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MARKET - DAMNATION OR SALVATION

The passed century was very turbulent worldwide, especially in European relations. This turbulence was expressed through the strong social shocks and changes. In the very centre of these events was the phenomenon of the market and democracy contradictions. During the passed century the planet Earth cumulated more knowledge, new technologies and new products, than the whole civilization which had preceded. In such conditions especially expressed were the contradictions inherent to market and democracy, as the essential factors of our civilization. The positive sides of market manifested in the fact that it award the capable and successful ones, and punish those who are not. The bad sides of market manifest in the fact that the free market activity makes the rich even richer and the poor even poorer. The good sides of (parliamentary) democracy reflect in the protection of human rights and freedoms. Those less good manifest in a fact that social justice and social rights are not included in these human rights.

Great turbulences and crises in the most developed countries of the world, especially in USA, showed that contemporary capitalism did not survive through the invisible hand of Adam Smith, but on the contrary through the very visible hand of John Maynard Keynes.

Key words: market, democracy, sustainable development, solidarity, welfare society, economic neoliberalism, transition, capital, labour.

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Four facts determinedly influenced such approach to this paper

The first fact is that the last century passed in the light of strong social changes, shocks and turbulences, which were continuously developing in the cause-and-effect relations with the market contradictions. The existing strengthening of globalization trends and correlated to them integration processes, in the conditions of the ruling doctrine of economic neoliberalism, monetarism and market fundamentalism, opens increasingly more space for such market activity, where the rich become even richer, and the poor poorer, with the consequence of further intensifying the problem of sustainable development. Even more, without the analysis of market contradictions in the historical retrospective, it continuously imposes the danger of searching solutions in the wrong direction. These are all attempts to stop globalization trends by anti-globalization movements and initiatives. The more recent history of our civilization, especially development history of capitalistic society, gives innumerable examples and evidences that stopping and even reducing globalization trends is impossible on these fundamentals. What is possible, is searching the model of sustainable development on those more subtly finished fundamentals, on which in recent history developed the welfare society (the reform of which is underway). That means in a kind of combination of market and solidarity criteria at all levels, starting with each particular country, and over such integration of states as the European Union, all to the level of the world. The great new role of the United Nations and adequate and new institutions (organizations, agencies) must play a determined role in all that. Without this, there are no prospects in searching sustainable development. By each day the turbulences of contemporary world increasingly warn that searching for the model of sustainable development (economic, social, ecological) must be intensified and that some better solutions must be found. By stressing the task of poverty decrease in the new millennium, the UN goes into this direction. The big UN's reforms recently (March 2005) announced by the Secretary general Kofi Anan will contribute the sustainable development.

The second fact refers to the unquestionable necessity to comprehend as well as possible, the happenings on territories correlated to reform, transition, pluralization and democratization, in the light of interdependence of historical retrospective and current moment.

Here come the warnings both from domestic and foreign side. What is more, the reform contribution of our economic science, as well as of other social sciences, influenced the reform happenings, not only on these territories, but even more broadly. And this broader means such scientific contribution which influenced the acceleration of the collapse of the Bolshevik option, and even the fall of the Berlin wall. Within this context it should be reminded that just few scientists (veterans of reform and economy and politics of transition) can write about this topic on the basis of own experience and testimony.

In a series of recent published books directed to consideration of this subject the two of them should be especially mentioned: (1) Yoji Koyama: *South Eastern Europe in Transition (A Quest for Stabilization of the Region after the Breakup of the Former Yugoslavia)*, Niigata University, Japan Niigata, 2003; (2) David L. Prychitko: *Markets, Planning and Democracy, New Thinking in Political Economy*, Edward Elgar, Northampton, MA, USA, 2002.

The third fact is the denotation of the 65th anniversary of the Institute of Economics, Zagreb. This is especially important, because during many years of reform and the beginning of transition, the Institute had a very big and distinguished role in the reform happenings on these spaces. That has been identified and recognized both on domestic and international plan. The Institute carried out this role through the very tight collaboration with the Vienna Institute for Comparative Economic Studies, Institute for International Economic and Political Studies of the Russian Academy of Sciences and the Institute for Comparative Studies of the Florida State University. Much credit for such a role goes to numerous prominent scientists, some of which have been mentioned in this paper.

Finally, it should be mentioned as not less important but on the contrary, the fourth fact which is related to the initiative of realizing the idea of the project under the title «Centre for the Croatian-American Studies». This idea means the continuation of traditional collaboration between the Institute of Economics, Zagreb and the Florida State University. Some suggestions about the frames of this Center's activity are presented in the paper «America and Europe: Globalization and the Changing Geo-Strategic Environment». In the light of happenings after September 11, this paper contains very relevant considerations of some problems of contemporary world which are also important from the point of view of sustainable development. In the paper «Market, damnation or salvation» dominates the standpoint of warning that sustainable development is planetary interest.

Market in the light of the problem of sustainable development

One of the very important characteristics of the last century is related to the general quest of sustainable development. That was and still is one of the basic preoccupations of science, especially of the social sciences.

In all societies the problem of sustainable development is an important segment of entire policy. By its nature, this problem imposes to all states of our planet, without regard to the level of consciousness about the existence and importance of its solution. In theory and practice, the questions and problems of sustainable development are usually treated and comprehended in three main segments. The

first relates to sustainable economic development, the second - to sustainable social development, and the third to sustainable ecological development. In the practice of real social happenings these three segments mutually penetrate, interweave, interfere, and with smaller or bigger controversies in every society they continuously, but only at higher level, repeat.

The more developed society is, the stronger is the intensity of mentioned controversies, what means that it demands more knowledge and more relevant social activity for its solution.¹

Considering the economic aspects of the problem of sustainable development in historical retrospective, the politically-economic approach imposes by itself. Such an attitude, again by itself, places the market in the centre of the happenings. This is quite understandable, because exactly the market was and remained the central category of the political economy which, during many years of our civilization developed the system of commodity production, and capitalist system respectively.

These laws, on the basis of the market function, played a huge role in development of all these material achievements which characterized contemporary world. That especially relates to its most developed parts.²

Consequently, it can be said that contemporary development cannot be conceived without market, because market by its nature connects like catalyst new fundamental knowledge and based on it new technologies and products with all possible necessities of development. The feedback is market competitiveness which by its intensity, and of course capital, stimulates research and development and discovery of new knowledge, new technologies and new products. The intensity of these cause-and-effect interconnections was especially expressed in the past century when it was accumulated more new knowledge than during the entire period which had preceded.

This side of the market medal related to production (conceived in the broadest sense), has the other social side as well. Here should be remembered some generally

¹ In the past century (especially in the second half) and at the beginning of this century, the greatest and the most distinguished international organizations paid great attention to these questions. Especially mentioned should be the United Nations and their agencies, as UNIDO and UNDP are, as well as the World Bank and International Monetary Fund. The problems of sustainable development, especially when it is a question of the poverty decrease, are pointed out as the main task of this millennium. In a series of relevant international conferences a special place also belongs to those held in Vatican and Kyoto.

² This is confirmed by the works of all great economists, especially those who enter the classics of political economy, starting with Adam Smith and David Ricardo, over Karl Marx and John Maynard Keynes, all to our time which has been individually well represented by Paul Samuelson and Jan Tinbergen. The classical theoreticians of market socialism Abba Lerner, Oskar Lange and Branko Horvat should be also mentioned within this context.

known and accepted politically-economic attitudes. In the process of production people enter into some necessary, not depending upon them relations, production relations. Legally looking, these relations also reflect the relations of ownership. It should be pointed out again here that the history of political economy is as a matter of fact the history of ownership. Cause - and- effect relations of knowledge, market and competitiveness have got fully defined, better to say legal orientation. The consequence of this legal orientation is increasingly smaller number of owners and increasingly bigger number of non-owners of capital. That means that increasingly bigger part of the world wealth (capital) flows into increasingly smaller number of hands. In the majority of the most developed countries of the world the phenomenon of massive small shareholders does not change this at all, because the concentration of capital is in the very nature of the capitalistic system. The higher is the level of fundamental knowledge and based on them new technologies and new products, the stronger are links of force directed to concentration of capital and wealth. This phenomenon has been daily irresistibly increased and permanently generated by the influence of the fourth technological informatics revolution. Altogether, a considerable and irresistible intensity and power of contemporary globalization trends, as well as integration processes, deeply and directly originates from the mentioned cause - and- effect ties. Here should be mentioned the two very essential market characteristics, the first one with positive and the second with something less positive sign. The first positive side is related to the fact that the free activity of market (and competitiveness) awards the capable and successful and punishes the incapable and unsuccessful ones. The second less positive side of the market is related to the fact that the consequence of the free market activity is that the rich (in national and international frames) become richer, and the poor even poorer. These market contradictions (or capitalistic way of production) by themselves, especially in new recent history of our civilization, were the cause of bigger or smaller crises and turbulences. The higher level of development of particular countries more expressively and intensively revealed these contradictions. To them can be correlated a broad spectrum of revolutionary and crisis happenings in our recent history - from the French revolution, all to the great crisis in the thirtieth of the last century. In any case, these market contradictions represented (and still present) the permanently existing and accompanying causes of the crisis, and correlated to them the necessities of searching the ways of sustainable development.³

Because of searching the answers to numerous questions within this context, the Association of World Academies (Inter Academy Panel IAP), which gathers more than 60 national academies, decided to hold the World congress of academies in Tokyo under the title -«Transition to sustainability in the 21st century».

³ The experience of last century seriously learns and warns us that unorganized search of the ways for solution of market contradictions can have disastrous consequences for entire nations and states.

All the members of the Academy were engaged in preparation of the adequate resolution (focused on the problems of economics, ecology and welfare considerations). As suggested by the Croatian Academy of Sciences and Arts, the theses for this resolution were prepared by Zvonimir Baletić and Dragomir Vojnić.⁴

From all that has been mentioned, it is not difficult to comprehend that the great part of the problem of sustainable development in the light of mentioned market contradictions, is reduced to search of possibilities for their alleviation, by introduction of social component and elements of social justice into the functioning of relevant social systems.

Although in the centre of these considerations are the problems of sustainable development related to market contradictions and their influence on social movements, we nevertheless remind of one great OECD project which has begun recently and which places in the first plan of development exactly these three segments which were mentioned at the very beginning of the paper.⁵

The sustainable development also implies the inclusion, into the functioning of social system, of ecological (including also the climate ones) components, but this is the special problem. However, in the course of our considerations, it is important to note that searching for fundamentals of sustainable development is possible only in combination of market, social and ecological components. At least so far, the market has been and stayed the starting point in this search. But the events in the past century showed, that these combinations, in different time and different countries, were realized in different ways and with different success. In our considerations, especially interesting are the events in the past century which resulted from the end of the second and the swing of the third technological revolution.

Not less interesting are the events which in past decades of the last century developed under the influence of the fourth (informatics) technological revolution. These events, especially in Europe which is the priority of our interest, are connected with the increasingly expressed globalization trends and integration processes. Under this influence, the world increasingly more becomes the global village where the undisturbed information flow more and more overthrows the classical borders of separation. The most developed countries of the world, especially USA, Europe and Japan, entered the phase of postindustrial society, which opens completely new, so far unimagined possibilities of development.

The intensity of economic and financial power has not been based on companies within national borders anymore. It has been for a long time that mighty

⁴ The more detailed information can be found in the materials deposited in the documentation of the Institute of Economics, Zagreb and in the Croatian Academy of Sciences and Arts.

⁵ More details in the paper: Sustainable Development Concept, in the book OECD Papers, Special Issue on Climate Change Policies: Recent Development and Long Term Issues, Paris, 2002, pp. 8-17

multinational companies have been dominating in the world. That especially relates to the companies which are by their technological bases in the focus of the informatics society development.⁶

Market in the light of the second and the third technological revolution

The beginning of the last century is characterized by strong social turbulences in the most developed parts of the world. That especially relates to Europe and USA. These turbulences emerged under the strong swing of market (and competitiveness) based on new knowledge, new technologies and new products. On macroeconomic and macropolitical plan, these appearances influenced development acceleration of institutional frames of integral market of goods, services, labour and capital, and capital concentration, on increasingly smaller number of market (better to say economic) subjects. The other side of medal of these events are increasingly stronger social turbulences which expressed more and more sharpened relations between labour and capital. The manifestations of the free market activity by which the rich become richer and the poor even poorer imposed the continuous search for possible bases of survival. A doctrine about the great advantages of the free market activity and correlated to it economic policy (based on *laissez faire*) manifested more and more the other negative side of the medal.

Not analyzing the known problems of the market imperfection and asymmetry of information, I restrict myself only to the statement that these manifestations became more drastic and expressive if particular countries were more developed. This especially relates to Europe, more precisely to Great Britain and other West-European countries and USA. In such conditions in Europe developed strong labor movements and under their influence strong labor, socialist and social-democratic parties. In the USA these influences had somewhat different manifestations. It developed strong workers and labor union movements but not the strong workers socialist and social-democratic parties. Especially big economic and social turbulences manifested in the great (it is usually said the economic but it was social) crisis of the thirties. The strongest manifestations of that crisis happened in the biggest and the most developed country of the world - in the USA. This is quite understandable

⁶ Here are especially interesting some our researchers, which are according to estimate of the reviewers precious, although they contain some components of the futuristic visionary character. Adolf Dragičević and Dražen Dragičević, «Doba kiberkomunizma, visoke tehnologije i društvene promjene» (Time of Cybercommunism, High Technology and Social Change), Golden Marketing, Zagreb, 2003.

because just in this crises manifested the biggest market contradictions. It turned out that the free market activity manifests both , the positive and this less positive, i.e. negative side of medal. The result of the activity of the positive side of medal, according to which market awards the capable and successful, was that particular countries, under the strong capital accumulation and concentration, developed very fast and achieved (as USA) the highest levels of development. However, the other negative side of medal, according to which under the influence of the free market, the rich become even richer and the poor poorer, had completely opposite effects. These opposite effects manifested in decay of numerous companies and the failure of production, what means that they manifested as general crisis.

For economic theory, economic policy and economic practice a huge meaning had the ways of searching and finding the solutions from crisis. I especially point out a great importance of these facts because the conceptual and strategic ways for solution of great crisis were not based on the ruling doctrine of the invisible hand of Adam Smith, but on the contrary, on the very visible hand of John Maynard Keynes. On these bases developed the most important international institutions which had to act in such a way as to prevent (or at least reduce) crises, as International Monetary Fund and the World Bank. On the other hand, as capitalism as the ruling world system was not saved by the invisible hand laissez faire but by a very visible hand of the active economic policy and planning, in the seventieth of the last century when the institutions of the world capitalism became somewhat more stable, occurred a historical oblivion. It has been forgotten that capitalism as the world order most directly owed its survival to Keynes and the Keynesianship. Thanks to this it appeared neoliberalism, what manifested in a broad range from monetarism to market fundamentalism. One of these manifestations is a kind of market dogmatism.

This manifestation especially negatively influenced (in correlation with the world dominating globalization trends and integration processes) those countries which were ending the period of reform and beginning the transition, but this is anyhow a special topic and needs a special consideration. Unpretentiously of deeper analysis of numerous problems and the complex cause - and - effect ties which influenced such development, it remains the fundamental politically-economic and practical question whether sustainable development can be based on neoliberalism, monetarism and market fundamentalism, even on a kind of market dogmatism. When I put a question about the possibilities of sustainable development of contemporary world on these bases, than it includes in itself the question of sustainability of contemporary capitalism without adequate shifts.⁷

⁷ Some of these questions were also considered at the great international meeting organized by HAZU in Varaždin in 2000. More detailed information in the book Stjepan Bratko (ed. et al.): Tržišna demokracija u Hrvatskoj, stanje i perspektive» (Market democracy in Croatia, position and perspectives», HAZU, Zagreb-Varaždin, 2000

A very well formulated critical consideration of this topic has followed recently, not only from the scientists who are involved in the academic science, but also from those who comprehended and analyzed these events and correlated to them problems on the basis of their own insights and experience, in such institutions as the International Monetary Fund and the World Bank.

By general estimate, among the numerous scientists by the power and established critics, a special place belongs to Joseph Stiglitz. He has recently received a Nobel prize for his numerous works in this field.⁸

One of the best works about Joseph Stiglitz's critical observations was prepared by Milan Mesarić. The paper was published in the *Ekonomski pregled* under the title «A Nobel prize winner Joseph Stiglitz: A Critique of Market Fundamentalism, Globalization and Policy of International Monetary Fund.»⁹

Having in mind very profound and complete Joseph Stiglitz's critical observations (as well as of other authors), numerous questions correlated to the problems of market contradictions and the questions of sustainable development, have been imposed. Additionally, as the cause - and - effect ties of sustainable development (both social and ecological) are most closely connected with the place and role of market in organization of economy and society. The intensity and complexity of searching ways of sustainable development is especially strong because the essence of these problems are the ownership relations, that is relations of power. In its final instance, the synthetic expression of these problems is always reduced to labor and capital relations. And all the labor and capital turbulent relations continuously appear as the expression and consequence of market contradictions. I wrote in more details about this topic in the work «Market controversies in the light of social events in the past century».¹⁰ In different countries and different stages of development these controversies manifested differently and with different intensity. We shall restrict our observation to Europe, where under the influence of the

⁸ Within numerous Joseph Stiglitz's works especially should be mentioned the books from the end of the last and the beginning of this century: (1) *Principles of Macroeconomics*, 2nd edition, 1997 (2) «Principles of Microeconomics», 2nd edition, 1997 (3) «Economics», 2nd edition, 1997 (4) «Economics of Public Sector», 3rd edition, 2000 (5) «Rethinking the East Asian Miracle», 2001 (6) «Globalization and Its Discontents», 2002.

⁹ Milan Mesarić: «A Nobel Prize winner Joseph Stiglitz: A Critique of Market Fundamentalism, Globalization and Policy of International Monetary Fund», *Ekonomski pregled*, No. 11-12, Zagreb, 2002, pp.1151-1182.

¹⁰ More details in the author's work «Kontroverze tržišta u svjetlu društvenih događanja proteklog stoljeća» (Market controversies in the light of social events in the past century). This paper was prepared for the conference held in HAZU, in May, 2001. It was published in the book: Jakov Sirotković and Guste Santini (eds. et al.): «Hrvatska gospodarska kriza i pravac zaokreta iz recesije u ekonomski razvoj» (Croatian economic crisis and the line of shift from recession to economic development), HAZU and RIFIN, *Ekonomija/Economics*, Vol. 8, No. 1, Zagreb, May 2001.

third technological revolution, both at the beginning of the past century as well as after the World war II, happened remarkable social changes. The increase of market controversies according to which the rich become richer, and the poor even poorer, extremely sharpened the social relations in many most developed countries, especially of West Europe. These relations also sharpened strongly in the poor East Europe, but the cause-and-effect ties of their solution represent a special problem which demands adequate consideration.

However, it remains the already mentioned attitude that for the consideration of market controversies in the light of the influence of the third technological revolution especially interesting is Europe, that is its most developed part. I especially point out this because the happenings on these spaces were under the strong influence of the cause-and-effect ties of the great world crisis from the thirtieth. In searching the solution for market controversies and labor and capital relations, we also consider the fact that capitalism did not solve the great crisis by invisible Adam Smith's hand, but on the contrary by the John Maynard Keynes's visible hand. That means that searching the solution takes into consideration both, the positive side of market (by which it awards the more successful) and the negative side (where the rich become increasingly richer, and the poor even poorer). It is quite understandable that these solutions did not follow spontaneously and painlessly. On the contrary they were the consequence of strong labor and capital confrontations.

These confrontations were provided by development of strong labor movements and the workers and social democratic parties. Based on this confrontation the West European countries started to develop a welfare society. Its main characteristics are reflected in the combination of market and solidarity criteria in organization of economy and society. The combination of these criteria had to preserve the positive and reduce the negative sides of market. The preservation of positive side meant to preserve the economic efficiency, cumulation and profitability. The alleviation of negative side meant to establish the functions of social state and realize the principles of social justice. On these fundamentals it was successfully realized the attempt of reducing the market controversies. The competence of entire and economic policy of each welfare society reduces to the search of possible optimum between the market, and solidarity and the welfare considerations criteria. Overemphasizing the market criteria meant the function decrease of social state. Overemphasizing the criteria of solidarity and social justice decreased economic efficiency and competitiveness. The welfare society established on these fundamentals enabled relatively stable (and sustainable) labor and capital relations in the past century. On these conceptual fundamentals started to develop the European Community, and later on the European Union as well. It proved that somewhat more moderate and homogenous distribution of social wealth in the conditions of realization of welfare society connects well both the segments of efficient development and the social justice segments.

Although theoretical and ideological fundamentals of the welfare society dominated at the European spaces during the most of the past century, the changes followed in its last decades. As the welfare society appeared dominantly under the influence of the third technological revolution, the changes came alike under the influence of the new fourth technological (informatics) revolution.

Looking at these phenomena from the point of view of evaluation and development quality measurement, certain observations for the purpose of defining various criteria are also possible.

During the third technological revolution the quality of development could be adequately measured by the so called productive functions, i.e. the share of labor, capital and technological progress in the gross domestic product growth rate. The new - fourth technological (informatics) revolution imposed the new evaluation criteria in development quality and gross domestic product growth. These new criteria have been expressed in the so called ICT factors, that is the influence of the informatics communication technology on the gross domestic product growth rate.

Within scientists these facts appear more and more under the name the new economy. Although the unmistakable explanation of this concept in informatics society has not got the unique and general citizenship law, this occurrence has been more and more connected with the appearance of the informatics epoch and society. However, for the frame of our considerations the most interesting is to analyze the cause- and-effect connections of market and the welfare society reform. The starting point of such considerations must be correlated to new facts which the fourth technological (informatics) revolution imposes to the market. function. It is interesting to mention in this context that the worldly known journal *Income and Wealth*, the paper of the World Association of Economists on the research of income and wealth, dedicated a special issue to the problems of new economy.¹¹

These problems are correlated to the fact that in macroeconomic environment created under the influence of the informatics society, appears the «human capital» as the basic development determinant, what gives a far bigger weight, in relation to past time, to knowledge, education, scientific research and science in general. Everything that was usually reduced under the common denominator «research and development» started to receive a special decisive importance.

All that demanded certain changes in the relations of market and solidarity criteria in organization of economy and society. The macroeconomic and macropo-

¹¹ The editorial article of this special issue dedicated to the new economy was written by Bart van Ark under the title «Measuring the New Economy: An International Comparative Perspective», *Income and Wealth*, Journal of the International Association for Research in Income and Wealth, Series 48, Number 1, March 2002

litical environment in the countries of welfare society had to undergo particular changes. These changes denoted the reform of welfare society. This reform, by its nature, denoted the end of the long period of relatively stable relations between labor and capital. A search for new equilibrium is underway, which must suffice both the capital demand for bigger freedom and flexibility at the labor market, as well as demands of labor which does not want to give up specific solidarity criteria. According to events from the end of the past and the beginning of the new century, it can be said that some solutions were found in the combination of criteria and views of social democrats (which dominated in the welfare society) and criteria and views of liberals (which had the important role in the civil society development). Although generally speaking all this represents one of the possible bases for development of civil society in environment imposed by informatics revolution, numerous and very sensitive problems have still remained open. These open problems are most narrowly connected with the fact that the consequence of such social reforms is the strengthening of the capital position and reducing the position of labor. The power of this appearance is highly correlated to development level. Although the power of market controversies in conditions of the social welfare reform sharpens in favor of capital, the negative consequences on labor are felt less when particular countries are at the higher level of development.

The best example are the countries of the European Union. The German social democrats had to overcome great problems which the social welfare reform imposed to them immediately after they came into power. The high development level and democratic tradition enabled them anyhow, to solve and reduce the strongest social problems (at least so far) without many shocks.¹²

Other highly developed European countries (especially interesting is the example of Italy) had and still have big problems. All this points to the still open problems about the outcome of the welfare society reform. The combination of standpoints of social democrats and liberals will probably turn as good at the end, but already now it is evident that the solidarity criteria cannot be neglected, regardless the fact that the form of their manifestations will change. However, regardless the variations of possible solutions at the international plan, these problems must be specially emphasized in the light of increasingly stronger globalization trends and integration processes.

These trends and processes especially demand the adequate solutions in order to overcome or moderate at least the market controversies. By all indications, Europe especially the European Union, will overcome these controversies somewhat easier (maybe even more painlessly due to deep roots of social democracy, welfare

¹² At the international meeting in Zagreb at the end of the ninetieth, organized about these problems by the Austrian, German and Croatian social democrats, I said that SDP after overtaking the power will meet with the problems imposed by the welfare society reform.

considerations and solidarity) than some other. The welfare society reform attacked especially hard the countries in transition. Fortunately, the majority of European (especially Central European) countries joined the European Union already in 2004. Unfortunately that does not concern Croatia.

Market controversies and countries in transition

The reform of welfare society was developing in the environment of increasingly stronger influence of the economic neoliberalism doctrine. In recent conditions of stable capitalism, the influences of the Keynesian doctrine which saved capitalism and opened the new perspectives to it, were more and more restricted and restrained. The influences of specific market dogmatism were not marginal as well. Under this influence, more and more manifested globalization trends which as the general appearance broke down all the frontiers before it. Then followed the integration processes which developed in more particular borders.

The negative sides of market through increased enrichment of the rich and impoverishment of the poor, got more space for their undisturbed activity. The general liberalization and globalization were very favorable to the rich and much less to the poor. The strengthening of integration processes, especially in Europe, represented one of the possible answers to numerous questions related to the strengthening of market controversies in the conditions of increasing liberalization and stronger activity of globalization trends. The slogan about the world as the global village which emerged in the conditions of informatics revolution opened the broad sights for the enrichment of the rich, but did not open any perspectives to reduce differences between the world wealth and the world poverty.

This appearance of course could not pass without notice. The relevant international factors started to deal with it something more. That especially concerns the United Nations and corresponding agencies (UNIDO, UNDP and others), the same as the World Bank and International Monetary Fund. During past years within the context of negative influence of market to the poor and undeveloped (at least as their lawyer) was the nonaligned movement. Recently, several great international conferences were organized on this topic. However, more remarkable shifts have not followed so far. ¹³A special concern is caused by the fact that already at the very beginning of this century started the suspicions of essential poverty decrease,

¹³ One of the very remarkable international conferences on this topic was held at the very beginning of this century in Vatican. Numerous politicians, even the heads of governments and states, including the president Stjepan Mesić, agreed upon the necessity of undertaking adequate measures.

what is however pointed out by the United Nations as the priority task of the new millennium.

The countries in transition found themselves at the very beginning of the realization of the economics and politics of transition in the environment of such ideologically-political and economically-doctrine atmosphere which was not favorable for the majority of countries. The domination of the doctrines of economic neoliberalism and monetarism was not a great luck for countries in transition, but furthermore it represented a strong barrier and additional problem, which along to the other problems immanent to transitional crisis should be overcome.

Here, it is not a word of some a priori critics of the economic neoliberalism and monetarism doctrine, because as it is known, in many developed countries this doctrine gave certain results. But when it is a question of countries in transition, the resistance to the application of such a doctrine is quite understandable, because by the level and quality of their macroeconomic and macropolitical environment these countries were not prepared for the efficient application of such doctrine. The collaborators of the Institute of Economics, Zagreb were among the first who already at the beginning of 1990th pointed out this fact. Unfortunately, this left no repercussions. Not much later at the end of the ninetieth, such warnings were given by the very competent authors of the International Monetary Fund and the World Bank. We all remember a long discussion on the relation Washington-Post-Washington Consensus. Especially big role had professors (and high functionaries of the IMF), Joseph Stiglitz (who a little bit later became a Nobel prize winner) and Grzegorz Kolodko.¹⁴

Among the economists of the countries in transition the economists of the Institute of Economics, Zagreb directed a special international attention to this discussion, but all this with no repercussion. Uncritical application of the doctrine of the economic neoliberalism brought strong damages to countries in transition.¹⁵ These damages were bigger when particular countries were less prepared for transition and the realized political atmosphere was less competent and prepared for the resistance to the application of one, for the countries in transition, inappropriate doctrine. The Central European countries in transition had the best luck, and the

¹⁴ Especially strong repercussion had their estimates which they commonly stated in the World Bank's publication *TRANSITION*, Vol. 9, No. 3, June 1998. Joseph Stiglitz: *Beyond the Washington Consensus*, Grzegorz Kolodko; *Economic Neoliberalism Became Almost Irrelevant*.

¹⁵ At the very beginning of transition the Croatian economic science warned to these problems at numerous international meetings. I especially mention one of the first meetings in Laxenburg near Vienna in March 1990 under the title «Managing inflation in socialist economies». The second was held at the London School of Economics at the beginning of 1992, on the occasion of the inaugural meeting of the International Center for Transition of the Economic Institute Zagreb. Numerous, sometimes even sharp and sarcastic warnings have remained without repercussions.

worst the countries which were formerly connected to the USSR. The countries in transition which most successfully resisted the uncritical application of the doctrine of economic neoliberalism, that is the Central European countries, became the members of the European Union in 2004. Unfortunately, that does not concern Croatia which at the same time became just the candidate for the membership in the European Union, because Croatia belonged to the countries which were (along to Slovenia) best prepared for transition, and which without any restrictions accepted the uncritical application of economic neoliberalism. However, not underestimating war occurrences, in the first plan should be placed big mistakes of entire and economic policy. Having in mind democratic changes which followed at the beginning of this century, it is rather certain that before the end of this decade Croatia will also become the member of the European Union. In the best case that could happen in 2007. However, in our considerations it should be concluded that the sharpening of market contradictions in the conditions of increasingly stronger globalization trends and general liberalization, can be reduced by strengthening and expansion of corresponding integration processes. All the European countries which in 2004 became the members of the European Union join this hope. Based on these hopes, Croatia also expects its integration. Altogether, it can be expected that majority of countries in transition (including also Croatia) will easier overcome the strengthening of market contradictions which arise under the influence of general liberalization and globalization.

The inclusion into the integration processes does not mean a priori all the best, but the exclusion from these processes in the conditions of increasingly stronger globalization trends and general integration environment, a priori means all the worst.

Some possibilities for alleviation of market contradictions in the light of general globalization and liberalization

The fact that the processes of general globalization and liberalization are very favorable for the rich is not disputable, what is more and more drastically shown through the very general impression of the world in which the differences between the poor and rich parts have been increasing more and more. The stories about the bogey of globalization which go round the world are not at all accidental. All relevant documents, analyses and reports of the World Bank and International Monetary Fund, as well as of the others, talk about the horrible picture of contemporary world. They talk about the horrible misery and poverty of the majority and about the immense wealth of the minority.¹⁶

¹⁶ In a series of relevant studies and publications especially mentioned should be two of them:
(1) World Development Report 2000/2001, Attacking Poverty, The World Bank, Washington, 2001.

In any case, these documents talk about big inequalities and disproportions in the world wealth distribution, which was made by the people of our planet by means of their knowledge, skill and work. We all keep repeating that new contemporary knowledge and based on them new technologies and products more strengthened the productive forces of human labor during the past century, than it had happened in entire former history. In all that a very big (and in a certain sense decisive) role had market and competitiveness. Natural sciences upgraded the productive forces of human labor to unimagined relations. Social sciences and political economy did not answer the question: how to use this huge productive labor force in an behalf of all or the majority at least? Such questions are also by their nature, connected with the relations of knowledge, technology, productive power of labor and market forces and some basic politically-economic questions about real horizons of labor liberation.¹⁷ Not entering more profoundly into consideration of this question which has been imposed by itself in the form of the informatics society, I will restrict only to the market contradictions in the environment of general globalization and liberalization. When it is a word of the free market activity directed to the enrichment of the rich and impoverishment of the poor, then in free discussions can be heard the statements that productive force and market power in principle are provided for everybody, because the entrepreneurship is free and everybody can use it. And in spite of the fact that these remarks exist under certain conditions, it should not be forgotten the other side of medal. The other side of medal shows that these possibilities are not the same for the rich and for the poor. This goes for the individuals and milieu, countries and societies.

The no recognition of this fact is equal to dilemma, as a matter of fact quasi-dilemma - are they poor because they work inefficiently or reversely - they work inefficiently because they are poor.

Translated into Maltese language that would be the question (in the sense of quasi-dilemma) - are some nations poor because they have high demographic growth or they have high demographic growth because they are poor? Anyhow, it remains the pure and unquestionable fact that the free market acts in direction of strong inequalities and disproportions in distribution of wealth at all levels. It follows the conclusion that overcoming and reducing the market contradictions is not possible without inclusion and some additional criteria. These additional criteria are related to solidarity. The experience of past century showed that a multinational state

and (2) Branko Milanović and Shlomo Yitzhaki: Decomposing World Income Distribution: Does the World Have a Middle Class?, *Income and Wealth*, No. 2, June 2002.

¹⁷ At the beginning of the fiftieth of the past century our first Nobel prize winner Ružička held a very remarkable lecture (in Zagreb at the Faculty of Engineering) where he talked in a visionary manner about the perspectives of natural sciences, and with much restraint about the perspectives of social sciences.

could not survive based only on the free market activity. That especially concerns the states like Yugoslavia, Czech-Slovakia and the Soviet Union. In spite of a very big income (and accumulation) redistribution in the behalf of less developed (especially in the behalf of Kosovo), Yugoslavia in time when it stopped to exist, had double inequality coefficient than in time of its origin. In 1953, Slovenia was more developed than Kosovo for something less than four times. In 1989 this coefficient increased to eight.¹⁸ In two other mentioned countries the income redistribution was very big. The differences in the level of development still remained very evident. That means that centripetal activity of the unique market surpassed the centrifugal power of redistribution. The European Union was and will remain for a long time constituted of the countries with big differences in development level, in relation to the average of 15 former members. All Central European countries (except Poland) have development level higher than 50 percent of GDP per capita in relation to the average of the European Union. In any case, the integration into the European Union will enable to all countries easier overcoming and alleviation of market contradictions in the conditions of general globalization and liberalization. Within these considerations, very seriously stands the problem of strengthening the solidarity criteria at the general planetary level. The existing redistribution according to solidarity criterium has marginal meaning. The initiatives of specific United Nations agencies to remit debts for the poorest countries have given weak results so far. However, drastic disintegration of contemporary world under the influence of general globalization and liberalization must be stopped. This problem is more urgently posed not only because of some general justice and humanism, but also because of the sustainable development on the whole. The free processes of globalization and liberalization will not be stopped or restrained by themselves. Neither WTO, IMF, the World Bank, nor any other existing organization will enable their stopping or restraint. Their stopping or restraint can be achieved only by the United Nations general consensus, based on which, by universal redistribution of knowledge and capital, and acceleration of indispensable technology transfers, could stop the process of increasing differences and began the process of decreasing differences between developed and less developed parts of the world. We should be all aware that mass misery and poverty are the basis of every fundamentalism, religious, race and national, as well as of all others. Development of wild capitalism based on market fundamentalism imposed (and still imposes) huge damages to many countries in transition. Unless the solution of these problems began, it would be difficult to restraint the pressing problems of terrorism with which the whole civilized world has been drastically faced in recent times.

¹⁸ In more details in the author's work: «The Economic Dimension of Nationalism: the Case Study on Comparative Investments in Croatia», in the book Žarko Puhovski, Ivan Prpić, Dragomir Vojnić (eds.): *Politics and Economics of Transition*, Centre for the Study of the Transformation of Central and Eastern Europe, Informator, Zagreb, 1993, pp 182

Developed world would hardly experience the beginning of some bigger redistribution, based on the solidarity criterion, in behalf of undeveloped parts of the world. However, the poor would feel such redistribution efficiently in a very short time. Anyhow it is important that all relevant world factors accept the fact that it is a matter of essential problems of sustainable development. Accordingly, the interest of such solidarity is more than common. In this sense, the already defined UN's tasks about the poverty decrease in the new millennium should on the basis of general consensus rely upon the adequate clearly defined institutions.

Likewise should be mentioned that certain redistribution awaits the European Union as well. I remember here what Romano Prodi said in discussion with the Croatian delegation (including the author) at the last World Congress of economists in Lisbon. He said that entire redistribution in behalf of new members of the European Union will amount only to 0,25 percent of the present GDP. That would be given by the most developed countries and we would probably argue over it. However, redistribution will go continually because we are aware that this is our common interest.¹⁹ If such organization and agreement could start also realizing at the world plan, it would be the best sign that the ways of solution and alleviation of market contradictions and the ways of sustainable development were found as well. When it is a word of solidarity and cooperative behavior in the environment of our world in the informatics atmosphere of the fourth technological revolution, there should be also mentioned some politically-economic perceptions based on historical (as a matter of fact scientific) maturing of the conditions of the liberation of labor. What will be the force of the appearance of the increasing freedom (and demonopolization) of information and informing in the near future still remains insufficiently clear. The recent future will confirm or dispute whether the existing conflict between the monopoly and demonopolization of information (Microsoft and Linux) will have such a big importance as some scientists predict. However, it should be said that such appearances have big importance in any case. The question is whether the informatics epoch can represent some historical turning point. It should be remembered that not only natural and social, and all sciences, but all known and unknown what we put under the common denominator "human nature", should be tested. Whatever happened, there should be mentioned again that the senior and junior Dragičević prepared a very provocative book for studying and thinking.²⁰ Under these conditions all treated problems of the market contradictions and searching ways of sustainable development would appear in one new, somewhat

¹⁹ In more details about this in the author's work (co-author Vladimir Veselica) «Countries in Transition and the European Union, Where is Croatia», in the book Vladimir Veselica (ed. et al.): *Economic Policy in Croatia in 2004*, Croatian Economic Association, Opatija 2003.

²⁰ Adolf Dragičević and Dražen Dragičević: «Time of cybercommunism, high technology and social change», *Golden Marketing*, Zagreb, 2003.

more optimistic light. In this case the set question and dilemma Market- damnation or salvation could be reformulated.

New formulation could be more affirmative. Market with all its contradictions can bring to the establishment of the society of common behavior. The question does it mean its fundamental modification, even canceling can remain open. But this surpasses the frames and pretensions of these considerations.

Market fundamentalism

The past century was also characterized by the manifestation of various forms of fundamentalism. The appearances of fundamentalism, no matter they are religious, national, race or any other, always represented (and unfortunately still represent) big problems in social relations of every society. Market fundamentalism represented not less problems in the last and at the beginning of new century.²¹ The doctrine laissez faire dominated in spite of the continuous economic shocks and sinuous movements accompanied by recessions, depressions and various manifestations of crises. In contrast to experiences of economic practice, especially in developed countries, that laissez faire in the sense of activity of the invisible hand of Adam Smith cannot be neither theoretically nor practically taken as the basis of stable and sustainable development, this concept was the ruling one in the great part of the past century. That means that the phenomenon of market fundamentalism (in the sense that market in its final instance autonomously by itself solves all problems) continuously existed with smaller or bigger intensity. The first somewhat bigger fluctuations and first doubts about the almightiness of the invisible hand of Adam Smith appeared before the great world crisis in the ninetieth of the twentieth century. These fluctuations were especially the result of the warnings exposed by John Maynard Keynes in his works. Within the series of such works I especially mention the one from 1926 written by Keynes under the title "The End of Laissez- Faire"; Edinburgh, Neil and Co. The works of such and similar characteristics published by Keynes in that time, played not only a remarkable scientific role, but they resulted in a new economic Keynesian doctrine which saved capitalism from total fall. ²²Later on were founded on these bases, due to stabilization and maintain-

²¹ One of the first who within the tycoon privatization, beside the term wild capitalism especially pointed out the meaning of the term market fundamentalism, was George Soros. In the Open Society Institute he initiated a great project on privatization in countries in transition. I personally participated in the part which was related to Croatia.

²² The entire lifetime John Maynard Keynes' is a contribution to such consideration of questions and problems of sustainable development. In a long series of works especially should be mentioned a capital work: «The General Theory of Employment, Interest and Money», London: Macmillan and New York: Harcourt, Brace and Co.1936

ing world capitalism, very important and mighty international institutions as the International Monetary Fund and the World Bank. Capitalism thus was not saved by the Adam Smith's invisible hand, but on the contrary by a very visible hand of John Maynard Keynes. It began, especially in USA and Europe, the period of more peaceful and more stable development. Based on the market and solidarity criteria (in conditions of parliamentary democracy) in organization of economy and society, in Europe developed a new model called the welfare society. This model served well as the basis of relatively stable relations between labor and capital, what also means stable relations in the whole society. Such condition in Europe existed all to the appearance of the reform of welfare society in the last decades of the past century, under the influence of the fourth technological revolution. It can be generally said that the phenomenon of market fundamentalism during development and existence of welfare society was very moderated. However the reform of welfare society also denoted abandoning of the Keynesian doctrine which saved capitalism and the increasing strengthening of neoliberal doctrine which usually manifested in the system of monetarism. The strengthening of market fundamentalism appeared as the natural consequence of such movements. This appearance reflected especially hard to the countries in transition. While developed capitalistic countries were prepared and trained for the acceptance of the economic neoliberalism doctrine, the countries in transition are completely unprepared for something like that. The consequences were fatal. Uncritical application of the doctrine of neoliberalism left especially hard consequences to those countries which started the transition without any serious reform market preparations. That especially relates to the countries which developed after the breakdown of the former USSR. The other European countries did not remain without hard consequences, but they were somewhat smaller. However, due to uncritical application of the doctrine of economic neoliberalism in majority of countries in transition followed sudden social disintegration to impoverished majority and rapidly enriched minority. Then, drastic manifestations of primary accumulation, wild capitalism and market fundamentalism happened. Not only the economists from the countries in transition, but also from such international organizations as IMF and the World Bank are, criticized these appearances. I have already mentioned the Keynes' work from 1926 under the title "The End of Laissez Faire". More than seventy years later in the context of the critique of wild capitalism and market fundamentalism in countries in transition, some economists and scientists from the IMF and the World Bank, similarly wrote in a discussion Washington - Post Washington Consensus. I especially have in mind here the already cited works by Joseph Stiglitz and Grzegorz Kolodko.

Keynes named his work written in the time of great world crisis "The End of Laissez-Faire", and in last years of the past century the mentioned authors wrote under the title "Economic Neoliberalism Became Almost Irrelevant". All this confirms the thesis that the market fundamentalism passed and survived in all, even

in very different situations. However, that does not give arguments that the free market activity and correlated to it market fundamentalism are irreplaceable. It is just the opposite. Not only the experiences of transition but the existing processes of general globalization and liberalization suggest that along to invisible hand of Adam Smith it must constantly exist and act the visible hand of John Maynard Keynes.

Without the profoundness of this phenomenon it is possible neither to solve the basic market contradictions, nor to search grounds for the model of sustainable development of contemporary world. On the wings of the fourth technological (informatics) revolution which by initiation of the welfare society reform caused the abandonment of a condition of relative stability, there must be searched and found the grounds of new stability at the higher level. There is no other way which would lead to alleviation of strong contradictions which burden contemporary world. And without the alleviation of these contradictions there is no and it cannot be the sustainable development.

Altogether, market fundamentalism in combination with general globalization and liberalization cannot be the ground for realization of such a goal. Development practice of welfare society showed wholly that the model of sustainable development can be realized only through the combination of market and solidarity criteria. The reform of the welfare society takes into account the combination of world views of the social democrats and liberals, but any ground for the model of sustainable development cannot be found (because of market controversy) without the combination of the market and solidarity criteria. That goes for the level of national state, level of integrated state communities and the level of the world. At first two levels the mentioned combinations have been realized so and so, but at the third almost in no way. And without this there is and it cannot be sustainable development. Consequently, along to all what was already said in this context, the answers to the questions of sustainable development must be searched through establishment at the world level such institutions, which would along to general consensus, act in direction of the accelerated poverty reducing.²³

Market fundamentalism and countries in transition

Transition developed neither spontaneously nor accidentally. Transition had been preceded by many years of socially-economic reforms. These reforms were

²³ Although the study «World Development Report 2000/2001, Attacking Poverty», The World Bank, Washington, 2001, warns about all these facts, no remarkable shifts were made in the practice of real occurrences. General consensus and adequate institutions are necessary for this.

especially directed to the strengthening of elements of market and declining the elements of centralistic planning. Many international institutions within the United Nations and out of it were a great help for reform orientations and realizations. A recognizable role here had also some scientific institutions and institutes. These scientific institutes acted both in former socialist countries and Western countries. In a series of such institutes I will mention only the four which were rather collaborated in their reform work, three from Europe and one from the USA. One of the most important was and remained the Vienna Institute for Comparative International Studies. This Institute was founded in 1973 with a task to gather the scientists from the ex-socialist countries and Western countries in the work within the big international projects related to reform. This Institute, from its establishment all till nowadays, have held numerous international conferences and published many books, monographs and studies on reform and transition. The second institute that I especially want to mention is the Institute for International Economic and Political Studies of the Academy of Sciences of the Russian Federation. At the international plan this Institute affirmed itself as the Institute of the academician Bogomolov who was his director for years, and who belongs to the most prominent Russian scientists economists-reformists. The third is the Institute of Economics Zagreb which during many years of its activity had expressively reform orientation. The fourth is the Institute for Comparative Studies of the Florida State University. A long-year director of this Institute professor George Macesich is one of the most prominent American economists in the field of comparative studies and reform. In his entire scientific work he was collaborated with the University of Zagreb and the Institute of Economics Zagreb for many years. During many years the four mentioned institutes were collaborated in a common work on reform and transition.²⁴ As the result of this work there were realized many common projects, organized numerous international conferences and published numerous books and journals.

Based on common work and collaboration, especially on the activities of the Vienna Institute for Comparative International Studies, the ideas and conceptual bases about the courses of reform and transition emerged and were defined. On these bases were built both the vision and the outlines about the economics and politics of transition. Since the most of these activities had been realized before some visible beginning of the welfare society reform, it is quite understandable that the theoreticians who dealt with the problems of reform had first of all the achievements of the welfare society in mind. The colleagues from Western countries often warned us that although transition would move towards capitalism, the capitalism from the end of the twentieth century had nothing in common with the

²⁴ More details in the work by Žarko Puhovski and Dragomir Vojnić: «The Economics and Political Dimensions of the Transition», in the book Žarko Puhovski, Ivan Prpić and Dragomir Vojnić (eds.): «Politics and Economics of Transition», Centre for the Study of Transformation Central and Eastern Europe, Informator, Zagreb, 1993, pp. 35-47.

capitalism from the beginning of the century. In other words, the consequence of the realization of the economics and politics of transition would be one relatively balanced, stable and equitable society.

Unfortunately, the realizations showed themselves in a diametrically opposed light. Instead of at least some signals of the welfare society, it happened something completely opposite. It happened the wild capitalism, primary accumulation, tycoonization and market fundamentalism. The function of social and the rule of law state, as well as the principle of social justice have been completely degraded. It was established such macroeconomic and macropolitical environment which suited well for the emergence of numerous social distortions - from massive corruption to organized crime and mafiocracy.

Nowadays, when I try to comprehend some cause-and-effect relations in the historical distance of almost one and a half decade, the market contradictions and correlated to them appearances and distortions impose to me by all their intensity. Uncritical application of the economic neoliberalism doctrine in a generally dominating environment of globalization and liberalization could not result by nothing then market fundamentalism. This appearance was a big unhappiness for all countries in transition. The economists of the Institute of Economics Zagreb warned of this danger at the very beginning of transition, but without success. The already prominent economists and scientists of the World Bank and IMF directed severe criticism to these appearances at the end of the ninetieth, but also without results. The wild capitalism and market fundamentalism ungraciously plundered across all countries in transition.

However, in consideration of such phenomenon big differences are observed. These differences are especially related to the European and other countries. Within other countries we must include all the countries which emerged after the disintegration of the USSR. The causes of very noticeable differences are generally known. The European countries were, due to market reforms, much better trained for transition than the other countries, because these other countries which emerged after the disintegration of the USSR, practically without any market preparation began transition as the direct transition from centralized planned into market economy.

In such situation it could be expected nothing but chaos, anarchy, organized crime and mafiocracy. All these big evils must blame for their existence to uncritical application of economic neoliberalism and domination of market fundamentalism. However, the European countries had much better luck. The reason for that is better preparation for transition and better level of training for resistance to uncritical application of economic neoliberalism. In this, the best results (with the elements of realization of welfare society) achieved Slovenia, and the weakest Croatia, which is according to the World Bank's research the country with the largest social differences.²⁵

²⁵ Documents of the World Bank, Croatia, Economic Vulnerability and Welfare Study, June 2000.

On the occasion of the twenty-fifth anniversary of the Vienna Institute for Comparative International Studies (fall 1998) it was organized the greatest till then international conference with the pretension of entire comparative analysis and evaluation of the countries in transition.²⁶ The countries were observed both by the criteria of entire achievements and criteria of social distortions, as corruption, organized crime and mafiocracy are. According to the second group of criteria Croatia was placed among the countries together with Russia, which means among the countries of strong social distortions.

To my objection in the discussion of the narrow group of economists the veterans of reform, the mentioned academician Bogomolov gave the explanation - "Russia is a big country the worst prepared for transition, so these deviations, including also those with the mafiocracy character were expected and normal. Since Russia is a big country, the world is concerned about that but not disappointed, because better could not be expected. Things are completely different with Croatia. Croatia is a small country best prepared for transition. Due to social distortions, including also these with mafiocracy character, world is not concerned, but it is disappointed, because the expectations were bigger".

Consequently, it was suggested to me as to one of the veterans of reform, to tell something comparatively about the theme of mentioned deviations. That had to be on the occasion of the big international conference organized by the Bogomolov's Institute (on the occasion of the fortieth anniversary denotation) in the Presidency of the Russian Academy of Sciences in Moscow in 2001. One of the chairmen of the Conference was Gorbachov. On this occasion I said that cause-and-effect relations of deviating appearances in Russia and Croatia were completely different. Russia is a big country which due to the lack of preparation for transition went directly from centralist planning to market economy.

In the situation of nonexistence of any economic or political infrastructure, the chaos and deviations were unavoidable. The mafiocracy appeared as natural manifestation. According to indispensable circumstances it became the infrastructure of the development of authority. Thus the authority developed on the wings of mafiocracy from the bottom to the top. In Croatia happened something quite different. There, mafiocracy developed on the wings of the political government power. Fortunately, I said (I suppose that I was not much wrong), these processes were stopped when the president Putin took the control in Russia, and in Croatia when the coalition won at the end of the past century.²⁷

²⁶ George Kopitz, Dariusz Rosati, Michael Landesmann, Peter Havlik (Conference Steering Committee) «WIIW 25 Years Anniversary Conference, Shaping the New Europe; Challenges of EU Eastern Enlargement - East and West European Perspectives», Vienna, 11-13 November 1998.

²⁷ More details in the author's work «Globalization, Integration and Central European Countries in Transition with a Special Reference to Croatia», in the book Oleg Bogomolov (ed. et al.): «Post-

Such an assessment imposes also by itself some other questions correlated to the cause-and-effect relations of deviating appearances, which are in the final instance always connected with the devastating activity of the market fundamentalism. There are two levels of causes. The first relates to the political dimension, and the second to the economic dimension and economic policy. The cause-and-effect relations of these dimensions were very different in various countries in transition. In Croatia, a decisive negative role played political atmosphere which emerged under a dominating influence of extremely right, pro-Ustasha oriented part of the Croatian diaspora. In such political atmosphere happened two things which decided on a longer term about the fate of Croatia. The first is international isolation of Croatia. The second is - tycoon privatization and wrong entire and especially economic policy. Not underestimating the problems of aggression and war, it can be said with a certain safety and reality, that exactly these two factors were the basic cause of the unpleasant situation that Croatia is nowadays in. The border of the European Union came into the suburb of Zagreb, and Croatia must accept as a great luck, the potential possibility to join the European Union together with Romania and Bulgaria in 2007. Thus, with two countries which were during several decades far behind us and which estimated our achievements as unreachable, the achievements of America.²⁸

This is the plain truth, and anything else within this context can be less or more the untrue stories. Croatia abandoned with such dedication to the uncritical application of the economic neoliberalism, wild capitalism and market fundamentalism, as no other, especially Central European country in transition. Nobody worries and need not to worry about the fact that Croatia by its long-year reform orientation and not small reform merits does not deserve such a fate. And if every man is the architect of his own fortune and if our destiny is in our hands, then we probably do not deserve better. As it is generally known, the Memorandum of the Serbian Academy of Sciences left the mark, as well as the explosion of the Balkan nationalism. But in spite of all that, we could be nowadays with some more brains in a group of countries (to which we belong by all criteria) which are just integrating into the European Union. Accordingly, we also had chances to alleviate the consequences of imposing the uncritical application of economic neoliberalism and based on it the appearance of wild capitalism and market fundamentalism. In countries in transition which are just integrating into the European Union many

Socialist Countries in the Globalizing World», Russian Academy of Sciences Institute for International Economic and Political Studies, Moscow, 2000, pp. 290-309.

²⁸ More details in the work by the author and Vladimir Veselica: «Quo Vadis Croatia - Countries in Transition and the European Union -Where is Croatia» and in the book «Economic Policy of Croatia in 2004», Traditional Conference of the Croatian Economic Association, 12-14 November, Opatija 2003, pp. 1-21.

of the mentioned problems have been prevailed, but for all the other, and this is the majority, big problems will remain for a long time. Anyway, it is interesting to consider comparatively the expectations and achievements of the countries in transition. As it is generally known the real socialism had to step off the historical scene because it could not satisfy some essential criteria of the quality of life. That especially relates to two criteria which became the constant of contemporary civilization. The first is the economic efficiency, and the second political democratism and human rights and freedoms. Therefore the scientists reformists started with two mentioned criteria in establishing the basic goals and tasks in economics and politics of transition. In this sense the economics and politics of transition had to achieve two basic tasks: (1) to increase the economic efficiency (2) to increase political democratism. If we measure the increase of the economic efficiency by development achievements of the countries in transition by the expression of the gross domestic product index in relation to 1990, we note a very heterogeneous picture which reflects very big differences. (Table 1) It is noticeable already at first sight that only some European countries, especially Central European countries, surpassed the GDP pretransitional level. These are the countries which integrated into the European Union in 2004. The exception is only Croatia. The reasons are known. They relate not only to the war, but to entire, especially economic policy. The reasons of big lagging of the majority of other countries are related to the lack of preparation for transition (because of the shortage of the reform and market tradition) and to the uncritical application of the doctrine of economic neoliberalism. The application of this doctrine in the conditions of complete institutional and any other lack of preparation brought very big damages to majority of countries in transition. Some of these countries will not till the end of decade reach the pretransitional level of development. The market fundamentalism brought big damages to all countries in transition. However, it should be said that the strongest damages suffered exactly those countries which most lag behind. In these countries happened the big distortions in the function of social and the rule of law state in realization of the principle of social offer. In the majority of countries, especially in those which are most lagging behind, happened big distortions in the sphere of bribe, corruption, organized crime and mafiacracy. Strong social changes, as a matter of fact social tremblings and shocks, result as a rule in various crises, especially the morality crisis. Accordingly, by all what happened in countries in transition it can be generalized that only some Central European countries got a good deal. The price of their transition is not small, but the price of the majority of the others is incomparably bigger.

Table 1.

GROSS DOMESTIC PRODUCT
 real change in % against preceding year

	1995	1997	1998	1999	2000	2001	2002	2003 ¹⁾	2004	2005	Index 1990=100 2003	Index 1995=100 2003
									forecast			
Czech Republic	5.9	-0.8	-1.0	0.5	3.3	3.1	2.0	2.9	3.3	4	109.5	115.0
Hungary	1.5	4.6	4.9	4.2	5.2	3.8	3.5	2.9	3.3	3.9	119.3	134.6
Poland	7.0	6.8	4.8	4.1	4.0	1.0	1.4	3.7	4	4	152.0	136.4
Slovak Republic	5.8	4.6	4.2	1.5	2.0	3.8	4.4	4.0	4.5	5	116.6	134.9
Slovenia	4.1	4.6	3.8	5.2	4.6	2.9	2.9	2.2	3.4	3.5	129.9	133.8
CEEC-5 ²⁾	5.6	4.6	3.5	3.2	3.9	2.2	2.2	3.4	3.8	4.0	132.6	131.4
Estonia	4.3	9.8	4.6	-0.6	7.3	6.5	6.0	4.4	5.6	5.1	103.6	149.9
Latvia	-0.8	8.4	4.8	2.8	6.8	7.9	6.1	7.0	5.2	5.7	78.6	158.4
Lithuania	3.3	7.0	7.3	-1.8	4.0	6.5	6.8	7.5	5.7	6	87.0	150.1
CEEC-8 ²⁾	5.4	4.9	3.7	2.9	4.0	2.6	2.5	3.6	3.9	4.2	129.6	132.9
Bulgaria	2.9	-5.6	4.0	2.3	5.4	4.1	4.8	4.5	4.5	4	92.4	109.4
Romania	7.1	-6.1	-4.8	-1.2	2.1	5.7	4.9	4.7	4.5	4.5	97.7	108.8
CEEC-10 ²⁾	5.6	2.8	2.6	2.4	3.8	3.1	3.0	3.8	4.0	4.2	122.4	128.3
Croatia	6.8	6.8	2.5	-0.9	2.9	4.4	5.2	4.3	3.2	3.5	98.1	135.4
Macedonia	-1.1	1.4	3.4	4.3	4.5	-4.5	0.3	2.8	4	4	89.7	113.9
Serbia & Montenegro ³⁾	6.1	7.4	2.5	-18.0	5.0	5.5	4.0	1.0	2	3	53.4	111.2
Rusia	-4.1	1.4	-5.3	6.4	10.0	5.1	4.7	6.8	4.5	4.1	79.0	127.3
Ukraine	-12.2	-3.0	-1.9	-0.2	5.9	9.2	5.2	8.5	6	6.5	53.8	112.7
Armenia	6.9	3.3	7.3	3.3	5.9	9.6	12.9	15.1	-	-	96.6	182.9
Azerbaijan	-11.8	5.8	10	7.4	11.1	9.9	10.6	10.9	-	-	79.4	189.6
Belarus	-10.4	11.4	8.4	3.4	5.8	4.1	4.7	6.5	-	-	102.9	157.6
Georgia	2.6	10.6	2.9	3	2	4.5	5.4	8.3	-	-	44.8	158.6
Kazakhstan	-8.2	1.7	-1.9	2.7	9.8	13.2	9.5	9.1	-	-	93.9	152.9
Kyrgyzstan	-5.4	9.9	2.1	3.7	5.4	5.3	-0.5	6.5	-	-	74.2	146.6
Moldova	-1.4	1.6	-6.5	-3.4	2.1	6.1	7.2	6.2	-	-	42.0	106.5

Tajikistan	-12.4	1.7	5.3	3.7	8.3	10.2	9.1	10.2	-	-	76.6 ⁴⁾	132.7
Turkmenistan	-7.7	-	-	-	-	-	-	-	-	-	-	-
Uzbekistan	-0.9	5.2	4.4	4.4	4.0	4.5	3	-	-	-	106.0 ⁵⁾	130.5 ⁵⁾
CIS	-5.3	1.0	-3.6	4.6	8.3	6.0	4.8	7.0	-	-	75.4	118.6

Notes: 1) Preliminary. -2) wiiw estimate. -3) Up to 1998 Gross Material Product. -4) 1992=100. 5) Year 2002.

Source: WIIW Database incorporating national statistics, forecast: WIIW and European Commission (2003) for Baltic States.

Leon Podkaminer et al. Transition Countries on the Eve of EU Enlargement, Research Report, No. 303, February 2004., str. 3.

If we measure the achievements of other tasks of economics and politics of transition, i.e. political democracy by the political structure of the multiparty parliamentary democracy, then certain shifts are unquestionable. But if we include into this criterion the function of social and the rule of law state and the realization of the principles of social justice and protection of human rights and freedoms, then it can not be stated without great restrictions that certain shifts have been done.²⁹ In majority of countries in transition there are no tracks of the welfare society. On the contrary, there followed very big social differences as the result of fast enrichment of the minority and fast impoverishment of the majority.

In many countries, the tycoon privatization was not accomplished with the purpose of the profitability and accumulation increase through stimulation of entrepreneurs and entrepreneurship and the entire restructuring, but on the contrary, with the purpose of fast enrichment of a small number of politically acceptable individuals. Due to all this, the case of Croatia deserves a special attention. The World Bank's research (as it has been already mentioned) showed that Croatia was a country with the biggest social differences, even in relation to Israel. In the mid of the ninetieth the World Bank's research also showed that the majority of population (persons questioned) in countries in transition preferred the old in relation to the new economic order. That especially relates to Russia.³⁰ Altogether, the uncritical

²⁹ A special attention was paid to these questions at the XIth World Congress of Economists which was held in December 1995 in Tunisia, and at which the author participated. That was especially pointed out in the editorial article of the president then of the international Economic Association Michael Bruno, who gave a comparative survey of the condition of political freedoms and level of economic liberalization. More details in the author's work «Countries in Transition: Achievements, Problems and Prospects», in the book Marin Buble (ed. et al.): «Enterprise in Transition, Second International Conference on Enterprise in Transition», Split, May 22-24, 1997, pp. 20-21.

³⁰ More details in the author's work (the co-author Vladimir Veselica) «Quo Vadis Croatia», in the book: «Economic Policy of Croatia», Opatija, 18 and 19 November, 1999, pp. 32.

application of economic neoliberalism and the strengthening (especially at the beginning of the reform of the welfare society) of market fundamentalism brought big damages to the majority of countries in transition. Croatia is the example of the country which suffered and still suffers especially big damages. Political and economic causes of this appearance have been already mentioned. What was not mentioned is the model of development based on the trade development and the imports expansion. This model emerged by the tycoon privatization and wrong stabilization level. The Croatian kuna belongs to the most appreciated currencies. In such situation the orientation to the imports expansion accompanied by the debt accumulation and consumption which come out of the possibilities of production, is quite normal.³¹

Moreover, that happens because Croatia hardly has the real monetary sovereignty. All banks are (mostly) in the foreign ownership. In such a manner the foreign centers of power control not minor savings of the Croatian citizens. And these centers direct the Croatian accumulation more to the imports (especially of cars) than to development. It is very easy and under convenient conditions to get the credit for a car, but it is more difficult to get it for the development project. The excuse about the risk is not rarely just the excuse. The reasons are much deeper. It is a question of the imports lobby which is no way favorable for Croatia. Therefore the idea about the strong national bank has been emerging with much difficulties. The economists discussed this at the traditional Conference in Opatija in November 2003.³² It seems as the factors of economic policy under the pressure of strong deficits (especially in trade balance) and debts increase, started to comprehend gradually that economic policy had to be grounded on the exports expansion. So far the shifts in this direction have not been noticed. The Croatian citizens are far the most indebted in relation to other countries in transition. When Croatia (we hope in 2007) becomes the member of the European Union, then some of the mentioned problems (including also here the structure of ownership) will appear in somewhat different, probably more convenient light, but that should be reached.

In short, the uncritical application of economic neoliberalism, wild capitalism and market fundamentalism (instead of desired welfare society) brought big damages to majorities of countries in transition.

The shifts in economic efficiency are modest in majority of countries. By its form, the shifts in political democratism are more expressed, but if we also include the segments of function of the rule of law and social state, and the realization of

³¹ More details in the book Gordan Družić: «Croatian Capricorn, State and Perspectives of the Croatian Economy», Golden Marketing - Tehnička knjiga, Zagreb, 2004.

³² More details in the author's work «Reflections and Messages from the Conference» (Traditional Conference of the Croatian Economists in Opatija, 12-14 November, 2003), *Ekonomski pregljed*, No. 11-12/2003, pp. 1027-1033.

the principles of social justice, then these achievements are very modest as well. Looking in short run, it can be spoken of the shifts in two opposite directions. It is a step forward when it is a word of the political democracy, and two shifts backwards when we talk about the social justice. In short, the theoreticians of reform and transition had in mind the movement towards the welfare society and it happened something diametrically opposite - for majority happened wild capitalism and market fundamentalism. When it is a word of the welfare society, the remarkable differences relate only to Slovenia.

Telling that all this will not be worth and that it will not be better in a long-term, would be a defeatism, but at the same time telling that it would be better for everybody in a certain time would be an illusion. Social shifts, social reforms and all social changes in general have the price, and this price must be paid by somebody. Unfortunately, as it is always in life, there is no justice here. Some will pay a very high, and some remarkably lower price. With a little more brains and luck Croatia could have been among these last.³³

Antimarket dogmatism

When it is a word of market contradictions and controversies in the light of social happenings in the past and at the beginning of this century, then along to the market fundamentalism, the special attention should be paid to the appearance of antimarket dogmatism. The alleviation of market controversies in different countries and parts of the world was realized on very different fundamentals. The phenomenon that the free market activity results with the increasing wealth of those who are already rich and the increasing poverty of those who are already poor, was treated at the beginning of past century at the essentially different fundamentals in developed West Europe and in less developed East Europe.

Under the influence of strong labor activity and the social democratic and socialist parties in West Europe, the attempts were made to alleviate the market contradictions by the recognition of these positive sides of market which acted in direction of economic efficiency, profitability and competitiveness. The restriction and alleviation of these negative sides were attempted to be solved by taking into account the solidarity criterion along to the market criterion. And exactly on the basis of combination of the market and solidarity criteria in organization of economy and society developed the welfare society. The maintenance of the stability of the welfare society demanded the maintenance of necessary and desirable

³³ More details in the author's book (the co.author Vladimir Veselica): «Thoughts and Views on Development of Croatia», The Croatian Academy of Sciences and Arts, Zagreb, 1999

balance in combination of two mentioned criteria, because if the market criteria were overemphasized, then the social tensions were increased and the social justice principle was disrupted. And reversely, if the solidarity criteria are overemphasized, the economic efficiency, profitability and competitiveness decline.

The welfare society development was realized in the time and under the influence of the third technological revolution. In a long period of time, the development of this model caused relatively stable labor and capital relations. It turned out that the more moderate distribution of social wealth has positive effects to the more efficient development as well. On the basis of the welfare society model developed first the European Community and later the European Union. The appearance of the fourth (informatics) technological revolution in last decades of the past century conditioned the welfare society reform. This reform is based on somewhat more sophisticated market and solidarity criteria.

To make it more simply it can be said that this reform is based on the combination of the world views of social democrats and liberals. This reform is still underway, but the market as the starting point has not been brought into the question.³⁴

On the other hand the happenings in the East less developed part of Europe were entirely different. As a matter of fact there were diametrically opposite. In this part of the world the organized political forces, which included labor unions and social democratic parties, tried to search the solutions for the alleviation of market controversies on quite different bases. These other bases were not directed to the recognition of the positive and alleviation of the negative market sides, but to the market abolition. The real socialism created on these bases entered the latent crisis from the first day. This crisis was severely expressed at the very beginning of the real socialism. Its drastic expressions were the war communism and the new economic policy (known as NEP). In contrast to all this the real socialism started to develop on the bases which negated the market function. Knowing the great historical role of the market function as the achievement of our civilization, there is a question what are the factors which in spite of continuous crisis enabled such a long duration (longer than seven decades) and the existence and survival of the real socialism model. It should be said immediately that these are not and it could not be the scientists and scientifically funded factors. On the contrary, the causes for this appearance should be searched in the political sphere, or better to say in the ideologically political sphere, that is in the sphere of the authority and ruling.

The social model without market showed its economic shortage immediately at the very beginning. This model however showed from the very beginning a specific

³⁴ Some known politicians of the socialist democratic orientation started to talk, in the context of these happenings, about the third way. Tony Blair: «The Third Way, New Politics for the New Country», The Fabian Society, 1998.

political shortage. These shortages manifested in making possible big centralization of economic power and even stronger concentration of political authority. And exactly on these bases was born and sided deep roots over a long series of years the antimarket dogmatism. Through such sequence of events the imperial Russia transformed from the imperial absolutism into the real socialism and the dictatorship of the proletariat, which in the political sense expressed the absolute rule and the dictatorship of one man. Thus the idea about more justice and freedom for all people transformed into its oppositeness. The antimarket dogmatism was becoming increasingly stronger. The case of one big country Russia/USSR undoubtedly showed that the negation of market denoted at the same time the negation and the restraint of economic efficiency and political democratism. To be more specific, market can exist even without political democracy but political democracy cannot exist without market. Thus the experiment of development of real socialism showed, that it was not only that the market abolition meant the solution of its contradictions, but just the opposite. The crisis of real socialism, which due to the negation of the function of market began from the first day of its existence, imposed the necessity of adequate reforms. The scientists in the countries of real socialism and in other (especially developed) countries of the world indicated the necessities that the starting points of reform had to be realized through development of any market, especially the commodities and services market.³⁵ However, every beginning of the market development by its nature, acted in direction of the decision-making decentralization. The centers of entire bureaucratic power treated such appearances as a direct danger for development of centralistic-planned model of economy, and by this all reform attempts were blocked.

The expansion of the model of real socialism (after the World War II) to some other European countries more and more sharpened its crisis. That also happened because of the increasing influence of the third technological revolution and connected to it technology transfer, what was very complicated without the function of market. Therefore, the reform initiatives more and more appeared to be much-needed, not only for development, but also for the survival. A special incentive to these reforms was given by the Cominform resolution from 1948, which was a severe critique (with the intention of demise) of Tito and all political and economic happenings in former Yugoslavia.

The beginning of the realization of the ideas of the workers self-management and the beginnings of development of the commodities and services market were a big historical turning point in relations among the countries of real socialism and in increasingly expressed orientation to reform shifts in direction of development

³⁵ Especially remarkable critiques were given by some scientists who in the thirtieth of the 20th century worked at the London School of Economics. One of the most prominent among them was Abba Lerner with his work «Economics of Control»?

of the market function. The strong social turbulences which spread to all countries of real socialism because of big necessities of the reform from one side, and strong resistance of the bureaucratic forces and centers of power on the other, became more expressed with each day. The necessities of economic development demanded, especially because of the technology transfer, the market function, and the forces of antimarket dogmatism were continuously opposed.

Due to its strong reform scientific orientation the Institute of Economics Zagreb was in the midst of the reform happenings, both on the domestic and the international plan, for many years. Since I carried out my entire scientific activity, which lasted for more than four decades, in the Institute of Economics Zagreb, as a deputy director, director, and a senior research fellow, I was continuously able not only to observe but to participate in the reform happenings in the former Yugoslavia and in the countries of real socialism, especially USSR/Russia. Development of the socialist self-management model drew a big attention, both of the scientific and political world. There was an increasing number of those who believed that it was found the model of socialism with a human image, which could under presumption of democratization and pluralization represent a starting point for solution of market contradictions and for searching the model of sustainable development.³⁶

In order to start, on these bases, realizing the broader reform activities at the international plan, it was indispensable that this happened in the big country as USSR/Russia. That happened in the Hruschov's time in 1962. In November of that year it was held for that time a very remarkable plenary session of the Central Committee of the Communist Party of SSSR, at which it had to be brought the resolution about the beginnings of the introduction of the self-management model. In that time I was a deputy director of the Institute of Economics Zagreb and belonged to the most prominent scientists economists-reformists. In past years I was at the specialist studies at the London School of Economics, where I got acquainted with the fundamentals of the market economy in general and the theory of development in particular. In that time my attention was especially drawn, due to the reform orientation, Institute and me personally, by such authors as Abba Lerner and Oskar Lange. In their very remarkable works they gave the best critique of everything that happened with the model of the real socialism. Thus their works could serve as a very good starting basis for the reform activity of the economists. Altogether, it happened that based on the talks between Tito and Hruschov in October and November 1962 I visited the Economic institute of the Russian Academy

³⁶ In more details in the author's book «Economic Crisis and the Reform of Socialism», Globus, Zagreb, Ekonomski institut, Zagreb, 1989. Some foreign scientists (John P. Hardt-Washington) and some domestic scientists (Josip Županov) gave similar estimates for this book, telling that it was on a track of pluralization and democratization of the self-management model. But the explosion of the Balkan nationalism left its mark.

of Sciences. My task was to participate in the preparation of the Resolution for the forthcoming plenary session (in November) which had to denote the beginning of self-management.

The Russians, that is all scientists my hosts, paid a great attention to this event. That related not only to the professional but to the protocol side of these events. That was the time of the denotation of the 45th anniversary of the Great October Revolution and I was invited to all celebrations and parades prepared in Kreml, Academy and at the Red square.

At the ceremonious session of the Government and the Central Committee of the Party (in the magnificent new building where Hruschov held the Congress of the Party, he gave the most severe critique of Stalin and Stalinism with a great appreciation to Tito) beside to other honors I got acquainted with Gagarin. At the big parade I sat near Hruschov at the stand. On this occasion our Embassy prepared a special acceptance. One of the leading Russian economists who specially dealt with the problems of investment and economic development (what was a specific field of my interest), the academician Tigran Sergejevič Hačaturov was my direct host and permanently paid a great attention to me. One of the most prominent Russian economists reformists of that time the academician Strumlin (although already in older ages) gave me hospitality in his house, what was as I was told a great rarity. Altogether, my hosts Russians paid to me such a great attention that I could not comprehend at all what was happening to me. They were firmly convinced that their Institute and they by themselves participated in the preparation of the big historical happenings and in big turning point which led towards the beginning of the self-management. However, I comprehended that something special was happening to me, because in the ruling ideologically-political relations it was inconceivable that one foreigner directly participated in the events of such, not only professional, but deeply political character.

They even invited me to visit in Central Sibir, Novosibirsk the famous Akadem-Gorod, a great concentration of the most prominent institutes and faculties which they called The Sibir Department of the Academy of Sciences USSR, and to which the entrance for the foreigners was very restricted. But the end of these big events and a big celebrity was not good. At the plenary session of the Central Committee of the party Hruschov offered such resistance that a mentioned resolution was not born. Hruschov evidently underestimated the forces of antimarket dogmatism and that was the beginning of his end. His formal withdrawal happened two years later, i.e. in 1964, exactly at the time when I was the host to the mentioned academician Tigran Sergejevič Hačaturov at the Institute of Economics Zagreb. He estimated the fall of Hruschov as the breakdown of entire reform perspective in USSR and broader. Unfortunately, that turned to be correct. It is interesting that opposite to the very reform oriented Russian economic science, the real reforms did not happen in Russia. During many years I was personally connected with one

of the leading economists reformists the academician Oleg Bogomolov. For many years he was a director of the Institute for International Economic and Political Research of the Academy of Sciences of the Russian Federation. Due to its prominent reform activity this Institute was at the international plan known as the Institute of Oleg Bogomolov. I was also personally connected with the academician Abel Aganbegijan who was a director of the known economic institute in Novosibirsk for many years. Later on, the both mentioned academicians became Gorbachov's advisers, but as it is known, even at the time of the realization of the president Gorbachov's perestroika it happened the pluralization of political system, but not the pluralization of market.

In spite of strong resistances and weak shifts, the Russian economists scientists kept insisting on reforms, demanding the introduction of the market function. In the eighties and especially at the time of perestroika, they organized a series of international conferences on this subject. Let me mention some of them. In 1988 two big conferences took place. The first one in Zagreb and the second in Talin, Estonia. The conference in Zagreb was held in the Institute of Economics Zagreb and in the Yugoslav Academy of Sciences and Arts on 21 and 22 of April. The Russian delegation was represented by a big delegation of twelve members headed by the mentioned academicians and Gorbachov's advisers, Bogomolov and Aganbegijan. That was the strongest and the biggest delegation of the Russian economists which ever appeared at one international conference outside Russia. The main preoccupation of the Russian economists was directed to searching the fundamentals for establishment of the market function. They were especially interested, very pragmatically, in our experience, as it was the final phase of realization of the Long term program of the economic stabilization, in which I was along to Kiro Gligorov and then Ante Marković engaged as one of the coordinators.³⁷ In fall of the same (1988) it was held a big All-Union conference in Talin, Estonia. Beside me there actively participated Stjepan Zdunić with a paper in Russian, what caused big attention and affinities. The big part of the Conference was focused on us, because everybody wanted to have our support and use our experience.

The questions of the market function were of course in the first plan. In order to give the support to the Russian economists especially for the reform shifts related to the establishment of the market function, the International Economic Association organized its regular conference (which take place between two World congresses) in Moscow in 1989. The subject of this Conference was "Market Forces in Planned Economies". From Croatia beside me also participated Ante Čičin-Šain also from

³⁷ The materials from this Conference were published in the book Jakov Sirotković, Ivan Družić and Gordan Družić (eds.): «Perestroika of the Economic Mechanisms in USSR and the Characteristics of the Changes in the Economic System of SFRY», The Yugoslav Academy of Sciences and Arts. The Institute for Economic Research, Zagreb, 1988.

the Institute of Economics Zagreb. In 1990, exactly at the time of the beginning of transition the academician Bogomolov organized a big Conference with the Croatian economists in his Institute in Moscow. I exposed the integral paper about the problems of our reform and the beginning of transition which was translated into Russian. At this Conference participated also Jegor Gajdar who was at that time a director of one economic institute, and who later became the prime minister of the Government of the Russian Federation. In the capacity of one of the moderators of this Conference I was giving a strong support to the presentations of the mentioned academicians and advisers of Gorbachov, Oleg Bogomolov and Agan Aganbegijan who very severely dramatized the economically-political situation just before the beginning of transition. They appealed for the indispensability of urgent abandonment of the central distribution mechanisms and the beginning of any market functioning.

They said that if differently it would develop chaos, anarchy, crime, mafiaocracy and all other evils connected to it. But the Conference, the warnings, as well as all other, remained without result. It happened just what the Gorbachov's advisers had predicted. Jegor Gajdar the already mentioned participant at the Conference in Moscow in 1990 especially confirmed to me these happenings. He talked about this subject in August 1992 during the Tenth World Congress of economists when I met Gajdar who was already the prime minister of the Russian Federation. Thus Russia and connected to it countries, in spite of big efforts of the economists scientists began transition practically by direct transformation from centrally-planned into the market model of economy. Big problems accompanied by heavy social malformations were unavoidable. They turned to be even more difficult because the atmosphere of antimarket dogmatism without prior preparations entered the atmosphere of market fundamentalism.

Strong social shocks, turbulences and malformations could not be avoided. Although the atmosphere of antimarket dogmatism existed in other countries of the real socialism as well, it was nowhere else so strong and expressive as in Russia and correlated countries. I personally had a chance, within various study delegations, to participate in talks with the economists reformists in several countries. Especially were interesting the talks in Poland and the Czech Republik and Slovakia. In both countries the economists were very reform and market oriented, but the political support failed to come. It was similar in Hungary. Versus these countries, my experience from Romania and Bulgaria was somewhat different. There, the economists and politicians lagged behind in the reform orientation in relation to the other, especially Central European countries.

Altogether, in all countries of real socialism existed the atmosphere of anti-market dogmatism but their influences on economic science and reform shifts were different. The positive shifts after the Cominform resolution in 1948, as well as after the introduction of the self-management in 1950, played its role in all settings. That especially relates to Russia in time of Hruschov.

In talks with the economists scientists, veterans of the reform, it was estimated during the great International conference in 2001 in the Institute of Bogomolov in Moscow, that exactly the Hruschov's time represented the break, with a bad sign unfortunately.³⁸ In his judgments about the possible market and self-management shifts, Hruschov evidently underestimated the existing forces which still existed and acted in the atmosphere of antimarket dogmatism. And although little was written about what happened with Gorbachov in this context, he was obviously pluralistically inclined and directed perestroika pluralistically. However political pluralism got (although too much unorganized) the wings, and the market was completely omitted. Was this influenced by the historical experience and the inertia of fear of the atmosphere of antimarket dogmatism which threw down Hruschov, or was it also something else, is the question which could be answered only by Gorbachov (if he can at all).

In science it is not a custom to talk about what would have been if it had been, but it remains a strong impression that the success of the Hruschov's reform would give essentially different tune and seal to later historical events, because the general pluralization and democratization of the model of self-management could probably, as the resultant of the conflict between antimarket dogmatism and market fundamentalism, give some acceptable answers to the contradictions of market and to all other relevant facts which we usually put under the common denominator of sustainable development.

Market Fundamentalism and Development of the Self-Management Model

In developed Western countries, the searching of solutions for market contradictions, especially in the conditions of laissez faire and market fundamentalism, was directed to the combination of the market and solidarity criteria. In ex-socialist countries, for the search of such or similar solutions it was indispensable to establish, by the adequate reform shifts, any market function, and exactly this, due to the atmosphere of the antimarket dogmatism represented the biggest problem. The only

³⁸ At the time of this Conference Bogomolov invited to his house for dinner a group of scientists veterans of reform with the intention to talk freely about these problems in a relaxed atmosphere. All the participants of this talk (from Europe and USA) agreed that many problems which appeared during reform and still in duration of transition, should be also more written about in the context of historical retrospect and current moment. Moreover, because there are very few who can write about these events, not only from the point of view of economic history, but from the point of view of continuity of own arrangement and testimony. That was one of the reasons for such approach to this work.

country which succeeded to do at this plan something more was ex-Yugoslavia. The first noticeable shifts towards market reform were made in the years after the Cominform resolution from 1948. That is quite understandable, because in general atmosphere of the antimarket dogmatism, the reforms of such character were not possible. The beginning of development of the model of self-management at the beginning of the fiftieth was a special impetus for market reforms. From the very beginning the economic science was very reform oriented. That is confirmed by numerous works, articles, studies and books dealing with all phases of development and realization of reform.

Especially active in the reform activity were the scientists from Croatia and Slovenia, what is understandable, because these were the most developed republics. The Institute of Economics Zagreb was one of the leading reform centers for many years.³⁹Its scientists actively participated in all phases and all reform happenings. That especially relates to the big socially economic reform from 1965, then to the preparation of the confederation constitution from 1974, and especially to the preparation of the Long-term program of the economic stabilization and the beginning of transition during the ninetieth of the past century. I was personally (at the beginning of the eightieth) included in the coordination of the realization of the Long-term economic stabilization program together with Sergej Kraiger and Kiro Gligorov. At the beginning of the realization of transition (at the end of the eightieth and the beginning of the ninetieth) I was included in the coordination group of three. The new member of this trio was Ante Marković.

At the Institute of Economics Zagreb at the beginning of 1963 was held a big Conference of economists based on the so-called "The Yellow book" edited by Branko Horvat⁴⁰ and "The White Book" edited by Rikard Lang.⁴¹This Conference gave ideologically theoretical bases for the preparation of big socially-economic reform from 1965. This reform gave not only the starting bases, but also the tune and the seal in all later reform happenings at this spaces, and even broader.

The main idea of this reform was directed to development of the model of the open economy. Its ideological beginning was initiated and conceived already

³⁹ The Institute of Economics Zagreb is one of the oldest institutes in this part of Europe. He was established in 1939 by a group of young well educated economists headed by Mirko Lamer, the first director. In 1935 the same group of economists founded the journal which was first published under the title *Ekonomist*, and later on the title *Ekonomski pregled* was accepted. During many years, the Institute of Economics Zagreb played a prominent reform role at domestic and international plan. In last (2004) year The Institute denoted its 65th anniversary.

⁴⁰ Branko Horvat (ed et al.): «Causes and Characteristics of Economic Trends in 1961 and 1962», The Bureau for Social Planning (Documentation and Analytical Materials, 7), Beograd, 1962.

⁴¹ Rikard Lang (ed. et al.): «On Some Problems of the Economic System», *Ekonomski pregled*, No. 3-5, 1963.

in 1962 by the Federal Commission for dinar parity headed by Kiro Gligorov who was the first finance minister and later the prime minister. I was personally (in the name of the Croatian economic science) one of the members of this Commission. When I now estimate, in the historical retrospective longer than four decades, the theoretical fundamentals of development of the model of open economy in the context of the exchange rate policy, I have the impression that many questions and many dilemmas from that time have not been solved so far.

At the beginning of the realization of the reform from 1965 in the Institute of Economics Zagreb started the initiative to record permanently the realization of reform through one special project. Thus began a series of 23 volumes of the so-called "red books". Based on these books every year in November it was held the annual Conference of economists in Opatija. The first book was published and the first conference was held in 1968.

The last conference based on this series of 23 books was held in November 1990. Thus in 2003 it was denoted the thirty fifth anniversary from the first Conference of economists in Opatija. I was personally continually without a break one of the authors of "red books" and their editor. In realization of this project "red books" participated numerous economists from the economic faculties and institutes, not only from Croatia and Slovenia, but the others as well. The Institute of Economics Zagreb was for many years in the very middle of the reform happenings. It had a leading role in realization of big projects on economic system, and these projects were realized by the consortium composed of leading scientists from all economic faculties and economic institutes. The Institute of Economics Zagreb could realize such a role thanks to its collaborators, affirmed scientists in the country and in the world, among which were also their, the post-war period first directors, Jakov Sirotković and Rikard Lang.

Among numerous scientists especially should be mentioned Ivo Vinski, Mijo Sekulić, Drago Gorupić, Marijan Korošić, Oldrich Židek and Branko Horvat. They are not among alive any more, and its also worth while mentioning many other who are less or more actively connected with the Institute of Economics Zagreb. The Institute educated and affirmed its staff by maintaining permanent contacts with the corresponding institutions in other countries of West Europe, Great Britain and USA. Personally, I received my main reform education at the post-graduate study at the London School of Economics in 1957/1958. Considering the necessity for our economists scientists, especially these reform engaged, to get some more knowledge from the functioning of developed economies of West type, the United Nations ensured the scholarships for several scientists from Croatia. Beside me, these scholarships were assigned to Jakov Sirotković and Božo Marenić. Beside the general acknowledgment of the functioning of the market economy model of the West type, especially useful for my reform aspirations and ambitions were the works by the most prominent critics of the model of the centrally planned economy

(as a matter of fact of the model of real socialism) and the supporters of the model of the market-planned economy.

The most prominent author of such type Abba Lerner with his book "Economics of Control" was closely connected with the English and London school of economics. The similar judgments refer also to Oskar Lange. Relying upon the mentioned authors and their works, some other Croatian economists were also obtaining similar knowledge and experiences. That relates to the already mentioned Jakov Sirotković and Branko Horvat, as well as to Dinko Dubravčić and Božo Marenić. The specialist education in England obtained also Vladimir Stipetić.⁴² Among the prominent economists of the middle and somewhat older generation who gave the tune and the seal to the reform orientation of the Institute of Economics Zagreb, and who were educated in USA, there should be mentioned Stjepan Zdunić, Jadranko Bendeković, Gorazd Nikić and Izak Druter. On a study trip in USA were also Mate Babić, Ante Babić and Slavko Kulić. In Germany, France and elsewhere their specialist education obtained Zoran Jašić, Zvonimir Baletić, Ivan Teodorović and Ante Čičin-Šain. Among the older generation which is gone, the brilliant American education obtained Mijo Sekulić whom Leontijev estimated as one of the best scientists for a complex input output analysis. Milan Mesarić, Mijo Sekulić, Jugo Crnković, Jadranko Bendeković and Ivan Teodorović were very popular and esteemed experts of the United Nations. One of the most prominent economists of the older generation (especially in the field of national income and wealth) Ivo Vinski obtained his knowledge, beside in England and Germany, at the University of Firenca as well. He won his doctor's degree at the known professor Gini who was a head of the Statistical Bureau of the United Nations for many years. For his fundamental work Political Economy of Socialism, Branko Horvat entered the narrowest choice for the Nobel prize. Juraj Padjen, Stanko Žuljić, Pero Jurković, Dražen Kalogjera, Nenad Starc and Ante Puljić gave a considerable contribution to the work of Institute. Numerous scientists of younger generation work in the Institute. Here should be especially pointed out Sandra Švaljek and Željko Lovrinčević.

Although there is no necessity of listing numerous connections, education and scientific contacts of young and younger generation, it should be said that such orientation of the Institute is continuously underway. In the ninetieth of the twentieth century two members of the younger generation were employed in the International Monetary Fund.

The Institute of Economics Zagreb was also realizing its reform ambitions through a very good international cooperation. That especially relates to cooperation

⁴² At the first Congress of economists in Portorož in 1954 appeared (in that time young) collaborators of the Institute of Economics Zagreb Branko Horvat and Vladimir Stipetić. Jaša Davičo the editor of *Ekonomska politika* of that time, commented their presentation with the words «The stars are born». And it happened in that way.

with two European and one American institution. These are (1) The Vienna Institute for Comparative International Studies, (2) Institute for International Economic and Political Studies of the Academy of Sciences of the Russian Federation in Moscow and (3) Institute for Comparative Studies of the Florida State University, Tallahassee.⁴³ Thanks to director of this Institute professor George Macesich, a very substantial scientific collaboration was realized over many years. This collaboration left imprints in numerous published works, both in the journal of this Institute and in special books. Among them especially should be pointed the book which was as a result of a special project published under the title: "Modeling the Economic Performance of Yugoslavia". Beside James H. Gapinski and Thomas W. Zuehlke, one of the authors was Borislav Škegro from the Institute of Economics Zagreb. Andrea Mervar and Zoran Anušić won a master's degree at the Florida State University thanks to its collaboration with the Institute of Economics Zagreb. Altogether, the Institute of Economics Zagreb was also realizing its reform orientation through intensive international scientific collaboration with other related institutes in the world.⁴⁴

However, it is necessary to say in this context, although it can be presumed, that the reform activity of the Institute was not painless and it was necessary to surmount permanently numerous contradictions and turbulences. The Institute began its reform activity in a general real socialist environment. The main characteristic of this environment was antimarket dogmatism. The Institute had the advantage

⁴³ With the purpose of realization of permanent scientific collaboration with the universities and institutes at these territories (especially within the context of self-management) at the beginning of the sixtieth of the past century was established the Center for Yugoslav-American Studies, Research and Exchange of the Florida State University headed by professor George Macesich. The Common Yugoslav-American Council composed of professors from both sides coordinated the work of this Center. The author of this paper was the chairman of this Council for many years. In time of getting independence of Croatia in 1991, it was accepted the initiative for the Center to transform in the Center for Croatian-American Studies. The international isolation however was not favorable for this initiative. The American side has recently initiated this collaboration to be re-established. With this purpose, professor George Macesich in March 2004, as the guest of the Croatian Economic Association, visited the Institute of Economics Zagreb with the proposal to initiate in the Institute the project under the title Center for Croatian American Studies. The President of the Republic of Croatia Stjepan Mesić showed consideration for this initiative. In more details in the authors work «Transformation of the Center for Yugoslav-American Studies of the Florida State University», *Ekonomski pregled*, No. 1-2/1992. During many years this Center published the journal *Proceedings and Reports*, in which were published the works of both the American and our scientists.

⁴⁴ Based on this collaboration numerous books were published. In USA the majority of these books was published by the known publishing house PRAEGER, New York. The majority of books within the collaboration with the Vienna Institute was published by the publishing house MacMillan, Great Britain. In Russia the books were published by the Russian Academy of Sciences. Some of these books are listed in the Bibliography.

of establishing one completely different atmosphere created by development of self-management.

However, it permanently existed the appearances of particular resistances because of the inertia of antimarket dogmatism. Deviations which appeared in the eighties in realization of the Long-term program of the economic stabilization also draw their roots from these contradictions. Beside Kiro Gligorov whose reform role was always unquestionable, there should be mentioned the two who had a big role in surmounting these deviations. One of them is Ante Marković who as the chairman of the Commission for the reform of Constitution from 1974 gave the explanation that this Constitution gave the fundamentals for the functioning of integral market and general democratization and pluralization. Another one is Štefan Korošec.⁴⁵

At the end of 1988, as the secretary of the Central Committee of the League of Communist of Yugoslavia he organized in the Institute of Economics Zagreb the meeting of scientists and politicians with the purpose to prepare guidelines for the decisions of the so-called First conference of the League of the Communist of Yugoslavia. This Conference accepted the mentioned guidelines, and based on them it was given the green light for general pluralization and democratization.

The Institute of Economics Zagreb was confronted in its long-year reform activity with the antimarket dogmatism. It could be said that it performed this job successfully, but at the very end of the reform and at the beginning of transition the Institute, due to its uncritical application of economic neoliberalism, found itself in situation to fight against market fundamentalism. The Institute began this battle as early as at the beginning of the ninetieth, thus much earlier than the known discussion on relation Washington-Post-Washington-Consensus. Unfortunately it lost this battle. Damages for many countries in transition are very big. Unfortunately, they are especially big for Croatia. The complex of antimarket dogmatism has been overcome, but the complex of market fundamentalism is still very evident. And there is no sustainable development without the answers to these questions.

The model of the self-management socialism was one attempt in this direction. Some scientists in the country and in the world estimated that general pluralization and democratization of this model offered some bases for searching the answers to the questions of sustainable development. Unfortunately the explosion of the Balkan nationalism left its mark.

Only the Slovenians inherited some results. Some judgments at the international plan from the scientists veterans of reform remain as consolation. The events

⁴⁵ Among the Slovenian politicians as the prominent reformists should be mentioned Milan Kučan, Sergej Krajger and Čiril Ribičič. The Croatian politicians Ivica Račan, Zdravko Tomac, Drago Domitrović and Celestin Sardelić also had the prominent reform role.

which developed at the reform plan after the Cominform resolution and during the self-management at these territories, and broader, accelerated also the collapse of the Bolshevik option and the fall of the Berlin wall, but all the problems of sustainable development still remained open.

In searching the ways of sustainable development, the economic science and economic policy must take into account the notorious fact that the implosion of capitalism as the world order in the thirtieth of the last century, happened by the invisible hand of Adam Smith and that its saving followed based on the visible hand of John Maynard Keynes. That means that searching ways of sustainable development must rely upon the active economic policy and the market and solidarity criteria at all levels. Only on these bases can be also fulfilled the unquestionable necessities of efficient development, with the respect of the social justice principles and strict criteria of ecology. The complex of these problems occupied big attention of scientists and politicians in the last century. There is no doubt that the problems of sustainable development at the beginning of the new century and the new millennium will impose with the increasing power due to the higher level of science, new technologies and new products.

In searching the solutions for the problems of sustainable development it should be more respected the fact (especially within the context of market contradictions) that contemporary capitalism neither developed nor maintained under the invisible hand of Adam Smith, but much more under the influence of the visible hand of John Maynard Keynes.

Neither see nor comprehend these events from the past century can have the same consequences which were caused (each in its way) by the antimarket dogmatism and the market fundamentalism. This fact should be especially taken into account in the light of increasingly stronger globalization trends and integration processes.

Instead of concluding remarks

Big social changes which under the influence of market controversies happened in the past century are a very precious experience for the activity of the most responsible factors at all levels, in searching solutions for the alleviation of market contradictions, and due to the gradual development of the model of sustainable development.

This experience learns and warns us that in searching the ways of sustainable development it is especially necessary to take into account two facts. The first positive is the fact that market rewards the capable and successful, and punishes less capable and unsuccessful.

The second fact is that the result of the free market activity is that the rich become increasingly richer, and the poor increasingly poorer, both at the national (state) and international level.

The experience of the past century showed that the ways of sustainable development cannot be traced, only by the completely free market activity.

Strong social shocks which happened in the twentieth and at the beginning of the thirtieth of the twentieth century in the environment of the world crisis, and which arose under the influence of the invisible hand of Adam Smith, could be solved only under the influence of the very visible and recognizable role of the John Maynard Keynes doctrine.

Big turbulences in the most developed countries of West Europe were solved on the basis of these comprehensions. Based on this it developed the welfare society which was a good starting basis for development of the European Community first, and then for the European Union.

The endeavor of the informatics epoch under the influence of the fourth technological (informatics) revolution, destabilized the existing labor and capital relations in the last decades of the past century. Then followed the welfare society reform. Along to positive effects which manifested through bigger market efficiency, this reform is accompanied by numerous risks. These risks have been manifested in uncritical application of the doctrine of economic neoliberalism, what imposed especially big damages to countries in transition. The biggest danger however represents the forgotten fact that contemporary capitalism did not endure the full implosion by the activity of the invisible hand of Adam Smith but by the activity of very visible hand of John Maynard Keynes. Without recognition of this scientific truth and historical facts there are no theoretical possibilities for searching the model of sustainable development. Therefore regarding this fact it is necessary to develop, by general consensus at all levels, such socially economic and political system which relies upon the combination of market and solidarity criteria in the most sophisticated variants.

In quest for the model of sustainable development it is necessary to take into account the fact that market fundamentalism, as the Western experience showed, represents a big evil, but the antimarket fundamentalism (dogmatism) is even bigger evil. Therefore as a real possibility remains only the combination of the economic doctrine which developed in the scientific atmosphere of Adam Smith and the one which developed in the atmosphere of John Maynard Keynes. Moreover, because it is unquestionable that historically all fundamentalisms (national, religious, class, race and market) have a very negative connotation They are the basis of all troubles of contemporary world, especially those related to terrorism. Tracing the ways for development of the model of sustainable development in the conditions of increasingly stronger globalization trends and integration processes must contribute to

reducing of all forms of fundamentalism and terrorism. A special task in that have the United Nations, USA, the European Union, Japan and other, especially those the most developed. Each, even the smallest step directed to tracing the ways for the model of sustainable development will direct the answer to the dilemma established in the title of this paper, and that is that in spite of all controversies, the market can have the characteristics of salvation.

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TRŽIŠTE - PROKLETSTVO ILI SPASENJE

Sažetak

Protoklo je stoljeće u svjetskim, posebno europskim, razmjerima bilo veoma turbulentno. Tu su turbulentnost izražavali veliki društveni potresi i promjene. U samoj središnjici tih potresa i promjena stoji fenomen tržišta i demokracija, odnosno njihova protivuriječja. Tijekom proteklog stoljeća na planeti zemlji je kumulirano više znanja, novih tehnologija i novih proizvoda nego u ukupnoj civilizaciji koja je predhodila. U takvim su uvjetima protivuriječja inherentna tržištu i demokraciji, kao bitnim čimbenicima naše civilizacije, posebno dolazili do izražaja. Dobre strane tržišta su se manifestirale u činjenici da ono nagrađuje sposobne uspješne, a kažnjava one koji to nisu. Loše strane tržišta se manifestiraju u činjenici da slobodno djelovanje tržišta čini bogate još bogatijima a siromašne još siromašnijima. Dobre strane (parlamentarne) demokracije imaju za učinak zaštitu ljudskih prava i slobode. One manje dobre se manifestiraju u činjenici da u ta ljudska prava nisu uključena i socijalna prava i socijalna pravda.

Velike turbulencije i krizne situacije u najrazvijenijim zemljama svijeta posebno u SAD su pokazale da se suvremeni kapitalizam nije održao temeljem nevidljive ruke Adama Smitha nego naprotiv temeljem veoma vidljive ruke Johna Maynarda Keynesa.

Ključne riječi: tržište, demokracija, održivi razvoj, solidarnost, društvo blagostanja, ekonomski neoliberalizam, tranzicija, kapital, rad.