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The state and the transition

-Montenegro as micro state-

The process of establishment and functioning of the market economy system and democratisation of the political sphere, being the substance of the transition, demands the change of the role of the state in the political and economic life, as well as of the manner of the work of the state administration and vice versa. The transition of the society and economy without the transition of the state and state administration is not possible and vice versa.

I shall express in this article the conceptual-theoretical aspect of the problem, based on the previous experience of implementation of economic and political reforms in Montenegro. The review will be primarily given from the economic point of view.¹

The question to express the intention of the work in a very simple manner could be defined as follows: What are the principles to organise the state, in other words the state administration in Montenegro to enable faster transition, higher efficacy of economy and prosperity of democracy?

I Conceptual basis

1.1. Myths on understanding of the role of the State

Should the State serve as a function of growth of economic efficacy or be »worried« as nowadays on economic efficacy? Should the State be producer of services or of orders? How far the interventions of the State may go? What are the relations amongst political parties and the State? Where from a Government obtains the money for redistribution? Should the Government and its ministers govern companies? Should state administration be professional or politically obedient? How to restrict the power of politics in the economy and society in general?

Those are some questions to be discussed on conceptual and theoretical level. I consider these questions within the contents of:

1. Present understanding of the Government with us;
2. Globalisation and information flows

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¹ On economic role of the state and practical aspects of the relation of the state and economy see: J. Štiglec: On economic role of the state, book by Mijat Damjanović and Snežana Đorđević: Challenges to modern governance and management (chrestomathy), Belgrade, 1995 (pgs. 451-507) and J. Sthiglec: Public Economics, third edition, New York – London, 2001.

The present understanding has characteristics of several myths on the State:

1. The myth on the State as a »superman«, which means that the Government is the one providing everything for us and taking care of us. Likewise we do exist and depend on the good faith of the Government and its employees.
2. The myth on the Government as a great manager. The opinion prevails that the Government and its ministers should see their basic role in “managing” of economy and managing of the business policy, not only for governmental (public) companies.
3. The myth on the Government as a big investor. The Government should invest in development; build roads, schools, and bridges. So public work is the main starter of the economy and recovery of the economy, according to this myth.
4. The myth that the rules applied to Government and governmental employees do not apply to all other citizens. How the traffic officer treats violation done by his colleagues? What is the attitude if one of administrators is fired?
5. The myth on universal regulation. That would mean that the Government should regulate everything and be present everywhere.

Generally we do understand the Government as **paternalist state**. That would mean to be present everywhere, but to be very weak on the level of the practical implementation of its functions. How to abandon this attitude?

The abandonment of these myths leads to a new way of thinking and understanding of the Governmental role.

1. To abandon the myths means to shift over from the collective and governmental responsibility to an individual one, which means that it is necessary for each individual to take over its own responsibility. That is the essence of decollectivism and individualisation of the society.
2. Governmental interference in economy should be minimal². In any case it should stay away from the business policy of the companies, what would mean that the managers should search for the solutions on the market, not through the Government and its subventions.
3. The Government cannot be the leading investor in the economy. It should primarily create the conditions for private investors to be the investments holders. How will the Government obtain the money for the investments?
4. To increase transparency and publicity, which means to desert the discretion of the Governmental people and start to establish the relations based on institutions, rules and laws.

² There are no doubts whether Government should or should not participate in economy: directly or indirectly. We do not even speak on number of functions (so called Mechanic approach). Legitimacy of the Governmental participation in economy is being discussed. The point is whether the Government raises its legitimacy in economy out of the efficacy and trust in its work or out of the attitude `The Government is the God` and there will be no discussions upon the matter.

5. Instead of wholly regulations the market should express itself, as well as the rules, entrepreneurship initiatives, creativity and innovations. In general that means the greater freedom for individuals and institutions, which may lead to decentralisation on all levels and in all the areas.

How are **globalisation and information flows** influencing the change of the role of the State and the destiny of national states?

I would point out two universal trends caused by the globalisation and information flows:

1. Shifting of authorities up and down from the level of the national economy³
2. There will be no withering of the state, at least not in near future⁴.

The first trend means the occurrence of international players (large companies, banks, global communication systems, international organisations, regional councils) affects the States to be weaker. Also the part of authorities has been relocated to smaller individuals (local authorities), due to technical and economic factors. Breaking of borders between states creates stronger regional connections and »neighbourly relations«. ⁵ That means, the role of regional economy becomes more important (for instance ex SFRYU, Balkan region, the Mediterranean etc.)

The second trend is that apart of loosening of the state role and its control, it will still not wither. At least the state will remain to be the place of identity of most of the people, regardless who their employer is, as individuals pay taxes to the state, obey its laws, serve (when necessary) in military forces and may travel if having its passport. But, the state will share the power more and more with the other organizations and integrations, meaning it will enter the concept of so called layered sovereignty⁶. This concept means that the major part of the national sovereignty will be shifted to higher levels: integration (international political and economic integrations). To become a member of WTO, MMF, EU, means that you have already accepted certain standards not being standards of national state, but of those organizations.

Globalisation is mostly understood on two levels: cash and trade flows, moving of people and cultural communication. Cash flow and trading are actual global starters of the globalisation. But the other less visible point of globalisation is more important one. That is creation of international system of rules speeding up constantly. This dimension of globalisation should not be neglected while talking on organisation and the role of the state.⁷ Therefore I find the idea of layered sovereignty nowadays being important principle for a country in transition and its administration.

³ Paul Kennedy: Preparations for 21st century

⁴ See: Kenichi Ohmae: "The end of the national state", FP, London, 1995

⁵ E.g. Northern Italy trades more with Alps countries than with Sicily, Alzas Moran with Baden Vineberg more than with Paris.

⁶ This concept was discussed several times by Karl Bilt on meetings of Stability pact.

⁷ See: I. Sullivan: Do not fear globalisation, Economist, may 2001.

The outcome is that we have, from economic point of view, to abandon the myths we were taught by Keynes in our strategic vision, and return to Schumpeter. We might say that Keynes was talking on the budget state, and Schumpeter on innovative state.

Actually Keynes, marking the previous century, started from a hypothesis that:

1. National economies are isolated of the world's economy and have controlled flows with it;
2. The isolated state economy is completely defined by the state policy, which means state consumption (macro economy).

Regardless of being Keynesians or not, we consciously or unconsciously follow these two rules of Keynes. It is hard to break up with the opinion that the superior state and its government govern the economy!

Schumpeter declared that the state would burry itself by the logic of the budget state (all the money belongs to the state except the one the state allows taxpayers to keep)! Has the experience of ex socialist countries confirmed the opinion? Schumpeter recognised the progress in the entrepreneurship and innovations, not in the state consumption!

Within the open world economy without economic borders, the role of the state, which means the logic of Keynes, declines. Herein we do not approach theoretical discussions, but the role of abandoning and loosening of the principles, inadequate to the new conditions. A new circumstance is the speed of action and acting, instead of usual traditional tardiness and slowness of the state bureaucracy.

It is necessary in that sense for the Government to have minimal capabilities to act practically, to adapt its organization and way of work to the speed of **informatics society**. Capability to adapt to changes and global trends is condition not only for the progress but also for survival. Thus the state, meaning state economy, must be opened, result and problem oriented. The confinement of the state administration, e.g. socialism, is such that it could function for longer period of time with papers and correspondence, even in a case when the economy and citizens would "disappear"!

How can the administration can get out of this world and go to the world of reality, how to go out of the worlds of its own interests to the worlds of interest of the ones financing the administration? How to convert from the production of papers and restrictions to the production of results?

The State should not cease to impose rules, to be the one to secure, guarantee, pay compensations. But it should not be the executive party, a manager, and a businessman.

In one word, the state imposes and guarantees standards; the state guarantees the freedom and execution of contracts. The state guarantees property rights. The state protects freedom of individuals, but do not implement it. The state secures and gives. The state is untouchable!

1.2. Means to avoid supremacy of the collective over an individual

To me this is the most important matter for our transition and us! We do have affection **for collectivism!** It has historical origins, but it is also one of recidivism of socialist's logic.

I understand collectivism as supremacy of collective over an individual, transfer of responsibilities from individuals to collective, meaning suffocation of individual freedom.

Collectivism always exists when an individual waits on collective (the state) to resolve problems and to take care of him. As equivalent to the care of the state, which individuals expect from the state, is blind obedience and true faith in the state.

Larger transfer of responsibilities from the economic status of an individual to the state is possible only if the state suppresses individuals through its bodies and regulative and thus heads towards economic despotism. This will inevitably lead towards **politisation of the economic life.** That means that instead of market forces, main economic decisions will be adopted in »political circles« and therefore political correctness becomes the criterion for the choice and progress of individuals.

This way of understanding of the state may lead, and certainly leads to instrumentation of the state, using its apparatus to achieve the goals of specific interest groups.

It is important to realise that the politicking of the economy leads to intolerable spread of »the state omnipotence«

Political reform is not enough (multiparty system) if the new system relies on the same logic: control of the economy. It is insufficient to break collectivism only in political sphere, unless we reform simultaneously economic and social sphere, based on non-collective bases.⁸

Therefore for me it is very important to create more individual liberalism, more individual freedom, more individual creativity and innovation

⁸ Janoš Kornai writes on different experiences during the transition. One of them is that the destiny of the proposal which he has given to politicians related to economic reforms, has never depended on the rationality of the arguments on which it was based, but whether politicians wanted or not to hear the proposal, meaning whether the proposal strengthened their position or not. The only exception was during occurrence of unexpected or critical situations. (J. Kornai: Reform the state, str.6)

I would not define now subtle substances of the term. I only insist on spiritual development of liberalism. Personal character of the liberalism underlines supremacy of individual human personality over any community, although a man as individual only within the collective finds his fulfilment. **But, the freedom and rights of individuals are the foundation of each community, so the state.** That means the freedom and rights of individuals imposing limitations and restrictions to the state, are leading towards the rights of individuals, family, minority, opposition and universal religious communities.

I find liberalism governing of transparently adopted rules.

That is why liberalism for me means refusal of any kind of centralism, commands and anarchy, spiritual, political or economical, the refusal of any concentration of authorities. Hence liberalism may be understood as »decentralism«, as it leads decentralisation and autonomy of the parts. Liberalism is freedom of lower parts of a whole, as well as the freedom of an individual!

That is why I find that the state should be decentralised, as close to an individual as possible, with as less intermediaries as possible between the state and an individual. So-called transaction costs will be decreased as well. So the higher-level of the autonomy of local levels of human societies will be necessary. Each centralisation is detrimental for the development.⁹

Concretely this means the strengthening of local community, different institutions, nongovernmental institutions, associations, foundations etc. strengthening of direct forms of democracy, in other words the philosophy of liberalism has two important elements.

There are two important motives while talking on liberalism.

The first one is **moral**. That means to respect the norms of behaviour, as a way of limitation of human behaviour, behaviour of some individuals, which could harm some other individual.

The second are **institutions**. Institutions are a sign of maturity of the society. Maturity has been reflected in the fact that society is able to transfer from personal to nonpersonal (institutional) relations. Institutions condensate knowledge, being cleverer than individuals! The aim of institutions is to consider the wishes of other

⁹ Centralisation should be distinguished from the globalisation. Centralisation means that a higher level adopts decisions in accordance with its authorities in the name of a lower level. The globalisation means to include global standards and procedures, skills and virtues on all the levels. "Think global and work global"!

people as well, not only its own.¹⁰ The institutions represent special way of coordination of individual interests!

The state should strong enough to provide necessary **moral-institutional frame** to provide strict fair play in the complete market economy. The state has to impose order, to guarantee the rules and contracts, to protect property and property rights.

So the idea of liberalism is against all mighty and total role of the state. But it is for »minimised« strong state, instigating and releasing the individual strength as well as market forces! **It is necessary to free ourselves of all the cults of civilisation, over regulation, over organisation and bureaucracy over mind, to reduce the life to natural, human, spontaneous, balanced and various.**

I find that the **market economy** proceeding smoothly within the established moral-institutional framework established by the state, relying on widely spread private property and decentralised decision making is **a precondition to prevent almighty power of the state over an individual**, as well as creating of conditions to force individuals to understand that they have to take over responsibility for themselves! Reduction of the state power over an individual must be accompanied with practical readiness of the individual to do something for himself by himself!

1.3. What is the economy

The later discussion on organisation and role of the state administration in economy demands definition of the term »economy«.

We speak on »our economy«, »Montenegrin economy«, »Serbian economy«, »world economy«,

The term »economy« is being understood implicitly and explicitly as if it refers to some organism, economy is understood as one company. That creates question: »but who manages those companies (economy)? Who is the main manager? Implicit answer is: Government.

Unfortunately this is still dominant opinion on economy with us, having as consequence domination of the politics over economy.

But the economy is not an »organism«. »Economy by itself does not have goal, aim or carrier« (James Buchanan). The economy differs form the company. While a company is legal foundation necessary for realisation of a certain entrepreneurial idea (shoe sale, production of suits, tourists agency...) and it has its purpose - profit, the economy is **group of rules and institutions limiting the choice of most of the individuals in mutually connected chain of interactions similar to a game.** On the contrary "better" and "worse" economies exist for each individual, entrepreneur and

¹⁰ Pejovic Svetozar: "Economic Analysis of Institutions and System", Klower Academic Publishers Gron Dordrecht

manager, which is automatically conducted to groups of rules, institutions and institutional structure.

Consequently we have the **economy** and companies (entrepreneurs). The economy are rules, institutions, laws, culture, customs, tradition whilst the companies are players the economy is the institutional framework.

We, the State, may influence only the institutional level, but may not interfere the game. In the game itself the market is valid, which means laissez-faire. Each player within the given institutions and given rules of the game may freely seek for the best solutions to satisfy its interest.

The subject of **our reforms** could be only economy, which means institutional **framework**. Transfer of emphasis to the institutional framework and hypothesis that laissez-faire principle rules it (with individual decisions and transactions), makes absurd all proposals for reform based on the arguments of »national goals« as well as the claims that the economy functions better if directly governed by political factors assumed to be almighty and good willed. (Buchanan)

Only individuals know which goals they want to achieve and each interference with the freedom of choice of individuals done by the state will decrease efficacy of economic activities.

The importances of macroeconomic measures and accordingly state organisation shall be extracted out of this point of understanding of the economy and differences amongst the economy and companies and faith only in individual aims.

II Principles on practical application of the presented opinion on the state to the level of a very small state

The concept of micro or minimal role of the state

Previously presented global trends brought me to elaborate the concept of micro meaning minimal role of the state, which means pleading for organisation of Montenegro based on these principles¹¹.

¹¹ I have expressed some opinions on organization of Montenegro as microstate, or small state several times in public. Opinions on the concept are split and few people, mainly politicians, accept the concept. It is understandable, as the concept of minimal state reduces the power of politics and political parties, emphasizes decentralisation and direct forms of democracy and economy.

While talking on microstate, small state or minimal state, than it does not refer to physical size (as people from these areas are very sensitive on it, as their illusion on conceited size is being broken apart), but primarily on the organisational concept, place and role of the state administration in economy. Within the concept minimal state means pleading for concept of liberalism, where the state has few functions only, but strong authorisations in the areas. So, I plead for “minimal and strong state” instead of present “universally present (maximal) and weak state”. Thus the concept may refer to small and large countries, with remark that the appliance of the concept depends on the physical size of a country.

Main thesis is that the type of reforms depends on the size of the state (number of citizens, resources, geographical position).

I draw a conclusion on Montenegro as microstate, meaning the minimal role of the state, **out of the attitude on economic reform and the choice of a type of economic reform.** The most important is the attitude towards the role of the state and private property (attitude towards capitalism). I lobby for minimal and strong state, establishing moral-institutional frame, providing fair play market economy. Domination of the private property is absolute: no area exists being unable to be organised on private initiative, including most of governmental services, school system, health, part of social policy etc. Domination of the private property should be understood as the domination of interests of individuals, domination of the freedom of the choice and domination of competition.

All of it relies on sovereign individual! Individuality, freedom and property – that is the man, said F. Bastija.¹²

Springing from it is pleading for liberal instead of regulated reforms.

Liberal reform begins with total responsibility and freedom of economy, lower participation of the state consumption and freedom of economy, no subventions, free market and prices, low taxes, low or completely liberalised custom rates, stable currency. The bases of the reform are individuals, entrepreneurs and their ideas!

I understand pleading for liberal reforms on practical level as creation of the conditions for foundation of a new entrepreneur class, which means presenting of people with entrepreneur ideas pushing ahead. Our civilisation exactly relies on the shoulders of the bravest entrepreneurs, individuals. The same is with the transition! I do not believe in success of the transition if not carried out by courageous, creative people, people with ideas, people creating new companies, developing new fields. Release of other people of the fear on those kinds of people is a part of the transition.

I also do not believe in a perfect game without fouls committed! Can you imagine any game with no fouls! The problem is not whether fouls exit or not, but if properly sanctioned!

So I do not believe that the state administration, disregarding who executes it, will have power to implement transition course!

Regulated reform relies on the state and its participation in the economy (in the game), it instigates domestic rather than foreign companies, the state redistributes the largest part of gross domestic product, public consumption is high, some prices of goods and

When I use the term microstate, it means conceptual approach, but frankly speaking it dominates in discussions on other matters as well!

¹² See F. Bastija: *The Law*, Global Book, Novi Sad, 1998, str.41

services are controlled, inflation exists and interference of the politics is great (»politisisation of the economy is inevitable«).¹³

What is microstate or minimal role of the state? That is the state having only basic functions and institutions needed to **integrate with surroundings** on one side and **to protect sovereignty of individuals and their freedom** on the other side. Two key characteristics of the system are arising out of this in such a state:

1. Openness of microstate in all the fields (»open society«)
2. »Small but strong governance« in protection of rights of individuals, freedom of contracting and contracts and property rights.

Microstate is, as I understand it, from the size point of view, **very small state** and it differs from a small **state** (like Slovenia for instance). The difference is that it should rely on the public authorities even less than a small state. Actually small state has or tries to have all the functions and all entities like large state. So a small state is very expensive one. If all the functions of large state would be developed in a small state, it would have the look of big hat on a small head.

Microstates on an average do not turn out worse than big states (Liechtenstein, Monaco, Andorra, Hong Kong, Singapore). Some even turn out even much better! This can be achieved if the states do not have paternalist public authorities! If a very small state relies on public authorities, the state, than it costs. It costs a lot! Development is blocked by the weight of the costs, dwindling is inevitable. Montenegro should avoid it in each variant of its state profile! That is why I defend the concept of minimal state; being understood as the philosophy to establish new, modern state administration and its role, adequate to informatics society.

If the public authorities are present all over, it is not only costly. In that case most of population start working in the state or prostate bodies. People's dependence on state becomes high. It jeopardizes sovereignty of the individuals and democracy in such a country. In the same time if majority of productive labour force is employed in non-productive sphere (the state), than the question is posed: who will earn, create income, which creates domestic product to support the large number of people employed in the state? If most of people work in the state, who creates national income? That is serious economic, but also political question in microstate!

Microstate, being very small state, has to be **open and integrated in its surroundings**. **To be open** represents the attitude for a small country to defend the challenges of the surroundings. That contradicts the logic saying that we should **defend ourselves by confinement**, by the logic of a hedgehog, who reacts on everything coming from outside closing itself. A hedgehog state. Exactly our myths

¹³ As Miroslav Prokopijević states, liberal reform is painful one, but has better results, while regulated one is less painful, but results are worse.

Liberal reform has annual growth of 7-12% measured by long-term ratios, while regulated one has 2-5% annually. Revenues duplicate in liberal reform in 7-12 years, in regulated 15-35.

on state and classical understanding of national state lead us to such a state, regardless our wordily pleading for the opposite!

Microstates cannot expect to gain some benefits being active in economic policy, or macroeconomics policies. Macroeconomic policy is a kind of etatism, always at the end directed to redistribution amongst companies and state, amongst industries and regions etc. Regardless the motives, macroeconomic policy are always sort of new redistribution from one group of people to the other group of people, from one region to the other.

Macroeconomic policy always expresses the faith that the state can do a lot in economy, that it can increase national income, and that without state activities the economies would blow up. »The state is the big fiction where everybody tries to live on account of somebody else«, says Frederic Bastija¹⁴. Also it is the result of the belief that there **is something to be redistributed**.

It is important to understand that macroeconomic policy always starts from certain quantity of money for the state to dispose and distribute. That is the logic of macroeconomic policy!

What could be redistributed in Montenegro on present level of the income and present budget deficit? An attempt to establish equality in poverty always costs more than market stimulus if inequality in wealth! Especially long term!

If anybody in Montenegro, especially politicians have illusions that by active approach of macroeconomic policy lots of things can be done, than political independence of Montenegro could disappoint them and sober them down! In very small countries democracy and transparency are much more important than politicians and politics.

Therefore, successful microstates don't rely on **state paternalism** (where a state takes care of everything). First of all, they rely on private property and on capitalism! As Vladimir Gligorov states this is completely understandable. If a country is very small, its internal market is also very small. Efficient banks, enterprises, insurance companies... can't emerge only on the power of that market; because such enterprises are big compared to the size of the economy. It is necessary to expand the market of domestic products outside of Montenegro through their effectiveness and attractiveness.

¹⁴ «The state is a great fiction, where everybody tries to live on the account of the others. Today as in earlier days more or less everybody earns on account of all the rest. Nobody dares to confess – o the contrary everybody hides it even from himself or herself. What is happening then? An intermediary was invented, the state to which all the classes must address “You who may take fairly and justly, take fro the society and we will include ourselves in distribution.” The state, alas, tends to follow such a diabolic condition too much, as its management comprises of ministers and state clerks – briefly people who use each opportunity out of the bottom of their hearth, as everybody else does, to increase their wealth and image. The state quickly gets the advantages to gain out of the deeded. It is content to be able to be the judge and master of the destiny of all the people, it will take a lot as a lot remains for her as well, it increases the number of the privileged ones and at the end takes the lion's share”. (Bastija: “Visible and invisible”, str.8)

Here, once again, I want to accentuate the impact of market size on the reform type. In fact, the greatest and most successful companies must have market outside of Montenegro. This is achieved by providing conditions for more efficient functioning, better quality and product efficiency of the companies of Montenegro.

Automatically, the consequence is that economies of successful small countries can't be over-regulated and closed. They represent more current economies.

This approach requests the respect of private property, its **profit logic** and its **entrepreneurial logic**. Entrepreneurship and business must become generally accepted social values. Success must be praised more highly and must be tolerated! This requests a complete change in the current system of value and in the way of thinking.

Here, I want to emphasize the need to protect property rights and the freedom of creation. It is necessary to build institutions for protection of property rights (for example: courts, land registry) as well as to create social atmosphere that will stimulate successful people, creators, and innovators. That represents the abandonment of small-town mentality (R. Konstantinovic), that is small-town logic that states that everyone who is working and successful is suspicious and should be prevented from that.¹⁵

This is how we reach the crucial step when a very small country is concerned: **economic power is greater than state power**. If that is the case, charms for establishing the oligarchic system (state privatisation) are lost. Therefore, the oligarchic system is not attractive in very small prosperous countries.

In other words, if a country is very small and if it doesn't have strongly regulated economy, owners of big companies don't have motives to privatise the state. They don't want to represent means for attaining the aims of the state. That is to say, they don't want to establish the oligarchic system. If an internal market is small and if the economy is not strongly regulated (for example: quota, subventions and etc.) what is the advantage of state privatisation and state controlling?

However, the warning of Vlad Gligorov concerning one of my texts is acceptable here. "There has to be a public opinion that supports capitalism for Montenegro to accept it. It is important to state to what extent socialism exerts influence in Montenegro, not in the sense of ideology but in the sense of interest. An independent Montenegro neither could provide the same (previous) level of social services nor significant transfers of budget".¹⁶

The liberal type of the reform implicitly means providing conditions for emergence of a new entrepreneurial elite, of new people with entrepreneurial ideas and management capacities, which can shoulder the burden of development! As present civilization rises on the shoulders of brave and venturesome individuals, the most able and the most venturesome people should carry out the transition in Montenegro! Those people can be found, stimulated and kept only by market institutions and structures and by government rules, freedom and the protection of contracts and property rights.

¹⁵ The best indicator of this logic is the fact that people always behave as experts when someone else's job is concerned and are not occupied by their own job.

¹⁶ Internal correspondence with professor Vlad Gligorov, the expert for economies in transition in the Balkan.

Therefore, **the liberal type of reforms in Montenegro should create the atmosphere where market is more important than state; where economy is more important than politics; companies than political parties.** Doesn't this speak about a difficult implementation of the reform? Isn't this a part of the answer to the question: Why are we in the phase of belated reforms?

2.2 Macroeconomic policies in micro-state

Macroeconomic policies represent the set of measures taken by the government in the area of economy, with the intent to increase economic efficiency. However, macroeconomic policies should be understood as means for connecting political and economic sphere.¹⁷ Indeed, political parties that win elections in order to fulfil their manifesto lead adequate macroeconomic policies that influence economy that is industry. For our analysis, it is important to understand at least two characteristics of macroeconomic policy:

Its political dimension – macroeconomic policies have political issues as targets

Macroeconomic policy builds into itself interests of particular groups (macroeconomic policy is a visible arm of the state instead of an invisible one, which is the arm of the market).

How those two characteristics of macroeconomic policy together with the fact that macroeconomic policy always means certain redistribution influence the organization of state administration in a very small country, in other words, in a microstate in which the state has a minimal role? (Here, I would like to remind a reader about already stated principle of layered sovereignty).

Here, I would like to explain more thoroughly the previous thesis about the limited impact of macroeconomic policies in a small country. In fact, the issue is about the monetary policy, foreign trade policy, fiscal policy, development policy, and social policy...

In other words, the question is: What are the authorities of state administration in this area and to what extent those policies influence the organization of government administration?

Monetary policy in Montenegro was based on introduction of the German Mark (1999), which is on the introduction of the Euro (2002). This means that Montenegro renounced the instrument of monetary policy. At any rate, the consequence is a political risk. If prospects for investment and doing business are not made attractive, the domestic capital may leave the country and provoke industry recessions and crises, which can't be without consequences of political impact.

Furthermore, this means that that the construction of new institutions and a new industrial system is more important than monetary policy. So, one of the prerequisites of the Euro efficiency is that foreigners own a greater part of the banking system. The reason for that is that foreign banks have the access to the Central Bank in the country they come from, which makes up the absence of central banking in the country wherein they function (in this case, in Montenegro).

Liberalization of foreign trade policy and the abolition of all barriers is a form of political responsibility to a greater economic efficiency. The importance of a free flow of goods and money is great. It is necessary to abolish all barriers in a free trade. Every barrier enlarges

¹⁷ See Miroslav Prokopijevic: Constitutional Economy, Belgrade, 1999.

transaction expenses. It is important for a very small country to respect the logic that in the economy there are no more important national aims and areas of special national interest. There is only the logic of a greater efficiency and expansion of the market for domestic products and services!¹⁸ In this sphere, a macro state doesn't have some special levers, except the need to organize professional customs services that would protect from black market, from the trade with forbidden goods and that would protect international standards of goods' quality!

Fiscal reform is a prerequisite for implementation of structural changes and privatisation. It is also the most difficult reform, the reform that in circumstances of the existing unemployment and the industry structure may give only the long-term results. In the meantime, Montenegro will have to have the help that will make the reform more promising and more efficient.

A greater transparency and publicity of the budget are needed. The approach that creates the budget starting from expenses should be abandoned. With that kind of approach, it is difficult to provide a financial discipline and the state expenditure becomes a means by which politicians buy their votes.

The Budget needs to have the character of the Law regarding its amount and its structure, which enables its control by the Parliament and transparency and well-informed public.¹⁹ Every amendment of the budget must include the approval of the Parliament, with a clear balance between the increase of budget expenses and the sources for that increase.

Regulatory policy of the infrastructure activities is a new area (regulation of telecommunications, energy supplies, water supplies, mass media...). The issue is about an economic regulation and not a pure administrative one. The regulatory body should be in a small and basic extent responsible to the Parliament (and not to the Government).

Development policy. In a very small country the state cannot appear as investor, because it doesn't have the means for that. Furthermore, its ability to debit is not as great as the ability to give guarantees for credits. Therefore, the state should provide conditions for attracting private capital. In order for that to happen, it is necessary to have a clear, strategic, developing vision especially from the aspect of state's fitting into the economy of the region.

Special areas of the development policy should be: investment in education and knowledge, in informatics, technology and protection of environment!

Therefore, in micro state, in other words in a very small country, the importance of its direct measures in the area of macroeconomic policy of stabilization decreases, whereas the importance of activity in the area of development policy in the sense of creating the atmosphere for investing, for infrastructure, for investing in knowledge and environment, as well as providing conditions for political and social reforms increases.

¹⁸ See: The Centre for Entrepreneurship and Economic Development: Barriers to doing business in Montenegro, Podgorica, 2001

¹⁹ The Parliament of Montenegro adopted the Law on Budget

The point of the stated review of the essence of some macroeconomic policies is that a new role of the state in those areas should be connected with the organization of the state administration.

2.3 The role of private sector in provision of public services

One of the issues regarding the new understanding of the role of the state administration is how to finance a part of public services by the money of private investors? In fact, it is not questionable whether or not the state should provide series of public services, such as parking, education, various administrative services, in order to provide better life for its citizens. Here, I think about a clear legal framework that relates to execution of public services pursuant to contracts of leasing as management, concessions and agreements such as WTO. Is it necessary that the state authorities, state agencies, secretariats, ministries exist in order to perform all those services? The interest of every citizen is that those services are as cheap and efficient as possible. The citizens don't have a special interest for those services to be performed by state authorities.²⁰

2.4. Transparency and the role of the transparency in a micro state

How can personal relationships that dominate in a very small country be replaced by institutional relationships? The reform of every state administration implies a greater transparency in all activities, especially because the transition experience in the last 10 years has been negative. In fact, many state activities, investments and public purchases are done more through the mechanism "face to face" than by respecting the public and the competitiveness of procedures. This influenced and is influencing a general negative transition image.

Transparency represents the reduction of functional power of an individual, not only in the administration, while making decisions. In other words, it is the reduction in the usage of functional power for private purposes.

Transparency has an ethereal quality and it means clearness. The implementation of this approach represents the opening of state administration towards the public, the abandonment of the concept called "the black box" (only few persons can know what is happening inside) and the existence of so-called secrets of general interest.

One of the measures to improve transparency and to diminish a prominent corruption is a greater investment in the state administration (equipment, working conditions and professional knowledge of every employee) as well as raising salaries of people working in the management, because those are the only ways to stimulate them to work more efficiently and more transparently.

The consequence of this approach is the need to decrease administration in order to increase its professionalism.

However, a higher level of transparency implies clear rules regarding the battle against corruption. The battle against corruption, among the rest, implies a sound management of enterprises (corporate governance), which means to regulate the supply side – where the

²⁰ See: Janos Kornal: *Reforming the State*, Cambridge, University Press, 2001.

money comes from. This certainly comprises clear accounting rules and standards. But the demand side should be regulated as well – the system of the state administration. There important are the system of public procurement, control of customs etc. Also cease of contingences and quotes will decrease the corruption.

It is important to establish both demand and supply side a system of rules to prevent corruption to occur and repeat, this would contradict the logic: to catch one red-handed and than continue to do the same. The corruption is produced by the system! A system of rules preventing corruption should be established! Accordingly, it is important to cease conditions for black economy. People in black economy are actually cut off the economy. There where black economy is high, few people have the access to the economy and globalisation.

Precisely that division of people who do not have an access to the economy of the State (grey economy) and those who do have the access, mainly under privileged conditions, destroys moral, and not only moral base of the society and economy. And as I have already pointed out, the moral is a corner stone of liberal democracy and decentralised economy. Thus pleading for liberalism means pleading against corruption and fight for transparency.

Independent institutions, associations and NGO`s

It is important to form independent institutions, associations and NGO`s. Their importance is in constant pressure on the state. To adopt efficient and fair decisions not only attitude and willingness of the state is important, but the pressure of the public and demand for good institutions.

It is important to establish independent institutions and associations acting as independent groups, the pressure they execute being one of crucial factors in foundation of market economy.

The pressure of the strong NGO sector in a microstate is important for an efficient functioning of the model of representation democracy. NGO allows large number of people to be directly involved in implementation of the reforms.

In that sense business associations and associations of people could be counterpoint of the power of political parties.

III Entrepreneurship economy – the basic type of the economy in microstate and the base for democracy

3.1. Microstate and development of the entrepreneurship economy

The type of entrepreneurial economy is suitable for microstate. It is the economy, as previously mentioned, where the market is more important than the economy, large companies than political parties, economy rather than politics.

In general it is the type of economy where the key factor of development is entrepreneurship, which means the economy based on the promotion of the power of economic life of free people, initiative of employees and companies where they produce goods and services, thus creating national wealth. The importance of intangible factors of the production in such an economy is huge (knowledge, time, space, information), as well as the importance of services.

Entrepreneurship economy focuses the knowledge, creativity, quality, higher technological level; initiatives of the people, small and medium companies are the backbone of the development. Only through the flourishing of entrepreneurs` energy Montenegro could solve its biggest problem- unemployment. Only in such a manner the people may get the hope that transition could solve their problems!

Foundations of a new economic structure – new small and medium size companies are the backbone of the transition. In some countries like Poland for instance, the majority of jobs and new posts appeared out of small and medium size companies. The lectures of the transition countries are pointing out that a system has to be built up and changed firstly, and only then we should talk on microfinancing out of other sources. That means that the concept saying that `not written means forbidden` should be changed to `all not strictly prohibited is allowed`. That is transfer from the command economy to entrepreneurship and creative society.

Global market requests the policy to employ people, increase productivity of companies and individuals who create and increase the national wealth.

In that sense it is necessary to:

1. Improve the conditions for investments in Montenegro, especially infrastructure (roads, telecommunications,)
2. Financial and monetary discipline and stability
3. Development of the strategy to increase competition and to break monopolies in all areas.
4. Agreements with workers and companies, as the workers accept with full responsibility the risk of competition in the global market, so firstly to invest in knowledge and education of workers, as well as in the companies to make them more efficient for investments.
5. Pledge to cease all trade barriers in Montenegro and within the region.

Briefly, if citizens of Montenegro want to live a better life in the future decade they will have to produce more. The concept of microstate was presented due to the assurance that it is the best possible frame where the entrepreneurs and successful companies will be evaluated at their best, where the freedom of creativity will be protected and highly estimated.

3.2. Interconnection of the entrepreneurship economy and democracy

Underlining of the importance of the entrepreneurship economy, which means business could create an impression that I have neglected democracy; being a summary of political, social and cultural needs of an individual.¹⁵

This time I would present, more as a thesis, interconnection between the business and democracy.

The key question is: is democracy appropriate for the businesses?

Although non-democratic countries with high growth do exist, in a very small country like Montenegro, connected with different personal connections, long-term development is not possible without democratisation of the society. That means that democracy has to be the base of the business in a microstate. The business has to provide that most of citizens believe in better future and to collect revenues of developing of businesses. Especially development of the education, social welfare, decreasing of social injustices. But, it is important for the business that there is real and interest related interconnection between the economy (growth) and social policy (development). The areas of these policies should be:

1. Anti-command and non governmental, meaning the need to promote the private sector (market and non market participants) in both areas
2. Anti-populist – avoiding unreal promises and evolutionary redistributions of the income
3. Anti-corruption – not to be addressed to certain groups and individuals.

In general the interconnection of political an economic freedom of an individual in a microstate is high, even higher than in a large state. That is why I find that the freedom in all areas is the main principle of the organisation of a microstate, and protection of the freedom is the main function of such a state.

¹⁵ I shall not enter subtle theoretical relations amongst business and democracy. I direct the reader to use excellent book prf. Dr Miroslava Prokopijevića: Constitutional economy, as well as the book; Business and Democracy, Washington, CIPE, 1999.

IV A new institutional system

Foundation of the new institutions becomes the essence of each economy and social reform. The institutions are the frame for the market game, influencing behaviour of the participants of the game, the state included. Pleading for the liberal type of reforms comprises building of a new institutional system based on following:

1. Private property in all the areas and protection of rights of owners
2. Internationalisation of the economy and daily life (open society)
3. Freedom to contract and protection of contracts
4. Protection of human rights and establishment of multiethnic society.¹⁶

Foundation of a new institutional system (laws, regulative, institutions of integral market, institutions to support entrepreneurship, non governmental sector,) is the condition for essential long-term changes. The institutions are, as I have said, condition of long-term efficacy and in the same time expression of the maturity of a society. The maturity means the capability of a society to transfer from personal relations and personal connections to institutional relations. This should be especially hard to achieve in a small state, where everybody knows everybody, like in Montenegro.

The real danger existing in such an approach (giving importance to the role of new institutions) is increasing of the state administration in Montenegro. What that means?

Institutional reform demands establishment of new institutions, but ceasing and transformation of old ones as well. **There is a real danger of foundation of new institutions keeping the old ones.** That would increase physically the state administration, and even worse, create conflicts amongst entities and cause decrease of their efficacy. This problem was not brought up until now out of practical reasons, which would be to create the shell of a new institutional frame by creating several new institutions (e.g. central bank, Securities Commission, Registrar for the shares, concept of regulation of infrastructure), which would as a snow ball spontaneously develop, with the need to cease the work of some entities or to reduce some ministries, which have not occurred.

A new institutional system, which means state administration on all the levels, should fulfil several principles:

¹⁶ The essence of the principle has been explained in the book: dr Veselin Vukotić: "Conceptual basis of the new economy system in Montenegro", ISSP, 1999.

- **Practicality**, which means efficacy to produce needed results for citizens primarily, then entrepreneurs and companies;
- **Rationality**, which means that total costs of maintenance do not create big burden for citizens, entrepreneurs and companies;
- **Immediateness**, which means relations as strong as possible between the state as producer of services (with as less intermediaries as possible) and the users of its services (to quit complicated procedures) and to decrease transaction costs.¹⁷
- **International character**, which means capability of the state administration to be prepared and organised (knowledge, norms of behaviour and technical equipment) to communicate with international environment (international corporations, international associations, international institutions etc.)
- **Transparency and publicity**, which means introduction of an institutional relation and cancellation of the personal relationships in execution of public jobs and availability of the data on work of all state entities (top secret` diminishes to the minimum, if such a thing should exist at all in a very small state);
- **Anticorruption**, which means to suppress possibilities for usage of public jobs for private benefits, which include implicitly high degree of deregulation, publicity;
- **Professionalism**, establishment of very professional (not political meaning obedient one) state administration, which would guarantee with its organisation, knowledge, position in the structure of authorities the stability in implementation of the state businesses, being independent of political turbulences, state administration having good working conditions and high wages as a reward for efficient work.

It is very hard to input these principles into real configuration. So it is not possible to give final solutions. It is the process to last much longer, certainly over a decade.

In that sense in my opinion following practical steps are extremely important:

1. Reduction of the public sector and condensing of the assets in that area. Privatisation of public companies and certain functions in the companies create reduction of the strength of the state in areas of electric-energetic, telecommunications, airports, water supply etc. The strategy of marketing of

¹⁷ Admin expenditures consist minimally of two parts:

1. Direct, budget costs
2. Transaction expenditures of the users of services (procedure expenditures), which can be expressed in money, time which was or refraining of new ideas and attempts.

the state administration and creation of so called hybrid organizations, like public-private partnership, supposed to loosen the line of division between market sector and system of the state administration.

2. Decrease of administration on all the levels: municipal up to the Parliament of Montenegro. Consequently the Government of Montenegro should be reduced to a few ministries, respecting the mentioned principles. I would rather not discuss the areas to be covered by the Government. That should be the subject for further discussions! But in my opinion all economic ministries should be »attacked«, secretariats, reorganisation of the leftover, strengthening of the role of the state in sports, environment, sciences and technology, foreign affairs and security.

In the same time most of governmental areas being under authorisation of the state to be stimulated by the state should be organised **exclusively engaging private sector and local and foreign private agencies**. Do we really need state entities to stimulate entrepreneurship or some local or foreign company licensed through tender procedure would be able to do it? Or promotion of foreign investments in Montenegro: wouldn't it be better if some private agency from Britain, USA, Germany for instance would do it, or promotion of tourist economy!

Does complete pension system has to governmental or it could also be privatised? Similar situation is with social sphere! Education sphere!

The idea exposed here is not that the state should cede certain functions of general interest to free market! The idea is the state would be the market for private sector, meaning that the money allocated to certain areas in the budget should be transparently allocated not through bureaucratic state entities, but through private agencies and companies.

The idea is essentially very simple: just like all the ministries buy their airplane tickets with private agencies (they do not form a ministry for airplane tickets) most of the state functions could be organised similarly!

3. Security matters will call for uniting of Montenegro in regional and European associations. Montenegro has no need or possibilities to have the army. The police would be the professional force to provide security. Montenegro does not need military forces, but professional police and professional custom clearance services.
4. Decrease of police forces, higher professionalism and improvement of the working conditions and wages.
5. International presentations, embassies, representatives in international organisations. Having in mind the importance of electronic communications in general, as well as the need to rationalise all services, only some of the most important points should be covered (Bruselles, Washington, Moscow, Vienna,)

while joint representation with other countries could be established on other points.

6. A new regulatory mechanism in the capital market area directly connected to Parliament (e.g. Securities Commission, Regulatory Agency etc.).
7. Complete economic legislature should be based on liberal basis and regulated through essential rules, free flow of products, services and people, capital, with professional appliance of all EU standards.
8. In the country pleading to be tourists and to collect incomes on tourism, a reform is necessary in the educational area and the area of increasing of communication abilities of all the citizens, e.g. introduction of the second official language – English, aside of Serbian, becomes necessary.
9. Larger investments in culture and art, allowing talented individuals to use software and informatics technologies (being part of international companies).
10. Modernization of the work of the state administration and decrease of the paperwork, which means to use computers and informatics systems.
11. Demonopolization of quasi-state institutions (chamber of commerce, associations, funds) and development of private business associations.
12. Changes of the positions of unions and development of the syndicate of employees in the new private sector.
13. Development of independent institutions and NGO`s.
14. Development of private entrepreneurship in media, new regulative and breaking of the existing monopolies (private and state).
15. Creation of the conditions for normal family life of foreign citizens in Montenegro (schools, kindergartens,)
16. Enlargement of transparency of work of political parties and larger publicity on the sources of financing and fund allocation.
17. Demonopolisation of the school system and the University. Encouragement of private initiative in the area and its internationalisation.
18. Development of philanthropy activities (enabling individuals and companies to invest in various forms of donations and charity work, tax released plus other special rights).
19. National program for development of sports (amateur and professional), particularly motivating companies to support sports and invest in the area.

Each of 19 previously mentioned activities (apart of numerous other) represents a separate project! But it is important to understand that all these activities are not being the result of the pure enumeration, but resulting out of the concept of microstate (meaning the concept of maximal freedom of the individuals and companies).

In my opinion it is not possible to do the transition in the domain of the economy, not changing anything. These changes are stipulated and they are coming out of the same conceptual understanding of the role of the state and market in the economy and society in general.

Practical implementation of the thesis (and lot of others) requests time, planned activities and political consensus!

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Presented concept of the minimal state administration gives only essential shades of the philosophy of the state. Further discussions on it would test it from the practical side and requested conditions. In any case I wanted to point out the danger of the invisible spreading of the state administration and its influence during transition period, which would be, by my opinion great danger for the future development of Montenegro.

I am still confident that an individual, its freedom and property should frame the borders of each state organisation and state authority. Of course, only if an individual does not choose or accept the road leading to voluntary slavery!

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