

PROXIMATE AND FUNDAMENTAL FACTORS OF GROWTH: CULTURE AND INSTITUTIONS – CASE OF SERBIA

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Abstract

Political macroeconomy demonstrates that no single factor (market economy) is sufficient for the emergence of democracy. Reforms in post-socialist countries were based on misleading assumption of causality running from market economy towards consolidated democracy. Good institutions are characterized with three attributes: 1. they establish and protect property rights; second, they restrict social elites which strive to expropriate income and property of others members of society; third, they provide equal chances for employment, social security and civil rights to all individuals. Good institutions contribute to political stability, successful macroeconomic policy and enhance initiatives. Key role of institutions is in securing stability and continuity. Institutional innovativeness is confirmed in great historical events as transition to capitalism, Great Depression, postwar reconstruction, ongoing Great economic 2008. crisis. Authors demonstrate the importance of values - culture and governance for economic growth in two parts: first, comparing Asian and European countries (China, Japan, Germany), secondly, comparing South-Eastern countries (Serbia, Slovenia, Croatia) based on two internationally recognized indexes – World Values Survey and World Governance Index. They conclude that fundamental factors of growth (culture and governance) are of much more importance for economic growth and were greatly neglected during social and economic development of post-socialist countries.

Keywords: political macroeconomy, institutions, culture, democracy, good governance

JEL classification: B22, P16, P48

1. Growth and inclusive institutions

In recent two decades, due to contributions of Political macroeconomy, focus of macroeconomy turned away from narrow perspective based on market and privatisation (market fundamentalism) towards broader perspective based on institutions and values (institutionalism).

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Why do some countries have better technologies and more human capital? (Acemoglu, 2005; Acemoglu, 2014).

Main thesis of one of leading proponents of Political macroeconomy, D. Acemoglu, is: “growth is much more likely under inclusive (economic and political) institutions than extractive institutions. Inclusive economic institutions: Secure property rights, law and order, markets and state support (public services and regulation) for markets; open to relatively free entry of new businesses; uphold contracts; access to education and opportunity for the great majority of citizens, i.e., create incentives for investment and innovation and a level playing But most societies throughout history and today ruled by Extractive economic institutions: they are designed by the politically powerful elites to extract resources from the rest of society” (Acemoglu, 2012).

Guiso, Sapienza, and Zingales defined culture as “those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation” (Alesina, Giuliano, 2014).

The term *culture*, refers both to values and beliefs, and both are in decisive manner influenced by institutions which forms socio/economic framework for their emergence and evolution in complex and uncertain environments. Alesina and Guiliano conclude: “culture (or informal institutions) and formal institutions are interrelated, but the label ‘informal institutions’ implies that formal institutions determine informal ones and that the latter are of secondary importance. Once we agree that formal and informal institutions interact, and that either one may cause the other, then identifying certain values and beliefs as culture or informal institutions becomes merely a matter of semantics” (Alesina, Giuliano, 2014).

2. Hofstede model and former Yugoslavia republics

The most common tool for measuring institutions and culture is through indices and surveys questions. In this paper we used Hofstede dimension indice and The World Values Survey (WVS) for culture and compared different countreis.

Classical work of G. Hofstede was basis for inclusion of culture in the field economics, and nowadays contributions made by international human resource management and organizational culture (Hofstede, 2001).

Hofstede 6-D Model applied to Serbia and ex-Yugoslavia republics gives following results: (<http://geert-hofstede.com/countries.html>).

“Power distance

Serbia scores high on this dimension (score of 86) which means that people accept a hierarchical order in which everybody has a place and which needs no further justification.

Individualism

Serbia, with a low score of 25 is considered a collectivistic society. This is manifest in a close long-term commitment to the member ‘group’, be that a family, extended family, or extended relationships.

Masculinity

Serbia scores 43 on this dimension and is thus considered a relatively feminine society. In feminine countries the focus is on “working in order to live”, managers strive for consensus, people value equality, solidarity and quality in their working lives.

Uncertainty avoidance

Serbia scores 92 on this dimension and thus has a very high preference for avoiding uncertainty.

Pragmatism

With an intermediate score of 52, there is no clear preference for Serbia on this dimension.

Indulgence

A low score of 28 on this dimension indicates that Serbian culture is one of restraint. Societies with a low score in this dimension have a tendency to cynicism and pessimism. Also, in contrast to indulgent societies, restrained societies do not put much emphasis on leisure time and control the gratification of their desires. People with this orientation have the perception that their actions are restrained by social norms and feel that indulging themselves is somewhat wrong”

In Serbia Power distance and Uncertainty avoidance are significantly high, Pragmatism and Masculinity rather high, while Individualism and Indulgence are low. This leads toward conclusion that Serbian society is traditional and collectivistic, with high influence of traditional values and culture which in essence derives from model of traditional society, similar to Asiatic mode of production.

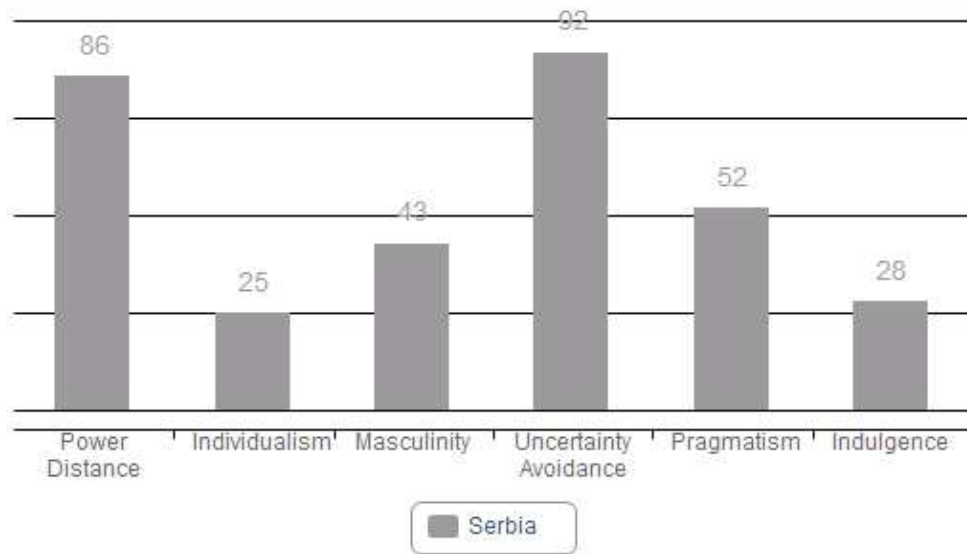


Fig. 1. Hofstede six dimensions for Serbia

Source: <http://geert-hofstede.com/dimensions.html>, accessed 4.1.2015.

Next graph compares three Ex-Yugoslavia republics (Serbia, Croatia and Slovenia): general conclusion is that there are no major differences concerning Hofstede dimensions: their historical position in world system was similar, and influence of former Ex-Yugoslavia common social and economic development is major explanation of those similarities.

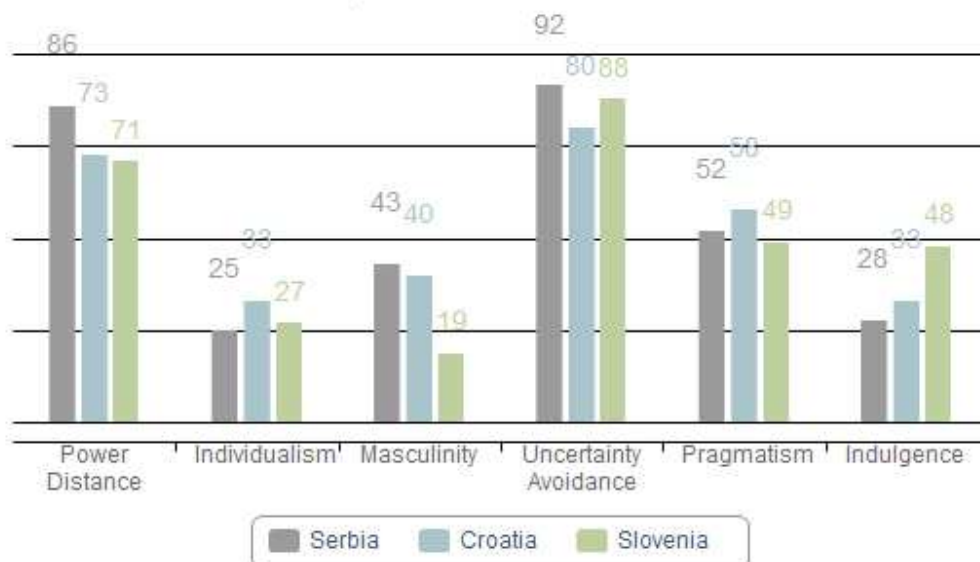


Fig. 2. Hofstede six dimensions for three ex-Yugoslavia republics.

Source: <http://geert-hofstede.com/dimensions.html>, accessed 4.1.2015.

A. Alesina support more broader approach, the one based of exploration of significance and influence of culture: “Recent contributions have looked at the coevolution of culture and institutions, leading to multiple equilibria characterized by a combination of some types of culture and some types of formal institutions. The general idea underlying this approach is that a country (or a region or an ethnic group, for example) shares certain cultural values, which leads to the choice of certain institutions. In turn, certain institutions lead to the survival (and transmission across generations) of certain cultural values” (Alesina, Guilano, 2014).

3. The Global Competitiveness and Serbia

Among 12 pillars of competitiveness the first one in *World competitive Index* (WCI) are *Institutions*: “The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth. The quality of institutions has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies. Government attitudes toward markets and freedoms and the efficiency of its operations are also very important: excessive bureaucracy, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, inability to provide appropriate services for the business sector, and political dependence of the judicial system impose significant economic costs to businesses and slow the process of economic development” (Insight Report The Global Competitiveness Report 2012–2013 Full Data Edition).

Serbia is in *Stage 2. group – efficiency driven economies* whose development depends upon next pillars: Pillar 5. Higher education and training; Pillar 6. Goods market efficiency; Pillar 7. Labor market efficiency; Pillar 8. Financial market development; Pillar 9. Technological readiness, and Pillar 10. Market size. GCI rank for Serbia in 2012-013 is 95, and score is 3.87 (Table 7: The Global Competitiveness Index 2012-2013: Innovation and sophistication factors, p. 13).

Subindex for efficiency enhancers is better (rank: 88), but for innovation and sophistication factors rank is worse (124). For separate pillars rank for Serbia is as follows: 1) institutions – 130; 2) infrastructure – 77; 3) macroeconomic environment – 115; 4) health and primary education – 66; 5) higher education and training – 85; 6) goods market efficiency – 136; 7) labour market efficiency – 100; 8) financial market development – 100; 9) technological readiness – 58; 10) market size – 67; 11) business sophistication – 132; 12) Innovation – 111. (Table 7: The

Global Competitiveness Index 2012-2013: Innovation and sophistication factors, pp. 19-20).

Social sustainability– adjusted GCI () for Serbia is 3.48 with tendency towards worsening.

WCI scores for Serbia and SEE neighbours in the period 2007-2013 are as follows:

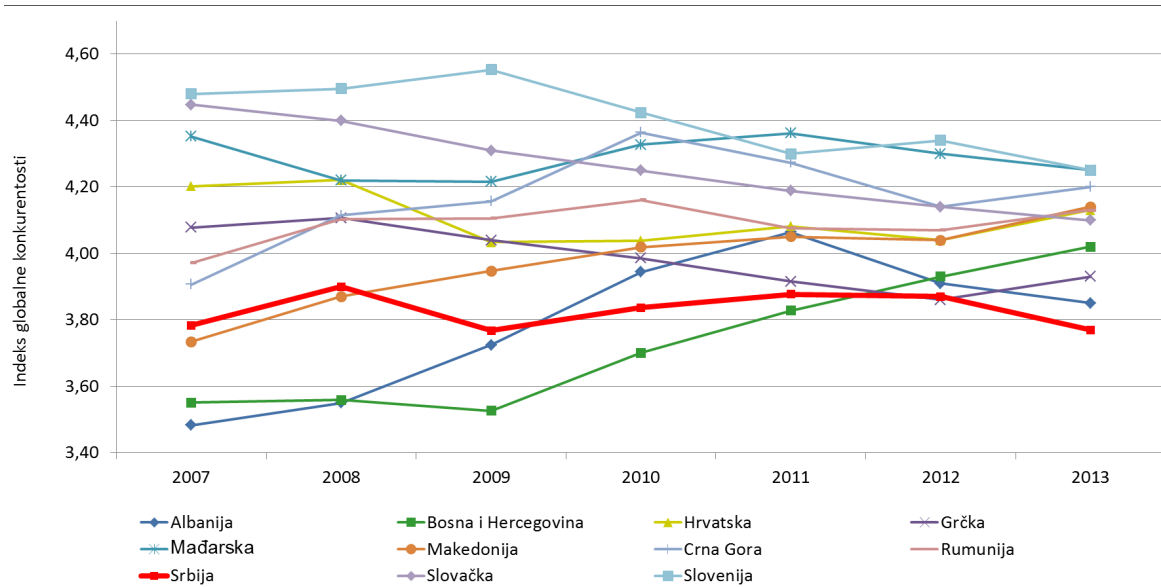


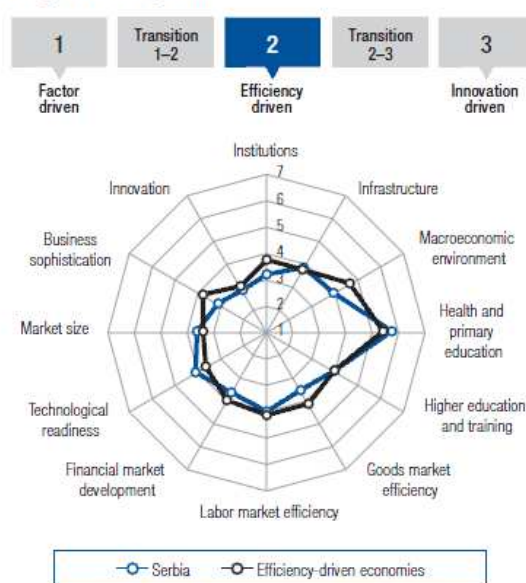
Fig. 3. Global Competitiveness Index for selected countries.

Source: Ristić, B., Tanasković, S., Konkurentna pozicija Srbije u 2013. godini according to Izveštaj Svetskog ekonomskog foruma, FREN, Beograd, 04.09.2013, p. 3.

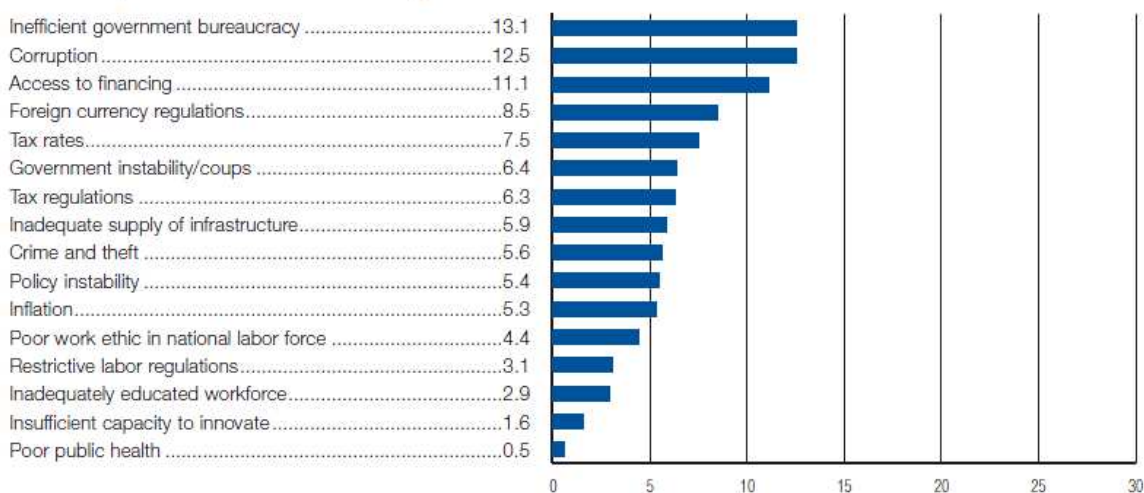
The Global Competitiveness Index

	Rank (out of 144)	Score (1–7)
GCI 2012–2013	95	3.9
GCI 2011–2012 (out of 142).....	95.....	3.9
GCI 2010–2011 (out of 139).....	96.....	3.8
Basic requirements (40.0%)	95	4.1
Institutions	130.....	3.2
Infrastructure	77.....	3.8
Macroeconomic environment	115.....	3.9
Health and primary education.....	66.....	5.7
Efficiency enhancers (50.0%)	88	3.8
Higher education and training.....	85.....	4.0
Goods market efficiency	136.....	3.6
Labor market efficiency	100.....	4.0
Financial market development.....	100.....	3.7
Technological readiness.....	58.....	4.1
Market size.....	67.....	3.6
Innovation and sophistication factors (10.0%)	124	3.0
Business sophistication	132.....	3.1
Innovation.....	111.....	2.8

Stage of development



The most problematic factors for doing business



The Global Competitiveness Index in detail

INDICATOR	VALUE	RANK/144	INDICATOR	VALUE	RANK/144
1st pillar: Institutions			6th pillar: Goods market efficiency		
1.01 Property rights	3.1	130	6.01 Intensity of local competition	3.6	137
1.02 Intellectual property protection	2.8	116	6.02 Extent of market dominance	2.6	142
1.03 Diversion of public funds	2.8	95	6.03 Effectiveness of anti-monopoly policy	2.8	142
1.04 Public trust in politicians	2.0	118	6.04 Extent and effect of taxation	2.9	122
1.05 Irregular payments and bribes	3.6	86	6.05 Total tax rate, % profits*	34.0	50
1.06 Judicial independence	2.4	129	6.06 No. procedures to start a business*	7	74
1.07 Favoritism in decisions of government officials	2.3	132	6.07 No. days to start a business*	13	59
1.08 Wastefulness of government spending	2.2	132	6.08 Agricultural policy costs	3.3	119
1.09 Burden of government regulation	2.4	136	6.09 Prevalence of trade barriers	3.8	113
1.10 Efficiency of legal framework in settling disputes	2.5	138	6.10 Trade tariffs, % duty*	5.3	72
1.11 Efficiency of legal framework in challenging regs.	2.6	133	6.11 Prevalence of foreign ownership	3.8	124
1.12 Transparency of government policymaking	3.8	111	6.12 Business impact of rules on FDI	3.7	123
1.13 Gov't services for improved business performance	2.8	126	6.13 Burden of customs procedures	3.5	102
1.14 Business costs of terrorism	5.6	71	6.14 Imports as a percentage of GDP*	53.5	56
1.15 Business costs of crime and violence	4.6	85	6.15 Degree of customer orientation	3.7	135
1.16 Organized crime	4.1	118	6.16 Buyer sophistication	2.2	138
1.17 Reliability of police services	4.0	78	7th pillar: Labor market efficiency		
1.18 Ethical behavior of firms	3.1	132	7.01 Cooperation in labor-employer relations	3.3	139
1.19 Strength of auditing and reporting standards	3.9	117	7.02 Flexibility of wage determination	5.4	41
1.20 Efficacy of corporate boards	3.7	141	7.03 Hiring and firing practices	3.6	98
1.21 Protection of minority shareholders' interests	2.6	143	7.04 Redundancy costs, weeks of salary*	8	21
1.22 Strength of investor protection, 0-10 (best)*	5.3	85	7.05 Pay and productivity	3.5	106
2nd pillar: Infrastructure			7.06 Reliance on professional management	3.3	135
2.01 Quality of overall infrastructure	3.2	120	7.07 Brain drain	1.9	141
2.02 Quality of roads	2.7	122	7.08 Women in labor force, ratio to men*	0.77	77
2.03 Quality of railroad infrastructure	1.7	102	8th pillar: Financial market development		
2.04 Quality of port infrastructure	2.7	134	8.01 Availability of financial services	4.0	97
2.05 Quality of air transport infrastructure	3.2	130	8.02 Affordability of financial services	3.7	100
2.06 Available airline seat kms/week, millions*	57.9	92	8.03 Financing through local equity market	2.4	124
2.07 Quality of electricity supply	4.8	73	8.04 Ease of access to loans	2.4	105
2.08 Mobile telephone subscriptions/100 pop.*	125.4	38	8.05 Venture capital availability	1.9	126
2.09 Fixed telephone lines/100 pop.*	37.3	31	8.06 Soundness of banks	4.3	119
3rd pillar: Macroeconomic environment			8.07 Regulation of securities exchanges	3.3	120
3.01 Government budget balance, % GDP*	-4.0	90	8.08 Legal rights index, 0-10 (best)*	8	24
3.02 Gross national savings, % GDP*	16.1	93	9th pillar: Technological readiness		
3.03 Inflation, annual % change*	11.2	129	9.01 Availability of latest technologies	3.9	127
3.04 General government debt, % GDP*	47.9	92	9.02 Firm-level technology absorption	3.6	142
3.05 Country credit rating, 0-100 (best)*	39.8	79	9.03 FDI and technology transfer	3.8	123
4th pillar: Health and primary education			9.04 Individuals using Internet, %*	42.2	67
4.01 Business impact of malaria	n/appl.	1	9.05 Broadband Internet subscriptions/100 pop.*	10.8	53
4.02 Malaria cases/100,000 pop.*	(NE)	1	9.06 Int'l Internet bandwidth, kb/s per user*	76.8	20
4.03 Business impact of tuberculosis	6.0	35	9.07 Mobile broadband subscriptions/100 pop.*	34.5	32
4.04 Tuberculosis cases/100,000 pop.*	18.0	40	10th pillar: Market size		
4.05 Business impact of HIV/AIDS	6.0	29	10.01 Domestic market size index, 1-7 (best)*	3.5	67
4.06 HIV prevalence, % adult pop.*	0.1	12	10.02 Foreign market size index, 1-7 (best)*	4.1	74
4.07 Infant mortality, deaths/1,000 live births*	6.1	39	11th pillar: Business sophistication		
4.08 Life expectancy, years*	73.9	61	11.01 Local supplier quantity	4.2	110
4.09 Quality of primary education	3.5	83			
4.10 Primary education enrollment, net %*	92.7	77			

4.08	Life expectancy, years*	73.9	61
4.09	Quality of primary education	3.5	83
4.10	Primary education enrollment, net %*	92.7	77
5th pillar: Higher education and training			
5.01	Secondary education enrollment, gross %*	91.4	58
5.02	Tertiary education enrollment, gross %*	49.1	52
5.03	Quality of the educational system	3.1	111
5.04	Quality of math and science education	4.1	60
5.05	Quality of management schools	3.5	116
5.06	Internet access in schools	3.6	92
5.07	Availability of research and training services	3.2	125
5.08	Extent of staff training	2.9	138
11th pillar: Business sophistication			
11.01	Local supplier quantity	4.2	110
11.02	Local supplier quality	3.9	113
11.03	State of cluster development	2.7	133
11.04	Nature of competitive advantage	2.5	134
11.05	Value chain breadth	2.9	119
11.06	Control of international distribution	3.5	120
11.07	Production process sophistication	2.7	128
11.08	Extent of marketing	2.9	129
11.09	Willingness to delegate authority	2.6	139
12th pillar: Innovation			
12.01	Capacity for innovation	2.5	120
12.02	Quality of scientific research institutions	3.6	67
12.03	Company spending on R&D	2.3	132
12.04	University-industry collaboration in R&D	3.2	99
12.05	Gov't procurement of advanced tech products	3.1	115
12.06	Availability of scientists and engineers	3.9	78
12.07	PCT patents, applications/million pop.*	0.0	119

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (*). For further details and explanation, please refer to the section "How to Read the Country/Economy Profiles" on page 83.

The Global Competitiveness Report 2012-2013 | 313

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Fig. 4. The Global Competitiveness Index for Serbia

Source: The Global Competitiveness Index 2012-2013: Innovation and sophistication factors, p. 313.

Executive opinion survey indicators were derived from the *World Economic Forum's Executive Opinion Survey*. Survey questions asked for responses on a scale of 1 to 7, where an answer of 1 and 7 always corresponds to the worst and best possible outcome respectively. For Serbia results are as follows: (*Insight Report The Global Competitiveness Report 2012-2013 Full Data Edition*, pp. 388).

- Property rights: How would you rate the protection of property rights, including financial assets, in your country? [1 = very weak; 7 = very strong] | 2011–12 weighted average (rank: 130; value: 3.1).
- Intellectual property protection: How would you rate intellectual property protection, including anti-counterfeiting measures, in your country? [1 = very weak; 7 = very strong] | 2011–12 weighted average (rank: 116; value: 2.8).
- Judicial independence: To what extent is the judiciary in your country independent from influences of members of government, citizens, or firms? [1 = heavily influenced; 7 = entirely independent] | 2011–12 weighted average (rank: 129; value: 2.4).
- Burden of government regulation: How burdensome is it for businesses in your country to comply with governmental administrative requirements (e.g. permits,

regulations, reporting)? [1 = extremely burdensome; 7 = not burdensome at all] | 2011–12 weighted average (rank: 136; value: 2.4).

- Strength of investor protection: Strength of Investor Protection Index on a 0–10 (best) scale | 2011 (rank: 65; value: 5.3).
- Quality of the educational system: How well does the educational system in your country meet the needs of a competitive economy? [1 = not well at all; 7 = very well] | 2011–12 weighted average (rank: 111; value: 3.1).
- Number of procedures required to start a business: Number of procedures required to start a business | 2011 (rank: 74; value: 7).
- Time required to start a business: Number of days required to start a business | 2011 (rank: 59; value: 13).
- Availability of latest technologies: To what extent are the latest technologies available in your country? [1 = not available; 7 = widely available] | 2011–12 weighted average (rank: 127; value: 3.9).
- FDI and technology transfer: To what extent does foreign direct investment (FDI) bring new technology into your country? [1 = not at all; 7 = FDI is a key source of new technology] | 2011–12 weighted average (rank: 123; value: 3.8).
- Capacity for innovation: In your country, how do companies obtain technology? [1 = exclusively from licensing or imitating foreign companies; 7 = by conducting formal research and pioneering their own new products and processes] | 2011–12 weighted average (rank: 120; value: 3.5).
- Quality of scientific research institutions: How would you assess the quality of scientific research institutions in your country? [1 = very poor; 7 = the best in their field internationally] | 2011–12 weighted average SOURCE: World Economic Forum, Executive Opinion Survey The Global Competitiveness Report 2012–2013 | 513 © 2012 (rank: 67; value: 3.6).

4. Conclusion

In this work we demonstrated the importance of values - culture for economic growth of three ex-Yugoslavia countries (Serbia, Croatia, Slovenia) and results of *Hofstede indice* and *WCI indice* (World competitiveness indice) and for Serbia.

Importance of institutions, culture and values lies in the fact that, contrary to previously dominant market fundamentalism, there exist correlation between economic development and culture and institutions, not oneway unilinear causation. Fundamental factors of growth (culture and institutions) are of much more importance for economic development and were greatly neglected during social and economic development of post-socialist countries, due to the fact that predominant significance was attributed to economic factors, and more narrow establishment of property rights through privatisation. After quarter century of experience of such approach what is needed is more broader social and economic model based on fundamental factors of growth, primarily formal and informal (culture and values) institutions.

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