DEVELOPMENT, COMPETITIVENESS AND INEQUALITY IN EU AND WESTERN BALKANS

BOOK OF ABSTRACTS

Editors
Mirjana Radović Marković
Snezhana Ilieva
Nenad Vunjak

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PREFACE

It is important to bear in mind that the inequalities are widely recognized as barriers to development. In this context, the post---2015 development agenda will need to be based on equality and inclusive growth.The new development framework should **ensure** equal opportunities for all population groups.

The Conference provides many examples of inequality - economic and income inequalities, unequal concentrations of wealth and poverty, inequality of employment and work and social inequalities and discrimination of gender and marginalized populations.

The aim of the Conference has been to add value to the current state of knowledge on development, inclusive growth and inequality in EU and Western Balkans by critically evaluating the existing literature on these issues and through original research.

November, 2015.

Editors

Mirjana Radović Marković
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Part I.
INNOVATION, GROWTH AND COMPETITIVENESS

1.1. COUNTRY'S GLOBAL CONNECTIONS AND ITS IMPACT ON ECONOMIC GROWTH – CASE OF CEE COUNTRIES

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In this paper an analysis of growth anatomy of Central European (CE), Former Soviet Union (FSU), and South East European (SEE) countries in the era of globalization is given. It is well known that in the era of globalization it is not possible to understand "growth of nation" without taking into consideration the movements in global world setting. Having regard to this fact, in this paper we made an effort to give detailed analysis of all relevant channels through which particular countries are linked with their global economic environment as well as interconnections and development of these sets of channels. Second, our research is aimed toward identifying the impact of thus formed set of channels on economic growth of respected countries.

Paper starts with short presentation of traditional sources-of-growth-analysis for all former socialist countries enumerated above (from now on, CEE countries), with special emphasis to the results referring to contribution of Total Factor Productivity (TFP) to economic growth. Additionally, comparative analysis of these results with those referring to other European countries given in different previous research is done. Based on these findings, along with research referring to impact of fundamental factors on growth of respected countries, growth diagnostics for all respected countries as well as for whole set of CEE countries is derived.

Second part of the research deals with analysis of demand and sectorial structure changes in respected set of countries and with its impact on economic growth.

Both kind of structural changes, expenditure side and industrial, are decomposed on volume (quantitative) and price effect. This research show that in respected period all those changes have been under strong and very often dominant impact of price effect. This is natural result of liberalization of trade and capital account that occurred in CEE countries in respected period – 1990-2013. Especially important are, in that respect, changes in share of export and import in GDP. Decomposition of their share in GDP changes on price and volume effect is very insightful, because it clearly demonstrates the impact of liberalization on GDPs structural changes and its growth via the changes in terms of trade. Even more important is analysis of changes of share of investment in GDP. Price effect in this case presents impact of two kind of "embodied" technical changes on structural changes and GDP growth. Apart from effect of conventional "embodied" technical progress, price effect capture, in this case, also effect of import of "cheapest" (not necessarily "best practice") technology from abroad. All these demand side changes have had strong impact on industry structure changes. Especially are important, in that respect, changes in share of Manufactures and other tradable sectors as well as of non-tradable services sectors. All their changes in GDP share are also decomposed on prices and volume effects. Numerous conclusions follow from this kind of investigations. They dominantly refers to the issue of deindustrialization as well as to some, rarely analyzed, issues effects of cost decease that very often follow development of non-tradable services.

Next part of research deals with impact of real exchange rate on economic growth. It is supposed to shed additional light on results obtained in previous part of research. Real exchange rate undervaluation (or overvaluation) and its movement in different years for different countries are identified following several different models and using panel econometric procedures. After that, impact of different factors on real exchange rate overvaluation is identified. Data on terms of trade and relative price movement, identified in previous part of research, are used in this investigation on the top of other data used in previous research. Final part of this section deals with impact of real exchange rate movement on economic growth and with its impact on absolute and relative contribution of Total Factor Productivity (TFP) and other factors of growth. Other factors that, simultaneously through and apart from real exchange rate, might have had impact on growth rate are also investigated (direct foreign investment, capital inflow …).

Additional insight on growth anatomy of CEE countries is obtained using analysis of export basket sophistication. First, PRODY index is calculated for every

exporting industry in each year. This will point out the sectors with the highest income potential. Based on PRODY for different industries, EXPY index is calculated for each country for each respected period. In the next step we decomposed movements of EXPY on effects of structural changes and effects of changes in PRODY. This is very important insight due to the fact that liberalization of trade account, experienced in last couple of decades in respected countries, should have been followed with strong changes of PRODY. In this respect we will discover whether the level of export basket sophistication changes because export structure moves from less sophisticated to more sophisticated goods or because of changes in global level of productivity movement. A similar procedure is applied for countries import basket. More precisely, this analysis will show the level of income that is lost because countries are not competitive on the international market. From the calculated indexes we create a measure of countries sophistication level of import basket. We further decompose movements of this measure on effect of structural change and on effect of productivity change.

Key words: *globalization, economic growth, price effect, volume effect, EXPY, PRODY, direct foreign investment, real exchange rate, growth accounting, TFP*

1.2. COMPETITIVENESS AND PROSPERITY IN SOUTH-EAST EUROPE

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Trying to create favorable environment that will ensure economic growth and development, decision-makers, at global and national level, are increasingly recognizing competitiveness as one of the important economic policies. Thus, the competitiveness of the economy is set as research focus of a lot of international institutions and national policies. However, it seems that there is not enough understanding of the concept and competitiveness policy, especially in transition countries. Bureaucratic adoption of regulations and rules applicable to regulated-competitive systems is not sufficient requirement, and usually not needed, for strengthening national competitiveness. In order to define appropriate effective policies and measures, it is necessary to understand and appreciate the national context and characteristics.

This is especially important in South-East Europe countries which geographically belong to Europe and are bordered by some of the most developed countries in Europe but are still economically backward and often on the margins of political and economic processes. South-East Europe countries missed the industrial revolution, the Enlightenment period and the golden years of economic development at the end of the twentieth century, wandering through the divisions and conflicts. After more than fifteen years since the beginning of the transition from a socialist system to a market economy, South-East Europe countries today significantly straggle behind the developed countries of Europe.

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Part I.

SEE countries recognize policies of improving competitiveness and improving the business environment as the opportunity to accelerate economic growth.

This paper analyzes several issues related to competitiveness and economic growth, with a special focus on the region of South-East Europe. Some of the most important questions that require an answer are: Does the greater competitiveness of the economy as a rule (and necessarily) leads to faster economic growth? Do developed countries have an advantage in providing greater competitiveness of their economies? Have the countries of South-East Europe improved their competitiveness during the transition period? Is the slow convergence of South-East Europe countries consequence of lack of competitiveness?

The link between competitiveness and economic growth is analyzed on the basis of indicators of Global Competitiveness Index which The World Economic Forum publishes since 2004. The paper analyzes the examples of countries which are the best and worst ranked on the list of global competitiveness, as well as countries that have achieved the biggest progress or have regressed in last 10 years. In particular paper analyzes the development or regression of SEE countries.

Additionally, paper discusses the indicators of the favorable business environment in the SEE countries, based on the World Bank report "Doing Business". Constraints to economic growth and prosperity of the countries in the region are identified in the context of competitiveness and business environment indicators. Considering the restrictions and bottlenecks of development is the basis for defining policies that decision-makers should implement in order to create conditions for faster sustainable economic growth and more rapid process of convergence.

Key words: *competitiveness, economic growth, South-East Europe, transition, development*

1.3. COMPETITIVENESS AND INEQUALITY IN CEFTA AND SELECTED EU COUNTRIES

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For the last thirty years, the phenomenon of improving competitiveness and innovativeness has been at the top of the list of economic policy goals in most economically prosperous countries. Although there is still no compatible and uniform methodology for measuring competitiveness and especially innovativeness as factors of national competitiveness, in practice we encounter several methodological tools for measuring competitiveness. However, only the World Economic Forum in its index explicitly uses the term competitiveness, and defines it as the set of institutions, policies and factors that determine the level of productivity of a country; the WEF also uses calculation of a country's innovativeness for determining national competitiveness (Schwab & Porter, 2007).

In economic theory there is a consensus that progress in economic performance of a country may not be at the expense of other countries, and that productivity is a central problem of competitiveness. So, improving competitiveness is aimed at achieving higher productivity, which in turn increases living standards.

Economic inequality is most often expressed through income. The explanation should be sought in the widening of income gap (within individual countries and among them), as well as in new insights about relationships between inequality and growth and between inequality and competitiveness. Contrary to previous beliefs that higher income inequalities are favorable to economic growth, recent

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research shows that a more equal distribution of income through various channels, can act as the efficient driving force of economic growth.

The paper makes an attempt to identify the character of the relations between a country's competitiveness and innovativeness trends and economic inequality. The basis for defining competitiveness and innovativeness is WEF's GCI framework with 3 sub-indices, while the level of economic inequality is quantified by the GINI index, according to the World Bank and Eurostat data. The initial idea of the assumed influence model is to distinguish between the so-called *basic competitiveness* (which is dependent on the basic requirements and efficiency enhancers) and *innovation-driven competitiveness*.

We carry out a multiple linear regression analysis of the influence of GCI basic competitiveness and efficiency competitiveness as a single independent variable (X_1) and GCI innovativeness as another independent variable (X_2) on the GINI index as dependent variable (Y). The research is focused on two population groups: a) group of countries that have been or are current members of CEFTA and b) EU-15 group of countries.

Based on the designed influence model we formulate the null hypothesis regarding the synergic effect of competitiveness and innovativeness on reducing economic inequality:

H0: The achieved level of national competitiveness (X1) and the level of national innovativeness (X2) exert a desirable negative synergic influence on the exogenous variable – economic inequality (Y).

In addition to the null hypothesis, because of the variety of economic structures in European countries we formulate the auxiliary hypotheses, which should point to the importance of individual influences of the two independent variables (competitiveness and innovativeness) on the GINI index value: H1: the achieved level of national competitiveness (X1) exerts a desirable negative influence on the GINI index (Y); and H2: the achieved level of national innovativeness (X2) exerts a desirable negative influence on the GINI index (Y).

Based on the formulated generic model, we define dependence of Y (GINI) on the independent variables (variables X1 and X2).

$Y = a_0 + a_1 * X_1 + a_2 * X_2$ *(1)*

where:
- Y (the dependent variable) – *GINI index*; X_1 (independent variable 1) – GCI *Basic & Efficiency competitiveness*;
- X_2 (independent variable 2) – GCI *Innovativeness*;
- a_i (i = 0 - 2) – are constants acquired from multiple regression process.

The defined model of the influence of competitiveness and innovativeness on economic inequality is explored in two predefined groups of countries: (1). CEFTA – former and current members (CEFTA countries) and (2). EU-15 group of countries

The results show that:
- GCI *Basic requirements & Efficiency enhancers adjusted* (Variable X_1) as a representative of the basic competitiveness of the economy exerts statistically significant influence on the GINI index: in the group of CEFTA countries influence coefficient is about -3.7 (increase in variable X_1 reduces the GINI coefficient), while in the group EU-15 influence coefficient (about 2.3) has the positive sign (increase in variable X_1 causes an increase in GINI coefficient).
- GCI *Innovation and sophistication factors* (variable X_2) as a representative of the economy's innovativeness exerts statistically significant influence on reducing the GINI index in both groups of countries observed: in the group of CEFTA countries influence coefficient is about -8.5 (increase in variable X_2 reduces the GINI coefficient by 8.5 times), while in the group EU-15 influence coefficient is somewhat lower (-5.8) (increase in variable X_2 causes a decrease in GINI coefficient by 5.8 times).

The conclusion is that by implementing the strategic innovation policies, CEFTA countries (current CEFTA members could also take a regional approach to innovation strategies) could strongly reduce economic inequalities represented by the GINI index which is on average slightly higher in these countries than in the EU15 countries. This would further increase their social component of sustainable competitiveness and thereby the overall sustainable competitiveness of the entire region.

1.4. INNOVATIVE PERFORMANCE IN WESTERN BALKANS AND ENCOURAGING FUTURE INNOVATION

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In contemporary world the country's ability to sustain economic growth and competitiveness is in the activation of innovation and learning. The importance of innovation for each country can be perceived in the large number of studies, i.e. reports that have been conducted for the innovative features of the countries and regions. However, there is a problem related to the fact that the analysis found in existing reports are mainly associated with the most innovative countries or those with the greatest change in the level of innovation, and that small countries with average features are poorly mentioned in the analysis. But, after recent studies found that innovation in low and middle-income countries have a much greater impact on economic growth than in developed countries, has increased the need for better understanding of the innovative performance of these countries.

That is why the analysis of this paper is focused on the Western Balkans that are categorized into countries with medium level of development. The main purpose is to analyze their innovative performance, to compare each other and with leading countries, especially those of the EU, and to provide insight into the strengths and weaknesses of the innovative policy and practice. The findings indicate that the Western Balkans regarding the innovation are far from the innovative leaders and significantly lagging behind the EU-28 average. Hence, in this paper also identify the main opportunities for their innovation improvement.

Key words: *innovation, innovation index, Western Balkan, European Union, competitiveness*

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1.5. THE ROLE OF NATION BRANDING OF THE REPUBLIC OF SERBIA IN THE GROWTH OF COMPETITIVENESS – POSSIBLE AVENUES OF THINKING AND ACTING

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National economies and economic systems in the 21st century exist in the conditions of dynamic changes and intensive competitive struggle for markets, consumers, access to resources and capital. Such a setting has established the brand of country-nation-state as one of the critical factors of survival and success on the global market, unifying image, reputation, trust, and all the specific features by which this country and nation differ from others.

Not only contemporary consumers, but also economy viewed globally, pay great attention to a phenomenon that gives them a feeling of identity, stimulating their senses, and enriching their experience of life. This phenomenon is simply referred to in marketing literature as brand. Viewed from the consumers' perspective, a brand is a signal and guarantee of quality establishing relations of trust between manufacturers and consumer on the market. Individual consumers strive to simplify the world around them, to minimise the time and effort of gathering and processing information required for making decisions. This is the purpose that strong and recognisable brands have – to facilitate decision making and life for individual consumers, as their associations, image, message and emotion, providing them with confidence regarding their own choice, so that decision making is simplified and faster, without surplus, i.e. redundant information. A brand is a series of perceptions in the consumers' consciousness.

The current time of analysis has extended activities related to brand development from companies and products to nations and countries, which endeavour to maximise the positive elements of their identity and image, minimise the negative

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aspects. With the intention to be more competitive on the global market. Each nation and country possesses some kind of recognisability in the consciousness of other nations, individuals and organisations, which can be positive or negative, or mixed, so that nowadays there is virtually no country or nation that does not conduct the activities of nation branding in the direction of increasing its competitiveness and with specific aims:

   attracting investment and capital;
   increase in the sale of products and services;
   promotion of tourism and national culture and tradition
   retaining and attracting high-quality human resources

Nation brand is an intangible asset of a country that has no direct link with products and services, and nation branding is the application of branding and marketing communications and techniques with the intention of promoting the image of a nation, i.e. creating a clear, differentiated, simple idea and feelings, that will transfer the symbols to different recipients in various situations both verbally and visually. Such a nation brand also includes the issues of the country of origin, the country's image, the "made in" effect, positioning of the country in others' consciousness, stereotypes, national identity, characteristics of a nation etc. It must be emphasised that nation brand is an extremely complex issue of marketing theory and practice, for nation is not a physical product or intangible service in a conventional sense. A nation represents a whole range of elements and associations: place – geographic location and tourist attractions, natural resources, local products and services, people – races and ethnic groups, history and tradition, culture and language, political and economic system, social system and institutions, infrastructure, celebrities, image etc. Nation brand in different situations combines various elements in a variety of ways.

It is also important to mention the controversies and paradox that occur in the process of nation branding – controversies pertaining to the dilemma whether a strong and recognisable nation brand is a result of strong individual industry of the country, or a company and products, or are strong product, company and industry brands the result of a strong nation brand. The paradox is reflected in the fact that nation brand must meet conflicting demands – it must be different so that the country is differentiated from others, and yet it must be based on common perceptions and associations of others.

Nation brand should serve as an umbrella and springboard for all the brands that this country and nation encompass. Nation branding should send a message and

image of the economy, policies and society of the country, so that it can achieve its competitive advantage on the market.

The limiting factors in the process of building a nation brand are as follows:
- national identity is extremely hard o define, so that the nation brand image is complex and incomprehensible;
- how to communicate a message or image to different segment on different markets and countries?
- the time dimension required to do something positive and different in relation to the existing stereotype of a nation and country... there are no quick fixes;
- understanding and controlling the process of perception of nation brand in the conscience of the target segment;
- the process must flow in both directions, both horizontally and vertically;
- harmonising nation branding with the nation's political orientation and diplomacy;
- harmonising the attitudes and perceptions of the nation brand of a nation and its environment.

Like many other countries, the Republic of Serbia is undergoing a complex transition process, which entails uncompromising struggle and effort to improve competitiveness, and in this sense it strives to manage strategically the national identity and potential of the country, and improve its reputation in the world, deteriorated over the past couple of decades. Building a nation brand, Serbia is trying to accelerate economic growth, attract a much higher level of investment, and secure international economic, political and media support. The bond between the nation brand and geopolitical positioning is unbreakable, and thus the need for these activities grows. However, in this endeavour, Serbia is faced with aggravating circumstances – the overall condition of its economy is at a low level, primarily in technological terms, so that the products of such an economy cannot be recognised globally by quality and reliability. Another great problem that cannot be resolved in a short term is the low level of awareness and knowledge of marketing philosophy of doing business, so that its practical implementation is delayed. The lack of funds required for this type of investment is a significant obstacle, preventing the replacement of technology and production of customer value added. And finally, the application of information technologies in business is not at the level of countries that have a developed nation brand, but progress in this segment is visible. The strategic directions that Serbia should take, in terms of building a recognisable and successful nation brand include:

- sport – in terms of exploiting the phenomenon of success of athletes, clubs and national teams on the international scene, especially in commercial sports, and linking the nation brand for this success;
- science and inventions – in terms of stopping the brain drain first, through scientists' achievements and discoveries, and then vice versa, integrating it into a recognisable nation brand in the future;
- tourism and entertainment as the most common mechanisms of building a strong nation brand offer great opportunities through globally acknowledged music festivals, spa and mountain tourism, hunting, sports, and recreational tourism, without neglecting the offer of night life of large Serbian cities;
- natural resources and organic production offer a possibility for Serbia to build a recognisable nation brand in an area which is in the phase of dynamic growth with great potential for commercial success, and which can be accomplished by few other countries;
- culture and tradition: with certain reserves regarding the recent processes in the political sphere, i.e. relations between Serbia and Kosovo and UNESCO membership.

Nation branding and strong nation brand is not a panacea for all problems of the Serbian economy, but it can by all means make a great and positive impact on it. The results are numerous and visible only in the long run. Nation brand should incorporate all the best that a nation and country have to offer to the global market, where this value provides an impulse to the development of all segments of a society. Individual brands of companies, with a strong nation brand, as much as they stimulate it, benefit from it themselves in the international setting. Nation brand must be adaptable and dynamic, and constantly strengthen its recognisable identity globally.

The future undeniably brings an imperative of further and more complex research and analysis of all the advantages and benefits that a strong nation brand entails, and what impact it makes on the overall economy of a country. Nation brand certainly represents the most important asset a country and nation can have in the contemporary competitive global environment, and it is therefore necessary for all responsible individuals and institutions, economy and associations, to invest maximum effort so that nation brand can be managed best strategically, monitoring and controlling this process regularly, which will result in maximum benefits for the whole country and economy.

1.6. IMPROVING COMPETITIVENESS THROUGH NATIONAL BRANDING[1]

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National competitiveness presents the ability of the particular country to achieve economic growth faster than others. , i.e., it represents a flexible economic structure that has the ability to anticipate global economic trends, and therefore effectively changes and adjusts to the conditions of international trade. The competitiveness of the country depends on several different factors, and one those is certainly the value of the country's national brand. Consequently, the basic aim of this paper is to point out the significance of the process of national branding and creating a positive image of Serbia, as a factor that can improve the competitiveness of the country. Establishment of a strong national brand is based on the finding, creating and presenting a set of values that a country wants to promote as its own national brand. Unfortunately, over the last couple of decades, Serbia was facing a negative image, because it was, in addition to its deep-rooted economic problems (non-competitive performance of the processing industry, the lack of a consistent policy of improving competitiveness, de-industrialization, etc.), left to "external branding" (from the ravages of war, international sanctions, to the ICTY). Hence it is not surprising that according to research by the World Economic Forum (WEF) for 2014-2015, Serbia was ranking 94th place among 144 countries.

The key reasons for such bad positioning of Serbia on the global level, lies in the concept of economic policies implemented in Serbia, which in recent decades has led to de-industrialization and the absence of an active industrial policy. Decades-

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long decline in industrial production in Serbia, uncompetitive performance of the processing industry, the lack of a consistent policy of improving competitiveness, lack of systematic approach and strategy of national brand of Serbia, have further undermined the fragile competitiveness of the domestic economy. Moreover, an inadequate concept of privatization and restructuring, carried out after 2000, has not led to improved performance neither in companies "in restructuring" nor in public companies, but it rather resulted in a low efficiency and poor performance of those companies. Parallel to this process, growing unemployment and disconcert between education system and the labor market occurred, which has led to further collapsing of Serbian economic development. Certainly, there are a lot of reasons for poor competitiveness of Serbia and they are inveterately rooted in Serbian economic policies that had been implemented in recent decades, but this paper will focus on national branding as a factor that can improve the competitiveness of the economy.

National branding is a very important competitive tool in achieving economic goals. It is based on the finding, building and presenting a unique, attractive and interesting package value. Hence, the aim of this paper is to affirm the importance of the process of national branding and to analyze the position of Serbia as a national brand worldwide. The emphasis in this paper shall be consigned on several crucial areas such as: concepts of national branding, positioning Serbia on the world map of national brands and instruments for improving national brand. Improving the national brand of Serbia should lead to the elimination of basic barriers such as: the lack of systematic approach related to the development of national brand of Serbia; lack of a strategy for improving national brand of Serbia; lack of marketing and communication strategy of national brand of Serbia; underestimation of the importance of national branding to improve the economic potential of the country (exports, inflow of foreign investments, tourism); low level of financial investments in the process of national branding; inefficient institutional structures and coordination between the institutions in charge of creating a national brand; insufficient cooperation between the private and public sectors on the development of national brand.

In addition, Serbia has behind time realized how important and what is the real impact of lobbying (both political and economic) in preparing and making important decisions on the international political scene. With great economic and political damage suffered in the last two and a half decades, Serbia is now fiercely fighting to improve its economic competitiveness in global terms. In this process a positive brand, and the image of the country can be an important competitive

advantage in the tough market game, as they may be a significant factor in the increase in exports, higher foreign direct investment, tourism development and higher income from tourism services (especially the spa and winter tourism), but also other important economic objectives which promote the competitiveness of the national economy.

Key words: *improving competitiveness, national brand, Serbia, branding, positioning*

1.7. DEVELOPMENT, KNOWLEDGE AND INFLUENCE

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The nature of capitalism is going through a change most profound since the advent of corporate multinational capitalism as a more dominant mode of socio-economic exchanges than the traditional capitalism. The issues relevant to that change are innovations and technology, the change in the understanding of the relationship between representative and participatory democracy, and the understanding of economic equality and economic justice.

Innovations and technology are relevant because we cannot pretend that bitcoin or a similar invention will not transform our financial transactions and the very understanding of the role of money in the economy. We can understand the nature of financial products for what they are: constructs in human exchange.

In this profound change, concepts of capital and labor, essential for study of capitalism, are transformed. In this paper, I will pose the question of trading influence, and whether income thus generated is income from capital or income from labor. In connection with that, I will look into questions of groups of influence and their shaping of the concepts of legitimation including social responsibility and sustainable development. Representative democracy is falling short of fulfilling the promises it made: that we will all have a say in decision making and that decisions made will be for the best. As Piketty says in the conclusion of his monumental work on the economic controversies surrounding inequality, *Capital in 21st Century*: "Dynamic development of market economy and private property, left to itself, leads to powerful convergence, especially connected to the development of knowledge and skill, but it also leads to divergence, potentially threatening our democratic societies and values of social justice they are founded on." Participation of citizens in democratic processes linked to informed decision making, and not only in election of representatives; participative democracy and not only representative democracy, is essential for

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quality citizenship and contributes to real wealth, based not only on GDP, but also on Human Development Index.

Our rethinking development, the true understanding of sustainability, is impossible if we keep all matters of international relations, financial transactions, trade rules and commercial practices secret as private deals between powerful wise leaders and complicated expertise of consultants. Ideological thinking: blind market faith, belt tightening and money fetishism are ruinous; instead, we can value people, nature, resources and history, future and knowledge, above mesmerizing numbers of commas in bank accounts.

There is a global trend of alienation of expert culture, especially in the financial sphere, from general socio-economic mainstream, and the concept of equality which is one that is, in the core of its meaning, under attack of social policy that diminishes its content by substituting historical ideal of equality with something more like equity, therefore implicitly dependent on the notion of natural right. We will need all the strength of our minds and imaginations to resist the urge to follow spiraling, toxic financial takeover of natural, economic, human and social resources, and it will hit us hard and fast.

Varoufakis, in his enlightening explanation of global financial crises of 2008, *Global Minotaur*, reminds us that we should understand our surroundings, that it is necessary to understand basic economics as well as basic electronics, unless we live not using phones nor money. Why then, we may ask, it seems we are deliberately kept from understanding where our tax money goes, how will our credit rate change and why is our buying power diminished every year? In order to be competent citizens, and, by definition, participants in national and global economy, we need to recapture our basic grasp of innovation, technology, informed decision making and solidarity.

As productive participants in the economy (laborers and such), we should not ascribe value to vacuous and dangerous speculation, since labor is an intrinsic part of value; and as citizens, we should not acquiesce in 'manufacturing of consent', lest there remains nothing of value to consent to.

1.8. THE DETERMINANTS OF THE SIZE OF GOVERNMENT IN DEVELOPED MARKET ECONOMIES

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An increase in the size of government sector in developed economies has resulted in growth of interest among economists in identifying the forces behind this rise. The theoretical literature, however, offers no comprehensive, explicitly formulated and testable theoretical model of the size of government in the economy, albeit only various fragmented explanations.

The lack of an integrative model of government size could be explained by the fact that there are no well-defined demand and supply functions and equilibrium prices in the sphere of government sector production and intervention in the economy. In an attempt to bridge this analytical gap in the existing literature, this paper offers a simple integrative theoretical framework and tests it empirically using a sample of developed economies in the period 1970-2008.

From an economic point of view, the evolution of government expenditure is likely to be a dynamic process, i.e. a function of its own past values as well as current and past values of its main determinants. Moreover, since the heterogeneity in the relationships between the size of government and the factors that affect that size might stem from each country's unique institutional, political and cultural history, it can be argued that idiosyncratic features bring

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about differences in responses of the shares of governments to changes in each explanatory variable across countries, at least in the short-run. In the empirical literature, however, this issue is rarely tackled by an appropriate estimation strategy. Thus, in addition to offering an integrative theoretical framework, our study differs from virtually all others in that we employ a pooled mean group (PMG) estimation technique proposed by Pesaran et al. (1999), which allows us to distinguish between the long-run effects and short-run dynamics, to accommodate the joint occurrence of dynamics and parameter heterogeneity as well as to address the problem of endogeneity, thus avoiding the methodological shortcomings of previous studies. Pesaran et al. (1999) approach is, essentially, a panel equivalent to the time-series error correction re-parameterisation of an autoregressive distributed lag (ARDL) model.

The main findings suggest that the size of government in the economy decreases, *ceteris paribus*, as a country gets wealthier and financially more open. The coefficient on the income variable is statistically significant and negative, suggesting that, *ceteris paribus*, a doubling of GDP per capita reduces the share of government in GDP by 25.3 percent in the long run. Government expenditure shares, on the other hand, tend to increase, *ceteris paribus*, as a country's economic system gets more complex, as a country increases its involvement in international trade, as a country increases the share of government sector employees, and as the relative prices of government to private goods increases. Evidence on Baumol's cost disease seems to be very robust. To check the robustness of our results we first test whether imposing different lag lengths for potentially endogenous variables significantly changes the preferred results. A further set of robustness tests aims at checking the consistency of preferred results with respect to inclusion/exclusion of some variables. As a final robustness check, we want to make sure that our results remain consistent if we change the sample size, in particular, if we include the transitional countries that were excluded from the list of the examined counties due to due to lack of data.

Literature

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Part II.
INCOME INEQUALITY &
DISCRIMINATION AND POVERTY

2.1. COMPETITION, INCOME INEQUALITY IN EU AND WESTERN BALKANS

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International trade has a powerful effect on income distribution. In the real world, the same factor of production may temporarily earn quite different amounts in different industries, because it takes time for factors to move between industries. Because many factors are specific in the short run, the distinction between the short run and the long run is very important in practice. The factor-proportions model says that international trade affects the income distribution via a change in relative goods prices. A rise in the terms of trade increases a country's welfare, while a decline in the terms of trade reduces its welfare.

Changes in the distribution of income in the Europe have favored skilled labor and hurt unskilled labor. The most widely accepted explanation for the decline in wages of unskilled labor is that changes in technology have played a dominant role, especially changes that have resulted in less demand for unskilled labor. Industries in Europe have been able to increase their utilization of skilled labor relative to unskilled labor by breaking into separate steps their previously integrated production processes for goods and even services.

As more business services became tradable, after global economic crises, this outsourcing became a politically volatile issue. Increase in trade coincides with a greater capital inflow. Because the H-O-S model provides a coherent framework for questions of trade and income distribution, it will be an important building block for any hybrid approach. In Europe, reduction in existing trade barriers adds to the already high unemployment rate of unskilled workers.

In contradiction of simply theory of convergence, there is no systematic tendency for poorer countries' income levels to converge, even slowly, to those of richer countries. The risks of investing in many Balkans countries limit their attractiveness for investors, both foreign and domestic; and those risks are closely related to the countries' poor economic growth performances. When governments are unwilling or unable to protect property rights, investors

unwilling to invest either in physical or in human capital, so growth is no existing or is low. In Balkans the geography determines income levels and institutions. Current income reflects a causal effect of institutions on income rather than the reverse.

National competitiveness is important for small open economies, which rely on trade, and <u>foreign direct investment</u>.

Competitiveness is important for any economy that must balance import of energy and raw materials. The European Union (EU) has enshrined industrial research and technological development (R&D) in her Treaty in order to become more competitive. In 2009, €12 billion of the EU budget (totaling €133.8 billion) will go on projects to boost Europe's competitiveness. The way for the EU to face competitiveness is to invest in education, research, innovation and technological infrastructures.

Systematic efforts by academics to define meaningfully and to quantitatively analyze national competitiveness have been made.

Explaining why Balkans countries remain poor and which policies can promote economic growth remains one of the most important challenges in economics. Heavy government involment in the economy, including a large share of public spending in GNP; weak credit institutions and undeveloped capital markets; pegged exchange rates and capital controls are characteristics of all Balkans countries. It makes little sense to create an institutional framework for government if there is insufficient human capital to run government effectively. In that case, education should come first.

2.2. FLEXIBILITY OF REAL AND NOMINAL WAGES: CASE OF SELECTED WESTERN BALKAN COUNTRIES

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When studying and forecasting macroeconomic developments, wages play an indispensable part. In this paper flexibility of real and nominal wages is explored for the following Western Balkan countries: Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, and Serbia and the following New Member States: Bulgaria, Romania and Slovenia. The main goal of this study was to identify whether selected Western Balkan countries show different behaviour in comparison to the selected New Member States with the respect to the response of nominal and real wages to shocks. The data used for the empirical analysis were the data on gross monthly wages for total economy expressed as nominal and real indexes with the previous period used as the base (previous period =100) taken from the WIIW Monthly Database. Since the data for all countries in the sample are available from January 2004 to June 2015, average monthly growth rates for that period were calculated. Namely, the real growth rates are below 0.5 per cent in all analysed countries but Montenegro, Romania and Serbia, where the real growth rates range from 0.51 per cent in the case of Montenegro to 0.55 per cent for Serbia. Since the main goal of this study is to access the relationship of real and nominal wages in selected Western Balkan countries and New Member States empirically, the vector autoregression (VAR) model is applied.

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Following the VAR procedure, Dickey-Fuller and Phillips-Perron unit root tests using various specifications were conducted and in almost all cases we cannot reject the null of a unit root. Similarly, we applied the Johansen cointegration test using different lag lengths. Also, in almost all cases, trace and max-eigen value statistics indicated no cointegration at 5% significance level. Accordingly, all series are first-differenced and seasonally adjusted using tramo-seats method and the stationary time series are obtained. The next step of the empirical analysis was to estimate eight bivariate VAR models (one for each country in the sample). Also, the model diagnostics tests were conducted. Furthermore, from obtained VAR models, impulse response function using orthogonalized shocks based on the Cholesky decomposition were derived. The results of the analysis have shown that the response of nominal wage shocks on nominal wages is initially positive in all countries in the sample. Similarly, the effect of a nominal shock on the real wage growth diminishes rather quickly (after 3 to 4 periods) in all countries. When comparing the group of NMS countries to the group of Western Balkan countries, the response remains slightly under the nought line for the first group, whereas fluctuating around zero for the Western Balkan states. Furthermore, a shock on real wage growth exhibits a positive effect on nominal wage growth in the first period for all countries in the sample but Romania, where that effect is small and negative. Lastly, a shock on real wage growth is initially positive in all analysed countries, but there is some fluctuation around the zero line which is more pronounced in the Western Balkan group of states and Bulgaria.

Key words: *nominal wages, real wages, vector autoregression model, Western Balkan countries*

2.3. SECTORAL INEQUALITY ANALYSIS OF FINANCIAL PERFORMANCES OF SERBIAN ECONOMY[1]

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Unequal sectoral distribution of economic activities is a general characteristic of Serbian economy. The aim of the paper is to analyze the financial performances of the Serbian economy, with a special emphasis on identifying the sectoral contribution to economy performances. Return on total assets, return on equity and return on sale, including operating profit margin and profit margin, as well as their underlying drivers, are measures of financial performances that authors use in this paper. Performance analysis and percentage change analysis of the determinants of financial results, based on the Serbian Business Registers Agency information, conducted over a five year period show a significant sectoral inequality of Serbian economy. The Serbian economy had a negative net financial result with a downward trend during the analyzed period, except in 2011 when it recorded a positive net result. Net loss of the economy is predominantly determined by poor financial performances of the transportation and manufacturing sectors in the last year of the analysis, while the companies from

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the mining, information and communication, and trade sectors contributed to the positive net financial result. Although the companies reported an operating profit in the observed five year period, the achieved negative net result was influenced by high financial expenses and losses from the financial and other activities. The strong impact of the other activities on the net result was particularly expressed in the last two years of the analysis, mainly in the trade and electricity sectors in 2012, as well as in the transportation and the manufacturing sectors in 2013.

Serbian economy's operating profit margin recorded a positive value during the observed period, ranging from 3.9% in 2009 to 4.3% in 2013. Profit margin and return on equity for Serbian economy are negative in the analyzed period, except in 2011 when they were 0.86% and 1.42%, respectively. Individual sectors analysis shows that the mining sector achieved a negative operating result at the beginning of the analyzed period, but it had the highest margins in the period 2010-2013. After the mining sector, the highest profit margin and operating profit margin in period 2010-2013 were realized by the information and communication sector. This sector recorded the highest operating profit margin in 2009. Accommodation and food service sector had negative margins during the five year period, which strongly contributed to the negative margins of the Serbian economy. The negative operating profit margin was the exception in other sectors, while negative and positive profit margins were equally represented. Trend analysis of observed indicators shows improvement during the five year period in the agriculture and mining sectors, while other economy segments showed fluctuations of performance indicators.

Key words: *sectoral inequality, financial performances, financial indicators, Serbian economy*

2.4. MEASURING INEQUALITY OF HOUSEHOLDS' INCOME IN SELECTED BALKAN COUNTRIES: THE PALMA INEQUALITY MEASURE VS THE GINI COEFFICIENT

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The aim of the research is to study the dynamics of income concentration using the Palma ratio in selected Balkan countries. In this paper the Palma ratio, the inequality measure introduced by Chilean economist Gabriel Palma in 2013, is calculated for the national income of households in Bulgaria, Croatia, Hungary, Republic of Macedonia, Romania, Serbia, Slovenia and Turkey for three distant years, 2002, 2008 and 2011.

Generally speaking, the Palma, defined as the ratio of national income share of the top 10% of households to the bottom 40%, shows that the "middle" 50% of the population, defined as households in the 5th to the 9th deciles, has a stable share of national income (around 50%), and, according to G. Palma, inequality is a question of the tails.

G. Palma represented these results in his paper "Globalizinginequality: 'Centrifugal'and 'centripetal' forces at work" in 2006 and in the paper "Homogeneous middles vs. heterogeneous tails, and the end of the "inverted-U" in 2011. Alex Cobham and Andy Sumner in 2013 compared the Palma ratio and the Gini coefficient, for the first time. In their papers, "Is it all about the tails? The Palma measure of income inequality", and „Putting the Gini back in the bottle? The Palma as a policy-relevant measure of inequality", they explored a Palma and made further conclusions. First, they confirmed the robustness of Palma's main results: stability of "middle" 50% share of income across countries. Then, they compared the Palma and the Gini coefficient and found a close fit. Further, they

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suggested the Palma would complement, or perhaps even replace the Gini coefficient, as it is intuitively easier to understand and for a given high Palma value, it is clear what needs to do to reduce poverty.

In this paper, we used decile data on income distribution from the World Bank's Povcal dataset (downloaded September 2015). Data for the nearest dates to 2002, 2008 and 2011 are used for each of eight countries that are considered. In addition, we used World Bank World Development Indicators dataset that includes information on Gini coefficient. The data for 2002, 2008 and 2011 are analysed for eight, mostly Balkan, countries. Data from year 2012 to 2014 are not available for selected countries. We calculated Palma ratio and compared it to the Gini coefficient. Then, we made correlation analysis between values of the Palma ratio and the Gini coefficient.

The lowest Palma in 2002 was in Hungary (0.95), in 2008 in Slovenia (0.83), and the same was in 2011, when it was 0.85. In 2002 the highest value for the Palma was in Turkey (2.00), and in 2008 it was again so (1.83), but in 2008 the highest value was in the Rep. of Macedonia (2.34), meaning that the upper 10% of households have 2.34 times (or 134%) more income than the lower 40%. In the period from 2002 to 2011, Bulgaria, Rep. of Macedonia, Croatia and Hungary show an increase, and Serbia, Turkey, Romania and Slovenia show a decrease of the Palma measure of inequality, meaning a decrease of income concentration over households. It is worth mentioning that in the same years highly developed, such as Scandinavian, countries have the Palma measure mostly below 1.00.

The Palma is compared to the Gini coefficient. On Gini scale the rank of countries are the same but when you compare countries, or the same country over time, the Palma ratio is telling us more about inequality than the Gini coefficient. For example, the middle 50% of the population have about half of national income in both Rep. of Macedonia and Serbia; but the top 10% in Rep. of Macedonia have more than 50% more the share of national income as in Serbia, and the bottom 40% have correspondingly less. Both, the Palma and the Gini coefficient are greater in Rep. of Macedonia, but in Rep. of Macedonia the Palma value was 2.34 and in Serbia 1.00 and the Gini value in Rep. of Macedonia was 44.2, and in Serbia 28.18. Further, the Palma ratio in Rep. of Macedonia in 2002. was 1.75, meaning that the upper 10% of households have 1.75 times (or 75%) more income than the lower 40% and in 2008. The Palma ratio was 2.34 meaning that the upper 10% of households have 2.34 times (or 134%) more income than the lower 40%. For the same years, the Gini coefficient increased from 38.75 to 44.2. Further, the Palma

ratio in Croatia in 2002 was 1.17, and in 2008 it was 1.36, meaning that the upper 10% of households increased their capture for 50% from 2002 to 2008 (in 2002 they had 17% more income than the lowest 40%, and in 2008 they have 36% more income than the lower 40%). For the same years, the Gini coefficient increased from 31.1 to 33.6 and it implies moderate inequality.

Correlation analysis shown that between the Palma ratio and the Gini coefficient for eight selected countries there exist quite strong positive linear correlation. Coefficient of correlation in 2002 was 0.9955 and in 2008, it was 0.9848.

In most occasions, both the Gini and the Palma measure summarize the same information about the income distribution, but the Palma is more intuitive and it is easier to adopt and use by policymakers and citizens. Further, because of stability of the "middle" 50 percent share of income across studied countries, in the future, if differences among "the richest" (the top 10%) and "the poorest"(the bottom 40%) would increase, the Palma would show it better than the Gini coefficient. Based on this particular research, the authors recommend complementing the Gini with the Palma inequality measure.

Key words: *households' income, measures of inequality, the Palma inequality measure, the Gini coefficient*

2.5. FACTORS INFLUENCING THE GENDER PAY GAP IN THE EU AND THE WESTERN BALKAN COUNTRIES[1]

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The purpose of this paper is to identify and explain the main factors contributing to the differences in pay between men and women in the EU and the Western Balkan countries. The principle of equal pay between men and women for equal work is a constitutive part of the 1957 Treaty of Rome and has been further implemented into the European legislation through the 1975 Equal Pay Directive. All the efforts that have been undertaken in order to ensure equal treatments of both men and women through their equal access to employment, vocational training and promotion, and working conditions, as well as prohibition of discrimination, have the same goal to support the concept of gender equality. The importance of these issues for the Western Balkan countries is particularly emphasized through discussions on their progress towards accession to the EU and monitoring in the area of social policy and employment.

In order to comprehend the importance of this issue for the EU, it is sufficient to point out that the goals on gender equality and striving towards the creation of a cohesive society are only partially achieved. According to the estimates of the European Institute for Gender Equality, the gender equality index for the EU-28 was 52.9 (out of 100 points) in 2014. Likewise, when the Western Balkan countries are observed, the global gender gap index, constructed by the World Economic Forum, which encompasses the differences between men and women in the areas of economic participation and equal opportunities, education, health and political representation, shows that all of these countries reveal significant gender gaps. The best positioned Western Balkan country is Serbia, followed by

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FYR Macedonia, Montenegro and Albania, while Bosnia and Herzegovina has not been included in the sample of countries.

Particular attention in this paper is paid to the gender pay gap from a cross-country perspective. The theoretical debate on different remuneration of men and women for the same work has originated from the concept of market discrimination. The main research question that arises from the vast studies on this issue is why women of otherwise identical observed characteristics are paid less than their male counterparts for doing the same work. The most common theoretical approach that addresses this issue observes the differences in pay through the decomposition of the estimated gender wage gap obtained by the model of wage determination. According to the primary concept, the first part of this gap arises due to differences across genders in the observed characteristics, while the second part results from different wage structures and includes potential effects of discrimination.

The differences in pay between men and women can have serious consequences for the economic well-being of women and for their choices when make decisions of splitting the productive time between household and market work. The authors who are concerned with this problem in their research studies try to clarify which factors are most responsible for the persisting gender pay gaps across countries. The main purpose of these studies is to point out to the problems that can be addressed by effectively designed polices that would help in reducing the gender pay gap in the future.

The results of recent empirical studies published for both the EU and the Western Balkan countries show that there is a significant gap between male and female wages. There are some indications showing that the observed human capital factors contribute to the increase in the explained part of the gap, while there are also unobservable factors and the rise in wage inequality, which are an obstacle to faster closing of the existing gender pay gaps. The unadjusted gender pay gap in the EU-28 stood at the level of about 16%. For the Western Balkan countries, based on average net hourly wages data, the unadjusted gender pay gap is below this figure, except in Montenegro where it is estimated at 16.1%.

The paper is conceptualized as follows. Firstly, some theoretical notes are given in order to better understand the differences between the groups of factors that are attributable to the changes in the dynamics of existing gaps across countries, as well as the methodological concepts used in the paper. Then, an overview of the

institutional frameworks is provided, followed by studying the results of the most recent research studies that explain the development of the gender pay gap in the observed groups of countries. The final part of the paper suggests some general conclusions and implications for employment policies in the Western Balkan countries.

Key words: *European Union, gender pay gap, labour market discrimination, Western Balkans*

2.6. POVERTY REDUCTION BY FINANCIAL INCLUSION OF WOMEN - EVIDENCE FROM SERBIA

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This paper reviews current thinking on relationship between financial development and poverty alleviation, as a subject getting more important in the policy of financial institutions as well as in state social and economic policies. For that purpose in the paper has been researched the importance of the poverty alleviation and financial loan support to women in Serbia in 2014 with a seasonal dynamics, around which was situated the scope of the paper.Survey targeted all client segments defined on the main statistical base of Serbia for poor and low income inhabitants, and covering geographical regions where operates a financial institution which loans were researched, based on a random sample. Mathematical and descriptive statistical methods were used, as well as a typical fitting measure, Coefficient of determination, for measure of fitting the trend-line with the empirical data. The hypothesis formulated as possible impact of micro finance on poverty decrease proved as positive through influencing on sustaining jobs, indirect and induced, created jobs. Main findings supported the importance of the micro lending together with innovations in products: education, training and business skills upgrading tofemale clients in poverty alleviation and wealth sustainability.

Key words: poverty reduction, women, lending

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2.7. SELECTIVE TAX COLLECTION AS A MEANS FOR MALVERSATION OF THE FLOW OF CAPITAL

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Organized crime, as a negative trend of globalization endeavors to legalize criminal profit by means of "money laundering". By infiltrating, financial flow criminals are striving to control certain economic flows that would enable them to influence political processes with the goal of achieving their own interests. Stability, solidity and integrity of credit and financial institutions could be seriously jeopardized by efforts of criminals and their associates to disguise the origin of profit made by illegal activities, e.g. criminal acts, or to conceal the origin of money used to finance terrorist activities. Turbulent increase of illegal markets demands international prevention and this phenomenon must be considered as a structural component of the existing geopolicy.

Subject of this paper is a specific aspect of viewing selective tax collection as a means to perform different kinds of malversation with illegally acquired capital, made by tax evasion.

Tax policy of a state has a great influence on the flow of capital. Selective approach to tax collection reflects poorly on influx of foreign investments since such approach leads to poor tax collection and creates one of the conditions for high budget deficit. High budget deficit is one of the macroeconomic reasons for outflow of capital from a country and thus selective tax collection influences, directly and indirectly, the transfer of capital within a country.

Selective tax collection leads to tax evasion which represents a serious social issue, since it disturbs income attribution regarding the goals of the given society. Decrease in public income increases difficulties concerning realization of the planned levels of public income and it worsens financial status of the state. Tax evasion eats away at economic base of the society and it causes disturbances in economic system of countries undergoing transition, which have, under the

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shroud quick economic reforms, created economic chaos that is a fertile ground for evasion of taxes. Tax evasion creates illegal capital convenient for different kinds of malversation. Selective tax collection cannot be performed without corruption. Tax evasion has been widely practiced during recent years in Serbia, which is associated with complex social processes and transformations manifested in changes of social structure, system of values, lifestyle, views and with corruption as a consequence of above listed elements.

Since tax evasion is one of the basic ways for accumulation of illegal capital, which is later transferred into semi-legal businesses, this analysis tries to discover if the principle of equal treatment of taxpayers is honored in Serbia, or there is a selective approach to tax collection. For this purpose I have used the example of 20 of the biggest tax debitors from the list from Serbian Tax Administration.

Data analysis shows that assets of 20 of the biggest tax debitors in Serbia are four times larger than their debts. Tax debt structure reveals that one of the debitors owes excise over 1 billion rsd, while another debitor, who has just one employee, is registered in Cyprus and is in financial consulting, owes over 800 million RSD in taxes.

Such examples expose that tax collection in Serbia is done selectively and that the principle of equal treatment of taxpayers is not being honored.

Key words: *selective tax collection, tax evasion, malversation*

2.8. ECONOMIC GROWTH AND INEQUALITY RELATIONSHIP

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Various factors influence economic growth and development of particular country. Development of some countries depends on available natural resources and efficiency of their exploitation. Other based their growth on development of human capital and technological innovations. Geographical position and political domination achieved during the period of colonialism also matter, since colonial domination that some countries had and luck of others to avoid global and regional conflicts affected their growth potentials. Although natural resources and political factors are of great importance, technological development is *conditio sine qua non* of the economic prosperity.

When subject of research is considered, economics is dominantly a social science. Therefore, it aims to determine nature of social relationships as important factors of economic development and growth. When discussing social relationships in one economy, one of the central issues is economic inequality. Marxist economic theory analysed inequality through lenses of class relations. Central issue of class relations is division of society into capitalist class, which owns the means of production, and the class of workers that apart from their ability to work, do not have property rights over the means of production. Logical consequence of this concept is labour theory of value. According to this theory, only labour force creates a new value and social wealth. Labour theory of value explains that social inequality is a result of distribution of resources and unpaid human work. Class of capitalists that own the means of production (land, machines, money and raw materials) appropriates the entire surplus from the production, and thus the social wealth as well. Workers, as a class that has psycho-physical ability to work, receive compensation, a minimum wage as a precondition for survival and reproduction. There is a specific theoretical approach that within the aforementioned class division of society finds a root of economic development and growth recorded in the period of capitalism. However, there are examples in the history which proved that economic growth and development could be

achieved on the basis of reducing class inequalities and significant role of the Government, rather than traditional class division that exists in the capitalism. As it has been already theoretically confirmed, especially during the 20th century, liberal capitalism has, after initial success, generated high level of inequalities and experienced numerous economic crises. Economic crises have been exclusively overcome by the state interventions through which inequalities, generated during the periods of domination of liberal economic theory and practice, have been reduced.

Putting aside Marxist social and economic theory, analysis of these processes have been performed under two different theoretical models. First one is neoliberal, which favours free market initiative and principles, while indirectly supporting unlimited wealth accumulation by the individuals. Consequences of the application of that approach within economic policy is continuous rise of both income and wealth inequality in modern societies. Second approach is Neokeynesian. It accepts importance of market principles but also include state intervention as an important tool to achieve social balance and economic development, especially when dealing with unemployment. Problem of mutual relationship between inequality and economic growth in a broader historical context, refers to the new aspect of analysis that issue of income and wealth inequality among different social groups analyse through rate of return on capital „r" and growth rate „g". This approach reveals that in the historical context, in a time span of 200 years, there is a paradox that proves that rates of return on capital has continuously been higher than growth rates. That paradox caused continuous accumulation of wealth in the hands of the minority. On the other hand, majority of population is getting relatively poorer, even in the richest countries worldwide. The paradox of relations by which r is greater than g, is a theoretical concept that indirectly confirms the economic and social theory based on class inequalities.

Key words: *economic development, inequality, wealth, income, class, capital, means of production*

2.9. ECONOMY WITHOUT SOCIAL ASPECT IS NOT VIABLE ANYMORE

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More and more is oblivious that economy is not functional any more without its suicidal framework. Political economy, a term disliked by many today, should be therefore changed into, let`s say politics of economy. Now even that concept is not too adequate as Lasswell defines "political analysis as a study of change in the shape and composition of the value patterns of society".

The quest of economy should be more orientated towards the goal and not only in the view of value patterns. Making money so dear to some is not functional anymore. Making money results in accumulation of financial means in the hand of few. It makes investments disruptive as financial manipulation produces better financial results.

New goals of economic activity should be sought for. Individual richness should be replaced by making social wealth. This means that economic support should be given to all activities that augment the welfare of people. Domains supported should be: production, welfare, commerce, education, cooperation, health, transport and similar activities that promote mas consumerism.

Concurrence, special individual one embodied in enterprise behavior has become contra productive. The dominance of media and advertising as economic ways of doing business has shifted economic accomplishments from specific economic one to medias one. This has transformed the whole economic endeavors to a field in which economy is not functional anymore. Economy is replaced by media savoir faire. In that situation social aspects of economy are not existent and are not valid.

Economy was and is a social affair. If it is subtracted from it, economy becomes invalid, inefficient and a trivial activity. Media deified economic currents shifts the foundations from value to information aspects. This brings a distortion not only to economics but to social life as a whole. The first step therefore should be the

diminishment or even abolition of all forms of debt, and the transformation of IT to the realm of information, not economic manipulation.

Part III.
INEQUALITIES IN EDUCATION, EMPLOYMENT AND ENTREPRENEURSHIP

3.1. HOW EDUCATION SYSTEMS REINFORCE INEQUALITY IN THE WESTERN BALKANS

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This paper argues that education systems, the prime generators of human capital, are a powerful source of the transmission of inequality and social exclusion in the Western Balkans. The paper is based on the findings of three large-scale projects in all levels of the education systems in all the Western Balkan countries carried out over the period from 2012 to 2015. The projects investigated social inclusion and exclusion in primary schools, secondary schools (gymnasia and vocational types of schools) and at institutions of higher education. The research was based on a series of questionnaires, interviews and focus groups with students, parents, teachers and key informants including practitioners, stakeholders and policy makers. The research investigates the determinants of social exclusion at all levels of the education system including the choice of school, the experience within school and university or other higher education institution and the transition to work. It also investigates the obstacles facing graduates in finding employment and the determinants of expected wages on entry into the labour market. Overall the research reveals the strong influence of family background and networks of family and social connections in determining the educational and career pathways of young people and the ways in which social inequality is reproduced within the economies and societies of the Western Balkan countries.

3.2. THE IMPACT OF GOVERNMENT EDUCATION EXPENDITURES ON GROWTH IN EU28 – ARE THERE SPATIAL SPILLOVERS?

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WORK IN PROGRESS – PLEASE DO NOT QUOTE

The Maastricht Treaty and the Stability and Growth Pact (SGP) require national fiscal policies in the euro zone and in candidate countries to keep their fiscal deficits below 3% of GDP and their public debts below 60% of GDP. In spite of that, the recent global financial and economic crisis has led to fiscal expansions though various fiscal stimulus packages resulting in mounting government deficits and debts worldwide. In order to ensure the long-term sustainability of public finances, policy makers are now forced to curb the size of the government sector. In such a situation the structure of government spending becomes increasingly important. Namely, provided that different types of government expenditures have different growth effects, the analysis of the composition of government

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expenditures in relation to the long-run economic growth offers an important basis for relevant policy proposals. There is nowadays a developing consensus among economists about the positive effect of productive public expenditures and the negative effect of unproductive public expenditures on economic growth (Barro, 1990). As noted by Colombier (2011), although governments make spending cuts in order to improve public finances, an attempt to cut down the expenditures linearly might lead into a public-savings paradox whereby non growth-enhancing expenditures crowd out those expenditures that would potentially increase economic growth. In order to avoid this 'budget crowding out' effect, policy makers should have a clear guidance on the growth effects of different expenditure types. This papers, therefore, adds to the literature by investigating the impact on growth of one particular type of productive government spending – education spending.

Namely, modern economies are being progressively more based on knowledge and information, since knowledge and human capital are recognised as key drivers of productivity, growth and prosperity of these countries. Most governments have, therefore, traditionally been involved in the formation of human capital. The necessity of investing in knowledge has also been recognised by the European Commission, who's 2020 strategy (European Commission, 2010) has put forward EU targets in the following five areas: employment, research and innovation, climate change and energy, education and poverty reduction. In light of this, an investigation of the impact of education spending on growth seems particularly timely.

Government spending on education influences growth through human capital and research and development (R&D). As noted by Afonso et al. (2005), government involvement is needed as it can compensate for market failure due to network-externalities, non-linearities and monopolistic competition, and government spending on education can lead to education and R&D being on a higher level than would be the case in a pure market scenario. However, as noted by a number of authors (Kneller, Bleaney and Gemmell, 1999; Blankenau and Simpson, 2004; Blankenau et al., 2007, to name a few), in spite of a relatively straightforward theoretical relationship between government education expenditures and growth, the empirical support of this link is mixed. Even though theory postulates that government spending on education leads to human capital accumulation and an increase in steady state growth, because of general equilibrium adjustments in other factors, which may lead to a decrease in growth, the overall effect can be ambiguous.

The main objective of this paper is, therefore, to empirically investigate the impact of government expenditures on education on growth in EU28 countries during the period of 10 years (2004-2013). This set of countries and the time period have rarely been analysed in the literature on the topic, as will become apparent in Section 3. Additionally, our approach is novel in that we will take into account possible spatial dependencies among these countries. Namely, in economically integrated economies most economic policies are spatially dependent. The policy choice of one country, region, state or municipality depends partly on policy choices of other countries, regions, states or municipalities. Most empirical studies that investigate government spending (at its aggregate and disaggregate level) and growth nexus, however, ignore spatial aspect of the growth process and the possibility of spatial autocorrelation is rarely acknowledged (Nijkamp and Poot, 2004). Ignoring these issues can lead to mis-estimation of standard errors (Anselin and Griffith, 1988); hence, in the presence of spatial dependence traditional (a-spatial) econometric techniques are no longer appropriate.

In estimating the relationship between government expenditure on education and growth we use a static panel model given that our sample consists of 28 (EU) countries and 10 years (2004-2013). The number of years is dictated by the fact that the empirical approach that will be used (spatial panel models) requires panels to be balanced, and the data for years prior to 2004 proved to be unobtainable in some cases. The variables included in the model comprise of typical growth regression variables: enrolment rates (Enrolment), investment (Investment) and population growth (Population). Additionally, the share of government revenues in GDP (Revenues (% GDP)) and the share of education spending in government expenditures (Education (% gov. exp.)) are included as our main variables of interest.

Recent years have seen a growing interest of mainstream econometrics on spatial statistical methods. As noted by Woolridge (2002), spatial dependence can occur in situations when cross section units are large relative to the population, such as when data are collected at the county, state, province or country level. In that case the outcomes from neighbouring units/countries are likely to be correlated. It is, therefore, reasonable to expect that growth rates and policy variables in one country in EU28 are correlated with growth rates and policy variables in neighbouring countries. As Elhorst (2014) highlights, in both the theoretical and the empirical literature on economic growth and convergence among countries or regions, the economic growth variable is expected to depend not only on the

initial income level and the rates of saving, population growth, technological change and depreciation in their own economy, but also on those variables in neighbouring economies.

From the theoretical perspective, researchers have identified externalities, learning and coercion as the main causal mechanisms for spatial policy dependence. Furthermore, they have pointed to issues of heterogeneity in exposure and responsiveness to spatial effects (Neumayer and Plümper, 2012). However, recent advances in the field of spatial econometrics can hardly accommodate the need to empirically investigate the causal mechanisms through which policy choices become spatially dependent. Nonetheless, the spatial econometrics literature has exhibited a growing interest in the specification and estimation of econometric relationships based on spatial panels since the turn of this century (Elhorst, 2014).

Even though incorporating spatial effects into econometric modelling is gaining more and more attention in empirical literature, applications regarding government spending composition and growth nexus are practically inexistent, to the best of our knowledge. The main goal of this study is, therefore, to analyse the impact of government spending on education on growth paying special attention to the issue of possible spatial dependencies. The presence of spatial dependence renders traditional econometric techniques no longer appropriate for spatial data analysis, given that the assumption of independent and identically distributed observations is no longer valid. It is therefore crucial to use appropriate econometric techniques that deal with spatial interactions among geographical units.

Studies investigating the relationship between total government size and growth typically find this relationship to be negative. Indeed, this is confirmed by our results whereby the impact of government revenues is found to be negative. More precisely, an increase in government revenues share in GDP by 1 percentage point is found to be associated with a fall in annual growth of 10.9 to 18.39 basis points. From this point of view, and having in mind the fact that policy makers are trying to restrain the growth of overall government expenditures, the only solution seems to be re-structuring of the given size of the government. Theory posits that government spending on education has a positive impact on growth, and should, as such, be stimulated. The main goal of this paper, therefore, was to investigate whether this part of overall spending is indeed growth-enhancing in EU28 countries, especially after spatial correlations among the countries in the

sample are taken into account. Our results confirm this, i.e. we find that government spending on education significantly and positively influence GDP growth. An increase in the share of government expenditures on education in overall expenditures by 1 percentage point is found to increase GDP growth by 46.2 to 64.4 basis points. Moreover, indirect effects are quite large and account for 40 to 60 percent of the total effect. The omission of spatial spillovers on neighbouring countries, therefore, drastically underestimates the impact of changes in fundamentals.

3.3. TRANSITION FROM EDUCATION TO INFORMAL EMPLOYMENT IN BIH: CAUSES AND CONSEQUENCES

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Introduction

Transition from school to work is one of major research topic in the last few decades (Hannan and Werquin 2001 and Ryan 2001) and is increasing as a position of youth at the labour market is worsening recently due to negative effects of the economic crisis. The notion that unemployed individuals may be permanently trapped in joblessness is explored theoretically in Blanchard and Diamond (1994), Ljungqvist and Sargent (1998) and Ridder and van den Berg (2001). A number of studies analyzed the effect of unemployment incidence and/or duration on future unemployment spells: Arulampalam et al. (2000) and Gregg (2001), for the UK; Muhleisen and Zimmermann (1994) for Germany; Roed et al. (1999) for Norway; Arranz and Muro (2004) for Spain; and Heckman and Borjas (1980) and Omori (1997) for the US. The analysis of the future labour market position of the unemployed in a competing risks framework with different destination states, while not yet commonplace in the duration literature, is becoming more familiar (Meyer, 1990; Narendranathan and Stewart, 1993; Addison and Portugal, 2003).

Methodology

In this paper, we use ILO definition of transition and their framework for identifying types of transition. The responses to question about labour market status, duration of working week and formality of contract are used to identify three types of "failures": full-time formal employment, part-time formal employment, and informal employment. Unemployment is considered a "success". Part-time and informal employment are of particular interest in the study of labour market transition of young people in BiH, since descriptive

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statistics shows that young people face unfavourable labour market entry conditions and are over-represented in informal and non-standard forms of employment.

In this paper we analyse both determinants of probability of being in a particular stage of transition and a duration analysis of successful transition to labour market (ILO's stage 1). Following Allison (2014), we use methods that are appropriate for analysis for situation where several different event types can be distinguished. For analysis of determinants of transition status, we apply a multivariate probit model, while for duration analysis we apply competing risk regression analysis. The advantage of the competing risks regression over alternative methods (e.g. Cox proportional hazard model) is that it deals better with the left-censored data, which we have here. We do not observe repeated events in our data, so there is no need to control for dependence between events.

Data

The data used in the study were taken from three waves of BiH Labour Force Survey (LFS) 2011-2013. The observation period is one year, as data are not longitudinal. The stopping time is the time of survey and the starting time is exactly one year before. The data are left-censored, since the identification of entry was based on a question about labour market status in previous year, where we cannot observe exact date of entry. However, we can assume that all last year students completed their study and entered the labour market approximately at the same time.

The data are right-censored as we do not observe transition after the survey is completed. However, we assure that censoring is non-informative since we analyse determinants of transition during a year and the censoring time is same for all individuals. Here, unemployment is considered as a failure and any person who remain in unemployment during a year can be treated the same.

Model

The modes to be estimated is specified by the following equation:

$$y = \beta_0 + \beta_1 dem + \beta_2 exper + \beta_3 search + \beta_4 region + \beta_5 month + \beta_6 year + u_i \tag{1}$$

Part III.

Dependent variable in the model of transition into different labour market statuses is a categorical variable indicating status and is estimated by multinomial logit. For analysis of duration of transition, which is estimated by competing risks regression, we used a discrete time variables that captures a moment of transition into one of the statuses. Three statuses (full-time employment, part-time employment and informal employment) and unemployment as a "success" are defined by using responses to questions about their labour market status (employed vs. unemployed), duration of working week (full-time vs. part-time) and whether an employee is covered by a pension insurance[2] (formal vs. informal employment).

The first set of variables, denoted as dem in Equation 1, includes socio-economic characteristics of individuals, such as their gender, age, marital status, educational level attained, and relation with the head of household. Based on above presented descriptive analysis of the labour market in BiH, we can expect that women, less educated and younger workers are more likely to remain unemployed or to end up in less favourable labour market arrangement (part-time or informal employment). Second set of variables (exper) includes variables about previous job experience, type of sector, and occupation. Third set of variables, denoted as search, is related to job search variables such as whether worker received unemployment benefits, type of job looking for (full or part-time). In addition, a set of regional dummies (region) is included to control for region specific labour market characteristics. A set of 12 monthly (month) and 3 annual (year) dummies are included to control for seasonal and annual difference in labour market demand, respectively.

Findings

Preliminary findings suggest that the inequalities of opportunities expressed through demographic characteristics and family background of recent graduates and reflected in their education level acquired cause to a large extent an acceptance of informal employment. These findings are important from a policy perspective, suggesting that better education, support in the transition process

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[2] This is a standard way of identifying informal employment in BiH, used also by ILO (2015). Use of health insurance coverage is not appropriate as unemployed (as well informally employed) people registered at employment bureaus are covered by health insurance.

and social protection to informally employed workers need to be provided to young people.

3.4. WORKPLACE INEQUALITIES AND INCLUSION OF MARGINALISED GROUPS

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In many parts of the world certain groups of people face social exclusion as the result of multiple inequalities. Despite this, little attention has been paid to labour policies linked to the issues of inequality in employment and in the context of diversity and equality at work. The main objective of this paper is to bring some light into the opportunities for members of marginalized groups to realise their right to work in Serbia. Hence, the paper focuses on the gender discrimination, discrimination against Romani people and the population with disabilities in terms of their employment at national level. Combination of qualitative and quantitative research methods has been used in the study. This study brings into focus particular obstacles that each of these discriminated groups' faces, which prevent the individuals within them from full participation in social and economic life. Research results showed that women and population with disability are the most discriminated in Serbia because they are often seen as an expense to employers and the society as a whole. In addition, women and population with disabilities continue to dominate in low-paid and undervalued work.

One of the major issues faced by marginalized groups in Serbia refers to their slow employment through entrepreneurial activities. The reason for this can be found in the lack of entrepreneurial skills and knowledge that frequently prevents them in their entrepreneurial intentions. According to that, this knowledge can be very stimulative for educational institutions to invest in these programs and organize training at all educational levels – in both formal and informal education. Besides that, the research has shown that the respondents preferred employment in public companies to social entrepreneurship. That is explained by the fact that they are not sufficiently informed about the possibilities that it gives them, but also by its underdevelopment in Serbia. Also, the analysis of the research results shows that marginalized groups expect bigger responsibility of the state in terms of solving their position and putting their issues on the top of the list of priorities.

According to the framework of the Europe 2020 Strategy, special attention is paid to social programs for the most vulnerable social groups and their inclusion in innovative educational programs. These programs should enable them faster and better employment prospects. Also, these programs are aimed at fighting discrimination (age, gender, racial and other). With this in mind, Serbia at the stage of joining the EU should do more to deal with the aforementioned programs and the removal of existing obstacles would significantly contribute to the growth of employment and job creation, which would give a chance to all unemployed persons who are marginalized on a certain basis to be socially involved. It all requires rapid reforms in education and changes in the business environment, which should be accompanied by political will and the support of civil society. The reforms should be approached without delay and despite the crisis. Precisely, the crisis can be best fought with new initiatives and an active economic policy and in that way amortize the social and economic consequences for marginalized groups that are at the same time socially vulnerable categories of the population. In order to realize this concept it is necessary to conduct complementary activities, inter alia, in the field of education, health, social inclusion and employment, as well as to provide training aimed at the acquisition of entrepreneurial skills. In this context, the research has not only pointed out the certain stereotypes concerning the marginalized population, but also expressed the need for a new approach to the fight against inequality in the country.

Key words: *inequality, social exclusion, employment, marginalized groups*

3.5. BARRIERS FOR START-UPS IN THE EU: LESSONS FOR WESTERN BALKANS

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SMEs, particularly startups have been recognized as engines for growth, job creation and innovation. Nevertheless, the number of start-ups has experienced major declines both in 2008 and 2012. While the 2008 Financial Crisis (FC) can be accredited for the first one, the sudden sever drop in 2012 is of bigger concern for entrepreneurs, investors and policy makers who have been trying to revive the economy through increasing start-up activity. The data presented indicates that the 2008 FC has discouraged entrepreneurs to engage with business formation decreasing the overall start-up activity. Since today's "passive" entrepreneurs will hamper tomorrow's growth, better understanding of the post-crisis environment is needed. Moreover, profound knowledge on what triggers, facilitates and empowers start-up activity is of critical importance.

The analysis reveals uneven distribution of the crisis effects among EU member countries. More careful investigation of entrepreneurs' behavior indicates that the crisis has also triggered a change in entrepreneurs' motives to engage with start-up activity. The data presented in the paper implies that start-ups out of necessity have increased at the expanse of opportunity seeking entrepreneurs. After the crisis, entrepreneurship has been seen as more of an imperative necessity, rather than an alluring opportunity. Given the fact that necessity entrepreneurs differ significantly from opportunity driven, this paper argues that the newly emerged situation requires a different set of policy measures and support systems for increasing start-up activity in the post-crisis business environment. The results from the empirical research in the paper provide additional support and information for this argument.

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The research at hand uses panel regression model analyzing data for the period from 2005-2011 for better understanding of what triggers and what hinders start-up activity in Europe. More specifically, it investigates the relationship between the number of start-ups and indicators initiating high start-up activity. The findings indicate that the lack of financial capital as a barrier for start-ups is only superficial understanding of the problem. The final results exert a need for more contextual approach for increasing motivation of people to engage with entrepreneurship whereas business environment, the existence of more success start-up stories and self-efficacy have emerged as most important indicators for high number of start-ups.

Subsequent, the paper presents the measures taken by the EU for reviving start-up activity which are critically appraised in compliance with the results from the study. The EU has made major efforts for improvement of the business environment for start-ups in several areas: access to finance, less regulatory burden, access to markets and internationalization, as well as supporting SME competitiveness and innovation. The main goal is promoting entrepreneurship as an alluring opportunity and bringing back faith into people the start-ups can succeed and grow. The actions are facilitated through The Small Business Act for Europe (SBA), guidebooks on support to SME policy from structural funds, the "early warning tool", various SME portals and other measures which are elaborated and evaluated in this paper.

Comparing the situation with the Western Balkans we recognize a need for greater number of networks in this region between entrepreneurs and investors. Moreover, businesses from this region have lower level of business and entrepreneurial skills and need greater support in their expansion strategies. Finally, entrepreneurs who have experienced bankruptcy during the financial crisis need to be provided with appropriate support. Second-chance entrepreneurs are more innovative and have greater chance for success due to their previous start-up experience. Drawing on the experiences of countries form the EU, lessons for the Western Balkans are provided which are expected to result in flourishing start-ups sector in this region which can contribute majorly in decreasing persistent high unemployment levels.

Key words: SME start-ups, financial crisis, European Union, Western Balkan, panel regression

3.6. IMPORTANCE AND ROLE OF FAST GROWING COMPANIES – GAZELLES IN MODERN ECONOMIES

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The importance of small and medium enterprises (SMEs) for the development of national economies is undeniable and it is in many works stand out as a generally accepted position. In this paper, attention is focused at a specific segment of SMEs which comprise particularly dynamic companies that are characterized by fast and steady growth, ability quickly to adapt to market conditions and continuously to function at a high level of performance. These firms are now known as gazelles, the name which was in the *80s of last century* first coined by British author and consultant David Birch. Gazelles represent relatively small part of total and according to number of studies their share in the total number of companies in national economies is accounting from 3% to the most 5%. Interest for this companies, both at macro level by the creators of economic policy, as well as at micro level by businesses, in recent years is exceedingly increased because of their high potentials for resolving the issue of (un)employment and creating multitude of new products and services and added values which they are created for the society as a whole. In the paper the definitions of these companies are elaborated, the basic features and key factors of their business operation are analyzed, as well as their state (level of development) and their future development prospects in the European Union and the Republic of Serbia.

Key words: *small and medium enterprises, Gazelles, business growth, employment, strategy*

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3.7. BUSINESS ENVIRONMENT AND WOMEN ENTREPRENEURS: FACTS AND TRENDS IN SERBIA

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In the last few decades, women fought for their equality in society with success and proved that they are capable and courageous for business ventures as men are. The higher their position was, the more popular the issue of female entrepreneurship was among researchers around the world.

The Council for Gender Equality was established in 2004 by The Government of the Republic of Serbia, which was later reorganized into the Gender Equality Council in 2009. This Council is a state body which consists of representatives of relevant ministries and independent experts, who are prominent in the field of gender equality. In addition, in the field of gender equality in Serbia There are several active organizations of the civil societies and many activities are undertaken at the local level (Đulić K. Kuzman T., 2013). National Strategy for improving the position of women and advancement of gender equality encompasses areas related to the participation of women in policy making and decision making in the areas of economy, education, health, violence against women, as well as the questions of the media and public opinion ("Sl. glasnik RS", br. 15/2009).

The position of female entrepreneurs in Serbia is at satisfactory level, while the share of small and medium-sized enterprises owned by women is approximately 30%, which is similar to the data obtained from the EU countries. Female entrepreneurs in Serbia most commonly own micro companies employing not more than 10 employees. However, a decline in the number of women in leadership positions is perceived in the business world. The results in the last few years, i.e. from 2009 to 2012 show a fall of 5.1%, while from 2012 to 2013, the share of women in managerial positions increased by 1.6%. Since 2012, the

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Ministry of Labour in Serbia has launched a policy development to improve the position of women in the business world. According to the International Organization the share of women in leadership positions in Serbia is 31%. While in the countries of the region the highest share of women in leadership positions was in Bulgaria, 36, 7% in 2014 and 36, 5 % in 2013. The situation in Croatia, Macedonia and Romania is quite similar and amounts to 23.2%, 29% and 31.7% respectively. Although Croatia is a country with the lowest proportion of women leaders in the market, but in politics, women play a major role in Croatia (ILO, 2015). The situation is the same around the world. The participation of women as entrepreneurs in SMEs may decline. In Asia, the big impact has a low level of education, lack of capital, and cultural or religious constraints (Tanbunan, 2009). According to the empirical research less than 10% of the entrepreneurs in South Asia, comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, are women (Sinhal, 2005).

In contemporary business conditions, development of small and medium-sized enterprises is the basis for economic growth because these companies contribute to increasing employment, creation of new added value, increase the gross domestic product and economic growth. They have the dynamism and flexibility that are necessary for the introduction of innovative technologies, activities, products, processes and promote research and development. The focus of policy makers and the business environment creators in the countries of the European Union is on the empowerment of small and medium enterprises, especially in times of economic crisis. However, in Serbia, this trend is not present. The number of small and medium enterprises is reduced and this reduction was particularly pronounced as a result of the economic crisis and dwindling availability of financial resources. The assumptions are that a significant number of SMEs will not survive the economic crisis and that the number of SMEs will further reduce in the up-coming years.

The aim of this paper is to present the position of women in entrepreneurship and the business world in Serbia for the period from 2010 to 2014. For this purpose, descriptive statistics was applied to show the public information available from international providers, ILO and Eurostat.

Key words: women entrepreneurs, SME's, leadership, employment

3.8. E – MARKETING STRATEGY AS A FACTOR FOR DEVELOPMENT AND COMPETITIVENESS OF THE COMPANIES IN THE COUNTRIES FROM WESTERN BALKANS

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Nowadays, in the e-business environment, companies are shifting their business strategies from product-oriented to customer-oriented. As a strategy to optimize lifetime-value of customers, customer relationship marketing - CRM can help companies to succeed in the world of e-business. Not only large, multi-national companies, but also SMEs are increasingly seeking to implement CRM in order to find a competitive advantage on which to base their business' prospects for longevity.

The most significant opportunity SMEs get from the e-marketing is to outperform large competitors regardless of relatively smaller capacity of human and financial resource. The e-marketing and technological innovations are providing SMEs with new opportunities to develop customer's loyalty as a factor for their competitiveness.

The paper will identify the influence of the e-marketing strategies on the different types of customers' loyalty. The primary objective of this paper is examining the effects of the strategies of e-marketing on the preference loyalty complaining behavior and price tolerance.

Key words: *e - marketing, strategy, competitiveness, development*

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3.9. INTERNAL MARKETING AS AN EFFECTIVE STRATEGY FOR IMPROVEMENT OF HUMAN RESOURCES' QUALITY: CASE STUDY OF TOURISM SME'S

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Human capital and knowledge of human resources are very important factors of competitiveness, especially in service sector and small and medium enterprises. Internal marketing is effective strategy for improvement of human resources and advancement of knowledge of employees. As a significant segment of contemporary marketing theory – total relationship marketing, it represents new strategy intended to improvement of employees. Main goal of internal marketing strategy is improvement of knowledge, skills and satisfaction of employees, which will lead to satisfaction of external customers. Focus on attention of human resources and internal activities inside small and medium enterprises will lead to competitiveness on external markets. This provides maintaining customers and establishment of long-term relationship with them, which is important precondition for small business success. For small and medium enterprises application of internal marketing is much easier, because of the small number of employees and closer relationships within the company. Purpose of research was to determine the attitudes of employees about implementation of internal marketing. The research process, through qualitative and quantitative methods, and primary and secondary research, included a total number of 330 respondents. The conducted qualitative research using the technique of in-depth interviews was applied to provide a deeper insight and a broader picture of the degree of implementation of internal marketing, as well as its constituent components and factors that influence its implementation. Such a research has never been conducted in small and medium-sized tourism enterprises in Serbia, and the obtained results can be applied in practice and theory.

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Development, Competitiveness and Inequality in EU and Western Balkans

3.10. DETERMINING TARGET AUDITORIUM FOR SERBIAN INTERNAL NATIONAL BRANDING

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National branding belongs to options for improving national competitiveness. The topic of national branding is in the focus of interest of a number of distinguished authors from the sphere of marketing. There can also be found literature regarding examples of national branding of, among others, Japan, Lithuania, Nigeria, Peru, Romania and Slovenia. However, there are experiences of Nigeria that national branding was not successful because it did not include internal branding, oriented toward citizens of a country itself.

Having in mind the significance of internal branding for success of national branding strategy, as well as for potential increasing consumption of domestic brands, the goal of this paper is to determine the target auditorium of Serbian internal national branding. Determining target auditorium is actually the first phase of managing marketing communication process.

The questionnaire consisted of four parts. The first part of the questionnaire was related to respondents' socio-demographic and behavioural characteristics. The second part of the questionnaire consisted of the cards with chosen product attribute levels' combinations to be evaluated by consumers. Each of the respondents expressed preferences toward each of the cards regarding only one of the chosen products (milk, fruit juices, beer and instant coffee – 75 respondents for each of them). One of product attribute was related to brand and included one national, one regional and one global brand. The third part of the questionnaire was related to self-reported frequency of consumption of brands of products for which respondents previously expressed their preferences. The fourth part of the questionnaire was related to measuring respondents' attitudes

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regarding national heritage, cultural openness and consumer ethnocentrism for which were used chosen items of scales already developed, tested and published.

There were 300 respondents within the sample. Structured interviews by means of personal communication with the respondent with the use of questionnaire were conducted within the research method. The respondents were aged 18 to 65, living in Southbačka district. Convenience sampling method was used. Data collection was carried out in December, 2014.

Market segmentation was conducted based on consumer preferences identified by conjoint analysis. Ratings-based conjoint analysis was used (subject=id had been used in syntax in conducting conjoint analysis). The respondents were then divided into two segments – the segment which values the national brand as the first or the second most important attribute of a product (named as the first segment) and the segment that values any other attribute as the first or the second most important or prefers regional or global brands (named as the second segment).

The first segment is including about 25% of respondents, and is determined as target auditorium for Serbian internal national branding and further increasing consumption of domestic brands.

These consumers statistically significantly differ from consumers in the second segment by consuming national brands more frequently, global brands less frequently and by being less culturally opened. However, when it comes to gender, age, education, employment status, marital status, number of children younger than 18 in a family, household size, self-assessed household income, frequency of traveling abroad, frequency of consumption of regional brands and attitudes regarding national heritage and consumer ethnocentrism, there are no statistically significant differences between two segments.

Structural Equation Modelling was used for testing the model (national heritage and cultural openness were independent variables, while consumer ethnocentrism was dependent variable; at the same time consumer ethnocentrism was independent variable, while domestic brands frequency of consumption was dependent variable).

The results show that both, at the total sample level, as well as for two segments observed individually, there is no influence of consumer ethnocentrism (which is

influenced positively by attitudes toward national heritage and negatively by attitudes toward cultural openness) on frequency of consumption of domestic brands.

The result that the first segment statistically significantly differs from the second segment of consumers by consuming national brands more frequently and global brands less frequently, could lead to conclusion that, when it comes to national brands, consumers' preferences do translate into real purchases. That question is of the greatest importance for the topic of this paper since consumers in the first segment are understood as target auditorium for further increasing consumption of domestic brands (while reducing consumption of regional and global brands) and also for internal national branding leading to increasing competitiveness of a country.

However, the question remains whether the preferences for and consumption of national brands are caused by the fact that these brands are national or by some other factor. When looking at the results of the research, it can be seen that there is no influence of consumer ethnocentrism on frequency of buying national brands. This could lead to conclusion that habit of buying them is essential. Such conclusions would even obtain greater importance if confirmed by future researches including sample of wider geographical focus and more representative, as well as questions regarding respondents' price sensitivity, purchasing habits, further quantifications of purchases and communication habits. In that case, further increasing of national brands consumption could be more related to promoting continuing relationship with brands mostly familiar for decades (and thus, perhaps, staying in connection with previous times, almost always perceived as happier) than to promoting support for domestic production, keeping jobs and other ethnocentric attitudes.

Key words: *national competitiveness, national branding, internal national branding, target auditorium, market segmentation, consumer preferences, domestic brands frequency of consumption, national heritage, consumer ethnocentrism, cultural openness*

3.11. THE ANALYSIS OF RETAIL OUT-OF-STOCKS – EMPIRICAL EVIDENCE FROM SERBIA, BOSNIA AND HERZEGOVINA AND MONTENEGRO

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Through the exchange process, retailers and suppliers achieve material and non-material benefits in the form of profit or increased customer satisfaction and brand loyalty. On the other hand, in addition to achieving their goals and purchasing the desired products, customers provide a certain form of security in relation to meeting their needs. However, in case the desired product is not available on the shelf, out-of-stock problem occurs, which significantly changes or fully jeopardises the value creation process.

In addition to sale losses, in the case of frequent stock-outs, retailers and their suppliers may be confronted with the loss of loyal customers and/or with the decrease in brand loyalty. The out-of-stock problem can also have a negative impact on their operational efficiency, as well as on their business relations and communication. On the other hand, besides material costs, in these situations customers are exposed to the loss of time and energy.

Starting from the significance of the given issue, this paper analysis out-of-stock rates in more than 230 retail stores on the territory of the Republic of Serbia, Bosnia and Herzegovina, and Montenegro. By applying a method based on POS data (POS sales estimation method), they were identified for several FMCG product categories. In addition to identifying, out-of-stock rates were compared both within each and between different categories of products. Started from the number of observation and the fact that the given rates are continuous, and products category is the categorical variable, ANOVA method was used for this purpose.

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The results have shown that only in Serbia, the average out-of-stock rate exceeds 4% (4.30%). Its value significantly differs between product categories. While, from the availability aspect, the most problematic categories include home cleaning products (11.96%), sugar (6.47%) and alcoholic drinks (6.16%), the lowest average OOS rate was recorded for soft drinks (1.50%), salty snacks (1.32%) and coffee (1.29%). Also, in eight out of eleven categories, the average rate is higher than 2.5%.

In comparison to retail stores in Serbia, lower out-of-stock rates were recorded in Bosnia and Herzegovina and Montenegro. The smaller territory of these countries may be a reason for more efficient and faster replenishment of retail stores and, consequently, a higher level of on-shelf availability in them. In Bosnia and Herzegovina, its average value amounts to 1.59%. Like in Serbia, it shows significant differences among product categories. It is the highest in home cleaning and care products (2.52%), soft (2.38%) and alcoholic drinks (2.01%). On the other hand, its lowest values occur in sugar (1,32%), salty snacks (1,20%) and flour and cereal products (1,09%). In Montenegro, the average OOS rate is 2,17%. Its highest levels are recorded in soft drinks (5,08%), salty snacks (2,93%) and edible oils and fats (2.52%), and the lowest in herbs and spices (1.60%), confectionery (0.96%) and coffee (0.96%).

Furthermore, the average out-of-stock rates in sampled countries are lower than average out-of-stock rates identified in other studies and researches. While on the global level, the average OOS rate amounts to 8.6%, on the European level it ranges between 7% and 10%. Viewed by countries, obtained rates in Serbia, Bosnia and Herzegovina and Montenegro are lower than average out-of-stock rates in Italy, France, Germany and Greece. However, given that every reduction of on-shelf availability by 3% results in a drop in sales of 1%, large retail system try to reduce the out-of-stock rates in various ways.

In regard to this, retailers and their suppliers must strive to establish long-term partnerships, based on which they can organise various business operations. Suppliers can be gradually included in the inventory management process (through the implementation of the VMI concept), where a part of responsibility and obligations related to establishing the size of orders and organisation of deliveries could be delegated to them.

In addition to cooperation in the supply process, retailers can also include suppliers in the demand forecasting process. By establishing the collaborative

planning, forecasting replenishment (CPFR) model based on constant information exchange, trading partners can forecast the needs of final customers much more efficiently.

Also, some business processes can be modernised by introducing new technological solutions. Besides the automation of ordering process, systems based on RFID technology can be used for monitoring product flow from the backroom area to the shelf. For the purpose of improving merchandising activities, significant results can be achieved by the application of online planograms and special shelf ready packaging.

Part III.

3.12. E-PROCUREMENT PERFORMANCE INDICATORS
- A STEP TOWARDS EU

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An effective and impartial system of public procurement has a positive impact on the economy. In the case the system discriminates against the participants, there is a large number of negative consequences, and the most important are endangering the existence and development of small and medium-sized enterprises and deepening social inequalities. The system of public procurement has a crucial role in the strategic development of the EU according to the "Europe 2020 - A strategy for smart, sustainable and comprehensive growth" document and EU has made a number of steps to improve this process, having in mind that a very important segment is e-procurement. The aim is to increase the flexibility of the contracting process and improve access to public tenders for SMEs, as well as the possibility of large savings on a global level. The European Commission estimates that the public institutions involved in e-procurement have 5-20% savings on annual basis in relation to costs in the period before inclusion. Therefore, by the end of 2016 Directive on Public Procurement (2014/24 / EU) requires that all member states must ensure the implementation of all required procedure, and among them is the implementation of e-procurement. This implies that: a) until March 2016 all member states must introduce electronic notification (all information relating to public procurement must be sent electronically) and must implement electronic access to tender documentation; b) by March 2017 all the Central contracting authorities (those who perform public procurement in the name and on behalf of other contracting authority) will be obliged to electronically submit bids and c) up to September 2018 electronic submission of tenders will become mandatory for all participants. In addition, the EU started to establish an online repository of certificates and attests (e-Certis) in order to increase the transparency of the participants on the supply side. An integral part of this concept is the European Procurement Passport.

In this paper we focused on the system of electronic public procurement (e-public procurement or e-procurement) and performance indicators. The introduction of the new system enables the modernization and automation of the number of

phases in the procurement process (announcements, bid evaluation, ordering, etc.). The effort invested in the development and implementation of this system aims to improve the efficiency, quality and transparency of public procurement in the state administration. The practice so far has shown that the development of effective public procurement system relies on an electronic platform (e-platform). E-platform is able to cover each phase of public procurement: e-notification, e-ask, e-bid, e-evaluation, e-contracting, e-ordering, and e-payment.

To ensure systematic and comparable measurement and monitoring functionality (efficiency and effectiveness) of e-procurement portals in all Member States, according to the policy goals, the EC has established a system of appropriate indicators. There are two main groups of indicators, EU Top level Take-up indicators and EU Top level Performance indicators. Each indicator within these groups is connected with certain policy goal. EU Top level Take-up indicators include: 1) Goal of full transition to e-Procurement which can be measured by E-procurement take-up in value (% of total public procurement) and by E-procurement take-up in volume (% of total number of contracts) indicators; 2) Goal of full participation of SMEs to e-procurement which can be measured by E-procurement take-up by SMEs in value and volume (over total public procurement); and 3) Enablement of crossborder e-procurement can be measured by E-procurement take-up by cross-border suppliers (in value and volume (over total public procurement). EU Top level Performance indicators include: 1) Goal to improve Effectiveness of public spending which can be measured by E-Submission Price Reduction Indicator and E-Submission Reduction of Litigation indicator; 2) Goal to improve efficiency of procurement processes which can be measured by E-Tendering Efficiency Improvement indicator for Contracting Authorities and E-Tendering Efficiency Improvement indicator for Suppliers; 3) Goal to Improve ease of access of public procurement which can be measured by E-Submission Ease of access indicator and 4) Goal to Improve transparency of public procurement process which can be measured by E-procurement transparency indicator towards buyers and suppliers. In this paper we covered listed indicators in details and presented all issues regarding data collection, scarcity of reports at national level and lack of objective parameters to evaluate the statistical representativeness of the sample of platforms.

During the last decade Republic of Serbia made great effort in order to improve the system of public procurement, having in mind that this is one of the necessary conditions upon EU accession (Chapter 5). First, Serbia has improved its legislation with the Law of public procurement (2012), according to which the budget

beneficiaries, legal entities engaged activities in the public interest and public companies are required to implement the procedures of public procurement. The latest amendments to the new law came into force in August 2014. Furthermore, Serbia has adopted the Strategy for Development of Public Procurement System for the period 2014-2018. According to the Strategy, the development and modernization of e-procurement in Serbia is planned to be implemented from the beginning of 2016 to the end of 2017, mainly through the e-Portal. In this paper we will also analyze the possibilities to implement listed indicators in Serbian e-Portal for public procurement.