolshoy Theatre and/or fabulous Soviet musicians were preceding. Today, internet news and citizen journalism made the world smaller, therefore we understand each other, and misunderstand each other as well, through the medium of arts and culture. Also, arts are important in relation to our individual and national identity, how we define ourselves, that is by our cultural consumption and production.² We are ourselves because of what we watch, read, listen to, write and play. Especially what we hear, because, according to acoustic and psychoacoustic experts (not only according to classical musicians), ear is the key to human emotions and psychological being. A set of research results indicate that listening to Mozart's music may induce a short-term improvement on the performance of certain kinds of mental tasks known as "spatial-temporal reasoning". This effect on humans is popularly called the *Mozart effect*.³

2. Belgrade music festival (BEMUS)

The word *festival* derives from feast and implies a time of celebration. Festivals play a number of significant roles in a town or region. Festivals can lengthen tourist seasons, extend peak season or introduce a "new season" into the life of a community spirit and pride, cooperation, leadership, enhancement of cultural traditions, etc. The defining characteristic of a special event or festival is its transience. This suggests that it would be difficult to induce and sustain the same sense of occasion and excitement if such an event was to be held more frequently. It is defined as an event as "a special event recognizes a unique moment in time with ceremony and ritual to satisfy specific needs".⁴

International Belgrade Music Festival (BEMUS) was found in 1969, being the oldest and the most prominent music festival in the country and enjoying the position of a cultural event of special importance for the City of Belgrade. Since the beginning in 1969 a state concert agency Jugokonzert has been the exclusive executive producer. In forty years, until 2008, the total number of programmes that have been performed at the festival was well over 900, the best years being 1969, 1978,

¹ S. Isaković: *Menadžment muzičke umetnosti*, Megatrend univerzitet, Beograd, 2010

² D. Ičević, *Nacionalna kultura i kultura nacije*, Partizanska knjiga, Beograd, 1984

³ S. Isaković, *ibid.*

⁴ D. Čolić Biljanovski, *Smotra jugoslovenske umetnosti "Mermer i zvuci" 1968–2000*, Arandelovac, 2002

1997 and 2002.⁵ The leading figures from the classical music world, great musical legends in their primes, came to Belgrade until 1999. The rest is history. The Festival is a member of the European Festivals Association (EFA) since 2002.

BEMUS is financed by the state and city budget of Serbia and Belgrade, with limited sponsorships, usually by foreign cultural centers. The producer, state arts agency Jugokonzert, first being organization under the City Council of Belgrade, from 2009. has its own autonomy in operating, with its own Board, but it still remains the budget user. Even as government authorities can provide partnerships between local government, community interests, the private sector and individuals, still the safest financial support is the state budget. Several years ago Jugokonzert and BEMUS were using half of the yearly budget for culture in Belgrade, which protected the essentially unpredictable quality of the festival and provided enabling support. Besides using municipal budget, BEMUS used the state budget: in 2003. it was 8,000.000 dinars (68% of the state budget for the international cooperation in music), in 2004 almost half of the budget (6,000.000), in 2005 – half of the budget (5,000.000 dinars), etc. In 2008 city of Belgrade and Ministry of culture signed an agreement for joint venture in financing together important festivals. It means that from 2008 on BEMUS is regularly using municipal and state budget. Also, volunteer work is promoted and sometimes it is indispensable, but professionals in the field enhance the festival's development aims.

Effective governance and the development of strong boards are critical factors influencing the achievement of missions and visions in any arts organization. The worldwide recession has had an uneven impact on those employed in the arts and culture sector. Some countries have been harder hit than others, like countries in transition in the Balkans. However, the recession has also provided opportunities for organizations and arts managers to take a long-term look at how they are managing their human resources. The downturn has provided a good opportunity for organizations to assess their programmatic aspirations, to protect human capital, to continually develop their skills and abilities and to expand professional networks locally and internationally.⁶

3. Performing arts management leadership profile correlated to the gender issue

For several years Jugokonzert has a long term female director (CEO), while BEMUS has an artistic director who every year selects the programme for the Festival, according to his/hers artistic values and ideas. Artistic directors usually work for four years. From 1991 until now artistic directors were respectively, a

⁵ N. Bebler, *BEMUS Memorabilia*, Jugokonzert, Beograd, 2008

⁶ B. Stojković, *Kulturna politika i kulturna raznovrsnost Srbije*, Zaprokul, Beograd, 2004

musicologist (female), a composer (female), a violinist (male), and from 2011 a composer again, male, while CEO remained the same. In this paper we are going to analyze artistic and social impact of artistic directors related to the gender issue on BEMUS events (concerts, opera, ballet) over several years period.

Previously, we have done structured interviews with directors (CEO) of the most important institutions in performing arts from Serbia (Belgrade, Negotin, Arandjelovac) and abroad (Israel, Macedonia). State organizations (Jugokonzert, Mermer i zvuci, Mokranjčevi dani, Izraelski kulturni centar, Ohridsko leto), non-governmental (Muzička omladina Srbije), and private (Madlenianum) were included. Male – female structure of interviewees were 5: 2 in favor of male CEO, which does not relate to the structure of Jugokonzert and BEMUS (mainly female-female). Our interviewees saw the roles of artistic director and general manager as distinctly different – although absolutely interdependent.⁷ The most emphatic expression of their respective status was the widespread view that the artistic director must, of necessity, be the CEO of the company. Reasons for this lay with the absolute belief that the organization's primary role and distinct character derives from its status as a performing arts organization.

4. Thesis and anti-thesis: gender is (not) important in performing arts management

Co-leadership has been a dominant form of management within sections of the arts industry for many years. Consisting of the artistic director and the general manager, the leadership partnerships within arts organizations, at first glance, might appear classically gendered: a heroic artistic leader and a facilitating general manager. It also applies in the case of BEMUS. It is interesting that shared leadership should emerge as a focus of management literature at a time when there is an emphasis on “feminine leadership”.⁸ It is argued that women bring particular skills and attributes to their roles as managers which in turn produce “more humane, relations-oriented, flexible, participatory and caring institutions”.⁹ These discussions are based on certain assumptions about the nature of management and of leadership. Generally and globally, companies are still failing to capitalize on the talents of women in the workforce.¹⁰

The evolution of arts management as a distinct discipline has resulted from the view that there is something unique about the arts. It also implies that there

⁷ S. Isaković, *Menadžment muzičke umetnosti*, Megatrend univerzitet, Beograd, 2010

⁸ L. Bitel, *Liderstvo – stilovi i tehnike upravljanja*, Clio, Beograd, 1997

⁹ S. Isaković, *ibid.*

¹⁰ S. Foley, *Managing a creative practice: an international study of women in Arts Management - Intercultural communication and creative practice: music, dance and women's cultural identity*, Freepress, London, 2005

is a potential tension between the pursuit of artistic practice and that of managing an organization, independently of gender. These descriptions of the respective roles of artistic director and general manager suggest that different skills are required for carrying out the functions attached to each position. This has led to the tendency in the literature to presume that, by implication, these positions might be gendered. At first reading, the artistic director role is emphatically that of a leader, the general manager is there to serve – to serve the art and to serve the artistic leader. CEO role is to keep the machinery of the organization functioning so as to enable the artist to maintain a single vision, without being distracted. The general manager carries out activities that are often associated as being “feminine”, namely listening, collaborating, as well as organizing and managing. In other words, it is possible to conceive of this job demarcation between artistic director and general manager as being gendered: the artistic director’s role requiring skills and behaviors that we might deem “masculine” and the general manager of performing functions and roles that we might consider “feminine”.¹¹ The popular framing of co-leadership as a “type of marriage” remains to be seen. The use of the terms of “masculine” and “feminine” do not attribute these to a particular sex in a way in which characteristics, behaviors and job functions are frequently described in terms of gender. Let us see what was happening in Jugokonzert and BEMUS music festival over the period of twenty odd years.

4.1. *Director (CEO) of Jugokonzert Mr. Eduard Ille, 1987–2000*
President of the Artistic board of BEMUS Mrs. Ivana Trišić, 1991–2001
Male-female, politically opposed

Mrs. Ivana Trišić (1945), a musicologist, at the time editor of the Third programme of Radio Belgrade, became president of the BEMUS Artistic council in 1991, when cultural institutions were returned to the state or municipal authority, which were nominating directors and controlling their activities, but also generously taking care of the financial moments. It should be taken into account that the system of institutions, arts groups, festivals and artists created and developed throughout the ex-Yugoslavian territory, especially in the City of Belgrade, with the collapse of the ex-Yugoslavia, lost their audiences and markets. The cultural infrastructure that followed was, hence, too large to survive and demanded (in %) more and more public funds. This was one of the main reasons why there were few protests when the government resumed control of socially owned (self-governed) cultural institutions during the 1990s. Instead, it was considered a step to at least guarantee the survival of existing cultural institutions.¹²

Being state budget user for BEMUS was a privilege that very few festivals in the world had at a time. Even in 1999, after three months long NATO bombing of

¹¹ S. Jovičić, H. Mikić, *Kreativne industrije u Srbiji*, British Council, Beograd, 2006

¹² D. Despić, *Dvadeset godina BEMUS-a, Jugokonzert*, Beograd, 1988

Yugoslavia, BEMUS was still on the list of privileged artistic festivals. Back in early nineties concerts were good, participation excellent, which was partly consequence of the opportune political connections of the CEO of Jugokonzert (Mr. Eduard Ille, from 1987–2000) who also did not limit in any sense his political opponent Ivana Trišić. She could reign over the festival not worrying about the financial moment. And she did. For once there was a typical art management gender issue – female president of the artistic council was more powerful and “ruled” over male CEO. But, being musicologist and not in the active world of performing arts, Ivana Trišić often made problematic choices - some dubious and strongly personally chosen concerts, in ten years of reigning over the most important music festival in the country.¹³

4.2. Director of Jugokonzert Mrs. Biljana Zdravković - from 2000 on
 Artistic selector of BEMUS Mrs. Ivana Stefanović 2001–2006
 Female-female politically aligned

After ten years artistic council, with group responsibility, was changed to “his majesty” individual artistic director, or selector. Classical composer Ivana Stefanović¹⁴ (1948), also from the Radio Belgrade (Radio drama department) took over in 2001, being politically aligned with the new CEO of Jugokonzert, Mrs Biljana Zdravković, who came from *Jeunesses Musicales* of Serbia. Two women represented a dream-team combination in the artistic world, an ideal co-leadership for the music festival in every way. Also, because both were excellently positioned in Serbian politics, Ivana Stefanović being at the Board of Democratic Party which took the power in 2000, funding was extremely generous. With culture in transformation (2001–2004), a special accent was placed on reforms of the main national cultural institutions and the public sector in general, demanding the introduction of new managerial and marketing techniques. It opened possibilities for more free-handed managerial activities, which CEO of Jugokonzert readily accepted. But, as Jugokonzert and BEMUS were still completely on the state and city of Belgrade budget, and were lavishly spending it, it somehow sounded hypocritical. Managers are supposed to earn money, not just to spend it – from total sum of two state guaranteed budgets, 80% was going to the employee’s wages in Jugokonzert, only 20% for programmes. From the Jugokonzert’s employees point of view it was normal and economically welcomed, but from the artistic point of view it was just ridiculous. CEO Biljana Zdravković did not object to the money Jugokonzert received from Serbian tax payers, but both her and Ivana Stefanović strongly objected to any control over spending it, which often happened in very personal and not transparent way. Sometimes it came to open privatization of the BEMUS Festival.¹⁵

¹³ S. Isaković, *Zubati osmeh Maksa Grafa*, Prometej, Novi Sad, 2007

¹⁴ http://www.ivanastefanovic.com/index.php?nav=bio_kraca

¹⁵ S. Isaković, *Bemus prepletum mobile*, Službeni glasnik, Beograd, 2011

After political changes in 2004, the Ministry of Culture had not officially changed or introduced new priorities, although by interviews and statements, as well as by funding allocations, certain shifts in priorities was observed. Still, a few interesting initiatives were identified, such as the first prize for private - public partnership programmes, and the Cultural Infrastructural Development Plan within the National Investment Plan. While open competitions to fund cultural projects have been in operation since 2000, decided by commissions, the first open competition for commission members was only launched in September 2006, changing the policy of nominations to the commissions to a more transparent procedure.¹⁶ As everywhere else, politics was one of the factors that culture and classical music had to take in mind, in order to be able to perform and survive.

4.3. Director of Jugokonzert Mrs. Biljana Zdravković
Selector of BEMUS Mr. Sreten Krstić, 2007–2010
Female-male

Mrs. Biljana Zdravković continued as CEO of Jugokonzert while political, also gender, change took place in BEMUS organization. For the first time after 1991 artistic director became man, Sreten Krstić (1953)¹⁷, a first violin of the Munich Symphony Orchestra, living in Germany for more than 30 years. So, there was gender balance between Jugokonzert and BEMUS, but it did not really change much. New selector continued with highly personal choices of festival concerts, with the tendency to invite his colleagues from Munich orchestra and musicians with whom he was working and performing, which was flagrant conflict of interest. In the face of systemic changes attempt in 2007 and 2008 when many working groups were created to establish new laws (General Law on Culture) and to define new concrete programmes and strategies (digitalization, decentralization, cultural research development, etc.) this interest conflict was not perceived and certainly not sanctioned. In September 2007, the new Ministry of Culture has officially expressed its own aims and priorities, approved by the Parliamentary Committee for Culture. The cultural system aimed to guarantee the absolute freedom of artistic expressions, establishment of a modern, efficient, *rational* and creative cultural management system, with the accent on *rational*. The most important factor in the international cultural cooperation, city of Belgrade, creating and financing the most important international event in Serbia for each domain of art including BEMUS, managed to, in the face of upcoming

¹⁶ *Modeli i instrumenti kulturne politike grada Beograda*, Zavod za proučavanje kulturnog razvitka, Beograd, 2003

¹⁷ http://www.mphil.de/en/personen/?P_ID=66

crisis, sign an agreement with the Ministry of Culture, so the joint support of the Belgrade festivals of national importance could provide their survival.¹⁸

In July 2008, after the change of government, the new Ministry of Culture expressed new priorities for the period 2008–2011 based on the postulates of freedom of cultural and artistic expression and respect for the right to culture. The plan of the new Ministry of Culture was very ambitious, and demanded a rise in the state budget (which promised more than 1 % for culture). It comprised a significant rise in the level of investment in the sector of culture and some structural and organizational re-definitions. However, the government demanded serious budgetary cuts that prevented or slowed down the planned institutional reforms and stopped or slowed down even those investments which had been approved and seriously developed.

In all these attempts to rationalize and optimize Serbian arts, sudden violent turbulences brought by the world economic crisis in 2009 and their impact on Serbian culture as well, only made the situation worse. The plans of the Minister for Culture were very ambitious. However, soon after he took office the economic crisis came to Serbia similar to the rest of Europe, which meant that the whole approach had to be re-defined. Cultural policy based on the keywords - transformation, rationalization, concentration and innovation, aimed to assess the state of all cultural institutions; to create the potential for an entrepreneurial approach in culture; to continue with the ongoing projects of the previous government and to focus on participation in international events. The Ministry of Culture insisted on implementing the long term and strategic goals and has managed to adopt a new Law on Culture in 2009.

On the other hand, the crisis has led to a severe cut in the budget. Furthermore any development of new institutions has stopped and, instead, the new functions are being added to already existing ones, or some private initiatives are being supported. Unfortunately, no big multi-national companies were interested in classical music festival, cooperation between economic and cultural sector in Serbia not functioning at all. BEMUS and Jugokonzert seemed not to be aware of the new economic situation, resulting in the enormous spending on New York Philharmonic Orchestra BEMUS concert in October 2010.¹⁹

4.4. Director Mrs. Biljana Zdravković

*From 2011 selector of BEMUS Mr. Zoran Erić, political function
Female-male*

“Happy marriage” between CEO, artistic director of Jugokonzert and the guaranteed big state budget was over and new selector is taking place from 2011. Again, female CEO meets with male selector, politically aligned, as was usual

¹⁸ S. Jovičić, H. Mikić, *Kreativne industrije u Srbiji*, British Council, Beograd, 2006

¹⁹ S. Isaković, *Bemus prepletum mobile*, Službeni glasnik, Beograd, 2011

since 2000. Serbian composer Zoran Erić (1950)²⁰ meets a new challenge in conducting BEMUS in turbulent times. Special economic situation for BEMUS is created by the depreciation of national currency, which makes any international cooperation very difficult and more costly than ever. No great help is coming from the state. While the Ministry of Foreign Affairs in Serbia is responsible for international issues, the Ministry of Culture is placed in a collaborative position when it comes to artistic and cultural issues in international co-operation and integration initiatives. The National UNESCO Committee is also situated within the Ministry of Foreign Affairs and has links with the Ministry of Culture and the Ministry of Education, but its activities in the field we are talking about are nonexistent.

Urgent and the most important question for BEMUS as an international music festival is – who is going to pay for foreign musicians coming to the festival? Therefore the role of foreign cultural agencies, centers and institutes is still extremely important in bringing musicians, helping institutions and festivals, thus promoting programmes relating to their own culture, or supporting their own agendas, sometimes regardless of real Serbian needs. As a result of the 2009 economic crisis, forecasts are even more pessimistic concerning support from the cultural agencies and foreign cultural centers, their own countries being even in more severe crisis than Serbia. Cuts are perceived in the activities of Cervantes Institute, Goethe Institute, British Council, French cultural centre, etc.

As there is no system to enable the long term commitment of public bodies, especially financial (guarantees for the programmes which have to happen in future), it prevents cultural managers from organizing big international artistic musical events. It is very difficult to make an assessment of trends in public financial support for international cultural co-operation, as there is no specific budget line or current statistical data, and as projects are supported through “disciplinary” categories (so, it is not certain if they had an international component even if they got public financing for this component).

Ministry of Culture finally found one way of financing culture and arts, engaging private capital and acknowledging its contribution to the Serbian culture. The first laureate of the newly established national prize “Golden wreath” for special contribution to the Serbian culture through philanthropy was in 2011. Mrs. Madlena Zepter, benefactor and donor of special and unique caliber. The most important, the most useful and the most expensive donor venture of Madlena Zepter is the establishment and financing of the operation of Madlenianum Opera House and Theatre in Belgrade, built and founded by Mrs. Zepter, who is its sole donor.

²⁰ http://en.wikipedia.org/wiki/Zoran_Eri%C4%87

4.5. CEO of Madlenianum Mrs. Madlena Zepter
President of the board Mrs. Branka Radović
Female-female

The Chamber Opera, the present Madlenianum Opera And Theatre, was born in the most difficult times for Belgrade and Serbia and was supposed to be a new place at the cultural map of Belgrade and Zemun, a place where creative powers will flourish, where creative authors will return and stay, to follow the artistic world trends at the stage of the new opera, and to represent us all in the best possible ways. Madlenianum Opera and Theatre was founded in 1998 as the first private opera in this part of Europe. The founder and the donor is Mrs. Madlena Zepter, whose investments in culture and art represent the largest personal benefactor deed in this domain, not only in our country, but also in the European range in general. Madlenianum has been organized as a model of a new musical-scenic theatre in our country, without its permanent ensemble, but with a permanent organization and administration apparatus and a technical team.

The former Chamber Opera entered a new and fully refurbished facility, with the state-of-the-art equipment for presentation and realization of theatre and opera performances. Stage techniques built into the fully renovated building of the former theater in Zemun represent the latest achievements in the domain of techniques, just in the line with the standards realized by *Zepter International Company* operating in more than forty countries and four continents. But techniques cannot make art, they can only help it. People, creators with the ideas that require proper conditions, make Art.

It was often said that Serbian talents need support to become equal with their colleagues in the rest of Europe, or even better. The new stage of Madlenianum Opera and Theatre widely opens its door to the young (young singers with the newly founded Youth Club), but also to the established music creators, since at this moment there is no other opera or theater in Europe with a more state-of-the-art building. Madlena Zepter finances completely functioning of the opera house, commissions new works, invites famous singers, with the annual budget of almost two million Euros. As to the international cooperation, Madlenianum is the only Serbian member of RESEO, an umbrella European organization founded in 1996 to develop and promote the practice of opera and dance in Europe. It currently comprises over fifty opera and dance companies of all sizes from twenty countries in Europe.

The President of the Madlenianum Board of Directors is Mrs. Branka Radović, musicologist, professor, music critic and a woman of long experience in the Serbian music life. Members are: Mrs. Vesna Marković, Vice-President of the Board of Directors, Mr. Eduard Ille, Manager of the Artist Agency (the director of Jugokonzert 1987-2000), Mr. Ivan Vusić, Technical Director and Mrs. Ana Radivojević-Zdravković, Theatre Director. Here we have again female (owner)-

female (President) co-leadership, gender situation highly recommended in the contemporary management and artistic world.

5. Conclusion

Persuasion lies at the center of leadership, of changing minds and making decisions. That makes an emotional process central to what successful leaders do. More than that, it's a process that requires both intellectual finesse and non-verbal skill, which is so easy in the field of non-verbal art, music. That makes the artistic director of arts organization like BEMUS leading figure, with the CEO following his/her lead, which is not the healthiest situation in the art organization. The need for mutual respect between the executive director and the artistic director is necessary. The interdependence of their fortunes, in the case of BEMUS and Jugokonzert, so far works well, mainly because CEO respects the musical choices made by the artistic director's point of view, since it is on his/hers shoulders that the ultimate responsibility for the festival's success rests.

Attributing individual characteristics to success in arts management runs the risk of reinforcing gender stereotyping, a matter that we indirectly address in our research. There has been significant attention given to the gendered nature of certain industries. Arts administration or management, with a less hierarchical career structures, is widely regarded as a female dominated occupation. As to the gender issue, or gender equality, in case of arts management in Serbia - Jugokonzert agency, BEMUS festival and Madlenianum Opera - results show that gender is not important, but intentions, knowledge, goodwill and wish to make a better world, conditions that have nothing to do with gender at all.

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CHARACTERISTICS OF THE OPTIMAL METHOD FOR SOFTWARE DESIGN IN A LOW-BUDGET ENVIRONMENT**

Summary

This paper presents the results of research that aimed to establish the IT requirements in the domestic environment, and then determine the optimal characteristics of the design methods and development of software systems for such conditions. The research included 74 business organizations from western Serbia. We briefly overviewed the basic characteristics of today's most frequently used software development methods (both classic and agile) and underlined their advantages and weaknesses. Then we provided the research results that define the characteristics of IT development in our country, from the point of view of hardware resources, software resources, and the modes of achieving IT support of local organizations. In line with these results, we analyzed the usefulness of the mentioned software development methods. Finally, we enumerated the characteristics that should be met by the method that would be optimally adjusted to the identified IT conditions.

Key words: *software development methods, waterfall method, spiral method, rapid application development, agile methods, extreme programming, IT resources*

JEL classification: L86, O32

1. Introduction

Business software design is a complex and extensive process that greatly depends on the environment in which it is performed. Not only should software incorporate the business rules of the organization for which it is being designed, but the method of design and realization will depend on the conditions in that

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environment. These conditions are determined by the maturity and definition of the user business system, the resources (before all financial, as well as personnel and technical) available for realization, possibilities for communication with the user, the goals that are to be achieved with the software system, etc. These conditions also dictate the problems and challenges faced by the software designers, and they can be quite varied by their nature. It is not, thus, surprising that a large number of widely differing methods of software design and realization have been developed, with the goal of overcoming and controlling the noted problems that have appeared in complex software development projects, which were conditioned precisely upon the said conditions.

All of today's widespread and generally accepted methods of software design and development originated in economically powerful environments with a highly developed IT sector and, thus, represent answers to the conditions that prevail there. It should be expected that developing societies have different needs, as business conditions in them are quite different. It can, thus, be assumed that in such societies, characterized by a chronic lack of resources, the different prevailing conditions also mean that the software design and development method has different optimal characteristics. The adequacy of this method is to a great extent determined by the success achieved in the realization and implementation of software systems. Thus, the aim of this paper is to research and define the predominant IT conditions in developing societies and, on that basis, to also define the characteristics that need to be possessed by the business software development method in order for it to be optimally applicable in such conditions. The definition of these characteristics would be the starting point in the creation of a new method, designed precisely for such low-budget conditions. Such a created method would allow a more efficient and comprehensive informatization of developing societies, which would also contribute to their faster overall development.

2. Overview of previous research in this field

Practically all methods are presented as being universally applicable by their authors.¹ Nevertheless, methods do not differ only by their applied methodology but also by the problems they are seeking to solve, as well as application possibilities. On the basis of a method's definition it is possible to determine the resources its application requires, as well as the conditions in which the application of the method is advisable. In literature, we can identify three basic approaches to solving the problem of creating software design methods.

¹ P. Abrahamsson, J. Warsta, M. T. Siponen, J. Ronkainen, "New Directions on Agile Methods: A Comparative Analysis," IEEE ICSE, Proc. of the 25th International Conference on Software Engineering, Portland, Oregon, U.S., May 3-10, 2003, pp. 244-254

The first approach comprises methods based on a hard scientific paradigm. In them, software design is treated as an objective process, in which the designer neutrally applies a certain set of rules and obtains an IT system as a result.

Among the first methods produced through such an approach are the cascade methods, such as the waterfall model,² the V-model,³ the W-model and the sashimi model. They are characterized by the introduction of strictly determined phases in the software development life-cycle, which communicate by way of extensive documentation. Such an approach allows strict control of the process, and precise definition of responsibility. On the other hand, the user is completely excluded; he only provides the initial specification of requirements and receives already completed and tested software. This increased the possibilities of functional errors in the project.⁴ Creativity is also excluded after the initial design, as realization and coding are treated as an automatized process independent of the programmer. The lack of feedback between phases of development leads to excessive model rigidity and inability to react quickly and efficiently to noted shortcomings, and makes it more difficult to make improvements in the process.⁵ Also, detection of errors made in the design phase may be delayed until the appearance of the final product.⁶ Due to the firm control of the development process, the detailed plan and a clear division of team roles, i.e., their respective responsibilities, these methods are presently used in the development of known, predictable and well-structured systems that demand tighter control (e.g., program systems for supporting military, police, healthcare and similar activities). Due to their strictness, insufficient adaptability and lack of feedback, their application is avoided in cases that demand creativity and flexibility, and when a detailed problem specification cannot be given in advance.⁷ Projects realized through this approach require significant resources and sufficient numbers of engaged personnel, their realization is lengthy, while the ultimate result is still uncertain.

In defining the spiral method, Boehm⁸ applies the iterative approach to software development, whereby risk assessment is performed in each iteration, along with a verification of the feasibility and possibility of the offered varieties.

² W. W. Royce, "Managing the development of large software systems: Concepts and techniques," Proceedings of WESCON, Vol. XIV, August 1970, pp. A1-A9.

³ P. Zave, "The operational versus the conventional approach to software development," Communications of the ACM, February 1984, pp. 104-118.

⁴ P. Zave, *ibidem*.

⁵ B. Curtis et al.: "On building software process models under the lamppost," IEEE Computer Society Press, Monterey, CA, 1987, pp. 96-10.

⁶ R. Balzer, "Transformational implementation: An example," IEEE Transactions on Software Engineering, 1987, pp. 3-14.

⁷ S. L. Pfleeger, J. M. Atlee, *Software Engineering Theory and Practice*, Pearson-Prentice Hall, New Jersey, 2006.

⁸ B. W. Boehm, "A spiral model for software development and enhancement," *IEEE Computer*, May 1988, pp. 61-72.

This allows plans to be more realistic, better risk control and high final product quality. The user is included in all phases of development by being able to evaluate what has been done and giving approval for prototype acceptance. The basic advantage of the spiral method is that it gives a clear criterion for choosing alternatives – risk minimization. Among the method's shortcomings are the fact that the spiral itself is specific for each project, and that the application of this method requires specialized and experienced personnel able to adapt the model to the concrete project.⁹ There are no established control points, which may result in various strayings in realization. Finally, the spiral model does not define sufficiently clear criteria for ending the project, which can lead to budget overruns and significant tardiness in implementation.¹⁰ Application of the spiral method is recommended for projects where it is important to minimize project risk, when well-documented control is required, and when experienced, well-trained personnel and sufficient resources are available.¹¹

RAD (Rapid Application Development) methods are based on fast, most often automatized production of prototypes that give the user good insight into the system's final possibilities. The use of RAD methods is associated with the use of specialized software tools for information analysis, software design, team communication, system testing and such, which are most often integrated into a single development platform. These methods are also based on relatively small but highly educated teams.¹² RAD method shortcomings are reflected in insufficient control over the process itself. The methods' prototype orientation may lead to difficulties in the integration of realized prototypes and system parts. Especially during the prototype generation phase, strict control over the process is difficult to achieve. Also noticeable is the tendency to, for the sake of the quickest possible achievement of certain results, first realize the simpler parts of the system, while the solution of more weakly structured problems is left for later, which reduces the quality of the realized system and leads to the prolongation of implementation deadlines.¹³ The method itself may be modified during the implementation process, depending on the problem that is being solved.¹⁴ As they are based on prototyping, RAD methods are recommended in cases of small and medium projects for the production of interactive applications, in which system functionality is visible from the user interface. The basic require-

⁹ S. L. Pfleeger, J. M. Atlee, *ibid.*

¹⁰ Microsoft Corporation: *Analyzing Requirements and Defining Microsoft .NET Solution Architectures*, Microsoft Press, Redmond, WA, 2003.

¹¹ S. L. Pfleeger, J. M. Atlee, *ibid.*

¹² G. Milosavljević, B. Perišić, *A Method and a Tool for Rapid Prototyping of Large-Scale Business Information Systems*, ComSIS, November 2004.

¹³ S. L. Pfleeger, J. M. Atlee, *ibid.*

¹⁴ W. D. M. Beynon-Davies, "The diffusion of information systems development methods," *Journal of Strategic Information Systems* 12, 2003, pp. 29-46.

ment for their application is the existence of highly specialized and experienced personnel. Due to insufficient process control, the application of RAD methods is not recommended for large infrastructure projects or those where security is required. Due to designer independence, RAD methods are also not recommended in cases where we have large or multiple design teams. Since the application of these methods requires adequate hardware and software, they are not applicable wherever there are technical limitations.¹⁵

The second approach comprises agile methods, based on a soft scientific paradigm, where software design is treated as a subjective process in which the designer is part of the system, and the end result depends on the interaction of the people engaged in the creation of the software system.¹⁶ These methods are based on four fundamental agile principles,¹⁷ by which software design is not treated as routine industrial production, but as a creative, human-focused act. A large number of separate methods were developed on the basis of these principles, such as XP (Extreme Programming),¹⁸ Scrum (16), FDD (Feature Driven Development),¹⁹ Crystal²⁰ and DSDM (Dynamic Systems Development Method).²¹ The common features of all agile methods are short iterations (often on a daily basis), frequent testing defined and created even before code generation, small but creative and flexible teams, multifunctional personnel, informal communication – both between team members and between the team and the system users, minimal documentation, jointly adopted coding standards, refactoring and continuous system integration into the real user environment.²² Certain aspects of agile methods, such as the paired programming present in extreme programming, are still being discussed, but the above-mentioned principles have been accepted by all agile methods.

The advantages of agile methods are flexibility and efficiency. Small teams, little documentation, final product-orientation, and the inclusion of users in all phases of development allow the rapid generation of software systems that satisfy user needs. Still, in spite of the growing popularity of agile methods, there

¹⁵ P. Beynon-Davies, K. Thompson, *Rapid Application Development: A Review and Case Study*, University of Glamorgan, Cardiff, Wales [on-line] www.comp.glam.ac.uk/SOC_Server/research/gisc/RADbrf1.htm, UK, December 1998.

¹⁶ S. Nerur, R. Mahapatra, G. Mangalaraj, "Challenges of Migrating to Agile Methodologies," *Communications of the ACM*, Vol. 48, No. 5, May 2005, pp. 73-78.

¹⁷ Agile Alliance, "Principles of the Agile Alliance," [on-line] 2001. <http://www.agilealliance.org/>

¹⁸ K. Beck, "Extreme programming explained: embrace change," Reading, Addison-Wesley, MA, 2000.

¹⁹ S. R. Palmer, M. Felsing, *A Practical Guide to Feature-Driven Development*, Pearson Education-Prentice Hall, New Jersey, 2001.

²⁰ A. Cockburn, *Agile Software Development*, Reading, Addison-Wesley, MA, 2002.

²¹ B. Kemper, S. Harmsen, "Assembly Techniques for Method Engineering," *Advanced Information Systems Engineering*, Vol. 1413/1998, Springer Verlag, 1998, pp. 381-400.

²² K. Beck, *ibidem*.

is still insufficient empirical research that proves their true usefulness, and the small number of existing studies is mostly associated with extreme programming.²³ The biggest objection regarding agile methods is that they are based on abstract principles, and that they, thus, produce few concrete and practically directly applicable techniques and methods.²⁴ The possibilities of applying these methods,²⁵ the mutual relationship between different agile methods,²⁶ and their actual contribution to the development of software systems²⁷ are still objects of research, but it can be said that, due to their flexibility, they are applicable in cases when weakly structured problems are being solved, and when adaptability and creativity are demanded. They are also good for situations in which the environment and the domain of the problem change frequently, as agile methods do not view changes as unwanted anomalies but as integral parts of every project. Due to the extremely small documentation, the application of these methods is debatable in situations that demand strict process control and increased responsibility. The growing popularity and acceptance of agile methods has even led software giants such as IBM and Microsoft²⁸ to modify their methods in accordance with agile principles. Also, there is a trend of development of tools for design automatization and software coding based on principles of certain agile methods,²⁹ although the application of these methods is not tied to the use of these tools. The effect of such phenomena has been the convergence of agile and classic software development methods.³⁰

The third approach to the development of software development methods emphasizes the organizational and cognitive essence of information systems,³¹ treats information systems not as technical but as social phenomena and partially

²³ T. Dyba, T. Dingsoyr, "Empirical studies of agile software development: A systematic review," *Information and Software Technology*, Vol. 50, Issues 9-10, August 2008, pp. 833-859.

²⁴ P. Abrahamsson, J. Warsta, M. T. Siponen, J. Ronkainen, "New Directions on Agile Methods: A Comparative Analysis," *IEEE ICSE, Proc. of the 25th International Conference on Software Engineering*, Portland, Oregon, U.S., May 3-10, 2003, pp. 244-254.

²⁵ M. Blom, "Is Scrum and XP suitable for CSE Development," *Procedia Computer Science*, ICCS 2010, Vol. 1, Issue 1, May 2010, pp. 1511-1517.

²⁶ A. Qumer, B. Henderson-Sellers, "An evaluation of the degree of agility in six agile methods and its applicability for method engineering," *Information and Software Technology*, Vol. 50, Issue 4, March 2008, pp. 280-295.

²⁷ A. Qumer, B. Henderson-Sellers, *ibid.*

²⁸ Thus, Microsoft published its *Microsoft Solution Framework for Agile Software Development*, and IBM its *Rational Agile Development Solution*.

²⁹ This category includes: Agile Project Manager, Scrum Project Manager, Agile Scrum Tools and FDD Tools Project.

³⁰ S. W. Ambler, "Agile Modeling and the Rational Unified Process (RUP). Agile Modeling" [online] Ambysoft Inc., 2009; <http://www.agilemodeling.com/essays/agileModelingRUP.html>

³¹ C. C. Shih, S. J. Huang, "Exploring the relationship between organizational culture and software," *Information & Management*, Vol. 47, Issues 5-6, August 2010, pp. 271-281.

or totally rejects structured methods due to their lack of adjustment caused by inadequate formalization.³² The meaning of a successful program is relativized,³³ along with the basic preconditions for method development, such as the positive influence of methodology on the process itself, the existence of good practices in program design, and even the possibility of transferring design principles to other persons.³⁴ Ontological boundaries to the method are placed,³⁵ the complex social nature of information systems is emphasized,³⁶ and, finally, the possibility of creating truly usable and useful software development methods is rejected as pure illusion and delusion.³⁷

3. Methodology and sample description

In order to determine the conditions for software business development in developing environments, a survey encompassing 74 business organizations from western Serbia, mostly from the Kolubara region (60 organizations – 81%), was conducted. Although geographically limited, the research did not have only local importance, as it may be supposed that the same or similar conditions are present in other insufficiently informationally developed environments that are significantly lacking in IT resources.

Data were gathered from three basic sources. Quantitatively, the most important source were survey questionnaires answered by the most appropriate personnel in the surveyed business organization. All the surveyed organizations filled all the questionnaires. Where possible, data were obtained with the cooperation of the organization that provided the IT support, either through current system maintenance or through the implementation of its own program system. In cases where the obtained results were less expected (e.g., in the description of IT-supported activities) or undefined (e.g., where it was impossible to identify

³² R. D. Galliers, J. A. Swan, "Against Structured Approaches: Information Requirements Analysis as a Socially Mediated Process," Proceedings of The Thirtieth Annual Hawaii International Conference on System Sciences, IEEE, Hawaii, 1997.

³³ J. Pereira, N. Cerpa, J. Verner, M. Rivas, J. D. Procaccino, "What do software practitioners really think about project success," *Journal of Systems and Software*, Vol. 81, Issue 6, June 2008, pp. 897-907.

³⁴ N. L. Russo, E. Stolterman, "Exploring the assumptions underlying information systems methodologies, Their impact on past, present and future ISM research," *Information Technology & People*, Vol. 13, No. 4, 2000, pp. 313-327.

³⁵ L. D. Introna, E. A. Whitley, "Against method-ism: exploring the limits of method," *Logistics Information Management*, Vol. 10, No. 5, 1997, pp. 235-245.

³⁶ R. D. Galliers, J. A. Swan, *ibidem*.

³⁷ J. Nandhakumar, D. E. Avison, "The fiction of methodological development: a field study of information systems development," *Information Technology & People*, Vol. 12, No. 2, 1999, pp. 176-191.

hardware maintenance costs), subsequent conversations with adequate personnel in the business organization were conducted, for the sake of gaining a more precise explanation of the cause of the obtained result. Unfortunately, due to lack of sufficient readiness to cooperate, these two supplemental forms of result collection were not possible in all the surveyed organizations. Thus, the collection of information with the aid and cooperation of an IT support organization was applied in 34 business organizations (45.95%). Additional direct conversations with business organization representatives were conducted in 38 cases (51.35%).

In the process of sample creation, care was taken that organizations of different sizes were represented in the sample. Bearing in mind that, out of the total number of economic actors, most have a small number of employees (1-5), this category was also the most numerous in the sample. The sample structure according to number of employees is shown in Table 1.

Table 1: *Number of employees in organizations*

| SAMPLE DISTRIBUTION ACCORDING TO NUMBER OF EMPLOYEES | | |
|--|-------------------------|------------|
| Number of employees | Number of organizations | Percentage |
| 1-5 | 17 | 22.97% |
| 6-10 | 14 | 18.92% |
| 11-15 | 10 | 13.51% |
| 16-25 | 11 | 14.86% |
| 26-50 | 8 | 10.81% |
| 51-100 | 5 | 6.76% |
| 101-500 | 4 | 5.41% |
| 501-1000 | 2 | 2.70% |
| >1000 | 3 | 4.05% |
| TOTAL: | 74 | 100.00% |

Considering the object of research, besides the number of employees, a second important criterion that was considered was the number of computers in use within the organization. The number of computers used by the organizations encompassed by this research is shown in Table 2.

Table 2: *Number of computers in the organization*

| SAMPLE DISTRIBUTION ACCORDING TO NUMBER OF COMPUTERS | | |
|--|-------------------------|------------|
| Number of computers | Number of organizations | Percentage |
| 1-5 | 34 | 45.95% |
| 6-10 | 15 | 20.27% |
| 11-25 | 10 | 13.51% |
| 26-50 | 8 | 10.81% |
| 51-100 | 3 | 4.05% |
| >100 | 4 | 5.41% |
| TOTAL: | 74 | 100.00% |

In the creation of the sample, care was also taken that the organizations should be diverse in terms of their primary activity. The sample structure according to this criterion is shown in Table 3.

Table 3: *Distribution of organizations according to basic activity*

| SAMPLE STRUCTURE ACCORDING TO PRIMARY ACTIVITY | | |
|--|-------------------------|------------|
| Basic activity | Number of organizations | Percentage |
| Manufacturing | 15 | 20.27% |
| Commerce | 11 | 14.86% |
| Accounting | 8 | 10.81% |
| Healthcare | 7 | 9.46% |
| IT support | 5 | 6.76% |
| Other public enterprises | 5 | 6.76% |
| Hospitality | 4 | 5.41% |
| Banking | 4 | 5.41% |
| Transport | 3 | 4.05% |
| Construction | 3 | 4.05% |
| Administrative organs | 3 | 4.05% |
| Other services | 6 | 8.11% |
| TOTAL: | 74 | 100.00% |

4. Research results

The basic feature of developing IT (and economic) environments as compared to developed environments is a significantly lower resource availability. The goal of the research was to establish the consequences of, in the first place,

a lack of financial resources on the software development process, and whether those consequences could be modified by applying a different development methodology. Three aspects relevant for business software development and application were examined:

- hardware resource aspect,
- software resource aspect
- IT support aspect.

Great diversity was found in researching the state of hardware resources. The latest graphic work stations were in use as well as computers based on 486 processors. In order to compare such diverse resources, the age of computers used in the business process was taken as the basic criterion in determining an organization's hardware capacity. Considering the speed of technological development of information technologies, this is a good indicator of the quality of the computer equipment that is being used. Data on the age of computers used in organizations encompassed by this research are shown in Table 4.

Table 4: *Age of computers used in organizations*

| COMPUTER AGE | Number of organizations | Percentage |
|---------------|-------------------------|------------|
| Up to 3 years | 7 | 9.46% |
| Up to 5 years | 19 | 25.68% |
| Up to 7 years | 29 | 39.19% |
| Over 7 years | 19 | 25.68% |
| TOTAL: | 74 | 100.00% |

The research results from Table 4 show that almost 65% of the surveyed organizations use computers more than 5 years old, while only 9.46% use exclusively up-to-date equipment. To this we can add the fact that 91% of the organizations do not write off computer resources due to obsolescence, but exclusively due to malfunctions that are not worth repairing. Nevertheless, when, due to technological demands, an existing computer is replaced by a newer one, the former is transferred to another, informationally less demanding work place, and its exploitation continues. Such a long IT equipment life-cycle is certain to lead to problems of computer system compatibility and reliability.

Also researched were investments in hardware resources, from two aspects: existing equipment maintenance and new equipment purchases. The results of the survey of investment in hardware resources are shown in Table 5.

Table 5: *Surveyed organizations' investments in hardware resources*

| ANNUAL INVESTMENTS IN HARDWARE MAINTENANCE PER COMPUTER | | | ANNUAL INVESTMENTS IN NEW EQUIPMENT | | |
|---|-------------|-------|-------------------------------------|-------------|-------|
| Investment | No. of org. | % | Investment | No. of org. | % |
| >100€ | 4 | 5.41 | >5000€ | 8 | 10.81 |
| >50€ | 11 | 14.86 | >1000€ | 5 | 6.76 |
| <50€ | 19 | 25.68 | >500€ | 8 | 10.81 |
| Do not invest in hardware | 21 | 28.38 | <500€ | 11 | 14.86 |
| Unknown | 19 | 25.68 | Do not invest | 12 | 16.22 |
| | | | Do not invest regularly | 30 | 40.54 |

The research results in Table 5 show that only 5.41% of the surveyed organizations invest more than 100 euros per computer per year in maintenance, while 54% of the organizations do not invest in maintenance at all or cannot determine how much they invest. These are organizations that do not plan maintenance, but only repairs in case of malfunction. The situation is not much better when it comes to new IT equipment purchasing. At the annual level, 71.62% of the organizations invest less than 500 euros, i.e., less than the price of a single quality computer. There is no planned computer equipment replacement, which necessarily leads to the incompatibility and obsolescence of the computer resources in use. The largest number of organizations (40.54%) purchase computers periodically, when the business situation allows them, i.e., only when they earn sufficient profits. With these organizations, there is a noticeable tendency to consider the computer issue resolved for the long term with a single large purchase of computer equipment. There is no awareness of the fact that this equipment ages rapidly, and that it is necessary to perform constant, planned changes of obsolete equipment.

The research also encompassed questions regarding the end use of the computers, as well as the types of programs used. The results are shown in Table 6.

Table 6: *Computer use in surveyed organizations*

| COMPUTER USE | | | | | |
|---|-------------|-------|------------------------------|-------------|--------|
| COMPUTERS ARE USED FOR: | No. of org. | % | PROGRAMS IN USE ARE: | No. of org. | % |
| keeping evidence of complete operations | 53 | 71.62 | from the MS Office package | 74 | 100.00 |
| Internet communication | 59 | 79.73 | graphics packages | 15 | 20.27 |
| Internet searches | 53 | 71.62 | specialty developed programs | 58 | 78.38 |
| bookkeeping | 48 | 64.86 | integral IS or ERP system | 9 | 12.16 |
| graphics processing | 14 | 18.92 | | | |
| layout and design | 15 | 20.27 | | | |

The research results in Table 6 show that computers are most used for Internet access, either for searches (71.62%), Internet-based communication (79.73%), or bookkeeping tasks (64.86%). There is much less advanced usage, such as product layout and design (20.27%). As for the software used, all the organizations use some of the programs from the MS Office package: most frequently MS Word – 74 organizations, i.e., 100% and Power Point – 48 organizations, i.e., 64.86%, much less frequently Excel – 26 organizations, i.e., 35.14%, while MS Access is used in only 4 organizations (5.4%). Also noticeable is that many organizations (58, or 78.38%) use programs specially developed for them. Most often, these are bookkeeping programs that have been somewhat modified in accordance with the organization's needs. 38 organizations (51.35%) use several separate, independent programs developed and delivered by various IT firms. In contacts with the surveyed organizations, it was determined that this phenomenon has a twofold cause. In 23 organizations (31.08%) these are older programs, inherited from the previous deliverer, which are still in use, while in 15 organizations (20.27%) it is thought that the use of programs from different sources decreases their dependence on IT firms. Of course, this phenomenon results in the incompatibility of implemented solutions and needless overlapping of work due to the inability to exchange data between program systems delivered by different suppliers. The results show that 71.62% of the surveyed organizations consider that they are using computers to keep evidence of their “complete operations” while, at the same time, only 12.16% of them use an integral IT system. This is a consequence of the view that computers are mostly used for bookkeeping and that this is what, in fact, constitutes “complete operations.” It is obvious that, in a significant portion of the sample, the necessary knowledge for a more advanced use of

IT technologies is lacking. The results show that only 9 organizations (12.16%) use a more advanced software system, such as an integral IT system or an ERP system. None of the organizations are using all the possibilities of such a complex system, but are using it only partially. Many objections were raised in contacts with representatives of these organizations regarding the application of such systems, such as the systems' insufficient accommodation to user needs, slow reaction to requests for changes and excessive complexity of work in using such a system. The consequence was that, in some cases, organizations have changed the way they operated in order to adjust to the software system, or have simply abandoned the use of some of the system functionalities.

A second aspect covered by this research was analysis of investments in software. The research aimed to determine annual investments in software per computer, as well as total annual investments in new software. The results are shown in Table 7.

Table 7: *Investments in software resources at organization level*

| ANNUAL INVESTMENTS IN SOFTWARE | | | | | |
|--------------------------------|-------------|-------|---------------------------|-------------|-------|
| TOTAL FOR NEW SOFTWARE | | | INVESTMENTS PER COMPUTER | | |
| Investment | No. of org. | % | Investment | No. of org. | % |
| >1000€ | 8 | 10.81 | >100€ | 0 | 0.00 |
| >500€ | 5 | 6.76 | >50€ | 12 | 16.22 |
| <500€ | 12 | 16.22 | <50€ | 17 | 22.97 |
| Do not invest in new software | 28 | 37.84 | Do not invest in software | 23 | 31.08 |
| Unknown | 21 | 28.38 | Unknown | 22 | 29.73 |

The results in Table 7 show that 49 organizations (66.22%) do not invest in new software or cannot not determine the amount allocated for this purpose. Only 8 organizations (10.81%) invest more than 1000 euros per year for new software purchases. It is indicative that no organization invests more than 100 euros per computer, which means that the value of installed software does not reach even 30% of the hardware value. If we take into account the price of an operative system, it is clear that piracy is still present in our environment. Paying for software is still considered a necessary evil that should be avoided in all possible ways, and domestic organizations are not prepared to spend significant resources for software development.

Having in mind the extremely modest resources spent for software development and purchasing, the question is whether business software development is at all necessary for domestic organizations. As an indicator of need for specific

business software, the criterion of requests for changes in programs used at the annual level was used. The results are shown in Table 8.

Table 8: *Requests for changes of software used in surveyed organizations*

| REQUESTS FOR PROGRAM CHANGES | No. of org. | % |
|------------------------------|-------------|-------|
| More than 5 times per year | 19 | 25.67 |
| More than 3 times per year | 14 | 18.91 |
| 1 to 3 times per year | 14 | 18.91 |
| No requests for change | 8 | 10.81 |
| Someone else decides | 12 | 16.22 |
| Cannot estimate | 7 | 9.46 |

The results in Table 8 show that, of the total number of surveyed organizations, 33 (44.6%) have a need for more than three changes in programs that are already in use. This percentage is even higher if we have in mind that the needs for changes are defined by someone else in 12 organizations (these are affiliate offices of larger systems, with headquarters stationed elsewhere), while 7 are not able to give an estimate. Only 8 organizations (10.81%) have no need for changes in programs. We should add that under changes we do not mean minor demands such as change of company logo or letterhead and such, but changes either in data structure or in processing activities. The reason for such a large number of needs for program changes lies in both internal and external causes. Most of the domestic organizations are immature systems where changes are frequent due to insufficiently defined procedures and processes. On the other hand, transition societies frequently change their business environments, to which business organizations must adjust.

The research also covered the role of the documentation of the software systems in use and the way it is used. The results are shown in Table 9.

Table 9: *Data on possession and use of program documentation*

| PROGRAM DOCUMENTATION | No. of org. | % |
|----------------------------------|-------------|-------|
| Possess complete documentation | 4 | 5.41 |
| Possess incomplete documentation | 12 | 16.22 |
| Possess no documentation | 58 | 78.38 |
| Use documentation daily | 0 | 0.00 |
| Use documentation periodically | 3 | 4.05 |
| Do not use documentation | 71 | 95.95 |

The results in Table 9 show that 58 organizations (78.38%) possess no documentation about the programs they use, not even instructions for use. Even more

indicative is that 71 organizations (95.95%) never use the documentation and feel no need to do so. Of the surveyed organizations, only 1 (1.35%) possess the complete documentation of the software system and use it occasionally. Such results mean that the type and role of software project documentation should be reexamined in detail. An important element in the use of program systems is certainly the training of the end users, operators. Possession of an ECDL certificate was taken as the measure of training, as a criterion of personnel capability to work on computers, which was adopted by the European Union. Since the process of ECDL certification is only at its inception in Serbia,³⁸ other types of training were also checked – either external, organized by an IT education organization, or internal, organized within the company. The results of this research are shown in Table 10.

Table 10: *Level of operator training for computer work*

| OPERATOR TRAINING LEVEL | No. of org. | % |
|----------------------------------|-------------|--------|
| All possess an ECDL certificate | 0 | 0.00 |
| Some possess an ECDL certificate | 4 | 5.41 |
| Underwent external training | 9 | 12.16 |
| Underwent internal training | 15 | 20.27 |
| No special training | 46 | 62.16 |
| TOTAL: | 74 | 100.00 |

The results in Table 10 show that, in 46 surveyed organizations (62.16%), the operators never underwent any training. The situation is even worse considering the fact that 68.23% of employees had no previous IT experience before employment.

The third aspect covered by this research relates to IT support. The results of the research are shown in Table 11.

Table 11: *IT support realization in the surveyed organizations*

| IT sUPPORT | | | | | |
|-----------------------------|------------|-------|-------------------------------|------------|-------|
| WAY OF OBTAINING IT SUPPORT | No. of org | % | FIRMS THAT PROVIDE IT SUPPORT | No. of org | % |
| Have a computer center | 8 | 10.81 | with 10 or more employees | 6 | 9.53 |
| Have an employed IT expert | 18 | 24.32 | with more than 5 employees | 1 | 1.59 |
| Contracted external support | 37 | 50.00 | with more than 1 employee | 24 | 38.10 |
| Sporadic, as needed | 9 | 12.16 | with 1 employee | 17 | 26.98 |
| No support whatsoever | 2 | 2.70 | secured within the firm | 15 | 23.81 |

³⁸ In western Serbia, where the research took place, according to the data of owners of the Serbia and Montenegro licence of the Unified IT Association JISA, there were only 4 accredited test centers as of June 2010. There were only 106 test centers in the entire state, of which 43 (40.57%) in Belgrade (according to: www.ecdl.rs).

The research results in Table 11 show that only 26 (35.1%) organizations employ IT personnel, either within the computer center (or the automated data processing department), or as individuals within other departments. This was to be expected, as the sample is dominated by smaller organizations with smaller numbers of employees. The largest number of the surveyed organizations (37, or 50%) use outside services, from an independent IT firm with which they have a contractual relationship, while 11 organizations (14.86%) have no contracted IT support, but obtain it sporadically, as needed, or do not have it at all.

Also of interest for this research was to determine the structure of the firms that provide IT support. 41 organizations (65.08%) received IT support from firms with 5 or less employees, while only 6 organizations receive IT support from larger IT firms, i.e., those with more than 10 employees. This is indicative of a trend whereby domestic firms are relying on small and flexible IT firms, which is more understandable if we know that 38 of the organizations (51.35%) receive support from local firms. There are no larger IT firms in smaller environments, and the management of the surveyed organizations prefers firms that are quickly accessible. Since small firms dominate in providing IT support, 8 such firms from western Serbia were also surveyed. The smallest has 2 employees, while the two largest have 5 permanent employees. On average, these firms employ 3.75 people, but only 1.63 IT personnel with formal education in that field. The lack of personnel is compensated through the engagement of external associates, of which each firm has 2.63 on average. External associates are mostly engaged in development projects. Nevertheless, the average weekly work load of personnel comes to 51 working hours, ranging from 47 to a maximum of 56 per person. Four of the surveyed firms (50%) also engage in hardware sales, while 7 firms (87.5%) provide complete IT support, from program system realization, administration, user training and software installations, to software and hardware maintenance and modification. It is interesting that these firms have an average of 111.25 users. This means that each employee provides support to 30 organizations, which necessarily leads to the multifunctionality of personnel. Also indicative is the fact that more than one half of the permanent employees (56.77%) have no formal IT training but are self-taught.

The results of the research on the use of program system documentation show that documentation devoted to process development control, risk assessment, process phase realization monitoring and detailed description of all system functionalities is not necessary. In the process of researching the work method of local IT firms, we arrived at three basic functions that documentation should fulfill:

- facilitating communication with the user in the phase of problem space definition;
- allow rapid inclusion of new personnel in program development;
- allow fast and efficient system modification in the realization phase.

5. Discussion of results

The basic limitation in most transition societies, including Serbia, is the lack of financial resources that, like a chain reaction, leads to a lack of other resources in most activities. The above research sought to identify all the limitations caused by a lack of financial resources in the process of business software development.

The research detected hardware resource limitations and specificities. As the result of a lack of financial resources, business organizations' equipment can be quite varied and incompatible. On the basis of the collected data, we can see that IT equipment is purchased sporadically and in small amounts, and that its life of exploitation is much longer. The duration of equipment exploitation results in hardware system unevenness. Having this in mind, it should be made possible for business program systems to be executed on computers of different performances (e.g., those based on DualCore processors as well as those based on Pentium II or even 486 processors). The system should have the lowest possible hardware requirements, and should be able to be supported with the use of older technology. In general, the system should maximally use the purchaser's existing IT infrastructure and require as little new IT equipment purchasing as possible. The age of the hardware resources significantly increases the probability of hardware component system failure during work. Thus, the program design should be maximally resistant to probable hardware failures. It is also necessary to allow efficient recovery from system crashes caused by hardware errors.

Under conditions of limited financial resources, limitations have also been established in the application of the latest (and expensive) software tools. When choosing development technologies, it is necessary to either rely on freeware or to at least anticipate the need for such software as a financially more palatable alternative. On the other hand, the use of free software tools often carries the risk of lower quality and reliability, which may occasionally be unacceptable for the purchaser. In order to resolve this contradiction in requirements, cost minimization regarding software tools should be sought during the process of program system realization, although costs must not be totally excluded. In a time when software systems are developing and changing quite rapidly, the choice of software platform on which the system will be realized is of great importance under the researched conditions. Limitedness of financial resources means that the platform must be in exploitation for as long as possible. In any case, program system development should be as independent as possible from the applied technology and, as in the case of hardware, should not impose additional demands and costs related to software purchasing.

Another significant effect of the lack of financial resources are the personnel limitations. Being financially limited, IT firms either employ insufficient numbers of personnel for optimal operations or employ informally educated personnel. The lack of possibility to engage the necessary number and quality of IT

personnel for program system realization in IT companies imposes a number of limitations:

- **Small IT teams.** The number of people engaged in the team is limited to 3-5, while in extreme cases the entire project is realized by a single person.
- **Personnel multifunctionality.** The existing personnel perform multiple tasks, in various life-cycle phases of software development. Thus, the possibility must be allowed for the same person to perform e.g., acquisition, coding and user training. Although some methods explicitly prohibit a single person performing different functions (e.g., coding and testing), this is necessary in the case of small teams.
- **Multiple engagement.** One person can (and must) be engaged on multiple projects simultaneously. This prevents the engaged personnel from focusing on only one project but, rather, compels them to be able to flexibly move between projects depending on existing needs and urgency of demands. Frequent personnel fluctuation and the inclusion of new people in the team should also be anticipated.
- **Reduced possibilities for specialization.** Due to the personnel's workload and the need for them to perform various tasks, the possibility of high personnel specialization is much reduced. This is a direct effect of the detected limitation of personnel multifunctionality. It is very difficult to expect a single person that performs multiple functions to have the same level of expertise for all the functions they are performing within the team.
- **Engagement of informally educated IT personnel.** Due to the overburdened personnel, there is a constant need for additional (but also cheaper) personnel, which further leads to the engagement of self-taught IT personnel with unsystematized knowledge and questionable capability. Despite all the shortcomings, the engagement of such personnel is relatively cheap, which means that the possibility of engaging such personnel in the system development process must be left open.
- **Insufficient user IT capability.** The personnel that should become the users of the program system often do not possess even elementary knowledge regarding computer functioning, since the organizations that employ them are not able to invest in additional employee training. Such personnel are skeptical regarding the application of IT in their environment, which makes cooperation with them much more difficult.

In an unstable social environment, characteristic for transition societies, frequent changes occur, not only in legal regulations but in the entire social system. Different societies choose different transformation strategies in accordance with their specificities. Drastic and frequent changes at all levels are to be expected during the transition process. As a result, the legal framework within which business organizations function is subject to frequent changes. On the

other hand, it is often the case that, as a result of these frequent changes, the legal framework is incomplete, insufficiently precisely defined, inconsistently applied and, in extreme cases, contradictory.

The instability of the broader social framework is inevitably reflected on the organizations that do business within it. They must be flexible, able to change their way of doing business and to adjust to broader changes. This results in frequent changes of business processes, procedures, rules, organizational structures and the structure of documents and models in use. These frequent changes of ways and conditions of business also mean that the software system must be extremely flexible and frequently modified. The nature of these modifications is most often unpredictable; thus, the program system must allow for significant changes during the exploitation phase. The effects of these phenomena can be seen in the exceptionally high level of demands for changes in program systems that are already in use.

In accordance with the substantially lower resources invested in its development, the purchaser is willing to accept reasonable limitations in the quality of the system. Purchasers accept the fact that the system is not all-encompassing, i.e., that it does not support certain unstructured or weakly structured activities within the organization. Also acceptable are system limitations that are a consequence of technological limitations. What is demanded of the system is, in the first place, work reliability and adequate support for activities included in the system, which users consider as vital for their business.

Program system development and implementation require much smaller financial resources than in developed environments, which substantially lowers risk. Contemporary methods strive to maximally reduce risk and devote a major part of their activities to that end. This is not justified under conditions of reduced resources, as it could easily happen that risk management activities might require greater resources than the program system itself, which would turn them into the largest risk within the entire project.

Accommodation to the needs of system purchasers and users is an extremely important characteristic. Since realization is being accomplished with minimal resources, it is not acceptable for those resources to be spent on developing system parts that the user will not use intensively or that are of little importance to him. It is, therefore, very important to consider the user's real IT needs and, in cooperation with him, concentrate on satisfying precisely those needs, instead of building a generic model that would be applicable in all possible (including unlikely) cases of little value to the user. Having in mind the user's limited IT capabilities, support for rare and unimportant cases can have counterproductive effects, as it may confuse the user and make his entire system needlessly complicated. For the same reason, the identification of the user's true IT needs may be a complex task.

In an unstable environment, system flexibility is especially important. The system must be designed in a way that allows frequent, not only cosmetic but

also essential modifications. It must be built in such a way so that changes are localized and can be efficiently carried out with minimum effort. This is all the more important having in mind the fact that realization of changes will most probably be subject to time limitations (e.g., to deadlines set by legislation for the implementation of specific regulations).

An especially important aspect of each method is communication, both within the team that is realizing the system, and of the team with the user side (i.e., purchasers, financiers and system end users). The type of communication depends on the way the development team is organized. Most of the existing methods consider this aspect in great detail and devote much attention to it. Thus, Baker³⁹ proposes an organization with a chief programmer solely responsible for program implementation. Such a hierarchical organization is recommended for large, well structured projects with a low level of uncertainty and vagueness. On the other hand, Weinberg⁴⁰ recommends an organization in which everyone would be equal and equally responsible. This type of organization is recommended for uncertain, weakly structured projects requiring greater innovativeness and creativity. A major portion of each standard for IS design is devoted to ways of communication and documentation methods.

Under conditions of limited resources, the nature of communication changes qualitatively. Communication within the realization team is greatly facilitated by the fact that these are small teams (3-5 people, as already mentioned). There is no need for formalized communication prescribed in detail; in most cases, regular, informal communication, which is also the most efficient, is quite sufficient. The question of communication between team members should not be confused with individual member responsibility for specific parts of the process, which need not be informal. A more or less formal hierarchical organization is still the most efficient.

On the other hand, due to the importance of accommodating the system to purchaser needs, the importance of communication with the user side grows. It is desirable to include representatives of the user side in the capacity of development team members. This also allows the users to more easily overcome resistance to innovations in their work environment, caused by the introduction of a new program system.

Excessive burdening of personnel must necessarily reflect on system realization time. Keeping in mind that, under limited resource conditions, system purchasers are most often small and middle organizations that are already doing business in such conditions and to whom the length of time of introducing the system is not vitally important, reduced realization speed is the most painless

³⁹ F. T. Baker, "Chief Programmer Team Management of Production Programming," *IBM Systems Journal*, T. 11, 1, 1972, pp. 56-73.

⁴⁰ G. M. Weinberg, *The Psychology of Computer Programming*, Van Nostrand Reinhold, New York, 1971.

way in which to soften the effect of the deficit of engaged personnel. The realization plan need not be strict if the purchaser is paying per accomplished task instead of for time spent on the process.

Under conditions of significantly reduced resources, the role of supporting project documentation also changes. The basic purpose of documentation is no longer to secure detailed control of the entire process. Under the said conditions, the generation of such detailed documentation additionally engages personnel, without directly contributing to system realization. Due to reduced system development risk, it is quite acceptable to abandon comprehensiveness of documentation. Even so, documentation remains an important element of the development process, but its basic purpose is to improve and ease communication between the development team and the purchaser. It need not be exhaustive and burdened with technical details that are frequently alien to the purchaser, but should secure the project's general framework and define aspects of the organization's business that the system will support, and the ways it will support them. Another important role of the documentation is to allow efficient subsequent system modification, as well as more rapid integration of new personnel in work on the system. It should be a guide for users, administrators and probable modifiers in the phase of system exploitation and maintenance. In addition, such documentation can be very useful to engaged IT personnel in their simultaneous work on several projects. Finally, it can be said that the documentation need not be complete, i.e., it does not need to include all the details of the system and its development process, but should be concise, clear and understandable.

On the basis of all the established limitations and the effects of those limitations on the process of software system production, we can define the optimal characteristics of the software design method in a low-budget environment:

- The method should allow multiple engagement of multifunctional personnel organized into a small team, without placing additional demands regarding the number or the training of the engaged personnel. Of course, the engagement of fewer personnel or less trained personnel necessarily lengthens project time, but we have already established that realization speed is not vitally important for project success. It should be possible to utilize the existing personnel with the existing level of training. Also, users should be included in the development team as full-fledged members, and engaged the entire time on solution evaluation as well as system design and development.
- The method should ensure partial and modular solutions so that the project can be realized in phases that depend on the user's genuine IT needs. The most important and the most critical phases would be realized first.
- The optimal method for these conditions should not place any conditions for the engaged hardware or software. Its application should be totally independent from both the hardware and the software, which would allow

the use of existing and available user hardware and software resources, without generating additional costs for the purchase of new ones.

- Due to the unstable system environment, it is necessary for the method to be flexible and to generously allow frequent changes in the system, both in the course of system realization and later, in the phase of full system exploitation.
- The method should allow efficient and informal communication between team members as well as between team members and the user side. The relationship with the personnel engaged in development should be based on coordination and a common goal, not merely on the contract.
- In the method for low-budget conditions, activities tied to process planning and control should be minimized, while activities tied to control should be (due to the low risk and small amount of engaged resources) totally left out.
- Project documentation should not be all-encompassing, but should be readable and clear. It should allow system domain definition, a general overview of the system's functioning at module level, general realization principles, and eventual specificities of the realized solution. There is no need to follow and document each activity in the course of development or each class used in the system. The basic guideline in generating documentation should be the documenting of everything that someone might actually need in the future, rather than of what has already happened.

None of the surveyed software firms used any of the existing software design methods in its entirety. On the basis of the results of the research and the defined characteristics of the optimal method for low-budget conditions, we will try to answer as to why that is the case.

Waterfall methods require a large number of highly specialized personnel. We have seen that local IT firms, due to the modest financial resources at their disposal for business program development, are not able to engage larger numbers of expert personnel. They employ multifunctional personnel, which would necessitate the appearance of the same person in contradictory roles (e.g., project designer and controller). The number of demands for program changes and program system flexibility is large, which also makes waterfall methods inappropriate, due to their rigidity. Finally, waterfall methods assume strict control of the process through detailed documentation. Significant resources are spent on generating documentation, and we have seen that the use value of this documentation in the surveyed sample is negligible. The user is practically excluded from the entire development process, and there is great probability that the end result will not satisfy the user's IT needs in an optimal way. All this makes waterfall methods difficult to apply in the researched conditions.

The essence of spiral methods is risk control. As the surveyed software development companies spend extremely modest financial resources, the risk from such projects' failure is extremely low, and could in no way represent the basic criterion for choosing system development alternatives. Also, spiral methods require expert and experienced personnel to be engaged in the project, which is something that local IT firms, in which 56.77% of the personnel lack formal IT education, can hardly secure. These are the reasons why the application of spiral methods cannot be considered as the best solution in the realization of software projects under the researched conditions.

RAD methods have their advantages in speed of realization and improved communication with users thanks to the prototyping approach. Still, these methods also require highly expert and specialized personnel. The application of the software tools required by this approach is an even bigger problem. We have seen that the hardware resources are quite varied and incompatible, and that obsolete computers are often in use. Besides requiring additional training, the application of software tools most often requires a relatively high hardware resource level, so there is a real danger that the tools themselves require substantially stronger configurations than those necessary for the final program.

The same problems appear in the application of the MSF method as in the application of the waterfall and the spiral method, i.e., large numbers of specialized personnel and the generation of voluminous documentation. This method was in fact developed for the realization of large software systems, so it is quite inappropriate for these conditions.

Agile methods are much more applicable in the researched environment,⁴¹ but even their application is not always possible without essential modifications. The advantages of applying these methods are reflected in reliance on small, creative, flexible and multifunctional teams, informal but efficient communication, flexible and adaptable development in accordance with user needs, minimization of documentation, and assumed system modification. Although agile methods allow and stimulate personnel multifunctionality, insistence on a 40-hour work week and pair programming are hardly applicable in situations with scarce personnel resources, as is the case in the surveyed software firms. One person must support a larger number of users and, thus, a larger number of projects in different development life-cycle phases, which collides with the agile methods' premise regarding personnel dedication to the project at hand. Insistence on the priority writing of unit tests, which is common to all agile methods, no matter how simple and routine the tested portion of the code is, represents an additional burden for already overburdened personnel. Finally, with agile methods documentation is extremely sparse, being oriented towards the initial agreement with the software purchaser, and thus reduced to a set of tasks leading to the fastest possible realiza-

⁴¹ I. Stanišević, V. Pavlović, Đ. Petrović, "Komparativna analiza metoda projektovanja IS u domaćim uslovima," 52nd ETRAN Conference, Palić, June 8-12, 2008.

tion. Such documentation is not especially favorable for the inclusion of new personnel in the project, and it is especially not adequate in allowing more efficient modification in the phase of system exploitation and maintenance.

We may conclude that none of the above-mentioned methods are optimally accommodated to use in the detected IT conditions, and that this is the reason why none of them are being used consistently or wholly.

6. Conclusion

Our research revealed that the IT conditions that exist in the surveyed sample are much different from the conditions present in environments that are more developed in the IT area. Since the most important and the most widespread software design and development methods originated from conditions in developed environments, their application is not appropriate in our own conditions, wherein lies the cause of their insufficient application. The results of the research form a basis for a setting of limitations in business software development that a method adapted to domestic conditions should respect, and the effects of these limitations on the software development process have also been identified.

On the basis of the determined limitations and effects, we have defined the characteristics of a software development method adapted to a low-budget environment. This method should allow the multilateral engagement of unevenly trained, multifunctional personnel; include the users in the development team; allow partial, phased and modular software development; be independent of the applied hardware and software; allow modification both during development and during exploitation; allow efficient informal communication in the course of the project; minimize activities related to process planning and control; leave out risk management activities; and provide for the use of focused and clear, rather than all-encompassing documentation.

On the basis of thus determined characteristics it is possible to generate a software design method for low-budget conditions. In future research, it will be necessary to examine how different software design methods and techniques fit into the achievement of the derived method characteristics. Towards that end, it is necessary, on the basis of the determined principles, to especially explore:

- possibilities of design and coding standardization, along with the eventual use of design models;
- code refactoring facilitation through the application of free tools;
- increasing the flexibility and openness of the development process by applying the principles of agile design methods;
- documentation standardization, whose generation would require minimal resources, along with the eventual use of graphic standards such as UML;

- standardization and simplification of communication between designers and users, so that it is clear and complete, yet understandable to the ordinary user;
- the modeling of business rules in a way that increases the efficiency of system development and flexibility;
- the possibility of applying software metrics as a means of raising the quality of realized software systems.

The end result of such research would be the definition of a new software design method that would be optimal for low-budget conditions. The existence of a method better adjusted to restrictive IT conditions, such as those that have been determined to exist in our environment through our research, would allow better use of scarce IT resources, as well as contribute to the faster, more quality and more efficient informatization of the domestic economy, in accordance with its needs and possibilities, which would result in the better quality and greater competitiveness of domestic organizations.

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SUBJECTIVE EXPERIENCE OF THE PROCESS OF GAINING A PHD DEGREE

Summary

The PhD degree is the crown of the entire education, i.e. higher academic education. The process of gaining a PhD degree is exceptionally complex and demanding, asking for a lot of sacrifice. Other than material, financial, organizational and intellectual, the process contains an existential dimension, as well. The cognition and understanding of the existential side of the PhD degree are necessary, since they can help to better perceive, reduce or prevent some of the hardship which follow it, make it slower or stop, and not seldom, lead to giving up, which in most cases brings major disappointment influencing the future careers of potential PhD candidates. The biggest benefit of a research of the sort would be for the PhD candidates themselves to discover that they are not alone in their hardship, and that the lack of certainty, doubt, disappointment, blockage, short and long term loss of interest and motivation and similar, trouble their colleagues as well, and do not present their personal weaknesses and faults. Through bigger understanding for this vulnerable population, understanding the difficulties through which they go, better communication, adequate mentorship and direction through the complex process of gaining a PhD degree, all the participants in the process, with mutual strength and good will can significantly relieve the path for the future scientific elite which is truly needed in our country. The authors of the paper met similar difficulties.

Key words: *gaining a PhD degree, psychology, experience, stages, dynamic patterns*

JEL classification: D83, J24

1. Introduction

The PhD degree is a crown of the entire, i.e. higher academic education. Other than the socio-demographic statistics and the data about the number of PhD candidates and their distribution at universities and schools, various brochures about the administrative aspects of enrollment at doctoral studies and books

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about the methodology of scientific research, what is apparent is lack of attention for the life, difficulties and challenges for this population. First information about writing a PhD thesis are gained through the studies, from the website of the school, from stories of successful PhD candidates. However, all these stories are full with adrenalin and push you towards writing a PhD thesis.

Although they present the intellectual elite of each country, the future university professors and scientists are not examined, or rather not enough examined, namely their life conditions, material, financial, family conditions, existential problems etc. Other than the material, financial, organisational and cognitive dimensions, the process of gaining a PhD degree contains psychological, emotional and conative dimensions as well.

This paper primarily deals with the stages of the process of gaining a PhD degree, while the material and existential factors would be mentioned by their influence on the emotional experience of gaining a PhD degree. The perception and understanding of the psychological aspect of gaining a PhD degree are necessary, since they aid better understanding, reduction and prevention of some difficulties which are a part of it, make it slower and stop and more often than not, lead to giving up. Possibly the biggest benefit of a research of this matter would be the discovery for the PhD candidates themselves that they are not alone in their hardship, and that the lack of certainty, doubt, disappointment, blockage, short and long term loss of interest and motivation and similar, trouble their colleagues as well, and do not present their personal weaknesses and faults.

The difficulties, obstacles, challenges and temptations for the PhD candidates should neither be hidden, nor reduced. Most PhD candidates have difficulties in finishing their PhD thesis, but it is not likely that their cognitive abilities are to blame. The “suspects” are, most probably, anxiety, hesitation, self-doubt and perfectionism. They all face the problem how to overcome negative thoughts, feelings and emotions not only to finish the PhD thesis, but to acquire self-confidence stemming from achieving the objective.¹ It must be emphasized that anxiety brought from unexperienced mentor can also lead to giving up.² Finally, it is a big achievement, and nothing big nor valuable can be achieved without a big sacrifice. Thus, it is necessary to differentiate effective, productive sacrifice from not so effective ones, which lead to discouragement and inhibit further efforts and will to bring this task to its end. Often it is the lack of knowledge and dynamics of the process of gaining a PhD, as well as the afore mentioned lack of conscience about the mutual dimensions of subjective experience which contribute towards fertile negativity into unfertile.

¹ A. Miller, *Finish Your Dissertation Once and for All!: How to Overcome Psychological Barriers, Get Results, and Move on With Your Life*, American Psychological Association (APA), 2008.

² P. Dunleavy, *How to Plan, Draft, Write, and finish a Doktorial Thesis or Dissertation*, Palgrave, Macmillan, NY, 2003.

In order to better see the inside of the entire existential complexity of the process of gaining a PhD, and come to rich and meaningful insights, there is no better method than questioning the candidates themselves. We were inspired by the methodology of semi-directed interviews of a similar, but more comprehensive project in France,³ only with the difference that our research is focused on the psychological aspects. The sample of interviewees was made of 26 PhD candidates (14 female and 12 male) coming from different academic areas (9 candidates from humanities, 6 from natural science, 7 from technical-technological fields and 4 candidates from art) from domestic and foreign universities (11 from France, 6 from Serbia, 3 from Italy, 2 from Germany, 2 from the United States of America, 1 from Australia, 1 from Canada).

A small step forward or an innovation in comparison to the afore-mentioned research was the survey of a certain number of interviewees (5) which had got their PhD degree three to five years before our research, by using the method of retrospection in order to compare the perception of the experience of getting a PhD degree of current or just graduated and former PhD candidates. Former PhD candidates were, with regard to the time distance and selective memory, at the beginning of the interview, giving more general, pale and poorer statements, but in the second stage, when introduced to the experience of current PhD candidates, recognized their own experiences, often exclaiming: "That is it! Just like that! I felt the same way, too". By encouraging specific memories and narratives we got an additional validation of specific memories of subject categorization and common stages of the psychological experience of certain PhD candidates. Of course, that is not a concrete, quantitative method, but an anthropological method of observation and participation which was more appropriate in this case in order to "unlock" the inner experience of interviewees.

The target group of this research is made of, by the term coined by the sociologist Bertaux - the so called "situational category".⁴ In this case, all the interviewees had a common situation: getting a PhD degree. This is a "social situation" because it consists of a common frame, internal dynamics and development, since it is noticed through the collective perceptual scheme and because it develops inside specific institutions – universities.

Despite smaller and bigger differences between individual cases and stories, some recurrent stages and dynamic patterns which shape the subjective experience of the situation of getting a PhD degree were identified, without regard to the country, university and/or study area.

Shortly said, the subject of this research is the inner, subjective experience of getting a PhD degree, more precisely put – the key topics which reflect it.

³ I. Boursier, *L'itinéraire du doctorant*, Projet de licence de Sociologie, Direction V. Elrich, Département de Sociologie-Ethnologie, Université de Nice-Sophia Antipolis, 2000.

⁴ D. Bertaux, *Les récits de vie*, Paris, Nathan, Collection 128, 1997.

Although individual experiences are different, there seem to be several stages which can be common.

2. Decision to get a PhD degree

The first stage already shows a big heterogeneity of paths and motives. At first glance it could be thought that the population of PhD candidates mainly consists of students who had previously been continuously successful in their educational path. However, it turned out that that assumption or prejudice was not accurate. The interviews showed that many of the PhD candidates in the previous education stages were not so excellent students, even had to repeat some classes in elementary or high school, had a gap year or studies longer at faculties. Furthermore, many excellent students did not enroll post-graduate studies. Of course, there are various external, social, economic, family or other reasons for that. At the same time, the reasons are subject and psychological. The external and internal aspects are intertwined and influence one another, as psychological processes do, as well. The subjectivity is always within one specific social situation and intertwines with it.

There are different motives to gain a PhD degree. The social evaluation of PhD in different environments influences it. We differentiate internal from external motives in the first decision to gain a PhD degree, but it is still interesting that despite the belief that the post-graduate studies with intrinsic motives are more successful (scientific curiosity, wish to explore a certain area, to deepen a certain subject area, to give an original contribution to science, feeling that one does what one wished to do, wish to belong to the academic community and participate in its way of life or work, to exchange opinion and results etc.), things are not as simple. It was shown, and that is a rather interesting part of this research, that candidates who decided to apply for a PhD degree by chance (“I could not find a job at first...”), under the influence of their family, out of curiosity, even because candidates wanted to postpone entering the job market, a certain number of them gave very valuable results and had success in their future academic career. It could be said that they developed, with time, intrinsic moments, while others, who were enthusiastic at first, with clearly defined expectations, with time “simmered down” or “broke”: the sparkle was put out, they were disappointed (by the conditions, mentor, topic, institutional support and similar), or by themselves (their capacities, lack of motivation, interests, perseverance, etc).

After making a decision and fulfillment of the necessary administrative procedures, there are psychological stages of the process of gaining a PhD degree in the right sense of the word, which do not follow a firm order, but depend on individuals and context. The stages are intertwined, permuted, but due to practical reasons and clarity issues, we will represent them as distinctive, separate moments.

3. Psychological stages of the process of gaining a PhD degree

3.1. Idealistic enthusiasm

The starting period is full of huge hopes, high level of energy and rather unrealistic expectations. The first stage is usually coloured with positive energy: feelings of challenge, impatience, enthusiasm. Even the candidates who have not enrolled PhD studies out of strong intrinsic motives, such as vocation, talent, interest in a certain topic or area, there is a certain type of spirit, joy and proud anticipation. There are ambitious working plans, it seems that there is plenty of time and energy and that everything can be achieved. The decisions are strong: I will dedicate the first year to reading, gathering references and data, research; the second year would be dedicated to processing and interpretation of data, the third to writing the thesis. I will spend a certain number of hours daily and weekly on it, depending if the candidate is employed or not. According to Foss and Waters, the total active time on working on the thesis is 1078, and if the working week is 40 hours long, that makes 27 weeks or six and a half months.⁵ The objective is realistic, the road to it is clearly marked, straight forward and clean.

The early enthusiasm of the PhD candidates can be seen in the over-ambitious judgement of what they can achieve in the first year. One interviewee, a PhD candidate in architecture, remembers the starting enthusiasm and excitement: "I was more thrilled than organized and I was hoping that my mentor would guide me through the following steps". That period is characterized by idealisation of the world of science and research, university professors and mentors. The feeling of being privileged to enter the university of greatness, mind, wisdom, above the mediocrity of usual world and the everyday routine, down to earth problems and worries is the strongest one. This beginning stage could be called "the honey moon" in the life of a PhD candidate.

Of course, people are ambivalent creatures, and there are no clear, simple, nor stirred emotions. The beginning enthusiasm, which marks the beginning of each life period, even the PhD one, is often spiced up with a certain dosage of anxiety and self-questioning, questioning their abilities and capabilities: Can I do that? Will I be up to the task? Am I capable to finish the PhD project? Do I have anything to say, anything to contribute? Will my contribution be important and worthwhile? Along with this, there is a tendency to overvalue colleagues, teaching assistants, professors, all candidates who "deserve" to get a PhD degree or have already become PhD candidates deservingly. This self-questioning, which is partially present even before making a decision to gain a PhD degree, in the beginning stage is emphasized with a positive motivation, as a response to a new challenge.

⁵ S. Foss, W. Waters, *Destination dissertation: a traveler's guide to a done dissertation*, Rowman & Littlefield Publishers, Maryland, 2007.

3.2. Stagnation

When one goes from the beginning enthusiasm and making plans to the actual process of research, gathering data, literature and writing, often things do not seem as exciting as they used to. Towards the end of the first year, PhD candidates become disappointed by their achievement, pace of work and progress. It is common to feel that they could have achieved more than what they have effectively done. This is a logical consequence of the belief, present in the previous stage, that there is more than enough time. One PhD candidate was honest: "I do not feel that I have done much in a year. I could have done much more. I am frustrated that I did not achieve the planned progress, but I did not know how to achieve more." There are the first disappointments with the mentor and the institution: "It is scandalous how they treat PhD candidates." "My mentor is always in a hurry, superficial, not interested, neither paying me enough attention, nor time."

There is no doubt that some mentors are not dedicated nor engaged enough, it is logical to assume that the disappointment comes from previous big expectations, and enthusiasm. In the first stage, PhD candidates are overcome with the feeling of the importance and value of their action, the courage they had to undertake it, and consciously or unconsciously, they expect to be at the center of the attention of their mentor, to be recognized and respected.

3.3. Frustration

Somewhere in the middle of the road, PhD candidates question their efficacy and value of what they have done. They become confused and feel "stuck". Feelings of anxiety and frustration are an inevitable stage of each creative process.⁶ They can not make a distance, they feel that everything is out of their reach, they cannot make order in the material they have gathered, or feel that they have not gathered enough material, they do not know which direction to take next. Mentors know this "going nowhere syndrome" well.⁷ One professor warned his post-graduate student: "During the next six months you will be going through a 'sticky' path and the results will be pathetic". In this stage, it is usual for PhD candidates to show emotional difficulties, to become irritated, tired, satiated, dissatisfied, they can even have some physical problems, cognitive blockage, and certain behavioral deviations such as feeling apathy and no will. They are often questioning themselves: "What did I get into?", "Why did I need this?" They lose track, their aim seems further and further away, and the road to it seems tiring, unlikely, full of deadlocks, back-sliding and curvy.

⁶ T. Milivojević, *Psihologija stvaralaštva*, Megatrend univerzitet, Beograd, 2011.

⁷ L. Hudson, *Human Beings: An Introduction to the Psychology of Human Experience*, Harper Collins Publishers, New York, 1997.

3.4. Monotony and boredom

“Now I have reached the boring part, which is crucial for my thesis, and the only thing left for me to do is to work hard and be disciplined as an ant. I throw out results by “churning”, without deep thinking, creativity and challenge”. Another interviewee poetically described that stage: “The only thing I see is dusk before a dark night”. A third one says: “Now I know that what I do is good for my PhD thesis, but I have lost all interest, I do not feel the challenge any more, I have burned out”. Namely, many “rookie” PhD candidates have correctly understood the definition of a PhD thesis as an original scientific contribution, but have overestimated the creative aspect in comparison to the “anty” one, which is the gathering or routing part of the job. Monotony, repetitiveness, going back to the same thing, care for the technical details and precision, aridity, which cannot be avoided, make this period tiring.

3.5. Being left on your own and loneliness

In spite of good relations with mentors, many PhD candidate complain about insufficient help and support. “The problem with the thesis, says one PhD candidate in political sciences, is lack of dynamics and structure. You go to doctoral studies, you are told that you need to write a PhD thesis, than you are left on your own in terms of organization. You do not communicate much with other PhD candidates”. A PhD candidate in law always feels being left on his own. “I feel completely isolated among other also isolated PhD candidates. What is common among us is despair” and adds: “It is a common problem of all PhD candidates”.

However, some PhD candidates find this situation good since they feel that the thesis is a personal thing, almost intimate, which happens in themselves. They enjoy the high level of autonomy, they do not feel the need to talk about their work with others, and they do not like their mentor to get much involved in their job. One interviewee emphasized the fact that PhD candidates keep the data they have gathered and the method how they have gathered them for themselves. The same applies for their ideas and hypotheses, to keep them from being used by others.⁸

One interviewee, PhD candidate in literature, admits that “the lack of involvement” of her mentor suits her fine. “I am lucky to be really interested in the topic and subject area of my thesis, I am fascinated by it and would like to go through the path on my own. I know that the mentor, if I talk to him, would feel that he has a role to “play” in it and give me some advice, suggestion, objection, point of view and than I would feel obliged to take it. I want to keep my vision intacked, and I can do that by respecting my pace of work, the way in which ideas come to me.”

⁸ C. Roberts, *The Dissertation Journey; A Practical and comprehensive Guide to Planing, Writing, and Defending Your Dissertation*, Corwing Press, California, 2004.

We notice, however, that the experience of this PhD candidate cannot be measure or direction for the relation mentor – student and that there is a risk involved. The importance of a fairly regular communication between the candidate and the mentor, or rather the feedback from the mentor is necessary. From the quality of the work point of view, the comments and suggestions from the mentor allow candidates to adjust, direct, tune and correct their actions timely. On the other hand, feedback helps candidates not to lose track, focus or “compas”, to position themselves well, according to the degree to established progress in relation to the end goal. Communication with the mentor, in set intervals, gives structure to the process and rhythm of work, breaking the big and long term objectives (completion and defense of the PhD thesis) on closer and more easily realized subgoals, which is crucial for maintaining continuity and motivation.⁹

We have to emphasize at this point that there are differences in the approach to a PhD thesis among interviewees depending on their area. In natural sciences, there is a bigger need for team work and cooperation with the mentor, there is less space for creativity, which stems from loneliness.

Most often, the most lonely candidates are PhD candidates from the social sciences and humanities. The natural and technical areas put the emphasis on gathering and processing data, making experiments, the social sciences and humanities put the emphasis on writing. In the first areas, the steps are well timed, the time period is divided in smaller segments and smaller objectives, or shorter deadlines. In the other areas, the theses are more complex, the process of writing is longer and more demanding since the written form and style are as important as the contents is, which makes a bigger psychological distance with regard to deadlines. The time is not experienced in the same way in these two cases. It is not rare to find “lonely” PhD candidates who have entered the fourth or fifth year of doing the PhD. Majority of them do not have scholarships, they have to be employed, but that is not the main reason for not meeting the deadlines. The statements of the interviewees in that category show that the primary reason for delaying the process is lack of connection, or presence of a formal connection with the institution. They are mostly directed to individual work at home or in libraries.

As a compensation, “the lonely” PhD candidates have greater freedom and autonomy, both in terms of choosing the topic and the mentor, and the time management. Their work is not strictly planned, there are no timetables or hours planned. They do not have sub-deadlines. But, the PhD thesis occupies their minds more: some interviewees call it even an “obsession”. Their statements are full of topics of isolation and loneliness, even when they have good relations with their mentors. They see them regularly, but “talk more about other things, than the thesis itself”.

⁹ T. Milivojević, *Motivacija za rad*, “Filip Višnjić”, Beograd, 2009.

Generally speaking, “lonely” PhD candidates feel “isolated on human level”. They complain about lack of frames, structure and direction. They do not socialize with other PhD candidates. “We say hi, say good afternoon, and that is all”. The concept of a “working group” or “research team” do not exist and these post-graduate students do not have the feeling that they participate in mutual activities (they rarely attend seminars and conferences, rarely publish their papers).¹⁰

The socialization of “lonely” PhD candidates is different, however, depending on the fact if they are financed or not. “Lonely” PhD candidates who have scholarships or are employed at the faculty are also isolated and talk about the “fictitious” presence in the institution, and say that they are more privileged than others, since they have an official status which gives them a certain level of visibility and legitimacy. They also have an easier access to scientific gatherings and journals.

The “lonely” unfinanced PhD candidates feel marginalized, at the suburbs or outside the academic and scientific environment, flow, rituals and norms, since they do not even have a legitimate status, not a feeling of belonging. They say that they are in “*no man’s land*”, that they “do not exist anywhere”, that “there is no significance for them at the faculty”, as well as outside it, since they are “unproductive” citizens. They feel the injustice, they are doubtful, lose illusions and motivation in longer term, and as consequence, give up. Their status and identity are coloured with strong individualism, they experience their situation as “exclusion”. The social identity of these PhD candidates can be classified as individualistic, excluded from the institution. This is particularly valid for international PhD candidates who explicitly state their feelings of being rejected in comparison to “domestic” colleagues.

However, not everything is so bleak. The most vulnerable interviewees speak at the same time of the opportunity for “self-realization”, “self-fulfillment”, since they finally have the possibility to do something that “they like”.

3.6. Loss of motivation

PhD candidates, especially “the lonely ones” often mention “loss of motivation” or “loss of illusions” and admit that in a certain moment, mostly half way through, when they become tired, and the objective is still away, they seriously considered the option to “give it up”. One interviewee at the second year of PhD studies had, as he put it, a “melancholic” episode, he completely stopped working on the thesis and was on the “verge of depression”. He went back to working on it after a year break. Others experience a serious questioning of the decision to gain a PhD degree even in the first year.

The interviewees showed that the general condition for PhD candidates who have no financial grounds (scholarship or teaching assistants position) the feelings of being lost, self-doubt and doubt in the project is present. However,

¹⁰ M. Stamatovic, *Doctoral Studies*, Word document, Metropolitan University, Belgrade, 2010

some of them intuitively figured out that they should be proactive, to get out of “themselves”, or their “shells” and become involved in various social networks and activities of the faculty. They understand that they need to find a balance to the intellectual work in isolation, “to do something concrete” in order to make structure, to rationally organize the time, discipline their efforts, avoid rambling over, as well as maintain focus and motivation. By volunteering in the faculty library, IT room or students’ service, by assisting students, participating in different academic events, thus gaining practical advantages (access to literature, data bases, copy machine, printer, frequent meetings with professors), above all, certain visibility and a network of mutual help and support. It is important, since the status of a PhD candidate, according to the interviewees, is a hybrid one: “You are neither a student, nor a scientist, in the right sense of the word.” PhD candidates are in the space among the students’ world and professional world of research and lectures. They feel, according to one of them, in a “permanently transitional condition”. It is clearly seen in the statements of most PhD candidates who define themselves as students- researchers or students-lecturers, sometimes emphasizing the students’ part, other time emphasizing the research part, or the lecture aspect (Boursier, 2000). “It is difficult to define the status of a PhD candidate” says one of them, “I think that there is no official status, it is something between a teaching assistant, researcher and lecturer”. “Actually, it is rather complicated to define yourself, probably I am still a student” says another one. Third candidate, who is a teaching assistant, still sees himself as a student, being closer to the other side of the fence which separates students from professors: “I belong to the other side, only for three hours a week.”

4. Time stages

4.1. First year: “typical” student life

PhD candidates in the first year do not testify to difficulties regarding time management. We mentioned that it is the period of a “honey moon” full of enthusiasm, time “stretching” and a feeling of freedom, width and optimism. Their free time is principally structured and divided into segments (working week, free weekends and evenings), unaffected by tension and stress. Most new PhD candidates, in the beginning period, continue with their usual activities (unless they are employed). “Typical” students’ lifestyle is still predominant in their everyday life, and they still do their hobbies, socialize, go out at night or during the weekends, have vacations (in summer, at least one month). They clearly divide the time for work and their free time. Although they work on the thesis, read, gather documents, take notes, they do not feel the pressure.

4.2. Second year: life between “brackets”

As time passes, and as they make progress in their work, things change and the days of PhD candidates become more full, they become more engaged. There is less free time, they start to sacrifice their hobbies, entertainment, having good time, vacation. The PhD thesis becomes more central in their mind. Some complain that the work on the thesis takes more time and energy: “It takes away my entire life, that is clear”. The word “taking away” is adequate, since there is the growing feeling that they are deprived of other important things in life. The weekend is shorter for a day, not all evenings are free: The PhD thesis comes first.

4.3. Third and the following years: impatient waiting for the “release”

In the officially last year of doctoral studies (and the following ones if the work on the thesis is prolonged), the pace of work is becoming “stronger”. The evenings, and entire weekends, are more full. A PhD candidate, who has been working on the thesis for four years, talks of a “nun-like, strictly intellectual life”. She goes out more rarely than before, she visits the theater and cinema less, and reads much less. “The only books I read are professional literature book relevant for my thesis, and there are so many of them that I have no wish to read something relaxing before going to bed anymore”. On the third, and subsequent years, PhD candidates use the word “sacrifice” more. As the end comes closer, the PhD thesis is more of a burden which needs to be get rid off “finish it already!”. They use metaphors as: “climbing a steep path”, “last section of the race” and similar. The employed ones who want to finish the thesis on time do not take even short breaks. The time of work and free time are not clearly divided. They are under the impression that they work all the time, with short and rare breaks, their spirit is still occupied with the thesis: “I work, I write around the clock. I never take breaks. My life is the PhD thesis. All the rest is not as important now”. On the question if they take vacations, the candidates mostly reply: “We took a vacation after the first year, but from the second one – not anymore”.

The PhD thesis is the first engagement which requires full dedication, and the candidates who are aware of that and of the difficulties the decision to gain a PhD degree brings, are rare. “We are absolutely not aware of the obligation we undertake”. In the first year there is a feeling of width, time and freedom. Nothing is specific yet. Towards the end, everyone fantasized of a break and vacation after the defense of the PhD thesis.

4.4. Towards the end: stress and excitement

As the writing of the thesis is brought towards the end, the stress is stronger. There are numerous checks of citations, footnotes, spelling and grammar mistakes. The PhD candidates are, as a paradox, most relaxed when working, in the

moments when the rhythm is good, when they make progress. They are impatient to “materialize the thesis” to print it, to put it in covers, to submit it. The moment when all the hours, days, weeks, months and years of work are turned into a material form, in a physical object, is full of a huge relief. After the life “for the thesis and in the thesis”, the PhD candidate can start to gather the psychological fruits: pleasure of achievement, release and pride. Now, the candidate hardly waits, with a certain degree of positive, encouraging stress and excitement, to defend the thesis.

5. Subjective setting of the score

The PhD thesis represents personal enrichment, fulfillment and realization for which PhD candidates are prepared to make many sacrifices, especially towards the end of the process. In the first year, the testimonies of the interviewees showed samples of “typical” students’ life, divided between studying and free time. From the second year on, especially towards the end, the days become fuller and candidates talk about “life between brackets”. They give up going out, parties, no longer take weekends off nor vacations. Their intimate and family life are also part of the sacrifice of the work on the PhD thesis, especially female candidates feel that. The female interviewees who are married and/or have children find it difficult to balance family life and working on the PhD thesis. They claim that it is necessary to have complete understanding from the family, especially the partner. Some of them say that they broke up their relationships because “it took too much of their time” (it is interesting to note that none of the male candidates made a statement of that sort, or similar). “Normal life” is postponed till “after the PhD degree”. Female PhD candidates often feel guilty for neglecting some obligations of the roles traditionally attributed to them.

Some PhD candidates feel bitterness because of the difficulties they face, and they talk about it to members of their families, parents or friends, rather than with colleagues, professors or mentors. When they settle the score towards the end of the “difficult journey”, they admit that they would never go through the same process again, but do not regret it and do not feel sorry about it. They feel mature, fulfilled, responsible, self-confident, “important”.

6. Conclusion

Analysing the testimonies and confessions of interviewees, the strongest impression is the vulnerability of this “situational category”.¹¹ What makes them vulnerable are the material conditions, undefined status, lack of recognition at

¹¹ D. Bertaux, *Les récits de vie*, Paris, Nathan, Collection 128, 1997.

the faculty and the society which sees them as unproductive citizens. They are vulnerable since their future is not defined despite their commitment which requires huge sacrifice. Furthermore, even under the assumption that the other conditions are satisfactory, the work on the thesis is intellectually and psychologically a demanding, complex, tiring activity.

In Serbia, where the information about highly-educated population is alarming, special attention should be paid to this category, it should be nurtured and supported. Although we cannot influence their material and social circumstances directly, we believe that by taking an interest, understanding the difficulties they are going through, better communication, adequate mentorship and direction through the complex process of gaining a PhD degree, professors, mentors, colleagues, administrative staff of the faculty and other participants in the process, all together, can significantly make the path of our PhD candidates, future university, scientific and professional experts, which are necessary for our country, easier.

Not wanting to present things from the difficult side only, it can be seen that all interviewees confirmed that they do not regret going through the experience of gaining a PhD degree, although they claimed they would not want to repeat it. Rewards, mostly intrinsic ones, as feelings of self-realization, pride, satisfaction in the job, research and creative excitement, do compensate for the doubts and difficulties. That applies to candidates who have successfully brought the process to an end, i.e. who have gained the PhD degree and became doctors of philosophy or science. We wish there were more such candidates, that the percentage of those who do not make it to the end and are left with the bitter taste of defeat or incompleteness, become smaller from year to year, since the defeat of our PhD candidates is our own defeat, as well.

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USE/ABUSE OF FEMALE SEXUALITY IN MARKETING

Summary

In looking at the majority of ads in Serbia, as well as the world, we can see that women in them have been degraded in many respects, reduced to objects and abused. Evidence of this can be seen almost daily, and it is impossible not to notice it. Advertisements on television, in newspapers and magazines, and on billboards are testimonies of the use and abuse of the female body for different purposes, most often without any connection to the advertised product. Such increasingly aggressive abuse of women in ads is a reflex of the socio-cultural environment and a consequence of unethical company conduct.

Key words: TV ads, ads in daily and periodical press, billboards, woman, abuse

JEL classification: M37, J71

1. Introduction

Woman is no longer a subject in the media. She has become an object that is bought or that sells certain merchandise. The media are transmitting prejudices about womanhood, manhood and sexuality. Women are becoming degraded and invisible in such a world, hungry for new sensations and ever-newer stimulations. Although the gentler sex has a right to adequate representation and presentation in public, it is evident that classical stereotypes regarding the way in which women are presented in the media, i.e., advertising, are predominant in today's society. It seems that this phenomenon has gained currency in our own midst in recent years, amidst a general devaluation of all ethical values. This comes down to what Kant said when he contemplated the individual's view of the other – that in all their actions people should look at each other as goals rather than as means.¹ To be sure, there are different ways in which we treat others, sometimes even as means, which is how the business world, to a large extent, operates. However, to think about others solely with the goal of potential sale and accept that

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¹ I. Kant, *Metafizika morala*, Izdavačka knjižarnica Zorana Stojanovića, Sremski Karlovci – Novi Sad, 1993.

their rational freedom might become a way to earn money means to label them and strip them of humanity and dignity.

Thus, through the use of subtle methods that touch the cognitive, emotional-affective and actional component, even stronger spirits can be influenced to think or do what the communicator wants, without being aware of it. "Five words that you put together are sufficient to, in the space of only a few weeks or months, totally change the way of life of half a million consumers."² Under the pressure of messages and symbols that are sent to them deliberately, systematically and in a controlled way by some industrial, commercial or political group, people buy merchandise they do not need ("the need for the unneeded"!) or act politically in accordance with that group's expectations – under the sweet delusion that they are making their choices freely and in their own interest.

Media manipulations are most often done out of economic or political reasons – in order to suggest to consumers the need to buy certain merchandise or services, i.e., in order to present the interests of some individual, social group or political party as the interests of all the members of society.

2. The typology of women in advertisements

Although the typologies of women in advertisements are quite numerous, most of the domestic advertising agencies rely on the typology of women's personality offered by Jean Shinoda Bolen, disciple of the famous psychoanalyst K.G. Jung.³ Combining Greek mythology and the study of archetypes (internal, unconscious models of experiencing and behavior), the author describes seven types of women, naming them after goddesses from ancient Greek myths. On the other hand, creators of advertisements most often promote the following three: "woman – child," "woman – female" and "woman – mother."

The first type is based on advertising messages in which one girl is jealous, for example, of the softness of the towels being used by her friend, or on ads in which a newly matured teenager goes on her first date intoxicated with the smell of the newest fabric softener.

The second type has numerous subtypes, which mainly assume an emancipated housewife – one who is pretty and well-kept, but at the same time maximally devoted to her household. This type of woman is recognized by the fact that she seduces men by spreading out her shiny white laundry, additionally seduces the already seduced "male" by awaiting him naked with a bowl of instant mashed potatoes, or by bringing the "poor" male, already exhausted by all-night work, a cup of hot, aromatic coffee.

² F. Pol, S. M. Kornblut, *Reklamokratija*, 1978.

³ J. Sh. Bolen, *Goddesses in Everywoman: A New Psychology of Women*, Harper Colophon Books, 1984.

The third type, “woman – mother,” is perhaps the most varied, encompassing mothers-in-law who have no faith in their daughter-in-law’s all-powerful dishwashing detergent; elderly mothers who insist on convincing their daughters that they are “always poor and alone”; young mothers who forgive their offspring the worst transgressions because they have a bag of detergent that washes away all the stains on their socks.

3. Sexual content in advertising

Definitions of sexual content in advertising are also numerous. Some authors define it as advertising with a sexual-informative content and an assigned sexual meaning, while others describe it as sexuality in the form of nudity and sexual images with a double meaning, used as a means of advertising various products. A bit more formally viewed, sexual content in advertising refers to media-transmitted messages (print and television ads) that contain sexual information with a persuasive purpose to sell products. Advertisers and producers seek to attract attention and create cognition about their brand name among carefully chosen target groups. In that way, they also seek to strengthen or modify consumer views, perceptions, beliefs and, ultimately, behavior in relation to the brand.

Criticism within the framework of social anthropology regarding the inadequate approach to women in fact represents a part of a broader critique of sexism in the social sciences, in which gender relations and analysis of the social construction of gender are either neglected or the subject of conformist judgments regarding the “eternal” characteristics and positions of the genders. Sexism in science represents a specific variety of gender segregation, through which men’s interests and activities are more clearly announced, recognized and “seen” and, thus, thanks to the dominant patriarchal value system, “great importance and prestige is assigned to male roles in comparison to female roles.”⁴

In the science of anthropology thus far, the woman’s differentness has been interpreted as her ahistoric, natural essence. The stubborn claim, frequently found in many theories, that the essence of woman is “unchangeable,” leaves aside the fact that, in most known societies, the woman occupies a place that does not overstep the bounds of her reproductive role. That is not surprising as, until recently, the male anthropologist has been the exclusive subject making observations and conclusions about woman.⁵

Sexual content is one of the most efficient ways of attracting the attention of a target audience. Since sex is one of the most important motivational factors (classified among the physiological factors and, according to Maslov, 1982, 2004, first in the hierarchical order), it is clear that its motivational-persuasive

⁴ E. Oklej, *Seksizam u sociologiji*, Beograd, 1978.

⁵ A. Oakley, *Sex, Gender and Society*, Harper and Row, New York, 1973, 1978.

character is great. With these two elements, sexual content gives advertisements great effectiveness. Especially in recent times, sex has been used more and more frequently and freely in media messages, which is why it should be separately researched as a powerful means of persuasion and the good and the bad sides of its use learned, so that the measure of good taste in the advertising process can be set in the best possible way.

Sexual content in advertising, the use of sexual information in media promotional messages, has existed since the very beginnings of advertising. As far back as 1885, thanks to the cards with provocative pictures of starlets enclosed in its cigarette packages, the company W. Duke and Sons quickly managed to become the leading brand in the cigarette industry. The production of Woodbury's facial soap was at the brink of being ended at the beginning of the 20th century when a radical sales turnaround was achieved by using ads with pictures of romantic pairs and promises of love and intimacy for those who chose to use precisely that particular brand. "Jovan Musk Oil" appeared on the market in 1971, accompanied by an advertising campaign using content with sexual meaning and descriptions of the sexual attraction that the perfume supposedly elicited. Company profits rose from \$1.7 million in 1971 to \$77 million in 1978! At the same time, analyses were showing that ads with women (un)dressed in provocative clothing were being used in almost 40% of mainstream magazines and 12% of prime time television commercials.⁶

In contemporary consumer advertising as well, sexual content is used in newspapers, magazines, and on "ordinary" and cable television in promotional messages for an ever-expanding array of products. There are more and more ads with provocative pictures of women wearing clothing that reveals more than it hides and assuming provocative poses that sell clothing, perfume, beauty products, alcohol, automobiles, etc. Brands such as "Calvin Klein," "Victoria's Secret" and "Pepsi" use such sexual images in order to create an omnipresent, sexually hued media exposure.

Sexual information in advertising can be associated with a persuasive message to a greater or a lesser degree. For example, sexual content can be used only to the extent necessary to draw attention to a product, which is classified as low level association. Or, in automobile ads, a very attractive woman next to a car is an example of a low associative connection between sex and the advertising message. However, despite this low-level association, when it comes to abuse of the female body this particular form of abuse may be even more egregious than with higher-level associations, like in the example of the naked woman who, besides already being "associated" with a car (produced by SAAB), is also pregnant.

However, if sexual information is an integral part of the advertising message itself, then we are talking about a high level association. A good example

⁶ P. Ristić, *Ubeđivanje potrošača pomoću audio-vizuelnih komunikacija*, Megatrend univerzitet, Beograd, 2005.

is a “passionately embracing pair.” The woman’s eyes are closed as she kisses a man from whose face the fragrance “Escape” is evaporating. The ad’s message, no matter how true its argument, is that the use of this fragrance results in an (implied) sexual outcome. According to the maker of the fragrance, the sexual information is inseparable from the persuasive message. To men, as the target audience, this advertisement is saying that the use of the fragrance will increase their chances of experiencing the outcome shown in the advertisement.

Gradation of sexual content is achieved with women in progressive stages of nudity: low – completely dressed with the possibility of suggestive clothing; middle – bathing suit and undergarments; high – nudity. Women represent an overwhelming majority of the sexual stimuli in surveys of sexual advertising, although pictures of pairs and male models have also been researched. Comparison tests of sexual content with a zero or low level of sexual content also exist; in such studies, ads with pairs shown engaging in sexual behavior are compared with ads showing pairs engaging in non-sexual activities.

In the “Jovan Musk Oil” campaign, an ad published in “Esquire Magazine” shows a pair passionately embracing. The woman’s eyes are closed and her head is tilted back while the man is kissing her neck. The headline reads: “What attracts? This is what attracts – Jovan Musk Oil.” Regardless of how true its argument is, the message of the advertisement is that the use of this fragrance results in a sexual outcome. According to the maker of the perfume, the sexual information is inseparable from the persuasive message. This advertisement is saying to its target audience – meaning men – that by using that fragrance they will increase their chances for an experience such as the one shown in the ad.

Depictions of the female body with a high level of nudity hold first place among content used in advertising. Very attractive models who wear clothing that accentuates the beauty of their bodies are used. Provocative clothing includes women in short skirts, undergarments and low-cut blouses. Sexual behavior, i.e., the use of sexually provocative actions of models shown in ads, or those taking place between them, is also an element of sexual content in advertising.⁷

According to a Canadian study,⁸ 39% of female and male respondents (students) said that the model’s behavior was the reason why the ad appeared sexy to them. The respondents were asked to describe an ad that they thought was sexy and to identify the prevailing factor in their evaluation that the ad was sexy. The descriptions included models that moved and talked in a way that suggested sexual interest. Typical behaviors included models who established visual con-

⁷ S. M. LaTour et al., “Is Industrial Advertising Still Sexist: It’s in the Eye of the Beholder,” *Industrial Marketing Management*, 27, 1998, pp. 247-255; I. Mayne, “The Inescapable Images: Gender and Advertising,” *Equal Opportunities International*, Vol. 19, No. 2/3/4, 2000, pp. 56-61; W. Gordon, “What Do Consumers Do Emotionally with Advertising?,” *Journal of Advertising Research*, March, 2006, pp. 2-10.

⁸ A. D. Hargreave, “Body Image is for Girls” A Qualitative Study of Boys’ Body Image, J Health Psychol, *University of Toronto, Canada*, 2006.

tact, eye to eye with the camera (as though the model was looking directly at the observer); also included were other provocative bodily gestures that announce flirting, such as looks, smiles, touching one's own body, tilts of the head, bared neck, etc. For example, 25% of the female models in promotional spots for the Spanish language television station "Univision" were shown engaging in sexual behavior consisting of provocative lip gestures, exaggerated décolletés, seductive looks at the camera and erotic play.

Sexual behavior also encompasses sexualized language and word vocalization. Models speaking in a breathless and sighing manner present an example of how vocalization can lead to sexual interpretations. For example, commercials from the "Clairol Herbal Essence" campaign have been current in Serbia in recent years, showing women crying out "Yes, yes, yes!" as they wash their hair. Some male respondents have qualified the sounds emitted by the women in the commercials as reminiscent of women approaching orgasm. "If I wasn't looking at the television set, I would've thought it was an erotic film!" was just one of the comments.⁹ Almost all the respondents declared that the sensual voice of the female model was one of the elements that made the commercial sexual.

Direct or indirect presence of sexual content in the world of advertising slogans is a story in itself. Many will, for example, easily recall the not too original but quite effective advertising slogan, "Why do you say love when you're thinking about cookies ("keks" in Serbian, which very much rhymes with "sex")," that promoted the popular chocolate treat produced by the Čuprija-based company Ravanica a few years back. Then there was also the ad message "Wrap, strike and light – typically male (in Serbian, these words are also synonyms/slang for actions related to the sexual act)," which was at the heart of the promotional campaign for a new type of tobacco on the market. Although carrying a double meaning, the popular ATM bank card slogan "Enter, exit and – done" quite certainly evoked clear associations among a major portion of the adult population.

A combination of verbal and visual elements in a message, along with the inevitable double (or multiple) meanings, is another frequent phenomenon in advertising. Comments or phrases in commercials have multiple connotations in the sense that at least one of them is sexually implicit. The double entendre is a message with two interpretations, of which one has a sexual meaning when it is accented, i.e., combined with a sexual image. For example, the commercial for the "Rice Council," the industrial-commercial group that promotes rice, contained a picture of a woman looking straight at the camera with a finger between slightly open lips and a headline that said, "At first I was a bit afraid." She was, of course, referring to cooking rice, but the interpretation, when combined with the picture, was sexually suggestive. A similar survey examined reactions to the television commercial for "Calvin Klein Jeans" from 1980, with Brooke Shields as the model and the following text/slogan: "You want to know what comes

⁹ P. Ristić, *ibidem*.

between me and my Calvins? Nothing.” In English, one meaning of the phrase “nothing can come between” refers to how much something or someone means to you and that nothing can come between you, while the other is a literal meaning of a sexual character. When combined with the shot of the camera as it slides along Brooke Shields’ leg (along the inseam, before coming up to her face), the question emits an unquestionable sexual meaning during the entire 30 seconds of the commercial. Rare is the male who could resist asking himself whether or not Brooke was really wearing nothing beneath her jeans.

Sexual behavior also includes interaction between two or more people. Similar to erotica or soft pornography, consumers are attracted to images of sexual behavior or contact between others, such as kissing, embracing, petting, simulated oral or coital sex, striptease and voyeurism. In one survey,¹⁰ 15% of respondents of both sexes declared that, for them, sexual interaction is quite sexual (in the positive sense).

An overview of surveys of print and television advertising content identified the following common forms of sexual content in the promotion of products, services and ideas: depiction of the body (nudity), physical attractiveness, suggestive behavior, interaction and other factors such as scenery (location), context and camera effects. In addition, depictions of the body were in first place in terms of use in advertising. Also frequently referred to as nudity, this form of sexual content more precisely refers to the amount and style of clothing worn by the models (in the ads). Provocative clothing includes women in short skirts, undergarments and low-cut blouses and men in tight jeans or underwear, or without a shirt. Despite the term “nudity,” genitals are very rarely shown in ads, although images of women’s breasts, most often with covered nipples, are used. All in all, very attractive models are employed, wearing clothing that primarily emphasizes the beauty of their bodies.

Among the more or less attractive billboard messages displayed in Belgrade, one separated itself with its multitude of meanings, but also obvious abuse. It appeared in 2006, on the streets of other larger Serbian cities as well, as an ad for beer that also showed female breasts (headless torso) with male hands on them, and the question, “Who can resist?” The photo crudely denigrates women’s inner, intellectual and other values, while the head is “cut” in half in order to emphasize the size of the breasts! The second problem is that the photo and the uninventive text were advertising a product not intended for women in the first place.

Contextual factors also contribute to the magnification of sexual content in advertising. Often combined with the previously mentioned types of content, these elements include scenery (location) and film and production techniques. More than 25% of all the respondents said that something other than the models

¹⁰ D. L. Taylor, “Women’s and Men’s Eating Behavior Following Exposure to Ideal-Body Images and Text,” *Communication Research*, University of California, 2006.

and actors and their behavior elicited sexual associations.¹¹ For example, romantic locations such as the Caribbean or a camp fire on a beach were mentioned, as well as commercials using strip clubs or the bedroom as the place of action.

Other film and production effects are also mentioned as means that contribute to the sexual perception of commercial spots. These are black-and-white photography, fast or slow motion shots that either quickly scan over or focus on female breasts or other anatomical parts. Music with a slow but “hot” rhythm and hazy lighting are also mentioned as elements that magnify sexual perception.

Although manifest, i.e., explicit sexual content is the most frequently used, built-in sexual elements and subliminal elements are also examples of sexual content in advertising. (Most often, the built-in sexual element is a small, unnoticeable image of a naked person or of sexually attractive parts of a person’s body.) Built-in elements and symbols belong to the domain of subliminal advertising, because consumers do not have a conscious awareness of their presence. True to Froyd, such images are recognized as sexual on the subconscious or preconscious level.¹²

Researchers have also examined the presence of sexual connotations in promotional messages, i.e., spots broadcast by television networks in order to increase their program audience. The influence of different views of sexual content stemming from cultural differences was also researched. Thus, it was determined that Spanish language TV stations in the US show much more sexual content than the English language ones. As many as 40% of the women shown on one such TV station were wearing sexually provocative clothing, a veritable “parade” of scantily dressed young and attractive women showing partly barren breasts, naked bellies and buttocks, of the kind that viewers of Latino soap operas (including those in Serbia) have been “enjoying” for years.

Due to the variety of sexual content in advertising, it was very important for researchers to determine the presence and amount of sexual material in mainstream advertising. Analyses of sexistically intoned content in magazines, television spots and program promotional messages have shown that sexual content is indeed predominant and more explicit than in the past. Thus, Ristić¹³ refers to the Solly and Reid survey from 1988, in which they compared the amount of clothing worn by models in six high-circulation mainstream magazines over a twenty year period: “Cosmopolitan,” “Redbook,” “Esquire,” “Playboy,” “Newsweek” and “Time.” They discovered that women were sexually suggestively clothed, partially clothed or naked in 31% of the advertisements in 1964, as compared to 35% in 1984. A partially repeated survey showed that the trend of depicting women

¹¹ I. Rühl, *Influence of Appearance-Related TV Commercials on Body Image State*, Johannes Gutenberg, University Mainz, 2007.

¹² J.B. Ford, M.S. LaTour, “Contemporary Female Perspectives of Female Role Portrayals in Advertising,” *Journal of Current Issues and Research in Advertising*, 18, I, Spring 1996.

¹³ P. Ristić, *ibidem*.

in provocative clothing had continued, reaching the level of 40% by 1993. Sexual contact between the models had also become more explicit. For example, 21% of heterosexual pairs were shown in explicit sexual contact (e.g., passionate kiss, simulated sex) in 1983, compared to 53% in 1993. Depictions of highly intimate contact (implied sex) grew from 1% to 17% in the same period. These changes primarily took place in “men’s” and “women’s” magazines, as compared to other, mostly informative-type publications.

In prime time television spots, the proportion of sexually clothed models is generally lower relative to that in magazines. A survey of a sample of prime time commercials showed that 8% of all models/actors engaged in sexual behavior. Also, 18% of all models were described as “very sexy” in their physical appearance and clothing style. In 1998, the percentage of sexually clothed female models had grown to 12%.

Researchers also examined the presence of sexual content in promotional messages, i.e., spots broadcast by television networks in order to increase viewership of their programs. They discovered that, in 1983, 36% of promotional spots in TV viewing guides included sexual content, primarily in the form of sexual behavior (e.g., physical contact, sexual relations, prostitution and rape) and sexual language (e.g., verbal references to sexual organs, sexual innuendo and sexual behavior).

We should also take into account the fact that the above-described forms of sexual content very rarely appear in isolation, but are almost always used in a combined manner. For example, models that appear in scanty clothing are physically attractive, photographed in a way that contributes to sexual interpretation, and placed in settings with a sexual meaning (e.g., bedroom, nightclub, candle-light dinner).

4. Effects of sexual content in advertising

Does sexual information in advertising have an effect? Are advertisements with sexual content more visited than others? Are these advertisements more liked? Are they better remembered? These questions are connected to one overall question, which is: does sex in advertising help or harm the advertising process? If the answer to these questions is positive, that would mean that ads with sexual content are more convincing and result in more transactions, i.e., purchases of the advertised products. On the other hand, if the answer is negative, that would mean that advertisers that engage scantily clad models in advertisements, especially when they do not have an obvious link with the product, are actually throwing their money away. Researchers are generally in agreement that sexual information in advertisements is noticed and, thus, remembered. Still, the attention directed towards sexual content may produce a counterproductive

distraction (dissociation). Sexual images attract the viewer's attention, leaving little free capacity for processing the remaining information contained in the ad. As a consequence, brand information (e.g., reasons for purchasing the brand, the brand name itself, sponsorship) is not processed to the same degree. Thus the understandable conclusion of numerous surveys that, when sexual information is integrated into the message, the message is more likely to be processed. On the other hand, if sex is used superficially (and in an abusing way) and without a clear connection to the message, the distraction effect will be pronounced, as will the negative financial effects.¹⁴

The next important question relates to the way advertising is processed. Researchers use theoretical approaches to explain the effects of sexual content in advertising. Among these approaches, which originate from the 1960s, the most frequently used is the information processing model. This approach assumes that the recipients of persuasive communications pass linearly through a series of stages, with persuasion being the ultimate outcome. The stages in the process are: awareness (observation), attention, affinity, understanding, acceptance, and persuasion.

The general assumption is that the obstacles that prevent consumers from accessing, interpreting and saving information in their memory will prematurely interrupt the process of persuasion. If, for example, sexual content diverts the viewer from processing a message, then the use of sex is counterproductive and should be avoided. The information-processing approach assumes a rational model of advertisement processing and consumer behavior.

5. Conclusion

In the context of advertising, there is convincing proof that sexual information attracts attention. This attention can be viewed, i.e., defined as an orientational reaction, an involuntary devotion of focused attention. In some studies, attraction was measured by personal reports (e.g., "this advertisement attracts attention") or through measurements of physiological reactions (e.g., galvanic skin response). Simple recognition or noticing of advertisements was also taken as a measure of the degree of attention.

Research results show that ads with sexual content engage, occupy and interest consumers more than those that are asexual. For example, both the versions of the "Calvin Klein Jeans" commercial with Brooke Shields were tested. The version with the sexual content was evaluated as significantly more interesting by female and male respondents from the 18-24 age group. All in all, these studies show that ads with a sexual content are able to attract viewers and retain their attention.

¹⁴ I. Mayne, "The Inescapable Images: Gender and Advertising," *Equal Opportunities International*, Vol. 19, No. 2/3/4, 2000, pp. 56-61; W. Gordon, "What Do Consumers Do Emotionally with Advertising?," *Journal of Advertising Research*, March, 2006, pp. 2-10.

Also, there is evidence, gained by measuring visual recognition and recall, that attention is directed precisely at the sexual information in the ad. For example, the recognition of sexual visual elements in a spot (e.g., decorative pictures of women) is significantly higher than in similar ads without sexual images. A secondary analysis of Starch results, an industrial measurement of ad recall, has shown that decorative female models (sexually attractive, without a functional connection to the product) improve ad recognition in comparison to ads without decorative female models.

In a related research, the visual elements of sexual ads showed a slight advantage in terms of visual recognition. In a test of visual playback (respondents describe what they recall seeing in an ad), a sexual ad for a Calvin Klein fragrance was described in greater detail by both female and male respondents than the asexual ad for the same fragrance. The effect remained even when the research was repeated two months after the initial viewing of the ad, when the respondents still remembered the sexual images in greater detail than the images from the asexual ad.

In one study, brand name recall was tied with the relevance of the sexual message to the product.¹⁵ In that study, brand name recall was significantly lower when the sexual content was not functionally related to the product than when the sexual content was connected with the product. For example, respondents more precisely recalled brand names from ads for condoms (ads with condom boxes, 49%) and bras (ads with women wearing the product in the foreground, 52%) than from ads for bathroom products featuring an indistinct picture of a woman showering (9%) and for a food promotion organization (the previously mentioned ad for rice with a double connotation – 15%). The conclusion: when sexual information is integrated into the message, the message is more likely to be processed. On the other hand, when sex is used blithely and without a clear connection to the message, the distraction effect will be pronounced.

When it comes to effects on processing, levels of sexual content (low, middle and high) were mutually compared as well as with conditions without sexual content.¹⁶ With rare exceptions, a higher recall level was recorded with low level and asexual content than with middle and high level sexual content in ads. These findings lead to the conclusion that ads with any level of sexual content, especially middle and high, may interfere with brand information processing. The conclusions from this research suggest that: brand name interpretation in ads with sexual content is more difficult and thoughts and cognition are more directed toward the sexual elements in the ad than toward the message that the ad is supposed to transmit.

¹⁵ D. Richmond, P.H. Hartman, "Sex appeal in advertising," *Journal of Advertising Research*, Vol. 22, No. 5, 1982, pp. 53-61.

¹⁶ B.B. Judd, M. W. Alexander, "On the reduced effectiveness of some sexually suggestive ads," *Journal of the Academy of Marketing Science*, Vol. 11, No. 2, 1983, pp. 156-168.

Although few of the presumed expectations regarding the influence of sex in advertising on behavior have so far been born out, there are indications that sexual content can influence behavioral intentions. In research on sexual content in advertising, buying intent – the usual measure of behavioral intent in marketing literature – was formally registered in at least four studies that compared sex and “non-sex” conditions. In three of the four studies, the scheme clearly showed that ads with sexual information consistently produced higher levels of buying intent than their non-sexual counterparts.

Thus, it was shown that the suntan oil brand shown in a sexualized ad stimulated buying and use interest more than the same brand in an ad that showed just the product. The study did not note any influence of respondent gender on the recorded replies.

The fourth study did not show a significant difference between sex and “non-sex” conditions. The study compared two versions of an ad: provocative and less provocative (for “Calvin Klein Jeans”). Variation in sexual explicitness also has an influence on buying intent. For example, moderate sexual content stimulates buying intent more than do high, low or non-sex conditions.

Similar research has confirmed the influence of ads with sexual connotations on behavioral intent. It was, thus, found that there is a small but significant overall effect of sexual images on persuasion in ads for various social marketing goals (e.g., ads for safe sex with the use of condoms, for maintaining physical shape, skin cancer prevention, etc.). Results have shown (with a group of respondents 20-22 years of age) that the principles or activities represented by the campaigns were more readily accepted if accompanied by images of a sexual content. Messages that produce positive valent excitement (e.g., sexual information) will influence buying intent by motivating the consumer toward the stimulus and the product associated with it.¹⁷

Emotional reactions caused by sexual information play an important, although still not sufficiently defined role in the applied context of sex in advertising. Sex causes general excitement and, depending on a number of variables, such as context, prevailing tone and respondent characteristics, causes positive or negative emotional reactions to sexual information that serves to attract the attention that might influence attitudes toward the ad and toward the brand, and influence buying intent.¹⁸

¹⁷ N. Artz, A. Venkatesh, “Gender Representation in Advertising,” *Advances in Consumer Research*, Vol. 18, 1991, pp. 617-624; A. J. Cohan, “Towards a new paradigm in the ethics of women’s advertising,” *Journal of Business ethics*, Vol. 33, 2001, pp. 323-337.

¹⁸ W. Lundstrom, D. Sciglimpaglia, “Sex Role Portrayals in Advertising,” *Journal of Marketing*, July 1977, pp. 72-79; W. J. Lundstrom et al.: “Attitudes of contemporary European women toward sex role portrayal, company image and purchase intention: The French versus U.S. Experience,” *Journal of Marketing Management*, 15, 1999, pp. 485-493.

In the context of advertising, persuasion can be influenced by affective reactions and reactions based on excitement, which serve to create a general motivation toward the stimulus as measured through buying intent.

Other important variables that most affect the processing and evaluational outcomes of sexual content in ads are product relevance, respondent gender and respondent personality. (Relevance, the degree of strength of connection between product category and use of sexual content is an important variable that should be studied further. In most previous studies, sex was tested only for sex-related product categories or those for which sex is generally used as a sales strategy. These are, for example, brand name jeans, fragrances, alcoholic beverages, cigarettes, automobiles and sunning cosmetics.) It is clear that sex is used to advertise certain product types, and not others. Browsing through magazines reveals that sexy models in provocative poses and revealing clothing (nudity) can be found in ads for perfumes, brand name clothing and accessories (women's purses, leather goods, scarves, hats, etc.), cosmetic products, health products, tobacco and alcoholic beverages, and very rarely or never in ads for financial services, medicine or home computers.¹⁹

Viewed overall, the findings of the majority of studies show that the relevance of sexual content to the product type can influence the evaluation of ads, brands and producers. As for product relevance, the conclusion is – the greater the connection between sexual content and the product, the more favorable the evaluation. Here it should be noted that these findings are unambiguous but, in order to strengthen the generalization, new research using a larger number of products should be conducted.

The discussion about the effects of sexual connotations in advertising would be incomplete without examining the role of audience variety. Evidence suggests that different groups of people differ in their reactions to sexual stimuli. As for research specific to respondent gender and sexual content, it has been consistently found that both female and male respondents evaluate depictions of the opposite sex more favorably. Also, evaluations of the same/opposite sex usually reflect on the evaluation of the ad and the brand.

Male reactions to sexual content show positive evaluations that become more pronounced as nudity and explicitness increase.²⁰ Female reactions, on the other hand, show a dependence curve in which both demure and highly explicit content causes lower evaluations than moderately explicit content. Generally, for women, sexual content in ads is more offensive and less effective than it is for men.

¹⁹ W. Patti, "Female role portrayals in print advertising: talking with women about their perceptions and their preferences," *Advances in Consumer Research*, Vol. 22, 1995, pp. 752-760; A. J. Cohan, "Towards a new paradigm in the ethics of women's advertising," *Journal of Business ethics*, Vol. 33, 2001, pp. 323-337.

²⁰ LaTour et al., *ibidem*.

More recent research suggests that men and women share some similarities, but that there are also differences in what they perceive as sexual in advertising. Female university students in their final years of study described depictions of interactions between models as sexual in a greater percentage (28%) than male students (6%). On the other hand, men more often mentioned models' physical characteristics (e.g., physical beauty, body and type of clothing) than women; however, even though men mentioned them more often (71%), physical characteristics were also important to women (58%). The models' movement and non-verbal behavior were important both for women (42%) and men (37%).

The schemes of the findings of this and other studies show that women and men differ in their reactions to some types of sexual stimuli, while being similar in their remaining views, and definitely confirm that respondent gender has an influence on their evaluation of ads' sexual content. The value of these studies is also born out by the fact that, in 75% of the cases, members of both genders were surveyed.

One of the conceptual questions regards the relatively narrow perspective through which the researchers studied the effects of sex in advertising. Almost all the research examined the effects of scantily clad women on processing and evaluative reactions. These findings are indeed useful, but they also deflect attention from other ways through which sexual effects can be realized. For example, the presumption in previous studies was that the sexual information was displayed and separated from the persuasive message in the advertisement. The presumption assumes that the sexual content is placed in the ad with the exclusive intent of attracting attention and manipulating emotional reactions.²¹

Although this observation is true in many cases, in reality the sexual information is very often an integral component of the transmitted message. In some cases, the sexual outcome as the result of using the brand is the actual message.

Sex is often integrated into ads as a deliberate sales strategy. One of these is to build sexual content into the reasons why consumers should consider buying a certain product. "Cool" cigarettes, for example, ran a campaign during the 1990s where attractive women were observing men who were holding a box of "Cool" cigarettes. The viewer's perspective was right behind the man's hand, and all that the viewer could see of the man was the hand that was holding the box of cigarettes. The suggestively dressed women in the ads were physically attractive and showing an obvious interest in the man with the "Cool" cigarettes. The message in this ad was that precisely these cigarettes are a part of the formula for attractiveness. The visual argument was that men who smoke "Cool" are more desirable for women, especially for the type that looks like the women shown

²¹ W. T. Whipple, E. A. Courtney, "Female portrayals in advertising and communication effectiveness: a review," *Journal of Advertising*, Vol. 14, No. 3, 1985; N. Artz, A. Venkatesh, "Gender Representation in Advertising," *Advances in Consumer Research*, Vol. 18, 1991, pp. 617-624; A. J. Cohan, "Towards a new paradigm in the ethics of women's advertising," *Journal of Business Ethics*, Vol. 33, 2001, pp. 323-337.

in the ad. These ads are an example of use of sex in advertising, but the sexual content in them was not in the service of attracting attention – it was in the very essence of the reason for buying this brand.

In the example of “Cool” cigarettes, the argument is that they increase the consumer’s sexual attractiveness. Other ads often try to score the point that consumers that use that brand can expect behavior with a sexual outcome. Back in 1937, the General Cigar Company put up billboards throughout the US that illustrated the benefits of their cigars – men who were kissing beautiful women. Laboratory research conducted by the company had revealed that its cigars contain fewer substances that cause stench. In order to demonstrate this competitive advantage, the “Thomson” advertising agency created provocative images of passionate kisses. As a result of this sexualized strategy, company sales increased already during the first year of the campaign. Sexual behavior definitely attracted attention, especially during the 1930s, but the brand’s promise about increased sexual outcomes had a positive effect among male cigar smokers, as well as among women.

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CITIZEN PARTICIPATION IN LOCAL SELF-GOVERNMENT IN THE REPUBLIC OF SERBIA**

Summary

The paper discusses the importance of citizen participation in local self-government management within Serbia's multiparty system, in accordance with modern democratic trends. Basic solutions in the constitution and laws of the Republic of Serbia that deal with local self-government are analyzed. The first part of the paper analyzes the very notion of local self-government, its scope of activity and its importance from the viewpoint of citizens' common needs, as well as the new role of local self-government in stimulating economic development. The central part of the paper deals with the Law on Local Self-government of 2007, and the extent to which the Law has advanced the possibility of citizen participation in the management and creation of public policy as compared to previous laws, analyzing concrete modes of citizens' participation in the process of preparation and adoption of strategic documents in certain fields crucial for the functioning of local self-government units (referendum, people's initiative, etc.). We start from the general hypothesis that the existing Law on Local Self-government has been harmonized with EU standards; it contains the appropriate form but lacks fully developed mechanisms for citizens' participation in managing and creating their own future in local self-government units (municipality or city).

Key words: *local self-government unit, direct and indirect democracy, Law on Local Self-government of 2007, Serbia*

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1. Introduction

We have chosen this topic mostly due to its broad social significance, as well as its undoubted currency. The accessibility of relevant sources tied to the topic also served as a stimulant. All available analyses and politicological commentary published in connection with citizen participation in government were taken into account in the course of our work – and these are quite scarce and mostly on the level of statistical analysis and description.

This field has been relatively little studied. The goal of this paper is to make a basic comparison of the numerous laws on local self-government that have been adopted in the Republic of Serbia from the reinstatement of the multi-party system to the present. We tried to present the degree of citizens' readiness to have their participation become obligatory in local self-government throughout Serbia, as well as citizens' actual role in the election of local authorities. However, citizens' awareness of the fact that their participation will largely determine the further development of local self-government in Serbia is not presently at the needed level.

Despite the lack of a larger historical distance, conditions are nevertheless ripe to, within the bounds of narrower politicological studies, take a look at the results and ways of citizen participation in local self-government in the Republic of Serbia thus far. This analysis will help provide a more complete picture of the development of political life in Serbia at the end of the twentieth and the beginning of the twenty-first century.

In countries that are undergoing or have already undergone the transition process, in which a single-party, monistic political value system had ruled for decades, democratic principles and institutions have not yet become deeply rooted. The democratic potential and order of these societies' social structure are still fragile. Political conditions in Serbia at the end of the last and the beginning of the present century are also burdened by similar problems.

Another great difficulty in studying local self-government is that, both in developed countries with a rich local self-government tradition and in underdeveloped countries throughout the world, citizens traditionally see local self-government and local politics as a secondary topic of politicological research. The reason for this lies in the fact that the processes, actors and events in local communities are often treated as a reflection of the politics and actors at the central level, as factors that do not have a decisive influence on national policy.

In the same way, local elections have always been marginalized in comparison to elections at the central level. The best indicator of the development of local self-government in a country is a higher level of citizen interest for local elections. Of course, obversely, growth of interest in local self-government and its role and significance in the political system gradually contributes to a greater level of interest in local elections.

Numerous standpoints treat local self-government as some sort of free zone in which the influence of political parties and other political groups on local community politics should not be felt. In this paper, however, we have tried to reject these, perhaps conservative viewpoints and examine local self-government through all the dimensions that determine policy on the national level. The assumption is that local self-government units are in no way isolated arenas of political decision-making – just as they are not, at the same time, mere copies of national level political arenas. Or at least – that is the way it should be.

The problem in researching local politics lies in the fact that citizens are in no way capable of clearly differentiating behavior at local and national levels. As a result, in some political processes it often happens that citizens' behavior at the local level is a mere reflection of their behavior at the central level. Thus, it is often considered that, at local elections, citizens are mainly expressing support or lack thereof for the policies of the national-level authorities.

There are, however, other theories, which do not agree with the above viewpoint, but hold the view that citizens in fact vote for the candidates they deem to be the most competent and able to solve local problems. According to this view, a candidate's political affiliation does not count for too much if citizens do not see them as the right person to improve their lives and working conditions at the local community level.

In our view, due to a lack of local tradition, Serbia has not yet reached that level. Many of the principles of local democracy, whereby strong decentralization would bring many benefits both to the state and its citizens, have not been completely developed here. Thus, for now, we must unfortunately conclude that the above viewpoint is applicable only in the context of researching the activities of organs and citizens in local self-governments of Western European countries.

Research of the effects of citizen participation in the government of transition societies also requires a critical evaluation of that participation, taking into account the long absence of democratic tradition, the underdeveloped culture of a pluralistic civil society, lack of social differentiation, lack of transparency of state functioning and numerous other problems that, thanks to adequate controls, more developed societies have long since overcome.

It is important to mention that great interest exists among citizens in taking direct as well as indirect participation in government regarding issues connected with their needs, under the condition that they can make the decisions themselves or influence future ones. An especially big problem is the fact that Serbia is a very centralized state with exceptionally large competences reserved for central organs and very small ones reserved for local levels of government. Perhaps such a state of affairs best explains why this topic was attractive enough to warrant the attention devoted to it in this paper. It is doubtlessly current and important, both for local community citizens and for professional and scholarly research.

2. The research problem

The basic problem of citizen participation in local self-government stems from the multi-level and multifarious complexity that characterizes the relations between fundamental principles, standpoints, theories and conceptual ideas, on the one hand, and the normative provisions of local government systems and national legislative norms, on the other.

The normative provisions of local self-government have a manifold character. They are at the same time a form of realizing the conceptual-theoretical notions of citizen participation in the government of local affairs, as well as the rights and protections of citizens and the remaining populace under the conditions generated by international law. In other words, they are, to a certain extent, a projection of citizens' behavior in the sense of their equal participation on the territory of the Republic of Serbia. In accordance with this, the research problem in this case is to uncover the contents and the formal characteristics of the system of Serbia's legislative norms and their relations, and to evaluate the state's ability to carry out an intermediary and guiding role towards the goal of developing equality of citizens' participation in local self-government in the Republic of Serbia.

One of the biggest problems in studying local self-government is the fact that Serbia's population in general and those familiar with local self-government in Serbia in particular, along with citizens and experts from other developed European states, most often view local self-government and citizen participation in it as a marginal topic for politicological research. The justification for such a position lies in the fact that all the said processes, actors and happenings in local government units are traditionally treated as a reflection of the policies and actors at the central political level.

In addition to the above, we could identify other numerous reasons why both citizens and experts on local self-government are skeptical in debates about this very important topic. Still, one of the most frequent reasons is the view that everything happening at local level is not very important and does not greatly influence the development of citizen participation at national level, which is much more important for them than the local level. This is perhaps one of the biggest problems with which we will try to deal in this work.

The basic categories of the chosen topic concern the way of citizen participation in local self-government in the Republic of Serbia in the function of the realization of the rights and obligations of the local populace, as well as of the norms of international charters and laws on local self-government. These norms are not researched as isolated, autonomous and special, but as integral and functional parts of numerous international charters and rights.

As this is a little-studied area, there are not many examples in the recent history of local self-government in the Republic of Serbia that can serve to show the extent of citizen participation in the government of local affairs. Thus, another task of

this work is to show why that is the case. Is citizens' lack of participation their own fault, or is the state also partly to blame for not motivating their participation?

The role of the state itself in the development of citizen participation in government is not clear either. Is it up to the state to enable citizens to freely participate in local self-government? The reply should be positive, as each state is obliged to maximally facilitate its citizens' realization of their interests. And the ideal way to do this should be none other than citizen participation in local self-government, which should allow them to realize their capital interests.

Perhaps if we were to primarily focus our attention on citizen participation in government, we could say that the essence of local self-government lies in the development of direct democracy. Thus, the subject of our study should be local self-government as a form of essential manifestation of direct democracy and, thus, the best indicator of the efficient realization and development of local self-government.

3. The theoretical definition of local self-government

The term "self-government" is derived from the term "government," which has a broader meaning and encompasses all types of government. The literal meaning of the term "self-government" is to govern oneself, which provides a basis for a broad interpretation, depending on who is seen as the subject of government.¹ However, there are also many theories, especially political ones, which have a very rough understanding of local self-government according to some measures. Thus, many authors will say that local self-government means autocratic government over local communities.

At the beginning, when there was no localization of life itself, self-government was not locally limited and, thus, in no way distinguished from the general notion of government. Thus, the notion of self-government came about as the logical antipode to an alienated government, and the notion of local self-government as the antipode of an alienated central or so-called centralized government.²

It can thus be said that neither local self-government nor local government could have come about without the existence of a central state government as their antipode. Hence, on the basis of numerous facts, scholarship considers that the notion of self-government, as a notion of public law, appeared only with the formation of large, strong and ordered states. For it was only in the nineteenth century, more precisely in its second half, that we first encountered the notion of local government, which mostly referred to and represented government in some local community, as distinct from the central government, which denoted the government of a national state.

¹ D. Marković, *Lokalna samouprava*, Institut za političke studije, Beograd, 2007, p. 5.

² *Ibid*, p. 6.

For many theorists, local self-government represents its inception, its changing and its development through battle against an alienated central government. They oppose each other, but also mutually complement each other in a way – thus revealing in the clearest way the great cooperation that exists between these two different levels of government. By all this we may conclude that neither of these two governments can properly function without the support and the help of the other. They take over from each other all the functions that the other is not able to carry out due to various problems or objective reasons.

However, even though local self-government has yet to reach a satisfactory level in many countries, especially non-democratic ones, it still manages to justify its existence. Even in such countries, it survives as a constant companion to state government, and even its agent, with which it intertwines or even merges in a certain way. “There is no state in the world in which the central organs regulate all social relations over the entire state territory all by themselves.”³ Nor would such a state be desirable – from any aspect whatsoever.

The boundary between local self-government and state government is based on an artificial division between common and pan-societal needs, according to which citizens should care for their common needs, while the state should care about general social needs.⁴ That is why in our work we emphasize the great role of the citizens themselves in regulating common needs and pleasures at local self-government levels. For, all the developmental aspects of a given local community are also dependent upon its citizens’ appropriate and timely participation, for the purposes of the best and most efficient possible fulfillment of life’s needs within local self-government.

The common satisfaction of the living needs of a population living on a certain territory represents the very basis, essence and fundamental meaning of local self-government, in which all interested citizens take part directly and equally. And true self-government exists only when citizens can satisfy all their common needs, interests and possibilities, without any obstruction. The needs of the populace are those that appear to people as common ones, precisely due to the fact that they have taken up permanent residence there, just like activities that are in the function of satisfying those, and not any other needs.⁵ That is why local self-government has become what it is today, since the ordinary citizen cannot satisfy all his needs individually, but must also receive wholehearted help from the society in which he is living.

Although it is very important for the populace living on a certain territory to satisfy its needs in a normal, characteristic way in order to live the most quality life possible, no local community can achieve this today without the help of

³ M. Jovičić, *Sistem lokalne samouprave u Engleskoj, Švedskoj i Švajcarskoj*, Savremena administracija, Beograd, 1963, p. 3.

⁴ D. Marković, op. cit., p. 7.

⁵ R. Marinković, *Lokalna samouprava*, Institut za političke studije, Beograd, 1998, p. 27.

neighboring local communities. That is why we are witnessing significant cooperation between all the municipalities, districts and regions within single states throughout the world. However, there is a growing view that state borders are becoming too tight to ensure the satisfaction of people's basic needs, as a result of increasing globalization. Thus, in addition to the interested states themselves, we are seeing the inclusion of many international organizations and of the international community itself in various forms of cooperation between cross-border municipalities.

It can be said that the human race is linked by common interests to such an extent today that no democratic and civilized community can develop in isolation and independently from others. That is why we say that a community is only as strong as its connections with the world are developed. In order to survive, people must satisfy their needs jointly. Citizens' common needs express their common interest.⁶ Citizens must act in a united way, in order to satisfy most of their interests in an appropriate way.

There is no developed democratic state today without organized and efficient local self-government. Local government is gaining an extremely important position because the central state is transferring a large portion of its competences to European and global integrations. The portion of affairs for which the central government has neither the time nor the will to deal with is being completely taken over by local government. Numerous problems that once had to be solved by the state government, which, however, is no longer able to resolve them, require the active participation of the citizenry and the entire local community. However, a new function, the so-called entrepreneurial function, whose goal is to stimulate economic development, is now perceived as the most important and biggest competence of local government. Previously, this function was a core function of central, rather than local authorities.

In addition to this, today's most important function of local government, there are numerous other functions that have stood as the basic functions of local communities from the start. However, whatever the organization of a local self-government – as it differs from country to country (meaning that a great number of models exists) – they all have a generally uniform area of competences and activities. These competences are numerous: communal affairs, public transport and infrastructure, supply of electrical energy, gas, water, cleaning, recycling, garbage disposal, waste water and material disposal, sports and recreation, park and lawn maintenance, schools, hospitals, social work, cultural institutions, public safety and security, and the previously mentioned new-age competence – stimulating economic development.

In addition to local affairs and needs, there are also public interests, public affairs and public services. Public interests are the interests of a given community or its certain parts, which are protected by the regulations and activities of

⁶ D. Marković, op. cit., p. 22.

organs of public authority.⁷ Public affairs are affairs of general interest to the citizens of a certain community. The organs that perform these public affairs can be state or local self-government organs, public services, various organizations, as well as prominent individuals from the local community with public authorization. The basic activity of public services is to satisfy the common needs of the citizens of a given community. That community does not necessarily have to be local – it can be the state itself.

4. Role, activities and competences of local authorities

In the disciplinary sense, local self-government is a category of constitutional law and the political system.⁸ Local self-government draws its biggest strength and legitimacy from the fact that its existence is guaranteed by the constitution and that the local self-government of any state, as a territorial organization, has its own laws and statute. It should be said that local self-government can also engage in the study of public administrations and public services, since their existence and activity at local community level is inevitable.

However, some local experts for self-government feel that, besides being a political and legal phenomenon, local self-government can also be viewed as a social and spatial phenomenon. Thus, no local self-government is worthy of the name if it does not consist of: space, people, i.e., population, citizens and their community, and their activities and the relations that are established in the process.⁹

Although the size of the space varies from municipality to municipality and from state to state, that space, no matter its size, still assumes a certain degree of directness and closer contact between its residents. All communication between the citizenry is much closer and easier to realize than at the central level. Citizens' activities are, thus, carried out much more easily, along with their interests and projects for the resolution of many problems at local self-government level. That should, indeed, be the basic goal of creating local self-government – faster and more efficient cooperation between its citizens.

Since we have already mentioned that local self-government is a social phenomenon, we must explain what we mean by that notion. Under social conditions are included the characteristics of society, as well as social processes and relations between people in the local community; economic relations refer to the economic factors of local community development, while legal and political processes encompass the question of the nature of this community within the state and its legal and political order.¹⁰ The people that form the settlements

⁷ Ibid, p. 451.

⁸ R. Marinković, op. cit., p. 7.

⁹ S. Đorđević, *Renesansa lokalne vlasti*, Fakultet političkih nauka, Beograd, 2002, p. 30.

¹⁰ Ibid, p. 31.

and live on that territory must have, in the opinion of sociologists, a feeling of belonging to that community and that space, a system of values and customs, a cultural model, etc.

5. Citizen participation in local self-government in Serbia according to the Law on Local Self-government of 2007

Transition countries are still experiencing many problems in the development of local self-government. These countries have still not “gotten over democracy’s measles.” Obviously, citizen consciousness for engaging in local self-government is still underdeveloped in these countries. Local authorities in transition countries appear slow and uninterested. Although even these countries have experienced progress in recent years, that is still far from citizens’ real needs and desires. There is no adequate citizen participation in government as there is in developed democratic states. Also, transition countries have constitutionally regulated local self-government and numerous laws; however, all that appears more as form than substance.

The biggest problem is that many functions in these states have remained centralized and that neither the authorities nor the citizenry are showing any desire to change this. There are no public-private partnerships for offering services, or cooperation between a larger number of municipalities – not to mention cooperation between cross-border local communities. Decentralization has not reached the expected level. The lethargic authorities and even more lethargic citizens are not taking the right path to the successful development of local self-government. There is still a feeling of great subordination of local authorities to the central ones, as well as of citizens’ fear of the state. However, one should not be pessimistic and say that everything will remain as it is, but work on having all countries achieve the development achieved by the local self-governments of Sweden, the US, Germany, Great Britain.

As far as Serbia is concerned, it can be said that the development level of its local self-government is still not at an enviable level. Local self-government in Serbia is mainly characterized by lack of decentralization, citizen awareness and participation in decision-making, public-private partnerships and local self-government democracy. On the other hand, under the influence of developed countries, Serbia has also adopted many of the characteristics of democratic countries’ local self-government. Its local self-government is regulated by the constitution and numerous laws. However, the laws are mostly “on paper” only, not being respected in the measure they should be.

Over the past two decades, after the example of the developed countries of Western Europe, local self-government in Serbia has been undergoing a sort of reformation. Already at the beginning of the 1990s, the new constitution

rejected the ideologically obsolete communal model.¹¹ The laws on local self-government that ensued, especially those of 2002 and 2007, proclaimed the right to local self-government and provided for a decentralization of authorizations to local self-government.¹² It can, thus, be said that the modernization of local self-government in Serbia has begun.

The progress of civil society in Serbia over the last several years, i.e., the accelerated development of the non-government and non-party sector, has created conditions for exerting effective pressure on the state authorities, i.e., the public sector, to carry out reforms and improve their results. This especially applies to the local public sector, i.e., local public institutions and publicly-owned companies.¹³ For, citizens have great expectations that the state will become their service, and that their local authorities will provide services that are important for everyday life in the local community.

The foundations for a new local self-government system in Serbia were laid down by the Republic of Serbia Constitution of 2006, while concrete solutions were founded in a set of laws adopted by the Republic of Serbia parliament in December 2007: Law on the Territorial Organization of the Republic of Serbia, Law on Local Self-government, Law on Local Elections and Law on the Capital City.¹⁴ In the time between the Law on Local Self-government of 2002 and the new Law on Local Self-government of 2007, Serbia ratified the European Charter on Local Self-government in 2003. Thus, the solutions offered by the Law on Local Self-government are mostly harmonized with European standards.

The new constitution guarantees only a modest list of core competences for the municipalities – albeit a much broader one than offered by the previous constitution. This has left legislators leeway to define municipalities' competences, but has also provided possibilities for the sorts of endless manipulations that were practiced before the adoption of the new constitution. There have been examples of municipalities being stripped of their property rights, as well as of easy introduction and years-long application of receivership in certain municipalities. The new constitution now guarantees local self-governments rights to their own property and freedom of its management. Nevertheless, this does not mean that the state is obliged to restore to local self-governments the property that was seized from them during the 1990s.¹⁵

¹¹ M. Radojević, "Novi pravni okvir lokalne samouprave u Srbiji," *Politička revija*, Institut za političke studije, Beograd, 2008, p. 427.

¹² Ibid, p. 427.

¹³ B. Begović, *Upravljanje lokalnim javnim ustanovama i preduzećima, Principi modernog upavljanja lokalnom zajednicom*, Centar za liberalno-demokratske studije, Beograd, 2002, p. 143.

¹⁴ Ž. Obradović, "Lokalna samouprava u Srbiji," *Politička revija*, Institut za političke studije, Beograd, 2008, p. 379.

¹⁵ J. Jelinčić (ed.), *Evropeizacija Srbije*, Fond za otvoreno društvo, Beograd, 2007, p. 113.

The Law on Local Self-government of 2007 did not bring fundamental changes to the model of local self-government but, rather, corrective interventions, before all in the area of organization of authority in local self-government units. The law, thus, opted for the indirect election of the mayor, limiting his authorities and transferring them to the communal council.¹⁶

Section 1 of this law is entitled “Basic Provisions,” and contains 13 articles. The first article of the new law does not differ much from previous laws on self-government. Thus, it affirms the direct realization of citizens’ rights to local self-government, through freely elected representatives, who govern public affairs that are of immediate, common and general interest for the local populace. As was the case earlier, local self-government is realized in the municipality, the city and the City of Belgrade. The article further states that citizens with an electoral right and residence on the territory of a local self-government unit can also engage in the management of local self-government affairs, in accordance with the constitution, the law and the statute of the local self-government unit.

The next article says that a local self-government unit can be authorized by law to carry out certain functions from the framework of the rights and obligations of the Republic and its territorial autonomy units. The funds for these authorized functions are provided by the Republic or territorial autonomy unit. When it comes to functions from the core competences, the local self-government unit adopts regulations autonomously, in accordance with the rights and obligations provided by the constitution, the law, other regulations or the statute. On the other hand, in the area of these authorized functions, the local self-government unit adopts regulations and other acts and carries out administrative activities on the basis of and within competences provided to it by law, or by regulations by which a territorial autonomy unit has granted it authorization.

For the purposes of realizing its rights and obligations, as well as of satisfying the needs of the local populace, a local self-government unit can found enterprises, institutions and other organizations that carry out public services, in accordance with the law and the statute. The local self-government unit also has the right to contractually delegate the performance of these activities, in accordance with the principles of competition and public transparency (article 6), for the purposes of satisfying the general, common and daily needs of the populace of a certain territory; the local self-government unit can found a local community or other form of local self-government unit, in accordance with the law and the statute.

Article 10 of this law states that the statute is the basic legal act of the local self-government unit. Thus, the statute regulates: the rights and obligations of the local self-government unit and the way in which they are performed, the number of council members sitting in the local self-government unit assembly, the organization of the work of its organs and services, modes of citizen management of activities under the competence of the local self-government

¹⁶ M. Radojević, *op. cit.*, p. 431.

unit, foundation and work of local communities and other forms of local self-government, conditions necessary for launching local citizen initiatives and other questions of importance for the local self-government unit.

As in earlier laws, it is provided that local self-government units can cooperate and associate for the purpose of realizing common goals, plans and development plans, as well as other needs of common interest. They can cooperate and join international organizations of local self-governments or with other states' local self-government units, in accordance with the constitution and the law, and with the consent of the Government of the Republic of Serbia. Organs of local self-government units can also cooperate with non-government, humanitarian and other organizations, in the interest of the local self-government unit and the population living on its territory.¹⁷

The establishment and abolition of a local self-government unit, determination of its territory and seat, and changing of its boundaries and seat are regulated by law, and require the previous consent of the citizens of the relevant local self-government unit, as well as the competent organ of a territorial autonomy unit, if the said local self-government unit is located on it (article 14).

5.1. Core competences of the municipality

Both in the Law on Local Self-government and the Law on the Territorial Organization of the Republic of Serbia, the municipality is defined as the basic territorial unit within which local self-government is realized. With its statute and an additional general act, the municipality regulates in greater detail the ways, conditions and forms of performance of functions from its core competence.

The municipalities in the Republic of Serbia have a large number of competences. We will mention some of the competences that are crucial for the development of local self-government, among which the most important are those by which the municipality: adopts development programs; adopts urbanistic plans; approves the budget and balance sheet; orders and secures the performance and development of communal activities; cares for the maintenance of residential buildings; performs the eviction of persons illegally occupying apartments and common premises in residential buildings; adopts land development programs and regulates and secures the performance of land development and land use activities; regulates and secures the use of commercial property under its management; performs environmental protection activities, adopts programs of use and protection of natural resources and environmental protection; regulates and secures the performance of activities related to the construction, rehabilitation and reconstruction, maintenance, protection, use, development and management of local and non-categorized roads and settlement streets; establishes commodity reserves and determines their volume and structure, with the consent of the

¹⁷ Law on Local Self-government, "Official Gazette of the RS," Belgrade, 2007, article 12.

competent ministry, for the needs of the local populace; establishes institutions and organizations in areas of primary education, culture, primary healthcare, physical education, sports, child and social protection and tourism; organizes protection from severe weather and other natural disasters; stimulates and oversees the development of tourism on its territory and determines the visitor tax levels; oversees the development and improvement of hospitality services, trades and commerce; regulates working hours, commercial zoning and other commercial conditions; organizes the legal protection of its rights and interests, organizes, as needed, citizen legal aid services, regulates official and minority languages in use on municipal territory; regulates and oversees the use of the municipality name, coat of arms and other insignia; performs other tasks of direct interest for citizens, in accordance with the constitution, the law and the statute.¹⁸

Besides its core activities, the municipality may also perform other tasks from the framework of rights and obligations of the Republic. These activities are delegated to all or some municipalities for the purposes of a more efficient and more rational realization of citizens' rights and obligations, as well as the satisfaction of their direct interest needs. The funds needed for the performance of these delegated activities are provided in accordance with the type and scope of activities that should be performed by the municipality (article 19).

5.2. Direct citizen participation in the realization of local self-government

The Law on Local Self-government has also defined the forms of direct citizen participation in the realization of local self-government and decision-making: the citizen initiative, citizen assembly and referendum.

The people's initiative and the referendum are the two most important forms of expressing citizen sovereignty in this case as well and, according to the Constitution of the Republic of Serbia of 2006, "sovereignty is vested in citizens who exercise it through referendum, people's initiative and freely elected representatives."¹⁹

The Constitution of 2006 distinguishes between two forms of republic-level referendums. The first is constitutional, facultative and obligatory, while the second form of referendum is when, upon the demand of a majority of members of parliament, the National Assembly organizes a referendum on questions under its competence. Hence, a referendum may be called regarding any issue under the competence of the National Assembly. The important thing in the context of this work is that, in addition to the statewide referendum, there is also the provincial referendum in the autonomous provinces, and the municipal referendum within the municipalities.

¹⁸ Law on Local Self-government, "Official Gazette of the RS," Belgrade, 2007, article 18.

¹⁹ Constitution of the Republic of Serbia, Belgrade, 2006, article 2 par. 1.

By way of a citizens' initiative, citizens propose to the local self-government unit assembly the adoption of an act that will regulate a certain issue from the core competence of the local self-government unit, a change of statute or other acts and the organization of a referendum in accordance with the law and the statute. The statute of the local self-government unit defines the number of citizen signatures necessary for a legally valid launching of a citizens' initiative, and that number cannot be lower than 10% of total voters (article 66).

The next form of direct citizen participation in decision-making provided for in article 67, the citizens' assembly, is organized for a territorial portion of a local self-government unit as defined by the statute. It debates and offers proposals on issues under the competence of the organs of the local self-government unit. The citizens' assembly adopts demands and proposals through a majority vote, and then sends them on to the assembly of the local self-government unit or its individual organs and services. The convening, work and way of determining the opinion of the citizens' assembly are regulated by the statute and by decision of the municipal assembly.

The third and the most important form of direct citizen participation in decision-making is the referendum. It is called on the initiative of the assembly of the local self-government unit and usually deals with issues from the local unit's competence. The assembly of the unit of local self-government shall call a referendum on issues under its competence, as stipulated by the law and the statute. The decision on the referendum shall be considered enacted if supported by the majority of citizens that have voted, provided that more than half of the total number of citizens have turned out for the referendum (article 68). In addition, the assembly of the local self-government unit is obliged to call a referendum on the territory of the local self-government unit on a question related to the needs or interests of that territory's population, as provided by the law and the statute (article 69).

This law also affirms the existence of the local community as a way of facilitating and more efficiently satisfying the needs and interests of the local populace, especially in the villages – although there are cases where local communities are established in city neighborhoods as well. The assembly of the local self-government unit decides on their formation, the territory they cover, as well as the abolition of local communities and other forms of local community self-government. The competences and organization of local community self-government have not changed from the previous Law on Local Self-government, so we will not elaborate any further on this area of regulation of local self-government units.

The legal framework in which local self-government is to develop and function was set by the new constitution and the adoption of a set of laws in December 2007. The system of government in Serbia is still centralized. In practice, local authorities are compelled to obtain permission from individual government ministries in order to resolve numerous issues and problems. This greatly obstructs and makes more difficult the work of local authorities, thus preventing the system from functioning normally.

A part of the process that is still not finished is the transfer of competences from central to local authorities. However, it is thought that abrupt decentralization would be negative for many areas, and there is insistence on a gradual transfer of functions and the raising of capacities of local authorities. In addition, there is an impression that the state itself is not overly interested in that process, as it still has a great desire to retain influence and power over the control of local authorities.

As a result, we can conclude that many areas of primary education, primary healthcare and social protection have not yet reached the desired degree of decentralization, even though the Law on Local Self-government has granted these competences as core ones to local authorities. Some potentially large local authority competences have yet to be regulated by the Law. This mostly applies to competences in the area of security, which have not yet been transferred to the municipalities. Also being postponed is the formation of local police forces, which would bring greater efficiency and effectiveness to the work of local government organs and greatly contribute to a reduction in violations of law.²⁰

Stimulation of economic development is one of the new functions of today's local authorities. In Serbia's case, autonomy has to be increased and entrepreneurial potentials raised. Expansion of municipalities' scope of competences, restoration of their property, strengthened financial autonomy and the development of managerial and entrepreneurial skills are necessary preconditions for local authorities in Serbia to successfully carry out these important functions, thereby resolving social and other problems.²¹

The realization and further development of local self-government in Serbia will greatly depend on the overcoming of numerous obstacles, of which the most important are: property usurpation, domination of state administration, partocracy and colonizatory globalization. All are closely related and mostly cannot be considered in a partial way.²²

A major role in the development of local self-government in Serbia is also played by the Permanent Conference of Cities and Municipalities, which has existed since 1954 and represents a national association of local authorities. Due to international isolation, this conference did not function during the 1990s, but renewed its work after 2000 and has since grown into a serious organization, significantly reformed and improved, modernized for easier and more efficient performance of local authorities' manifold and complex activities.

The biggest problem faced by local communities is the fact that the economic development of local self-government units has remained an important but limiting factor of the successful functioning of local self-government in Serbia. Most local units cannot resolve this problem autonomously, but need significant involvement on the part of the state, primarily in creating a legal and econo-

²⁰ J. Jelinčić (ed.), *Evropeizacija Srbije*, Fond za otvoreno društvo, Beograd, 2007, p. 115.

²¹ Ibid, p. 115.

²² D. Marković, *Lokalna samouprava*, Institut za političke studije, Beograd, 2007, p. 153.

mic environment, as well as in providing state-stimulated and financed projects.²³ Constant effort must be applied in providing solutions for the unimpeded participation of citizens in local self-government management, for the common benefit of all who live on a particular territory. Especially important is to secure the unobstructed performance of local activities without great and unreasonable interference on the part of the state and its organs. Legitimacy and democraticness continue to be the most desirable qualities for local authorities in Serbia, which would aid the normal development of local self-government units and the strengthening of citizen awareness, which are the most important elements of society and local self-government.

6. Concluding considerations

Analyzing citizen participation in management serves to enrich the picture of political life in Serbia at the end of the twentieth and the beginning of the twenty-first century. We all need to contribute to the realization of citizen participation in each local self-government unit in Serbia, as well as the creation of a normal development of democracy and its accompanying features, social justice, citizen protection and many other characteristics important for the creation of modern local self-government and local authority.

In countries that are undergoing or have already undergone the transition process, in which a single party system ruled for decades, democratic principles and institutions have still not become sufficiently deeply rooted. The social structure of their societies still has a fragile democratic potential and order. The political situation in Serbia of the end of the last and the beginning of this century is also burdened by similar problems.

However, we would not be objective if we did not mention the existence of other theories, which do not accord with the above view, but offer the view that citizens choose by themselves, i.e., vote for the candidates they deem the most competent and able to solve particular problems at the local level. According to this standpoint, a candidate's party affiliation does not bring him many points, if citizens do not consider him to be the right person for improving their lives and working conditions at local community level. Still, that is not completely the case in the Republic of Serbia, where a sufficiently developed democratic consciousness is still lacking.

It is important to emphasize the necessity for each state to be obliged to maximally facilitate the realization of its citizens' interests. And the most efficient vehicle for this should be citizen participation in local community management, which should allow them to realize their fundamental interests.

²³ Ž. Obradović, "Lokalna samouprava u Srbiji", *Politička revija*, Institut za političke studije, Beograd, 2008, p. 403.

In no case should the development of local self-government in the Republic of Serbia be seen as something impossible and far-removed from our consciousness. Many developed states needed years, and even centuries to create democratic local self-government. We can be optimistic in our expectations that local self-government will be realized in the right way, without years or centuries of waiting. Serbian authorities must work constantly on providing solutions for the unimpeded participation of citizens in local self-government management, for the common welfare of all those living on that territory. Legitimacy, citizen participation and democraticness of local authorities in Serbia should stand as the most desirable characteristics of local self-government, with great support being provided by the citizens of local self-government units themselves. The task of citizens is to help this process, by investing their common knowledge, perseverance, desire and work.

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