FACTA UNIVERSITATIS
Series: **Economics and Organization** Vol. 11, N° 4, 2014, pp. 281 - 295

COMPLEMENTARITY BETWEEN THE MARKET AND THE STATE AS A FACTOR OF MODERN MARKET ECONOMY EFFICACY: LESSONS FOR REPUBLIC OF SERBIA

UDC 338.242(497.11)

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Abstract. *Market economy is explained as a system characterized by private ownership and a self-regulating market mechanism which enables the coordination of the activities of economic actors. A thesis that only private entrepreneurship ensures economic prosperity is developed based on this concept, given that economic growth is directly determined by the degree of freedom of economic agents. With no intention to challenge the role of the market mechanism, private entrepreneurship and economic freedom, the author, rather, aims to bring to attention the existence of objective factors which in terms of the functioning of modern market economies introduce the need to establish cohesion between the market and the state, as well as the relevant coordination and control mechanisms. This view is based on the experience of the most developed market economies which have achieved their development goals largely owing to an appropriate symbiosis and complementarity of the market and the state. Accordingly, the aim of the research is to, based on different theoretical concepts and economic reality of modern market economies, underline the necessity that the Republic of Serbia should face the reality regarding the creation of its economic system that both the market and the state would be more successful once the complementarity is established.*

Key Words: *market, state, coordination of economic activities, economic performance, complementarity between the market and the state*.

INTRODUCTION

The ongoing trends concerning the functioning of modern economies, as the causes and consequences of the global economic crisis, primarily give a good reason for reconsideration of theoretical viewpoints, as well as practical experience relating to different ways of organizing and functioning of an economy. In accordance with the Latin

Received November 12, 2014 / Accepted March 25, 2015
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maxim that repetition is the mother of all learning and the position of P. Krugman [2012] that there is a good reason why the old books are back in fashion, we consider it necessary to reconsider the key questions referring to the position and the role of the market function and the allocation and coordination function of the state in the modern economy. Given the fact that the concepts of neoliberalism, extensive privatization and deregulation steered the economy into the vortex of the economic crisis - the greatest one after the Great Depression, it is necessary to, instead of addressing the causes of the crisis, create sustainable models of development that will result in improving economic dynamics, such as creation of new job opportunities. At the same time, this implies that, as indicated by P. Krugman [2012], the primacy of "destructive conventional wisdom" should be dismantled and arguments supporting expansionary policy offered; this policy is to be implemented in order to successfully overcome depression. In accordance with this approach, the attention is again given to the role of the state, which was considered undesirable in the period when the neoliberalism was the most influential concept.

Without questioning the role proven in practice related to the self-regulating market mechanism, economic freedom, individual entrepreneurial initiatives and autonomy of the individual economic agents, the need for the state to play a more prominent role is undeniable, not only in terms of protection of general and long-term interests, but also in terms of an essential factor that would be a driving force and a catalyst for rapid economic growth. This implies the need to discuss the interactions between the state and the market, not only from the standpoint of their confrontation and interpretation of state regulations as a "disruptive" factor in the functioning of the market mechanism, but also in terms of their mutual co-operation, i.e. a situation where a market system has a greater need for the presence of a state with its control and coordination mechanisms. This standpoint is supported by numerous arguments in favor of the fact that even in developed and efficient market economies, the implementation of effective state regulation in the economy of a particular state is fully justified and we can even say necessary. Moreover, the economic history provides sufficient arguments that the state is a crucial factor in the economic development, as evidenced by our extensive experience; it is in the most developed market economies where appropriate symbiosis between the state and the market made it possible to most fully accomplish their set development goals. At the same time, the most developed market economies, instead of allowing a conflicting relationship between the market and the state, foster that of a true partnership between the public and the private sector [Mesarić, 2001].

The concept of mutual dependence between the market and state, as well as between the allocative and coordination mechanisms, as the *main point* discussed in this paper, is *examined in order* to highlight the following key aspects distinctive for this concept:

- Synthesis of the self-regulating market mechanism and the relevant state legislation is one of the vital features of modern market economy;
- Regarding the extremely averse positions of the market and the state, there are a number of viewpoints that point to the possibility of combining liberal and interventionist conceptions;
- The shape, the scope and the methods of state intervention in economic sphere change with the development of the economy and the society, especially concerning the increased complexity of economic interaction;

- Complementarity between the market and the state is essential for the successful functioning of the modern market economy.

These are the *hypotheses* that will be tested in order to substantiate the necessity of objectification of mutual interaction between the market and the state in modern market economies:

H1: Bearing in mind that the coordination of economic activities is achieved through the market and the state as separate institutions, they need to be considered as equal, complementary and mutually dependent components of a single coordination mechanism.

H2: Bearing in mind that the coordination of economic activities is achieved through the market and the state as separate institutions, they need to be considered as equal, complementary and mutually dependent components of a single coordination mechanism.

Research *methodology* employed in this paper in examining the key aspects of the interaction and complementarity between the market and the state, as well as their implications for the level of success in terms of achieving the economic tasks, is primarily that of analytical description.

1. Basic Theoretical Concepts on the Relationship between the Market and the State

There is a long tradition of economic concepts which consider that the only valid role of the state in the economy is the one that defines and enforces property rights and provides public goods, while any other form of government regulation is inevitably inefficient, unnecessary and counterproductive. Namely, it is believed that the state is unnecessary, because all the things the state can do are much more successfully done by the private sector. Therefore, a unilateral assertion that the private sector, due to clearly defined property rights, will always solve all problems more efficiently is established. In doing so, the fact that the existence of institutions that grant property rights, secure contract enforcement and availability of complete information as a precondition for the existence of an efficient market, is overlooked since this requires the active involvement of the state. At the same time, successful economic growth has, in most cases, been accompanied by high levels of state intervention, which represents a powerful counter-argument to the aforementioned general point of view. In other words, the key determinant for the success of economic activities is determined by the existence of an institutional environment favorable for the stimulation and realization of these activities. In this regard, it is important to point to the fact that the institutions cannot be established and developed in an environment where the influence of the neo-liberal model is dominant. The opposing views discussed above require taking a brief review of the different positions related to allocative and coordination mechanisms that are present in some of the most influential contemporary economic theories.

In terms of the neo-liberal concepts, the dominant view is that, in principle, it is not possible to include the state and the market in a particular coordination mechanism given that the state and the market represent mechanisms that are mutually exclusive. The market is considered to be a part of the economic system whose mechanism is based on incentives and sanctions that are implemented by means of competitive struggle, while the state is seen as an element of the political system, which is why the coordination of economic activity is exercised by political rather than economic instruments [Гутник, 2002]. This leads to the conclusion that administrative coordination objectively cancels market coordination. Thus, for example, В. Рёпке [2002] starts from the premise that the task concerning the coordination in each particular case can be solved by prices or by the operation of state authorities. Between the price, as a market category, and the work of state bodies, coordination is impossible, thus a state of chaos arises. Accordingly, it is considered that the economic order can be maintained, either by the market, or by coordination through planning and directives. There is no third option. Such a rigid position on the market and the state (to a greater or a lesser degree) is typical of the majority of the modern economic science approaches, as a result of the dominant influence of neoliberal concepts.

Influenced by the neoliberal concepts, the hypothesis is formed which assumes that the market represents a basic coordination mechanism in terms of economic interactions, while the state, as a part of the political system, complements the market only to the extent to which the market itself is unable to fulfill its functions. However, neither the fundamentally different methodological approaches, nor ideologically opposed positions relating to solving many economic problems, prevent the theoreticians to arrive to the same conclusion: in a particular economy, state implements those actions which cannot be realized by the market in its highest efficiency. In fact, given the position that the market is fully effective only under certain, rather, restrictive assumptions, the main themes of the scientific debates are often appropriateness, scope, forms and methods of state intervention in the economy, without doubting the very principles of uniting the market and state coordination [Leković, 2006].

The state, as a subject of regulation, is present only because the market is unable to solve a certain problem in its functioning by employing its mechanisms. Here, we refer to *market failures*, which reduce the efficiency of coordination performed by self-regulating mechanisms and point to the inability of the market to achieve Pareto efficiency. Accordingly, the general principles of the functioning of the state in the economy are determined by the type of market coordination [Абалкин, 1997]. This approach is also typical of the representatives of other schools of economic thought, with the exception of those who support the concept of direct influence of the state on the economy. F. Hayek [1967] leaves the state out of economic interactions because the market, with its systems of competition and free price formation, is capable of self-organizing economic activity. In this process, each individual has information on prices, which is characteristic of the system as a whole, and at the same time, thanks to the personal knowledge of the actual situation, has the ability to be integrated into the overall system and to take measures that would allow him/her to generate maximum profits. On the other hand, by its intervention in the economy, the state distorts price signals and, consequently, impairs spontaneous order. Therefore, the state is considered as an element of the political system which is essential to facilitating the functioning of markets and, through legal mechanisms, ensuring compliance with the specific rules. Accordingly, F. Hayek emphasizes that the spontaneous order establishes itself due to the universal rules of conduct that protect private ownership. In such a system, it is necessary that the primary function of the state is limited to the control of these rules.

The supporters of the ordoliberalism (compared to the views of the supporters of the neoliberalism) point to the need for greater participation of the state in regulating economic interaction. According to П. В. Гутник [2007, 9], the representatives of this school of economic thought believe that it is unrealistic to reduce the role of the state in the economy only to the regulatory function, i.e. support to the business conduct rules. The role of government is fundamentally different and is manifested in the creation of rules, as well as in amending such rules when they cease to be effective. The corrective role of the state is accentuated, given that the market is not able to achieve its coordinating role without appropriate rules that are provided and rectified by the state. In fact, the distortions in economic processes are caused by the external factors that cannot be addressed by the market system itself, therefore the support of the state is indispensable.

However, according to Post Keynesians, the basic role of the state cannot be reduced merely to eliminating the negative externalities and monopolies. The role of the state is reflected in the enforcement of the warning or real coercion, in order to enable fulfillment of contractual obligations, i.e., the state is liable to ensure their implementation. As И. Розмаинский [2010] warns us, if there were not for such a role of the state, the confidence in the contract enforcement would be lost, hence forcing the economic agents to avoid entering into contracts, which brings into question the direct role of the market. Hinting at those economists who support the views of politicians who oppose higher spending saying that the government cannot create jobs; P. Krugman [2012] points to the need to address the functioning of the economy based on the evidence, not prejudice, bearing in mind empirical studies that have confirmed the effects of changes in government spending. Namely, the increase in government spending generates economic growth and hence creates new jobs, which explicitly means that the state represents an indispensable factor in the economic performance and success of the market economy.

The analysis of the relationship between the state and the market in terms of institutional economy includes viewpoints of the theorists who belong both to traditional institutionalism and new institutionalism (neo-institutionalism). As far as the traditional institutionalism is concerned, the state is seen as an institution that develops and provides general rules in order to increase prosperity and justice. In accordance with the methodological individualism, as the methodological approach of the traditional institutionalism, it is considered that the state should be included in the economy in order to facilitate the efficient functioning of the market. Regarding new institutionalism, the state is analyzed as the creator of formal rules and the guarantor of their enforcement, therefore a theory is developed which sees the state as an organization that brings together economic actors who seek to influence political decisions with a view to maximize personal gain. However, this approach fails to examine the market and the state as institutions of coordination; rather, it supports the approach characteristic of the neoclassical understanding of the functions of the state which is based on the concept of market failure: high transaction costs relating to the protection of property rights and competition, establishment of the information exchange channels, provision of public goods, etc.

The main problem the neo-institutional analysis is concerned with is how to restrict the power of the state, or, as O. Williamson [1985] puts it, to provide citizens with an appropriate set of *ex ante* protection against the possibility of *ex post* opportunism of the state. Analytical concepts dealing with the property rights, transaction costs and contract theory are very useful in terms of their application to the state. D. North [1981] sees the state as an organization that possesses comparative advantages in terms of coercion. In other words, the state is the guarantor of the system of economic relations as it applies coercion along with other forms of economic activity.

In this way, the economic role of the state is that of regulating the economy as a unified system. On the one hand, it supports the functioning of the market mechanism; while on the other hand, the state corrects its functioning and eliminates negative consequences. It can be said that the major disagreements arise on the extent of government intervention in the economy; however, the prevailing position is that the state is obligated to act primarily concerning the different incidents of social failure. This is the generally accepted practice worldwide regarding the utilization of state property.

Therefore, it is safe to conclude that the main schools of modern economic thought consider the market and the state as belonging to the different sectors of society and therefore in opposition to one another. The market is seen as belonging to the economic sphere, while the state is seen as a part of the political system. Hence, their roles are interpreted as mutually compensating one another, whose polarities are different - economic principles of the market and political principles of the state authorities. Such an understanding simplifies the socio-economic reality, which is characterized by complexity, dynamism, comprehensiveness and equivocalness, which represents a significant risk in practice, since this opens the door to the possibility that each side is reduced to an unjustified minimum.

2. Why is the State Necessary in the Modern Market Economy?

The analyzed theoretical approaches referring to the relationship between the market and the state rules provide an opportunity to make certain generalizations. Clearly, the point is to provide an answer to one of the key economic and social issues: how to organize the economy and the society in order to make better use of available resources? The answer to this question largely depends on the manner in which the relationship between the state and the market elements is established when making economic decisions. Not denying the fact that the market makes the most efficient mechanism of economic decision-making and allocation of the factors of production, one should take into consideration the fact that modern economies function as a combination of market and state regulation [Leković, 2006]. However, despite this reality, there are still dilemmas both in economic theory and economic practice about the character and the degree of state participation in the economy and its interference regarding the functioning of the market. The often neglected fact is that the state, as the creator of institutional arrangements in the economic system and the creator of instruments and measures of economic policy, has the responsibility for the performance of the economy as a whole, as well as the creation of a favorable environment in which the business entities operate. In this regard, it is necessary to establish such a role of the state that will not diminish the facilitating function of market competition, regulation and allocative mechanisms of the market, freedom, initiative and creativity of individuals and economic entities. Rather, the state should initiate, coordinate, direct and support the activities of autonomous economic entities to fully develop their entrepreneurial potential. In other words, the essential role of the state is that of a catalyst and an assistant, motivator and a helping hand of the private sector. This means that the role of the state is seen as a complement to the functioning of the market mechanism when this market mechanism is unable to solve the economic problems adequately by itself. After all, the overall socio-economic development in the world in the 20th century has shown that we need an effective state that will support sustainable economic development and have a major impact on the economic and social well-being.

In search of the concept of a desirable relationship between the market and the state, it is necessary to start from the position that the state regulation does not replace the market mechanism - it supplements it. The lack of competitiveness in certain segments of the market is the main reason for the application of state regulations. In other words, the function of the state is to improve the functioning of the market mechanism. This function will be best achieved when complementarity is established between the market and the state. The concept of complementarity is based on the view that the coexistence of two or more constituent elements of a given system contribute to improving the performance of each particular element thanks to the mutual complementary relationship [Hall & Soskice, 2001].

When formulating a position on the relation between the market and the state, it is necessary to bear in mind that the economy is only one of the important constituent elements of a unique social organism whose components are closely connected. Therefore, when considering the relevant issues of socio-economic development, it is essential to equally treat actions, reactions and mutual relations of the basic actors - the government and the economy, as well as their contribution to achieving the goals of the society. Their interaction usually follows the following scheme: the state stimulates and regulates the economy and, at the same time, supports the organization of the society; the economy determines the possibilities and potential of the state and provides a clearer definition and achievement of the economic interests of society. In fact, although the self-regulating function of the market is irreplaceable in terms of business processes and motivating efficient operations of business entities, it is essential that the market is regulated; however, at the same time, measures of regulation and control must rely on the market mechanism, as well as neutralize adverse effects of the spontaneous operation of this mechanism. The most frequent, as well as the largest mistake that the state can make concerning the industry is to create policies that allow static, short-term benefits, since in this way innovation and economic dynamism are unintentionally hindered [Porter, 2008]. In its role as a catalyst and an instigator, the state should support companies that are struggling to raise the level of competitive advantage. Regardless of the fact that the government (state) does not create competitive sectors, since this can be done only by companies, it contributes to this goal by creating an environment in which companies can gain competitive advantage.

Taking into account the integrative relationship between the state, the society and the economy, O. Bogomolov [2010] indicates that the state in the economy is affected by the leading ideological doctrines: the state of social awareness, government policy, political orientation, professionalism and efficiency of the administrative apparatus and the legal responsibility of democratic institutions. In accordance with these relations referring to the state and the economy, i.e. the market, the reasons why the modern market economy cannot function successfully without the establishment of an effective mechanism of complementarity with the state are quite clear.

The neoliberal concepts insist on the view that it is only possible to make rational economic decisions under the conditions of unrestricted, free market, availability of complete information on all consumer preferences and knowledge of the demand and supply. However, the reality of the functioning of the market shows that the market cannot successfully perform its regulatory role, since the information provided is incomplete and not equally available to all economic actors. B. Greenwald and J. Stiglitz [1986] show that free market cannot effectively perform its regulatory role since the information that it provides is incomplete and not available to all economic actors. In this respect, although the market mechanism is irreplaceable in terms of the self-regulation of economic processes and motivation of economic agents for effective and efficient operations, it is necessary that this mechanism, due to its limitations, is aided by the state in its corrective role.

By imposing the neoliberal development model as the only option, it is often ignored that in modern conditions there are other models of economy in which the state has a significant regulatory role. In this regard, the Report of UNCTAD [2009] entitled *The Global Economic Crisis: Failures and Multilateral Remedies*, given the state of the economies of the leading Western countries and the world economy as a whole, emphasizes that the "market fundamentalist laissez-faire of the last 20 years has dramatically failed the test ". According to this view, in order to overcome the problems that are the result of the systemic failures, it is necessary to review and even abandon key neoliberal viewpoints which enabled the full financial deregulation, which led to the global economic crisis due to proliferation of currency speculation.

In terms of the model that successfully fused both market and state regulatory and coordination mechanisms, one should mention the experience of the Scandinavian countries where the social orientation of the economy and government policy achieve very successful results over a long period of time. In this respect, L. Thurow [1997] emphasizes that the welfare state was not implemented by "wild leftists", quite the opposite, its creators were learned aristocratic conservatives (Bismarck, Churchill, Roosevelt), who adopted the policy of social welfare, not to destroy, but to save capitalism.

Critics of the state's role in the economy believe that such a role is inefficient, due to the incompetence of its officials and the fact that it is too bureaucratic and corrupt, therefore the decisions made by the state cannot be considered objective. Although the author agrees with the above mentioned positions, he also wishes to point to the question whether the issues about the relationship between the state and the market are approached by taking into consideration comprehensive and objective assessments in respect to the market system. Namely, are the market participants infallible in their operations? People often fail to notice that private businesses that seek to increase their profits are also associated with numerous cases of business malpractice, tax evasion and evasion of other liabilities and even criminal activities. Therefore, as O. Bogomolov [2010] rightly points out, the dilemma between the free market or state control and involvement in the functioning of the market system is artificially imposed. Instead of this dilemma, it is necessary to establish an economic system where these two control and coordination mechanisms will be complementary and in function of successful operation and functioning of the economy and the state. In such a system, the state will contribute to creating a business environment that will be favorable for economic actors and will positively influence increase in both domestic and foreign competitiveness by creating an institutional environment and providing efficient management. At the same time, the task of the state is to support domestic economic actors in order to help them gain competitive ability for more equal participation on the global market. This approach is typical for the most developed market economies, and there is no reason to impose different business models on developing countries and economies in transition.

Given that the market is not able to establish and maintain economic balance, periodic recessions and crises are inevitable, the most serious consequences of which are the mass unemployment and the increase in economic and social inequalities. In addition, it is necessary to bear in mind that the pronounced liberalization preceded majority of the crisis, i.e., the functioning of unregulated or insufficiently regulated market. At the same time, given that the market is controlled by its strongest actors, it cannot have the role of an imaginary mechanism through which prices send signals that are the basis for making rational economic decisions by the economic actors. In this regard, government intervention in the economy is indisputable due to the economic, social and political realities of modern economies, since market coordination can be successful only if complemented by the state regulation [Hoff & Stiglitz, 1999]. Government intervention does not extrude market leverage, but protects competition and at the same time safeguards the interests of society. State regulatory rules complement self-regulation of the market, thereby creating the conditions to achieve optimal use of available resources and to enable sustainable economic growth. "The visible hand" of the state needs to be introduced in circumstances where "invisible hand" of the market fails in terms of resource allocation.

The attitude towards inflation is quite an interesting one, as it represents one of the most common phenomenon and indicator of macroeconomic instability. Typically, in accordance with the monetarist approach, inflation is explained as the phenomenon that is the result of disparity between the money supply and the real resources. In accordance with these interpretations, the restricting of the money emissions and limiting credit creation is recommended, thus sterilizing the money supply. What is overlooked is that inflation may be a result of rising production costs, due to the growth of raw material prices, higher wages, more expensive imports, etc. Also, the price increase is affected by various monopolistic agreements, inflationary expectations, tax burdens, political instability, and the degree of confidence in the stability of the economic system. Considering the aforementioned possible causes of inflation, it is necessary that the implementation of the anti-inflation program includes different methods whose creator and proponent is the state. The most effective way for establishing and maintaining price stability in the long-term is to stimulate the production and supply of domestic goods and services. The state is an important factor in stimulating the implementation of this economic strategy.

As one of the critics of the neoliberal doctrine, L. Tarrow [1997], contrary to the traditional interpretation of inflation, considers that there is no empirical evidence that moderate inflation has a negative impact on economic growth, i.e., the negative correlation between the inflation and rapid economic growth has not yet been verified. As an illustration of this viewpoint he mentions Japan, where, despite the high inflation rate, successful economic growth and development has been achieved. Tarrow's position is that growth is not hindered by inflation, but the government measures that imply restrictive monetary policies implemented in order to fight inflation. The consequence of the recession is the growth of unemployment. The people who have lost their jobs are left without income, therefore they do not have any benefits from price stability, but rather, they become victims of monetarist measures to curb inflation. Inflation has negative effects only when it grows into hyperinflation and it is when speculative businesses become more profitable than legitimate ones.

Concerning the issue of unemployment, the position of the neoliberals is that unemployment rate is high because people do not have proper qualifications for the jobs that are offered. In this way, the responsibility for the situation of high unemployment is shifted from the state to the economy and the unemployed people. However, if this position is correct, the question is why the workers possessing required qualifications are not employed. The conclusion is that the problem is not in qualifications of workers seeking employment, but in fact, according to Krugman [2012], here we have the economy crippled by insufficient demand, in which the entire private sector is trying to spend less than it earns and the result is lesser income. By comparing an economy that is in crisis with a car that cannot start because its battery is empty, the author emphasizes that the problem is not in the economic machine, because it is as powerful as ever. This is a technical problem of organization and coordination. As Krugman [2012] puts it: "solve this technical problem and the economy will roar back into life". The solution to this "technical problem" is in higher government spending whose effects have been verified by empirical economic research.

In addition to the inability to maintain macroeconomic stability, which is why the cyclical recession becomes an inevitability of the market system, the market mechanism creates disparities in the distribution of income. According to J. K. Galbraith [1995], free operation of the market mechanism inevitably leads to unjustified inequality in income distribution. This leads to distortion in the exploitation of resources by "diverting them from *meeting* the necessary *needs of the majority* to satisfying the *most esoteric needs of minority*". The market, in this way, instead of rewarding differences in abilities and work output undermines the economic and social stability. To ensure that these deviations caused by the market distribution could be corrected, and in order to establish social equilibrium, it is necessary to progressively tax luxury products and to increase the supply of public goods and services. The implementation of these measures which target the distortions caused by the free operation of market mechanism requires an active role of the state. As an indicator of state intervention in the distribution of national income, the experience of developed market economies can be mentioned where the share of the state budget in GDP ranges from 35% to 60%.

Investments are one of the most important issues of every economic system. With this in mind, J. M. Keynes [1987] warned even before the Great Depression that important issues such as deciding on the level of savings and investments cannot be left to private initiative. Given that the investments represent the requirement for the economic growth and development, it is essential that the economy creates a favorable environment that will motivate investors to invest capital. This environment is not created by the economic actors; it is the result of rules by which economic activity takes place, i.e. institutional environment. The responsibility for creating such an environment and granting of its functioning lies with the state. If the state is effective, if the bureaucratic procedures are performed without hindrance and if the political stability is present, investors have confidence in the legal and economic system, which results in their willingness to invest in such an economy, which in turn drives economic dynamics and creates new jobs.

In order to establish symbiosis and complementarity between the market and the state, it is necessary that the ideology of neoliberalism, which promotes exclusive and ruthless pursuit of profit maximization, is replaced with a more comprehensive understanding of the economy, which will in a more inclusive way evaluate social, demographic, environmental and psychological consequences of economic decisions. In other words, it is necessary to establish a balance between individual and collective needs and interests, which means that the market mechanism should be complemented by regulatory and corrective action of the state. As indicated by J. Stiglitz [2010], it is necessary that the ideologies of egoism and utilitarianism, represented by the neoliberal doctrine, be replaced by the ideology of humanism and solidarity. Only such an ideological paradigm can be the basis for an economically successful and socially acceptable society. It is vital to establish a true symbiosis between the market and the state regulation so as to reach complementarity. The state is expected to kick-start, direct, coordinate and assist the activities of autonomous economic entities to develop their full potentials. The role of the state should be understood solely from the perspective of creating objective conditions for the efficient functioning of the market mechanism. At the same time, in search of the way in which the state and the market could successfully cooperate and support each other (which implies that the state should be more efficient), it is necessary that the state relies more on the market and similar mechanisms.

3. Recommendations for the Economy of the Republic Of Serbia

When the transition process begun, its flow was directed in a one-way direction towards the development of the market system, according to a pattern created on the basis of neoliberal concepts, with the decisive influence of the *Washington Consensus*. Expectations that the development of the free market and its mechanisms would solve all the problems of restructuring and increased efficiency were dominant. Proponents of this concept believed that the implementation of liberalization, deregulation and privatization would lead to rapid transformation of the economy and thus create the conditions necessary to initiate the economic growth. This concept disregarded the reality that the economy can function based on the principles of economic liberalism only in special conditions which were not characteristic of any transitional country. Therefore, the dominance of the neoliberal concept is considered as one of the reasons for the large transition costs and social tensions, which are present in almost all countries in transition during the process of implementation of their socio-economic reforms. At the same time, market reforms implemented in China and India, which are characterized by unconventional economic policies, and which include a high level of market security, small extent of privatization, government-directed industrial policy, weak fiscal discipline and financial closedness [Rodrik, 2008], have resulted in high level of economic performance and most dynamic rates of economic growth.

Faced with the problem they wanted to solve as soon as possible, the creators of the programs for overcoming economic transition did not take into consideration the reality that in modern societies there are different forms of democracy and markets which are the products of particular historical circumstances, traditions of individual nations and the level of cultural development. Attempts to create an economic system based on the model of today's developed countries, such as the United States and EU member states, could not provide desired results because of ignoring the reality of the long-term historical development of these economies and societies, which is why this prefabricated economic models could not be immediately “imposed” on the countries which are at a much lower level of development. As O. Bogomolov [2010] points out, the methods of social engineering and shock therapy cannot produce a shift in the attitudes and behavior of people in a short time, nor force them to accept new spiritual and moral values. Imperceptive acceptance of the model of social and economic system that works in developed countries, including the disregard of the historical experience of particular countries, led the majority of former socialist countries in serious economic and social difficulties. In the absence of a carefully planned strategy of the transition process, one-sided forms of democracy and market relations appeared, which resulted in sharp polarization of the society.

The experience in the implementation of the transition process, thus far, has confirmed that the active political, economic and social role of the state is essential, because the state represents the entity that will conceptualize, initiate, organize, regulate and control this process. The active role of the state does not imply the role of the state in the capacity of business owners and their administration, but as an architect of institutional arrangements and the bearer of the infrastructure development. Internal development and institutional relationships, which are essential for the creation of the system's stability and its efficiency, cannot be successfully achieved through general liberalization of economic relations. Key factors that have a decisive influence on the position about the manner of regulating economic relations and coordination of economic activities are the following:

- Despite the evident limitations and shortcomings, free market is necessary as a mechanism of self-regulation, motivation, dynamics and optimization of economic processes, however, it should be complemented with active government regulatory, corrective and complementary functions, as well as the protection of general social and long-term interests;
- When creating the economic system, the goal is not only to build an efficient, stable and dynamic economy, but, primarily, to build a just and humane society;
- The balance between the public and private interests, i.e. the achivement of economic efficiency and scial equality should be provided by the active state involvement.

In terms of the extent of the involvement of the state in the economic activity, according to F. Fukuyama [2005], it is necessary to distinguish between the scope of the state competencies in exercising different functions and objectives, and the capacity of the state, which is reflected in its ability to clearly and transparently plan and implement policy decisions, which presents direct institutional competence. Unlike the scope of state competencies (security and protection of public order, social and health insurance, education, etc.), whose hierarchy is inconsistent, the capacity of the state actually involves institutional capacity, whose strengthening should be the top priority in every country. Institutional capacity implies the ability of the state to formulate and execute policies and enforce laws and regulations, to have an efficient and small public administration, to control corruption and bribery, to maintain high level of transparency and accountability of government institutions and, primarily, to guarantee the abidance and enforcement of the laws. The above mentioned properties imply variations in the stability of the state in the implementation of various functions. For example, the success of the state in securing public order and peace, rule of law, public health, education, economic regulation and the like will vary. It turned out that many countries that created their policies in accordance with the *Washington Consensus* during the transition process, and thus reduced the scope of state jurisdiction, weakened the existing institutional capacity, which resulted in introduction of new functions of the state that had not previously existed.

The state has special importance in an environment of incomplete institutional structure and structural imbalance, (as is the case with the Republic of Serbia and the majority of economies that are currently in transition) when it is necessary to take responsibility in terms of setting the priorities of the transition process and in the creation and implementation of the economic policy. In terms of the economic environment, the role of the state is to create institutional framework and such business environment that will encourage and reward investors, both domestic and foreign ones, and motivate them to invest in innovative activities that include new technologies and more efficient ways of doing business, which is an essential prerequisite for profit maximization. At the same time, by creating a favorable institutional environment, the state contributes to the reduction of economic and any other risks, which is one of the key tasks of the state as a regulatory factor and which enables the more efficient functioning of the market itself.

Since the stimulation of economic growth and development is priority for the Republic of Serbia, as well as all other transition economies, one of the most acceptable concepts is that of a developmental state, which is essentially characterized by the following:

- Responsibility towards the economic, political, social, development and institutional issues;
- Active participation in investing and direct channeling of development processes;
- Establishing and regulating the relations between the economy and the policy that supports sustainable industrialization;
- Establishment of the professional and efficient control mechanism, which is distinctive for its managerial capabilities;
- Harmonization of the state intervention with the goals of the private sector and the functioning of the market mechanism, i.e., complementarity between the strong state and the free market;
- Promoting economic development based on productivity and competitiveness.

In seeking an answer to the question of what kind of relationship should be established between the market and the state in a particular country, it is necessary to bear in mind that there are no universal formulae for success. Some concepts are valid for one time period, but not for another, some concepts have proved successful in some countries but in others they had not been very successful. Social and economic reality indisputably shows that the state is always present in the economy and that no one, except a variety of extreme liberals, can claim that the state should be left out in this respect. The task of the economic theory is to persistently explore different combinations of market and state interaction in different conditions and in different environments, as the economic theory has itself evolved thanks to its successes as well as failures.

CONCLUSION

Creating the conditions necessary for the successful functioning of a market economy implies the need to clearly define the role of the state, i.e., to find a suitable form of its efficacy as an allocative and a coordination mechanism, in order to successfully realize the complementary and corrective function in terms of the market. In other words, an efficient institutional system that defines the environment in which the market operates is an imperative, given that in poor institutional environment an increase in the arbitrariness of the state authorities and their officials inevitably occurs which leads to the poor functioning of the market system. This is particularly significant for the societies where the free market is established through the process of transition, because the transition to a market economy is not just about liberalization and the introduction of private property, but, above all, the establishment of adequate market institutions.

The significance of the state is supported by the fact that it is the state that introduces the essential harmony in functioning of the economy, and its role is exercised in accordance with its own institutional capacity. In order to consolidate its productivity, the following three interrelated institutional blocks are vital: defining the rules and ensuring their implementation; establishing competitive environment, both in the country and abroad; initiating establishment and promoting of partnerships both in the economic sphere and the society.

Modern economics has wholeheartedly embraced the institutional guardianship of the state, since, thanks to this kind of support, the economy was able to concentrate on the continuous improvement of its performance. In this way - more out of necessity than out of substantive systemic reasons - an alliance between the state and the economy is established. Accordingly, the economic necessity imposed the need to establish a symbiosis between the state and the market, sometimes acting as allies and other times acting as rivals. Theoretical and methodological analysis of different conceptions of the relationship between the market and the state in a modern economy, as well as references to the reality of the overall socio-economic development, provide sufficient arguments to confirm the hypothesis of this study.

In search of the optimal mode of the influence of the state on economic activity, the emphasis is on increasing the efficiency of the state in implementing its functions. Since the inefficiency of the state apparatus produces the additional non-production costs in the economy, it is necessary that the state follows certain market principles. This is one of the basic requirements that enables the state to fulfill its functions in terms of securing firm rules of the game for all economic actors and thus, in the best way, contribute to the creation and development of a true market environment. To put it briefly, the state and the market are connected by a network of interrelations and interactions, which include not only the components of conflict and substitutability, but also the equally firm elements of complementarity, which is a prerequisite for their effectiveness, as well as the economic performance of modern market economy.

Acknowledgement. *This paper is a part of the research project No. 179015 funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia*.

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KOMPLEMENTARNOST TRŽIŠTA I DRŽAVE KAO FAKTOR USPEŠNOSTI SAVREMENE TRŽIŠNE PRIVREDE: POUKE ZA REPUBLIKU SRBIJU

Tržišna privreda se tumači kao sistem koji karakterišu privatnosvojinski odnosi i samoregulišući tržišni mehanizam, kojim se ostvaruje koordinacija aktivnosti ekonomskih aktera. U skladu sa takvim shvatanjima, dalje se razvija teza da jedino privatno preduzetništvo omogućava ekonomski prosperitet, s obzirom da je ekonomski rast direktno uslovljen stepenom slobode ekonomskih subjekata. Bez namere da se ospori uloga tržišnog mehanizma, privatnog preduzetništva i ekonomske slobode, cilj je da se u radu ukaže na postojanje objektivnih faktora koji uslovljavaju potrebu da se, u funkcionisanju savremenih tržišnih privreda, ostvari uzajamna povezanost tržišta i države, kao koordinacionih i regulatornih mehanizama. Ovaj stav se temelji na iskustvima najrazvijenijih tržišnih ekonomija, koje su svoje razvojne ciljeve ostvarile, dobrim delom, zahvaljujući odgovarajućoj simbiozi i komplementarnosti tržišta i države. Shodno tome, rezultat istraživanja je da se, na bazi različitih teorijskih stanovišta i ekonomske realnosti savremenih tržišnih ekonomija, ukaže na potrebu da se u kreiranju ekonomskog sistema u Republici Srbiji uvaži realnost da će i tržište i država biti uspešniji kada je njihov međusobni odnos komplementaran.

Ključne reči: *tržište, država, koordinacija ekonomskih aktivnosti, ekonomska uspešnost, komplementarnost tržišta i države*.