SCIENTIFIC REVIEW

Halfway Between the Midterm and the Finals: a Crash-course in Development Policy for Serbian Leaders

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ABSTRACT – *Twelve years into transition process, Serbia doesn't have consistent, if any, let alone coherent economic development policy. This review is therefore aimed at Serbian (and alike transition countries') policy-makers and stake-holders in an effort to distill the ever-green lessons available (thus far pretty much ignored) to be drawn from the relevant body of theoretical and empirical literature on development economics synthesized since the lifting of the "Iron Curtain". Starting with boomerang effect of benignly neglected development in favour of mirage-growth, article tackles heretical third path paradigm, empirically (un)confirmed growth determinants, hush-hush impact of inherited time- and scale dependence of potential growth, (i)relevance of human development index, state vs. market correction, trade liberalisation and openness fables, as well as some monetary symptoms of underdevelopment. The sole purpose of this policy paper is one last attempt to debunk a knot of development myths and misconceptions still firmly entrenched in Serbian professional discourse, its policy-makers and regime's academicians alike.*

KEY WORDS: *economic development, economic growth, institutions, sequencing of reforms, human development index, transition, development fables, Serbia*

Introduction

For at least half a century or so, Serbia doesn't have consistent, if any, let alone coherent economic development policy. This article has no intention of either providing thorough historical background or stylized facts in respect to Serbia's (recent) growth performance and development efforts, since there are too many papers as well as studies of such nature circulating around already and largely to no avail. Serbia and several other European transition economies have severely underscored in this process on several crucial junctions since the fall of Berlin Wall and dissolution of ex-Yugoslavia: some of the lost opportunities and mistakes made by wrong-doing or failing to act are indeed likely to prove irrevocable; many could still be mended in time and with higher opportunity costs. This review is

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therefore aimed at Serbian (and alike transition countries') policy-makers and stake-holders in an attempt to distill the ever-green lessons available (thus far pretty much ignored) to be drawn from the relevant body of theoretical and empirical literature on development economics synthesized since the lifting of the "Iron Curtain". The hour is getting late, times are unappealing, nonetheless, our generation must decide the economic (and hence demographic and political) fate of the Serbian sovereignty.

The rest of the article is organised as a two dimensional matrix. One dimension is deciphering components of economic development in a small open economy like Serbia's as distinct from- yet inclusive of economic growth and its determinants, the other is a string of development fables (deeply rooted in minds of Serbian policy-makers so far) which have been proved erroneous or at least ambiguous on either theoretical or empirical grounds, but evidently still deserve one last round of debunking. Following introduction, development fables and misconceptions are separated in seven sections each dealing with particular and characteristic aspect of development policy mayhems. At last, in section nine I go on to conclude.

Serbian growth vs. economic development in Serbia: race to the bottom?!

One could venture to say that for at least half a century or so, Serbia doesn't have consistent, if any, let alone coherent economic development policy. After the civil war in ex-Yugoslavia, the UN SC orchestrated sanctions 1992-1995 against Serbia (and then Montenegro), excessive damage to infrastructure and industry during the 1999 NATO aggression and the subsequent fall of Milosevic's regime, Serbia doesn't have a growth strategy either, apart from expecting miraculous waterfalls of foreign aid and/or commercial FDI which both dried out ahead of or coinciding with the global financial meltdown. Economic growth is typically identified by positive dynamics of a synthetic indicator of marketable economic activity as measured by nation's GDP or its *per capita* equivalent [Ljubomir Madzar, 2002]. Initially impressive at the turn of the millennium, Serbia's growth was recorded from a rather low base and fueled with momentarily abundant infusions of aid, privatisation revenues and accelerating foreign indebtedness, proceeds of which have not been productively invested but instead squandered through current consumption of (largely imported) goods and services. Over the last 15 years total absorption in Serbia typically exceeded its GDP by ¼, another symptom of accumulating unsustainability of its external (balance of payments deficit) and more recently internal (budget deficit) imbalances. The inevitable protracted depression has therefore been merely validated by the global double dipped recession Serbian leaders are excusing themselves with.

On the other hand, what has been happening with indicators of economic development in Serbia during that time? Economic development presupposes crucial and highly sensitive roles for the macroeconomic, ethical, natural and psychological environment that public policies are supposed to generate, transform and/or preserve. Sure enough, economic growth is important, perhaps the largest component of development process, certainly the most visible one. Yet economic development captures the colossal, panoramic magnitude of output spawning effort coupled with simultaneous restructuring and qualitative fermentation of the socio-economic fiber. Economic development assumes fine-tuning of structural and institutional adjustment in accordance with growth dynamics, yet aiming at harmony between output enhancing milestones and deeper development of society. Benign neglect of Serbian education system, ridiculous l'art pour l'art proliferation-of-publications zeal in science, deterioration and dissipation of capital and functionality of Serbian health protection system, they all initially seemed as neutral if not harmless, in other words decoupled from temporarily increased and promising growth rate, only to backfire with tremendous destruction. There's a deep-rooted sense of dissatisfaction, irritation and despair among citizens and key social actors in contemporary Serbia. Both distribution of income and opportunities have been visibly worsening, all the macroeconomic indicators are chronically deteriorating (unemployment over 25% and harsh treatment of those employed - especially in informal sector) while entrepreneurs as well as employees express significant ambiguity in their business/consumption decisions, i.e. in improvement prospects either across the global economy or in Serbian economy itself, for the foreseeable future.

One of the chief conclusions of this article underlines the boomerang effect of benign neglect or even saving on foregone investment in human development index and efficacy of institutions throughout chaotic transition of the Serbian economy. That failure already proves to cause far-reaching malfunction much more serious from unsatisfactory growth dynamics or industrial structure still miles behind the pre-transitional 1989 statistics. Namely, there is no successful let alone sustainable economic transformation without social consensus. Social consensus, in addition, owes to and draws from the quality of institutions and cultural pretext of a given society, more or less hovering around Rawls's theory of justice and relationship between economic inequality and redistribution incentives [Madzar, 2002]. According to Madzar's (2002, p.85) interpretation of Rawls's rewarding criterion, rising economic inequality is socially acceptable and economically optimal for as long as it marginally improves the well-being of the poorest societal member and all the others in the pecking order at least up to the member with an average national income in *per capita* terms. Not only the so-called Washington consensus, as the ruling ideology of the last wave of globalisation, but also internal political clashes, policy failures and underdeveloped or outright devastated institutions steeply engrossed economic inequality within Serbia and in international comparison too [Branko Milanovic, 2006]. Nevertheless, as correctly noted by Pasquale Tridico (2011), one can still identify exemplary pairs of relatively low GDP *per capita* dynamics and high indicators of economic development in societies where income is more evenly distributed. In other words, if you're deep underwater and you spend too much oxygen too soon on your muscles while failing to adjust your heart beat and leave enough oxygen for the brain, you are likely to faint and drift down even deeper. This finding should serve as a sobering lesson for future reform(er)s.

Third path is not a mortal sin but necessity!

That being said, our hypothesis of non-existing growth strategy in Serbia (and through better part of the so-called Western Balkans and developing world) does not imply the absence of growth and development ideology, which was exogenously, indiscriminately and even fanatically adopted - served as the (in)famous Washington Consensus. Although its initial intent, content and intellectual legacy has been substantially different, for neo-colonial purposes of post-industrial capitalism it could be safely boiled down to 4 rules: devaluate, deregulate, liberalise and privatise. Development economists had too often fallen an embarrassing pray of belief in the "one right way," a universal fix for underdevelopment [Dani Rodrik, 2009], policy-makers from small open transition countries even more so, whereas real casualties regardless of the fashion of the day had obviously been economies and people of nations where those experiments have been so linearly applied. As a matter of fact, development theory is "(…) rich and flexible enough to justify many different policies, depending on the constraints and opportunities defined by the context" [Dani Rodrik and Mark Rosenzweig, 2009, p.3]. In all those instances, "(…) there is no unique correspondence, as the Washington Consensus and other general recipes suppose, between policies and outcomes" [*Ibidem*]. In addition, Ricardo Ffrench-Davis (2000, p.5) warns that the right reforms can all too easily be carried out in the wrong way, with some of the neoliberal reforms too loaded with ideology and poor comprehending of how imperfect, emerging, thin markets actually work. Neoliberal doctrine dictated by the Washington consensus, which was religiously embraced by majority of academic economists and all the policy makers in Serbia over the last decade, exhibited total disregard for the intermediate position between the poles of "indiscriminate liberalisation and arbitrary interventionism" [Ffrench-Davis, 2000], whilst development economics is in its essence an applied discipline, prone to get simplified and routinized in and by practice: this is why Serbian leaders have to possess knowledge or hire top-trained advisors, demonstrate political courage and intellectual honesty to resist a temptation to substitute sense of nuance and constructive criticism for pre-packaged instant solutions [Rodrik, 2009].

Therefore, it is a malevolent myth that Serbia's policy-makers shouldn't search for unusual, tailor-made, context dependent set of macroeconomic reforms, since almost every country that succeeded in achieving above average growth and by managing to sustain it has been named an 'economic miracle', actually pursued unorthodox development strategy and has kept away from ideological highways. Arguably, both political and economic plane for maneuvering to that end has shrunk in the last decades (albeit to a certain extent due to Serbia's own decisions), however, leading development economist agree in that there is always room for "soft" industrial policy, wherein the objective is to form and protect a process whereby government, industry and cluster-level private entities collaborate on interventions to increase productivity, competitiveness, technological or capital formation or even market share and/or size, for instance by means of green subsidies, trade finance, improving regulation, supplying infrastructure, developing fund raising skills and awareness etc…[Rodrik-Rosenzweig, 2009]. In other words, if you're pushed down the strong current towards the giant waterfall abyss, you cannot and shouldn't try to swim upstream, but you sure as hell shouldn't be paddling downstream either: in real life, salvation is often perpendicular to dominating extremes.

Chief determinants of growth and legacy of the current locus on a growth trajectory

By deploying somewhat different conceptual and methodological view points, a wide array of studies pinpointed give-or-take the same chief determinants of economic growth in small open transition economies [Geogre Petrakos *et alia*, 2007]. In the perhaps most representative of those, Barro (1997) identifies (via careful cross-section as well as panel regression analysis of more than a 100 countries from 1965 until the late 1990s) high incidence of top quality upper level schooling,[1] health investment (as measured by life expectancy), low fertility, thrifty public welfare schemes, favourable terms of trade, the rule of law and basic democracy as chiefly conducive to faster and steadier growth.

High fertility rate effect is plainly unfavourable in the short-run and net terms, for rising proportion of economy's investment which must be providing for new workers tends to *pro rata* cause lowering of capital per labourer ratio, but may nevertheless trigger some positive aspects, for higher fertility *per se* is creating at least some additional aggregate demand, (in Serbia even a tax income!) etc. Despite its direct short term impact in Barro's (1997) regressions appears to be clearly negative on growth, due to affirmative effects on development and possible reverse causality effects its longer term impact may well be positive -and moreover required- for maintaining the pattern of sustainable development. The latest existing macro-evidence on the relationship between fertility decline, which ages a population, and savings, is weak or non-existent, even though the life-cycle model of savings predicts that savings should rise as a consequence of aging. The allegedly positive impact of fertility decline on savings has in fact been a principal motivation for population control polices [Rodrik-Rosenzweig, 2009]. Pierre-Richard Agenor and Peter Montiel (2008, p.614) in extending David Romer's earlier model demonstrate as a side effect that population growth (i.e. net fertility rate) endogenously fuels economic growth in the medium to long run after all. Finally, Rodrik and Rosenzweig (2009, p.7) lament that often times "the limitations of empirical methods and of data (see below) imply that only a limited set of interventions will be well-supported by causal evidence".

Some degree of democracy (preserved property rights, effective antitrust legislative, freedom of speech, political right to vote) is doubtlessly good for economic growth but too much politicised democracy beyond the rule of law index may give rise to disorganisation and populism or to the other extreme solidify the growth-retarding power of influential interest groups [Barro, 1997]. Serbian development experience shows that the two extremes under certain chaotic circumstances may in fact even coexist for a while.

Although not explicitly modeled in Barro's regression, technological progress (i.e. innovation and R&D activities) do play a pivotal role in economic development by extending the needs, goods and markets we know of and by increasing productivity and growth [Petrakos *et alia*, 2007]. Continuous technical progress may not be essential for the very impetus of initial growth, yet it is *sine qua non* for avoiding diminishing returns to kick in. However, it's appropriate to remind once more that increasing returns are not a precondition for economic development [Agenor-Montiel, 2008]. Primordial purpose of modern technology adoption at this stage of Serbian development is to enable achieving quality, packaging, aesthetical and safety standards necessary for expanding to foreign markets and overcoming low production series disability. Economies of scale imperative for closing the gap between effective (especially local) demand and production capacity – and sustaining higher rates of utilization, enable not only lowering of marginal costs but also increases in effective productivity and economic substance out of which further iterations of R&D

[1] Interestingly, several econometric specifications in Barro's (1997, pp.20-21) study fail to confirm the hypothesis that education of females is key to economic growth, but it proves to exert net positive influence of female upper level education on economic development (life expectancy, infant mortality with a plus sign and fertility rate as negatively correlated)

activities could be financed. Transitional dynamics of the legendary Uzawa-Lucas model of endogenous growth in a two-sectorial economy, similar to Serbian constellation in that physical capital allocation in science and education sector is almost non-existing, whereas human capital in goods-producing sector is still below its steady-state level, by and large reproduces the same hump-shaped boomerang effect in conclusion [Robert Barro and Xavier Sala-i-Martin, 2004, pp.251-267]. Abstracting from a complicating fact that Serbian consumption to capital ratio was above its steady state level due to non-productive spending of financial aid and privatisation revenues, in a constellation of relative scarcity of human relative to physical capital, average product and rate of return in the goods-producing sector monotonically rise toward their steady-state values, and *vice versa* for the science and education sector. In time, allocation shifts toward production and away from R&D sector. Long term effectiveness of such an evolution could easily be questioned in a slightly altered framework. Furthermore, it is evident that thriving of science and education sector isn't possible if it's stuck with human capital only. Human capital cannot reproduce a sustainable, let alone superior posterity by relying solely on itself. Physical as well as financial capital in high concentrations are also critical!

Be that as it may, next to none of the empirical studies features SME explosion in its statistically significant epicentre. No doubt, small and medium firms can considerably contribute to job creation and economic activity but require big firms and greater, carefully wrapped production/marketing/supply-chain systems they could lean on to and become functional part of. SME expansion is, hence, as a rule of thumb, more the consequence than a determinant of economic growth.

It is in order to admit that many additional determinants of growth, attempted in some of the relevant empirical studies, like the impact of ethnic diversity, geography, political regime or international political pressure, haven't been resolutely estimated and still yield mixed, unclear or no influence on growth trajectory [Petrakos *et alia,* 2007, pp.10-11]. In terms of demographics, Serbia's free-falling population needs a formidable national and economic awakening if we are to preserve ourselves as a nation and even minimal welfare-state. On a top of it, since such a Copernican turnaround unlikely as it is wouldn't be sufficient neither in light of demographic nor economic constraints, Serbia must quickly decide how, how many and where from her immigrants may come, as well as in which parts of the country their inhabitance is most urgently needed. This decision is inextricably linked with the master plan for geographical anatomy of the economy and all its agglomeration, infrastructure, production clusters and alike loci. Obviously, cocktail of ethnicities within and international pressures from outside, be that close neighbourhood and global economic powers, merely scratches the complexity of political factors' influence on economic growth. Although out of the scope of this review paper, it ought to be stressed that issues of governance, politics, and political power are no longer a sideshow; they constitute a central event in the national economic development arena [Rodrik-Rosenzweig, 2009].

Moreover, and irrespective of the aforementioned determinants, international cross-section growth differences stem firstly and foremost from each country's existing or starting level of output, so if its current output is below the steady state level, catching up process provided adequate technology transfer has been put in place fills max 2.5% of the gap annually [Barro, 1997]. Thus, extent to which growth is semi-exogenous and dependent on the acquired stage of development [Steve Dowrick, 1995], dictates conditional catch-up – low initial stocks or productivity levels predict relatively rapid growth, at the onset temporarily robust to even total absence of institutional reform. However, for some variables (such as human capital) and for some examples (such as transition countries like Serbia) the opposite may be the case in the medium run – "(…) a low starting point inhibits subsequent growth, implying that relatively poor economies fall behind or are caught in a low-development trap" [Dowrick, 1995, p.27]. In other words, if your lungs capacity is small enough, you may never resurface even if your diving technique and bottoming out angle are impeccable.

Institutions matter but there's no institution without investment in human capital

Institution matter, since there is a path dependency in (r)evolution of institutions, which is why even the second best institutions serve societies better than the detrimental void of none at all [Dani Rodrik, 2008]. That, in turn, leads us to conclusion that transitional gradualism is almost always preferred to shock therapy [Tridico, 2011]. It is the well-suited interaction between capabilities (often times quantified by the HDI - human development index) and meticulously perfected morphology of institutions which taken together and together only gives birth to sustainable economic growth and development. Better institutional framework does not comprise only efficient, pragmatic, well-functioning and equal-opportunity agencies, supplemented by standards and commonly accepted informal professional and consumerist associations, but also implies a national climate in which political, social and institutional elites empower people and provide them with freedom and enlighten them with opportunities [Ljubomir Madzar, 2002, 2008], [Tridico, 2011]. In the end of the day, two fundamental factors stretch themselves above the economic development process: 1) social capital embodied in financially and demographically strong middle class of a given society as well as in its democratic institutions, favoured by 2) heavy investment in education, health and protection of creative and speech liberties. They are mutually reinforcing, because there's no strong middle class without control of corruption, or general acceptance of: values such as accountability, civil society involvement in public affairs, virtues of trust, honesty, solidarity, integrity, reputation, professionalism etc.

That notwithstanding, endogenous growth drivers did not and cannot do miracles in a setting where capital formation is alarmingly low: strong correlation between physical investment and economic growth is a well-known empirical fact [Ffrench-Davis, 2000]. Productive investment is the most fundamental determinant of economic growth as earmarked by both neoclassical and endogenous growth theories[2] [Petrakos *et alia*, 2007]. In other words, provided you cherished a healthy pair of lungs and improved on your goggles, your bottoming out should be gradual, like scuba-divers, economies need to make occasional stops on their way out so that institutional adjustment can take place and account for the depth you're at, but all the watches, belts, rules and regulations in the world cannot help you survive if you don't have money to spend on flippers and an oxygen tank.

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[2] For a more formal neoclassical framework of growth theory in small open economy context see e.g. Marko Malovic (2000). For excellent and highly rigorous review of endogenous growth models consult Barro and Sala-i-Martin (2004, Chs. 4-5).

Neither government intervention nor market forces are panacea for the shortcomings of the other

Government nonproductive consumption should be kept at minimum, since in tranquil times big government spending and long lasting benefit schemes aren't conducive to growth. Public safety nets ought to be generous and trustworthy, but short lasting, while extraordinary harsh times (global financial crisis, deep recessions and alike) may call upon additional stimulus packages, not all of which have to be pecuniary in nature [Marko Malovic, 2011]. Again, Agenor and Montiel (2008) wedge a caveat in that some public investment which is not directly productive may evidently contribute to productivity, overall development process and growth indirectly, for example, built in infrastructure, health and education enhancements, spending on fostering institutions that safeguard property rights. On the other hand, even flat out productive government expenditures directly supportive of output-generating effort of the real sector may have an allocatively ambiguous longer term impact on economic growth if they are not selective enough or alimented through distortionary taxation [Agenor-Montiel, 2008]. Public investment might be inefficient at the margin if it is mis-directed in accordance with political or rent-seeking objectives; on the other hand, to the extent that market investment exhibits sub-optimal performance due to coordination paradigm, principal-agent issues or free-rider problems, public investment might be more productive or to the very least superior in terms of effectiveness. It is nowadays ever more loudly recognised that small open transition economies like Serbia have to embed the healthy draft of private initiative and individual incentives in an overarching framework of public action that promotes restructuring, diversification as well as alliances, and technological dynamism beyond what market mechanisms on their own would be or have been able to generate [Dani Rodrik, 2007]. In other words, bay-watch rescue and coast-guard are always welcome, unless we take them for granted.

International openness, trade and capital flows fables

International openness doesn't enable economic development *per se*. Although typically statistically significant, unfavourable terms of trade don't represent the boat-sinking, key element of weak growth performance in transition economies like Serbia.[3] In order for trade liberalisation (which in Serbia took place too sudden and way too early in the post-sanctions and war era, but let the bygones be the bygones…) to be successful, the present value added by new exportable activity must be greater than the present value subtracted due to destruction of existing ones (importables and import substitutes) [Ffrench-Davis, 2000]. It should be preceded by labour refroms, restructuring, reshuffling of industrial policy and export promotion strategy. Trade liberalisation in wise and successful historical examples did not shy away from infant-industry arguments, import-substitution components of

[3] This is not to say that J. Bhagwati's paradigm of immiserising growth cannot once again become binding in parallel with protracted depression and super-weak domestic demand in small open transition economies which have been impacted most severely by the cocktail of Washington consensus culminating in the ongoing global crisis.

overall export promotion strategies and so on and so forth. Time horizon for that undertaking on-the-ground evaluation of trade liberalisation and acompanied altered development paradigm shouldn't really be longer than two political cycles, for the serious expansion of tradables share in GDP and equilibrating trend in balance of payments to become visible. Where applied on its own and irrespective of carefully devised growth strategy blueprint, trade liberalisation and capital openness exploded right in policy-makers faces. Strongly-held professional priors about the impact of trade and financial opening on growth -cherished either on ideological basis or as a rent-seeking calculus- have been considerably weakened by the results of the latest generation of cross-country regressions [Rodrik-Rosenzweig, 2009]. Having said that, even though international competitiveness is usually reanimated and balance of payments adjustment initiated via tweaking the exchange rate, it ought to be attained through structural adjustment and continuing increase in productivity rather than by never ending competitive devaluations, low wages and tax exemptions (typically biased toward foreign investors) [Ffrench-Davis, 2000].

As a mirror-image of disappointing results in terms of staggering growth dynamics and worsening current account balance of Serbia a full decade after trade liberalisation have been carried out, the question of international capital/financial flows as means of propping them up arose. There has been many a misunderstanding of economic laws in the area of international finance. For years Serbian policy-makers were stirring under influence of the so-called Lawson doctrine, implying that no current account deficit is too big or excessively chronic if authorities can cut deals to finance it [Marko Malovic, 2008]. Costly consequences of such a fable were twofold. First and more apparent of the two was the worrisome explosion of foreign debt.[4] Second was increasing reliance on inward foreign direct investment (hereafter FDI) as means of growth financing. Moreover, an apodictic generally accepted view has spread -equally among academia, politicians and media- that FDI is the underlying cause and driving determinant of economic development. At least half a dozen of objections could be confronted with the aforementioned reasoning. Obvious in swelling disconnect between sky-rocketing external indebtedness and anemic growth record is that there is no one for one relationship along the capital investment economic growth nexus. Similarly, privatisation-induced on one and autonomous FDI inflows on the other hand are frequently driven by drastically opposing determinants and wildly different investors' logic. Further still, FDI in Serbia are often domestically leveraged and with capital flow reversals are being resold to domestic savers making it volatile and unreliable source for growth financing [Marko Malovic, 2010]. These are probably but a few of the factors behind Barro's (1997) econometric evidence on FDI and investment ratio suffering from reverse causation. In addition, crucial is the empirically delivered nuance vis-à-vis the effect of FDI on economic growth: it exhibits fragile dependence on whether existing FDI complement or substitute domestic investment. In the end of the day, it turns out that it's not about large inflows of FDI causing high growth rates, but about strong growth serving as "a magnet" for subsequent autonomous FDI. Put differently, if one desires to attract more serious FDI and abstain from those investments which are simply after ready-made domestic market, one has to have robust growth underway already, rather than other way around [Malovic, 2010].

[4] In late 2000, FRY accumulated little over 12 bill. $ foreign debt, while Serbia in 2012 (without Kosovo and Metohija's portion of debt) owes nearly 24 bill.€.

Likewise, EU membership is not a decisive factor for deeper development and quicker catch-up processes of transition (candidate) countries since we can observe starkly different convergence speeds among them (even after the EU accession) [Tridico, 2011]. By the same token, aspiring EU membership could serve even less so as an economic growth strategy. Adopting EU standards and legislation, however, is a step in right direction to that end.

Monetary issues – impeding or otherwise?

Hyperinflation is definitely detrimental both for economic development and more narrowly for economic growth, yet moderate inflation rates of 10-15% or even 20% may under certain conditions be growth-friendly [Barro, 1997]. In any case, it is extremely difficult to spur development catch up processes with rather low single digit annual reflation characteristic for OECD economies. Validation or condemnation of grass root causes of double-digit inflation in Serbia is quite another matter, of course. Corruption and unprecedented lack of competition in certain market segments aside, there could be serious deficiencies in particular inflation targeting design currently applied in Serbia, but this is not to say that inflation targeting as such has failed in Western Balkans or developing world and that it should be abandoned altogether.

Even though I would always vote for managed floating as opposed to free float, Serbia should by all means avoid government inspired manipulation with exchange rate in order to ease the burden of foreign-currency denominated annuities maturing to be paid…

Efficient regulation of volatile short term cross-border capital movement is inevitable if we are to preserve exchange rate flexibility and relative autonomy of monetary policy making. It is not unheard of and if reasonably devised it wouldn't scare off benevolent international investors. A variation of Tobin taxes on the way in may be the first step to be taken.

As in many other developing countries in transition, high interest rates and anxious investment climate tend to be overly hospitable to high-risk intangible portfolios, hence are in no way development-friendly, they are leverage- and bubble-friendly. Fine-tuned government intervention is required on this front.

In any case, monetary realm employs us to remain analytically cautious – or in the words of Rodrik and Rosenzweig (2009, p.7): "Distinguishing symptoms of underdevelopment from root causes of underdevelopment is key to setting the right policies".

Conclusion

Intention of this policy brief has been to recapitulate chief determinants of economic growth and principal components of economic development as a multidimensional transformation process, yet by simultaneous highlighting of a dozen or so development fables and misconceptions firmly entrenched in Serbian professional discourse, its policy-makers and regime's academicians alike.

First of all, sensitive interrelationship between economic development and growth has been laid out, with explanation for race to the bottom features of that relationship in (not only) Serbian context. Further still, it has been argued that third way is neither ideological heresy nor strategic blunder but development imperative of small open economies in transition. Thirdly, an empirical review and revision of growth determinants has been carried out, with special attention to legacy of current locus on a growth trajectory. In addition, I reaffirmed the importance of institutions for economic development and re-uttered that there's no institutions without investing in human capital. However, it has been further stressed that human capital cannot reproduce itself like a one-cell organism, but instead benefits from inputs of financial and physical capital too. Contrary to still prevailing belief, article argued that neither government intervention nor market forces can be panacea for the shortcomings of the other. Equally important, paper dealt *in extenso* with openness, trade and capital flows fables, including FDI as an growth financing engine, Lawson's doctrine, and briefly with alarming external indebtedness in Serbia. Some monetary symptoms of underdevelopment, political factors as well as geography cum demographic issues were given due consideration too.

Serbian economy is in grave danger. The world is stirring, whereas Serbia's past economic mistakes coupled with multidimensional facets of its development constraints make its economy less governable to begin with. Any reasonable development pattern is at the verge of time-inconsistency. To overturn such a negative trend, radically stronger institutions, smaller but firmer and more daring state, revolutionary different system of values (enforced exogenously) in Serbian society, skillful and politically-compatible immigration and loads of capital are needed. If Serbia manages to usher three out of five, the other two will most probably follow. Or else, the light may go out, and soon.

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Na pola puta između kolokvijuma i ispita: pripremni čas iz politike privrednog razvoja za srpske funkcionere

REZIME *– Dvanaest godina nakon političkih promena i lansiranja procesa ekonomske tranzicije, Srbija i dalje nema vremenski konzistentnu, ako ikakvu, a ponajmanje logički koherentnu politiku privrednog razvoja. Ovaj rad je stoga namenjen srbijanskim kreatorima ekonomske politike (i donosiocima odluka u Srbiji sličnim tranzicionim privredama) u naporu da probere i pažnju javnosti usmeri na više puta proverene lekcije (u Srbiji dosad uglavnom upadljivo ignorisane) iz relevantne teorijske i empirijske građe u oblasti ekonomije razvoja sintetisane nakon pada „Gvozdene zavese". Počevši od bumerang efekta benigno zapostavljenog razvoja u korist iluzornog rasta, članak tretira jeretičku paradigmu „trećeg puta", empirijski (ne)potvrđene determinante privrednog rasta, zataškavani uticaj nasleđene vremenske i kvantitativne zavisnosti potencijalnog rasta, (ne)relevantnost indeksa ljudskog razvoja, državnu nasuprot tržišnoj korekciji, bajke o trgovinskoj liberalizaciji i otvorenosti, kao i neke monetarne simptome nedovoljne privredne razvijenosti. Prevashodna svrha ovog primenjenog eseja jeste poslednji pokušaj da se razmrsi Gordijev čvor razvojnih iluzija i zabluda još uvek čvrsto uvreženih u srpskom profesionalnom diskursu, kako među kreatorima ekonomske politike tako i među akademskim ekonomistima.*

KLJUČNE REČI: *privredni razvoj, privredni rast, institucije, redosled reformi, indeks ljudskog razvoja, tranzicija, razvojne iluzije, Srbija*

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