

## **Public sector management as a development problem in the countries of Southeast Europe**

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DOI:10.13165/VPA-17-16-4-06

**Abstract.** *In the period of nearly three decades of post-socialist transition in the countries of Southeastern Europe (SEE), there were numerous synergistic, destructive and anti-developmental hindering institutional factors that directly caused the creation of social and economic insecurity. Many developmental problems, as well as social, economic and institutional deformations, have generated a lasting and deep crisis. This paper analyzes the basic deformations of public sector management, which has emerged as a driving force for all development problems in*

the SEE countries. It starts with two assumptions: first, weak and slow institutional changes were deliberately programmed by the nomenclature of government, in order to eliminate institutional competition and affirmation of the quasi-institutional monism of neoliberal type, which have enabled the substitutive development of the so-called alternative institutions; and second, highly interest-oriented motives of the government nomenclature have been the main cause of ignoring rational recommendations by representatives of non-institutional economic theories.

**Keywords:** public sector, public sector management, institutions, Southeast Europe.

**Raktažodžiai:** viešasis sektorius, viešojo sektoriaus valdymas, institucijos, Pietryčių Europa.

## Introduction

Public sector (conditionally: public governance) in a broader economic sense is the institution of the state regulation of the economy. In this sense, the interpretation of J. Sinkienė et al. (2017, p. 12) can be applied to the factors of economic development, whereas the common field of culture should be supplemented with institutional structures (conditions) - Fig. 1.

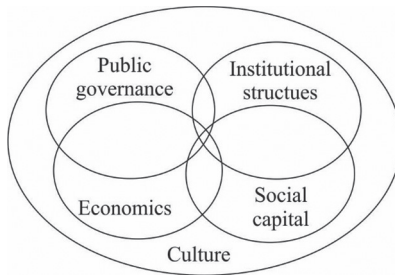


Figure 1. Subsystems of economic development

In the narrower economic sense, the state regulation of the economy implies four instruments of macroeconomic policy: fiscal, monetary, foreign trade, and anti-inflation policies. It is considered (Acemoglu, 2003) that there are three basic economic institutions: public governance, market regulation, and ownership regulation. State regulation is a set of laws and regulations, which define the rights and obligations of permissible economic behavior, as well as sanctions in the event of its violation. Certainly, within ownership regulation, public sector has significant and managerial competencies, especially in the area of protection and specification of property rights (Demsetz, 1967; North, 1987; North, 1994).

The history of economic thought has determined the conflict between representatives of state and market regulation. Theoretically, this was reflected through the conflict between two economic myths: the plan and the market, a determined and entrepreneurial behavior, visible conscious control, and “invisible” self-regulation. Practice has convincingly relativized the perceptions of the eternity and universality of two formerly opposed principles (and myths): the state-planned dictation (economic coercion - vertical), and the market choice and self-regulation (economic competition - horizontal). It has affirmed their parallel existence in various flexible combinations.

Regarding our topic, an important fact is that all post-socialist SEE countries have faced the collapse of socialist public sector management, and the creation of a hybrid and non-functional institutional system, created by neoliberal recipes. This has enabled the irrational reproduction of the destruction of public goods and their non-market (privileged) conversion to private property (Seekic, Draskovic & Delibasic 2016, p. 69; Young, 2003). There has been a major dysfunctionality of public sector management (or simpler: *government failure*), and the inability to effectively manage social and economic development goals. This ultimately led to a long-term and powerful economic crisis, which marked almost 30-year period of the so-called transition or “*transformational recession*” (Kornai, 1994). This way, the public sector management has emerged and manifested as the main development problem in the SEE countries (Delibasic, 2016, p. 149).

### Theoretical approach

There are several non-institutional theories that are relevant for the explanation of the subject in question. These are: Economic theory of public choice (ETPC), Economic theory of politics (ETP), Economic theory of property rights (ETPR). The above theories are cited here as a positive example of valid theoretical advisory. Unfortunately, the government nomenclatures of the SEE countries have ignored these recommendations during their transition period.

ETPC explains the political mechanism and its influences on the formation of macroeconomic solutions. The public choice shows the imperfection of the political process (feedback of business and policy, the private interests of politicians and politics as a specific area of exchange). Adopting a constitution as a rule of all rules contributes to the development of democracy and the reduction of the exchange possibilities of politics and its actors (politicians and voters). ETP studies a model of political behavior where the voters are the maximizers of interest, and political parties are the maximizers of the vote number. It is also assumed that politicians are driven by personal interests when running for official functions, and formulating a policy that best suits the realization of one’s goals to the greatest level possible. ETPC has accepted the above considerations.

In the most general sense, ETPC studies the political mechanism (aspect) of making macroeconomic solutions. ETPC representatives assume that people act in

the political sphere following their own personal interests (which are an indicator of a direct link between business and politics), and demystifying the perception of the state as a protector of exclusively social interests. They study ways and methods through which politicians use *government institutions* to realize their private interests by supporting, first and foremost, those programs that contribute to the growth of their personal popularity, prestige and chances for achieving victory in the next elections, thus extending the principle of economic individualism to the state activity. Their original idea is that, in addition to economic, there are *political markets*, where individual human interests are also expressed, and the basic difference between those markets are *conditions* in which those interests are *expressed*.

James Buchanan, a founder of the public choice theory, has based his major works on the above mentioned idea, for which he received the Nobel Prize in 1986. According to him (Buchanan, 1986), "*Politics is a structure of complex exchange among individuals, a structure within which individuals seek to collectively collect their own privately defined goals that cannot be efficiently secured through simple market exchanges.*"

The conditions of production, exchange, etc. (prices regulation, investment decisions, scope of state purchases, changes in foreign trade conditions, etc.) are often crucial (specific interest) for certain groups of people. Therefore, these groups try to maintain a permanent relationship with government representatives (through direct contacts, letters, telegrams, fax, media, demonstrations...). All these methods of influencing government representatives are aimed at making favorable political decisions for a particular group of people, and it is called *lobbyism*. The concentrated interests of the minority, which result in their rent-oriented behavior (Buchanan, Robert & Tullock, 1980), often overcome the fragmented interests of the majority. Therefore, the relative impact of the minority group with special interests is much greater than their participation in the votes. In everyday political activity, people's representatives (delegates, deputies) seek to increase their popularity through mutual support or mutual assistance in voting (the so-called "vote trading"), which is literally called *logrolling*.

In addition to lobbying and logrolling, there are also various *imperfections in the political process* (e.g. the impact of mass media, the absence of voters or rational ignoring, the paradox of voting, which violates the principle of transitivity of voter preferences, so the voting results are not in line with the rule of simple majority and interests of the majority, making decisions independently of their distribution effects, etc.). All these imperfections of the political process indicate the objective existence of numerous possibilities that the results of voting are the subject to various manipulations.

In the critique of state regulation, the representatives of the public choice theory pay special attention to the activities of the government between the elections. Those activities are subordinate to certain regularities, called political-economic cycles (Nordhaus, 1975, p. 173) and the cases in which the government is unable to provide an efficient allocation and the use of social resources (the so-called non-market failure or government failure). Therefore, it is necessary to constantly control the government's activities and to adjust them in accordance with the socio-economic and

political conjuncture. The government should apply economic methods in a manner that does not interfere with market laws. To mitigate possible negative effects, the government should apply immediate measures and neutralize them (Popov, 2012, p. 117).

ETPR deals with the analysis of property right fragmentation for partial powers. Its basic task is to analyze the interaction of economic and legal systems, which are always realized in *the behavior of economic entities*. Its representatives view the property right as a set of partial powers, the property as a complex set of relationships, and the property relations as an active system of exclusivity in accessing material and immaterial resources in the society. Their basic recommendation is that no one should be privileged in accessing the resources. Hence, the possible non-market privileges (which are often present in the SEE countries) are the result of manipulation and social pathology. In addition, they believe that the state is the most important „agency” for specifying and protecting property rights.

### Practice of the SEE countries

Practice has shown that civil society as an institution and instrument for protecting people from (bad) authorities *does not function* universally (Delibasic, 2015, p. 17). Many authors are unanimous in their assessment that institutions are a universal instrument and a condition for social and economic development (North, 1987; Denzau & North, 1994; Williamson, 1994; Stiglitz, 2000; Campbell, 2004; North, 2005; Hodgson, 2006; Rodrik, 2007; Acemoglu & Robinson, 2012; Yerznkyan, 2012; Popov & Ersh, 2016; Strielkowski, Tumanyan & Kalyugina, 2016). However, they have been *negated* by various national, corporate and informal group structures, which by their wealth, privileges and power are represented by the so-called superior “elites”, who exploit and limit individuals in mass proportions.

In the SEE countries, the socialist utopia and old collectivist dogmas have been replaced by a new utopia (neoliberalism) and a new dogma (individualism). Slogans, promises, dominance of politics over the economy, reproduction of the crisis, reformist apologetics, and palliative nature of reform measures have been taken from the old days (Popov, 2012, p. 117). Dictation of the state has been replaced by dictation of the so-called “new entrepreneurs” (newcomers). Controversially, no one remembered to adopt and apply a strict institutional order. Formal and informal institutions (institutional control, institutional conciliation, and institutional pluralism) have been significantly substituted by alternative institutions (in shadows), which are characterized by criminal origin (Marcouiller & Young, 1995, p. 633; Erznkyan, B. H., Delibashich, M., Grgurevich, 2016, p. 23).

Propagated individualism has been reduced to the privileges of rare individuals, as a basis for the establishment of quasi-institutional monism (quasi-neoliberal type). The principle of pluralism as the initial and basic motive of transition reforms has been negated. The masses of private property, entrepreneurship, economic freedoms, efficient business, and a better life have been promised to the people. Instead,

there was a collapse of economy, deindustrialization (Beg, Basarac Sertic & Druzic, 2017, p. 97), poverty, unemployment, high indebtedness, inequality, difficult survival conditions, and degradation of value criteria.

Neoliberalism in the SEE countries has proved to be an anti-development doctrine, philosophy, and ideology. Its theory and practice (economic policy) have produced dramatic consequences in the SEE countries (Draskovic, Popov & Peleskis, 2017, p. 126). . Libertarianism has distorted the idea of Immanuel Kant that „*Rational human beings should be treated as an end in themselves and not as a means to something else.*” Such negative development conditions have been enabled through the circumvention of the rule of law. The economic behavior in practice was mostly opportunistic, far from regular norms and rules. It was mostly controlled by subjective regulators (so-called alternative institutions).

The consequences of many institutional and other hindering factors in the SEE countries are reflected through the long-term reproduction of the economic and social crisis, the lack of economic growth, the decline in living standard of the population, the rise in social tensions, and the general dissatisfaction of the people. According to D. Landes (1998, p. 516), many authors seek the causes of negative flows in the culture as a general pattern of human behavior (Table 1).

**Table 1: Causes, modes, motives, and consequences of opportunistic behavior in the countries of Southeast Europe**

<i>Causes</i>	<i>Modes</i>	<i>Motives</i>	<i>Consequences</i>
culture, totalitarian traditions, underdeveloped institutions and institutional irrationality, accepted ideology of neoliberalism, opportunistic behavior	deformation of politics and democracy ↓ retorics i apologetics ↓ totalitaran party control ↓ privileges of rare individuals ↓ abuse of fomal public sector institutions ↓ dogmatism and negative selection ↓ domination of “rapacious state” over “development state”	individual interests of privileged social layers: most interests (nomenclature), meddle interests (lobbysts) and minor interests (neoliberal apologists)	reduction of economic choice, economic disability, mass poverty and disparity, increase in social pathology, deficit of the rule of law, decline in motivation, high degree of monopolization, increase in transaction costs, high level of all forms of corruption, general social and economic crisis

Source: (Evans, 1989; Kornai, 2006; Mesaric, 2011; Draskovic, Bauk & Delibasic, 2016)

## **Institutional basics of public sector management**

In the modern global economic and financial crisis (credit, fund, and debt), the main rescue role for the largest banks and other market entities had the state interventionism management (Uryszek, 2015, p. 25). When neoliberal recipes failed - monetary and fiscal measures of the public sector are activated. Regulation was urgently replaced by deregulation. Market self-regulation turned out to be wrong in many areas, such as risk ratings, low interest rates, uncontrolled financial virtuality, and monistic institutionalism. The global crisis has shown that frequent and mutable financial crisis is a reality, and will always require increased state regulation.

Understanding the nature of market fiasco, public goods, and redistributive processes, has enabled analogous consideration and explanation of the role of the public sector in the market processes. Economic analysis of the state regulation institution and various political processes has changed the picture of their actual functioning. It has shown that the public sector is not an ideal mechanism of regulation (institutions) because, among other things, it is not capable of transforming resources into social goods in a way that meets the demands of consumers of those goods.

In fact, the political decisions directly and indirectly affect the redistribution and allocation of resources. The allocation and redistribution of public sector resources is not completely done on the market, but in the political process (i.e. in the field of state authority). Different positions and roles of citizens (who are consumers of public goods) in the political institutional system, determine the methods and possibilities of their influence on political decision-making, which depends on the realization of their interests. Consumers of public goods exhibit and protect their interests and preferences in the voting process. However, the influence of the majority on political decision-making depends on many factors, as following: the preference of that majority, the degree of democracy, the specificity of the political structure, the power of certain social groups, their respective influence on politics, and the voting procedure itself (which is not neutral).

Within the non-institutional economic theories, D. North (19816, p. 32) has tried to synthesize a contractual and exploitative approach to the state by forming the so-called State Interest Model, according to which the state is perceived:

- as an agency that sells defense and judiciary services in exchange for taxes,
- has the characteristics of a discriminating monopoly, because it separates the population into various groups of taxpayers and for each it determines property rights in a way that maximizes penalties, and
- restricts the behavior of the manager in the competitive conditions. The same author believes that the dominant institutional objective of the public sector is to build such a property rights structure for maximizing income. In order to achieve this, the public sector should rationally produce such a set of social (in terms of use) and half-social goods and services, which would minimize its cost of specifying and protecting property rights.

The conceptual skeleton of the institutional economy of the public sector, according to J. Hirshleifer (1982, pp. 2-4) consist of: *Smith's theorem* (voluntary exchange increases the welfare of the participants in the transaction), *Coase's theorem* (all possibilities for mutually beneficial exchange are exhausted completely by the interested parties, provided that the transaction costs are equal to zero, and the property rights are precisely defined), and *Posner's theorem* (in the case of positive transaction costs, when obstacles reduce the efficiency of exchange, while different variants of the allocation of property rights show to be unequally valuable viewed from the point of the society interests). Elaboration of the institutional efficiency of the public sector is analyzed on two levels, in accordance with the opinion that institutional efficiency should serve as a focal point for addressing two basic issues: to whom is assigned the right, and what type of legal protection to choose? A choice of the method of legal protection of property rights is carried out according to the economic efficiency criterion, whereby (Calabresi & Melamed, 1972, pp. 1092-1096) there are several forms of the public sector protection.

A brief explanation of a theoretical explanation of the institutional basis of public sector management and the method of its functioning is aimed to point to the deliberate intention of the power holders in the SEE countries to redistribute ownership rights in a voluntary manner, in accordance with their own interests. There was already a drastic erosion of state property and its non-market transformation into private property. The victims of this transitional experiment were economic stakeholders and the whole nation. This was possible only in the conditions of the target and instrumental parameters deficit of development (*The Global Competitiveness Report 2008-2009*, 2008, pp. 3-7). Accordingly, in the post-socialist transition period was missing an effective institutional control of the public sector, which became an instrument of certain predetermined (privileged) beneficiaries, having a patron-redistributive role, hidden under the cover of neoliberal anti-development strategy.

## **Conclusion**

1. Analysis of public sector management on the example of the SEE countries transition unambiguously shows the need for a corrective role of state regulation.
2. It represents a compulsory institutional factor, which is complementary with the market regulation mechanism, making the so-called institutional pluralism, which is a characteristic of all developed economies.
3. The weaknesses of public sector management in the SEE countries have enabled the illegitimate benefits for privileged individuals and groups at the expense of peoples and public goods.
4. The causes of these disadvantages can be sought in the opportunistic behavior of the nomenclature of government, which used institutional defi-



cit, asymmetric information, imperfections of the political process, poor possibilities of bureaucratic institutional control, and other specific conditions in which the transition took place.

5. In all of this, alternative institutions have played a key negative role, with the blessing of international institutional factors, which had their specific geo-economics and geopolitical interests in Southeast Europe.

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## **Valstybinio sektoriaus valdymas kaip plėtros problema pietryčių europos valstybėse**

Anotacija

Per beveik trijų dešimtmečių perėjimo iš post-socialistinės sistemos laikotarpį Pietryčių Europos valstybėse, šalyse vyko daugybė sinergetinių, destruktivių ir plėtrą trukdančių institucinių veiksnių, kurie tiesiogiai prisidėjo prie socialinio ir ekonominio nesaugumo. Daugelis vystymosi problemų, tokių kaip socialinės, ekonominės ir institucinės deformacijos, sukėlė ilgalaikę ir gilią krizę. Šiame straipsnyje yra analizuojamos esminės viešojo sektoriaus valdymo deformacijos, kurios pasitarnavo kaip varomoji jėga visoms vystymosi problemoms Pietryčių Europos valstybėse. Straipsnis prasideda dvejomis prielaidomis: pirmoji yra ta, kad silpni ir lėti instituciniai pokyčiai buvo sąmoningai užprogramuoti pagal vyriausybės nomenklatūrą, siekiant panaikinti institucijų konkurencingumą ir įtvirtinti neoliberalinio tipo kvazi-institucinį monizimą, kuris leido pakaitinę plėtrą taip vadinamoms alternatyvioms institucijoms; ir antroji prielaida yra ta, kad labai orientuoti į interesus valstybės nomenklatūros motyvai buvo pagrindinė neinstitucinių ekonominių teorijų atstovų racionalių rekomendacijų ignoravimo priežastis.

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