

TRANSITION OF BOSNIA&HERZEGOVINA ECONOMY: AN EXAMPLE OF ECONOMICS BARBARISM

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Abstract

Bosnia&Herzegovina is in the process of transformation from a previously self-managed economy to a modern market economy. The process has begun immediately after the Dayton Peace Accord was signed. The transition package was based on the "rules of the game" of the Washington Consensus. We consider that an application of neoliberal economic concept in a war-torn country could provide nothing else than a disaster... The application of Washington consensus under given B&H' circumstances we consider as economic barbarism. In the paper we analyze the barbaric strategy of the international institutions and its consequences for B&H' economy and society. In our research we rely mostly on our primary data and research as well as on official World Bank publications. Our own neo-Keynesian economic development strategy supported by UNDP has been rejected by the IMF and World Bank in 1997.

Key words: *strategy, failure, neoclassical, IMF, UNDP.*

JEL Classification: D 00; E 00, F 02; O 11;
Preliminary communications
Received: December 23, 2011

"You do not know, my son, with how little wisdom the world is governed".

Krugman, P. (2011), July 22nd, Lesser Depression, IHT

1. Introduction

Between the Second World War and 1991, when Bosnia&Herzegovina was one of six republics of the former Yugoslavia, it has achieved significant economic transformation. Economic growth averaged 5 per cent a year. In 1991 per capita income was \$US 2,400, excluding the service sector, as was the practice in former socialist economies. Twelve big companies produced 35 per cent of the gross domestic product (GDP), and four of them generated more than 40 per cent of total exports. Companies were organized as self-managed companies of associated labor, in accordance with the principle of a self-managed market economy, which was half way between a centrally planned and a modern market economy. In 1990-1991, Bosnia's main foreign trade partners were the former USSR, Germany and Italy. It had a surplus in its trade with the EEC countries in 1991. Main exporting sectors were chemicals, ferrous metallurgy, metal processing, leather shoes, electrical appliances, finished wood, timber and panels, and finished textile (Stojanov, 1997).

When considering accepted/imposed the development strategy since the war 1991-1995 and its effects so far, one has to take into consideration relevant external and internal factors of both an economic and a political nature. Two external factors have determining influence. The first is the process of globalization of the world economy, and the "Washington Consensus" which has been providing the basis for the treatment of transition countries and their transformation into "small open economies." The other is the 1995 Dayton Peace Accord. While the Accord placed banking and customs regulation at the central state level, fiscal policy was transferred to the entities and cantons, and no instruments were provided for shaping country-wide macro-economic policy. This had tied the hands of the central state concerning the formulation of a uniform strategy for economic development, including industrial policy. In practice, Bosnia&Herzegovina lacked the power to formulate and implement independent monetary, fiscal, price and foreign exchange policies, and policies regarding privatization, incomes, and social welfare. Moreover, industrial policy-making was, in fact, impossible under the rules applied/imposed on the country by the World Bank and IMF.

The development prospect in such a poor country, according our opinion, was remote since the starting position has been too low. It had not developed market institutions and no strong government which might implement an alternative package for development and macro-economic policies. However, the policy package coming from, and implemented by, the IMF and the World Bank was seen as the only way of achieving stabilization, preparing the ground for privatization, and developing macro-economic policy under more favorable political circumstances.

Yet the evidence indicates otherwise. The "Frankenstein" economy simply does not perform as has been expected. B&H is poor country at the beginning of 2012 having one of the highest unemployment rates in Europe. Great many of youth wish to leave a country. B&H is ethnically divided society. We consider that neoliberal economic policy bears hard responsibility for such a state of B&H society and economy. In this paper we wish to elaborate the role of imposed economic strategy on B&H and its economic and social effects.

2. Methodological and Theoretical Background of the Paper

The results of interaction of above mentioned factor we elaborate in the paper relying both on our research and primary statistical data. We have started our research on B&H economy and its economic policy since the very beginning the Dayton Peace Agreement was signed. We were opposing the Dayton both from political and economic point of views (Stojanov, 1996). Under the auspice of UNDP we have gathered first relevant primary statistical data about the state of B&H economy, and we have proposed Economic Development Strategy for B&H based on a gradual but effective neo-Keynesianism (Stojanov, 1997). The Strategy has been rejected by the IMF and World Bank in 1977. Instead, a neoliberal economic strategy has been imposed on B&H by these institutions. In year 2000 (Stojanov,2000) being in the capacity of chairman of Sarajevo's cantonal agency for privatization together with members of the managing board I proposed privatization strategy with main idea first to restructure companies with eventual privatization at later stage of take off of the economy. In the same time we proposed establishment of B&H Development bank. Interestingly, both ideas have been rejected by international institutions with a pretext that a) state is corrupt, and b) shock therapy is what B&H needs. Next research concerning economic development and economic policy relevant for B&H we did together with dr. C. Pitelis (Stojanov, 2000) pointing out necessity of reindustrialization of B&H economy and a useful role of cluster development. Under the auspices of World Banka we undertook new research project which did confirm negative economic process B&H' economy was on (Stojanov, 2004). We did a monograph "Economic in Peacemaking: lessons from B&H" on behalf of the Portland Trust using statistical data available from official B&H statistics and Oxford Research International (Stojanov,2009). We compare World Bank proposed strategy for B&H with actual data relying on comparative method and method of analysis and synthesis. In the conclusion we point out the

main result of our research which we dare to declare as effects of economic barbarism imposed upon a country.

3. Empirical Data of Imposed Economic Strategy

3.1 Microeconomic aspects

In the project "Survey and Analysis of the Debt Structure of a Sample of Bosnian Enterprises" performed in the second half of 2004 by the author of this paper, and on behalf of the World Bank and DFID, we have got the results and picture of B&H business sector in conformity with «the prescriptions « Author of this paper considers that better result could not have been obtained within the "prescribed prescription". Analysis follows Pitelis' productivity wheels approach.

3.1.1 Visible Hand (Firms): Performance and Organization

Main attribute of firms in B&H has been their size. Majority of B&H firms belong to the groups of small and medium size enterprises. Having from 50 - 100, and from 100 -500 employees firms operate in their vicinity, and some of them penetrate market of B&H. They have a few affiliates Bosnia wide.

Minority of firms have undergone restructuring. Firms did restructure to some extent their internal organization, they reduced number of overstaffed workers, they to some extent introduced new products in production program. Majority of both state owned and private firms still did have over-surplus of workers employed (state firms more than private), and despite of that they do not feel their export competitiveness endangered by overstaffed personal. This is due to the fact that firms either: do not pay workers regularly, or they pay very modest salaries to the workers. In fact, arrears to the workers have been great both in state and private companies. Likewise great arrears are registered to the: suppliers, to public companies, to the entities (Federation and Republic of Srpska, and to the state. Firms are indebted each to other. Bank appears to be one of the suppliers of capital to the firms, but not as much as could be expected. That is due to high interest rate, lack of collateral, lack of good project, and availability of alternative sources of capital for firms.' Other sources", not properly defined, are providers of a part of the necessary funds to the firms, (parents, friends, space rental) etc. Though firms have been improving their technological resources, they are still lacking appropriate technology to be internationally competitive. The most serious threat to the promising firms was widespread developed gray economy. Gray economy has been representing more serious threat for firms than competition both from abroad and domestic market. Firms are disappointed with absence of any kind of supportive state intervention, and particularly with glaring lack of export subsidies and export credits.

3.1.2 Technology

In the sample out of 187 firms new technology has been adopted in 43, 3% of companies very unequally distributed both: within ownership type and within entities. State firms introduced new technology in 36, 5% Federation of B&H (F) and 25% of firms (RS). Private firms within (F) were more technology prone (63, 9%) than (RS) private firms 28, 9%-Mixed firms did well: in (F) 53, 8% and in (RS) 19, 4% applying new technology. Certificate of quality for properly doing business is reached by 35, 3% of all firms, in the same time very unequally distributed between entities and type of ownership. The most active in that respect are private and mixed firms in FB&H (47, 2% and 53, 8%) respectively. Technology was still obsolete and represented an obstacle with respect to of competitiveness of B&H firms in 27, 8% of the firms in the sample. Only 11, 2% of

firms did not need new investment to be globally competitive. 26, 3% of firms believed that investment in range of 1, 5 million KM would make them competitive - state firms 17, 6% (F) and 33% (RS), private firms 22, 4% (F) and even 48, 6% (RS).

3.1.3 Economics of scale and scope

Majority of firms in the sample belonged to small and medium size enterprises (SME). Within range of 100-500 employees there were about 37% of state owned companies and 45, 8% and 36, 8% respectively of private firms in (F) and (RS). There are similar number of mixed ownership firms in both entities. With 500-1000 employees there are 4, 3% firms. With more than 1000 employees there were 12, 8% of firms mostly state owned firms - 47, 4% of state companies, and mixed ownership firms - 38, 5% in (F) and 13, 4% in (RS). There were 19, 8% of firms employing between 50-100 workers, and 17, 6% of firms having employed from 10-50 employees. With a yearly turnover above KM 50 million there are 10, 2% of companies in the sample. Majority of companies are organized in small number of organizational units having between 0-2 units, there are 37, 4% of such size firms. 31 firms have between 3-5 units, or 6% of firms, and 25, 7% of firms have more than 6 units out of 187 firms in the sample. Majority of firms is located in one entities of B&H, having almost none units abroad. 7% of questioned firms have had only one unit abroad, and 4, 8% have had two units abroad. SME in B&H, due to their size still did not experience great pressure to expand abroad and export. They are relatively taken small in comparison with giant foreign firms, and therefore not able to exploit the effect of economic of scale.

3.1.4 Human capital

Personal contacts with managers of firms suggested that human capital represents one of the most serious deficiencies of B&H firms, and particularly in terms of high quality management. Survey did suggest similar conclusion in that respect. Having a glance at the efficiency of managers to manage "cash flow" of firms, one could discover abilities of some companies and managers to manage of cash flow successfully, and the others who have difficult time in performing that function. Both have been operating under same macro- economic climate. As far as ability to manage new markets and to increase sale activities, we got similar answers. Personal contacts did suggest that state managers are much less able than managers of private companies, which we consider as normal consequence of two factors at work: deep involvement of political parties in day to day business of state firms, and expectations of privatization, deterring managers from serious work in state companies, and in fact supporting "asset stripping". It is not by chance that majority of firms either public or private were indebted to the state/public companies. Taken altogether, work force in B&H companies is young. In fact; private firms have younger employed workers than state firms. Average workers age is situated within range from 30-46 years. There were only 18, 7% employed workers older than 46 years.

3.2 Mezzo-Level of the Productivity Wheels-Industry Conduct

Mezzo -environment part of "productivity wheels" in the B&H environment is composed of a market structure consisting mainly out of SMEs, and small companies. Big and internationally competitive firms are almost nonexistent. Social capital is particularly weak point of the productivity wheels mechanism. Absence of "trust" between different ethnic group, different perspective of the B&H future, and presence of mafia type activities with enormously present corruption, significantly degrades ability of firms to work hard and efficient. "Gray economy" is particularly unwelcome by regular business parties. Even 44, 9% of formal firms in the sample see "gray economy" as the most frightening phenomena for their existence. Domestic competi-

on comes next in 43, 3% of firms, and then comes danger for market share emanating out of the competition of transnational companies and imports of goods .

3.3 Macroeconomic Environment-Policy Mix and Effective Demand

B&H economy has entered transition process under the conditions of Washington consensus. Philosophy of free market, unconstrained import liberalization and inward FDI were expected to be driving forces of domestic economic growth and prosperity. That is why, firms in the sample complain about lack of any kind of state support, except to some extent in sense of creating so called "market friendly environment". Lack of export subsidies and export credits was absolutely evident. Lack of gradual import liberalization contributed to distraction of many firms. Restrictive macroeconomic policy, based on the rules of the game of currency board, supported lack of domestic effective demand, and pressed firms to export as much as they can. Infant industry argument was totally neglected. There was complete lack of any kind of industrial policy. Firms were left on their own, under such a circumstance we might even congratulate domestic firms and managers that they survive and even manage to work and export at least primary products. Debt forgiveness by the state to the firms has been provided only exceptionally (2, 1%), and forgiveness of "contributions" is registered in 1, 1% of cases. State's subsidies have been provided to firms in 8, 6% cases, and if they were given they were given to state/public companies. 30, 5 % of firms have stated that bank's credits are very expensive. Companies admitted that lack of collateral is a reason for not applying for bank credits, and only in 5, 35 of firms, considered lack of good programs as a cause for not asking banks credits. Therefore, one must not be taken by surprise that internal indebtedness was unacceptably high. Firms are indebted to each other, to public companies, to suppliers, to the state, to the workers.

3.4 Institutional Setting-Governance Mix

Institutional context is particularly sensitive aspect of the whole story pertinent for a successful revitalization and restructuring of B&H companies. Apart from absence of the state in supporting, for instance, a timely import liberalization, or infant industry argument, appropriate foreign exchange rate management etc., Bosnian institutional concept is relevant and responsible for unfriendly business climate present in B&H, and even more for different and numerous failure in creating policy solution. Perfect case in point is partition of country (B&H) into two entities, and entities founded privatization. Divorce between privatization and development has many things to do both with the partition of country and methods of privatization founded and invented on such a partition. Lack of unique economic space B&H wide, hand in hand with lack of instruments of economic policy harmonized for B&H as a whole, is story for itself. Manufacturing industry contributed to total value added of B&H economy at the end of 2003 by only 12, 97%. Total basic industries (agriculture, hunting, forestry, fishing, electricity, gas and water supply, manufacturing industry) participated in total gross value added by 39, 68 %.

4. Developmental and Social Effects

4.1 Exports and Production

By the end of 2005, the structure of the Bosnian economy was not dissimilar to that of a developed economy. The service sector was the dominant sector, followed by industry and then agriculture. But this structure was not the result of natural development. The structure reflected the lack of domestic production, industrial policy and investment. Exports played a minimal role in the B&H economy. According to the B/H's Economic Policy Planning Unit (EPPU), "the largest twenty exporters amount to some 4-5 per cent of total employment but with 80 per cent of exports". Domestic production in Bosnia, which would have done much to revive local income and

provide a base for future development, received no effective support either from the state or from the International community. This led honest managers to think short-term and to overlook the need to modernize and improve their companies. Any R&D activity was carried out by individuals out of personal enthusiasm. The absence of technological progress and lack of a positive vision for the country's future left citizens uncertain about the likelihood of progress. A liberal foreign trade sector (with underdeveloped and insufficient domestic production) tempted the local entrepreneur to import products from third countries, thus increasing the balance of payments deficit of Bosnia & Herzegovina. The highest trade deficit registered so far in B&H was for the period of January 2007-November 2007 and amounted to KM 7.2 billion (€3.6 billion).

4.2 Banking reform

The World Bank and the IMF promoted the reform of the banking sector. Central Bank functions as a currency board since 1996. This meant integration of B&H into international markets as a 'price taker', with a fixed exchange rate for its national currency. National currency KM was pegged to the German mark (and now to the Euro). The country effectively lost complete control over its monetary policy. There were 32 commercial banks in Bosnia & Herzegovina at the end of 2006. 23 were based in Federation of B&H and 9 in Republic Srpska. The privatization and almost total sale of the banking sector to foreigners was extremely problematic. Smaller bank branches were closed, leaving many communities without banking facilities. Only no-risk projects were supported. Luxury vehicle purchases were approved at a time when obtaining SME finance was virtually impossible. More importantly, the bulk of local savings was transferred out of Bosnia & Herzegovina and invested in the 7-day money market or deposited in EU bank accounts paying a reasonable rate of interest (risk free). This meant that B&H was drained of its own resources. In 2002, sudden increases of credit to households were recorded: in relation to 2001, the increase was 102 per cent. Business loans increased in the same period by nearly 40 per cent. Total credit to households represented 49 per cent of total loans issued in 2003. By the end of June 2007, household credit amounted to KM 5.04 billion and made up 47.6 per cent of total credit. (Stojanov, 2009)

4.3 Unemployment

There are currently 3.8 million people living in Bosnia & Herzegovina. According to the Labor Force Survey from the Agency for Statistics of B&H (September 2007), there are 1,196,314 persons in the B&H labor force and 1,528 870 inactive persons. This means that there are more economically inactive people in B&H than active. Within the labor force, 849,570 are in employment and 346,744 are unemployed. The ILO unemployment rate was 29 per cent in 2007 and 27 percent in 2010. 47.6 per cent of the employed work in the service sector, 32.6 per cent in industry and 19.8 per cent in agriculture. According to EBRD statistics, the level of unemployment hovers at around 40 per cent (Stefano, 2009).

4.4 Social exclusion

Most B&H citizens see the situation in B&H as "bad". Four in ten would leave B&H if given an opportunity. Two thirds of respondents aged between 18 and 30 say that they would like to move abroad. Nearly half of the Bosnian people believe they are first and foremost B&H citizens; most of the others subscribe to a dual identity. Critically, 14.2 per cent of 3,580 Respondents reject a B&H identity. Many experts believe that this feeling of social exclusion is a result of the poverty in Bosnia and Herzegovina. 31.3 per cent of households in the Federation of B&H and 22.5 per cent in the Republic Srpska have had no apparent monetary income. Other studies found that 50 per cent of the population was generally socially excluded. On a long-term basis, 47 per cent of the population is excluded (Stojanov, 2009).

5. Determinates of Economic Strategy

5.1 An example of Frankenstein economy: the role of Inter-Entity Trade

Inter-Entity trade is relevant for B&H and its two entities for at least two reasons: A) Economics, because its expansion can contribute to the growth of the GDP of the entities and of B&H, as well as to the more effective functioning of the market, and b) Politically, because it acts or could act as an integrating factor of the political area of B&H, by stimulating cooperation between citizens and business people of both entities. The significance of trade for economic growth and development of a country is beyond question. This goes both for domestic and foreign trade, especially in today's global environment. It should be that way for B&H, too. It is therefore not surprising that some economists, entrepreneurs and politicians represented the position that trade is the integrating factor of economic and political recovery of B&H. In that respect an OHR effort was undertaken concerning harmonization of special excises and taxes on the so-called "high-tariff" goods in the Federation (FB&H) and Republic Srpska (RS). With the same aims the office of the OHR has been pressuring ministers of trade of both entities to cooperate, to harmonize conditions for trade, to organize trade and finally, to exempt it from various formal and informal restrictions. Until June 1998 inter-entity trade was regulated by the entities and was similar to, or even had more characteristics of international trade than of domestic trade. It is therefore perfectly normal that only a very modest volume of inter-entity trade was officially registered. Political bodies of both entities have had a more complete picture of inter-entity trade, since they monitored it closely in the given political circumstances. Still, a logical, although (at first glance) paradoxical question was: would inter-entity trade have developed without pressure from OHR, and if so, to what extent? Similar relevant questions was the following: could trade in B&H really might be an integrating factor for B&H, at least to the extent expected by the politicians and the office of OHR? Does favoring inter-entity trade stimulate greater trade diversion than trade creation? Under which circumstances can inter-entity trade creates (intensify) the trade creation effect in order to be an integrating factor of the economic and political area of B&H, and in order to play its standard (textbook) role in the interest of B&H citizens and entities?

Due to the war and the Dayton Accord, B/H has not been at 1966 even a firm customs union. The process of disintegration of the former Yugoslavia has led to creation of independent states, which have their own economies, and naturally, their own policies on economic relations with other countries. It is well known that, according to the Dayton Accord, B&H has special relations with its neighboring countries. These relations were so special that B&H for all practical purposes can hardly be said to have a unified customs system. B&H finds itself in the unusual position of having and not having of policy of economic relations with other countries. Her entities have been cooperating with the neighboring countries based on the principles of free trade zone. Given the fact that there were no customs or other obstacles to trade with neighboring countries, and, on the other hand, given the existence of regulatory obstacles which obstructed trade between the entities until June 1998, it was completely natural that trade was created between the entities and their immediate neighbors, i.e. between Republic Srpska (RS) and Yugoslavia, and between the Federation (FB&H) and Croatia.

Aside from the reasons provided in Dayton, this process of creation of trade with neighbors and diversion of trade between entities has, to some extent, its "natural" reasons after the war. The rationale for developing the effect of trade creation with the neighbors is based on import needs of both RS and FB&H. The economy of B&H and its entities, devastated by the war, had to satisfy its needs with imports. An edge was given in this process by the very nature of things, both as a consequence of the previously formed interdependency of the republics of former Yugoslavia, and due to the Dayton Accord and Dayton provisions. Leaving aside the political considerations (which are still significant under B&H circumstances), we come to the most important question concerning inter-entity trade. The question is the following: Does inter-entity trade

did determine economic flows in B&H, or is inter-entity trade itself determined by: a) The state of the economy in B&H, b) Solutions provided by the Dayton Accord and the Neo-liberal economic development strategy prescribed by the IMF, the World Bank and supported heavily by the international community?

The economy of B&H was far less developed than the economies of the neighboring countries. In addition, the special relations make the import of goods into B&H from these countries a very simple matter. Under such circumstances, a rational entrepreneur has no logical reason for inter-entity trade. The trade diversion effect thus suppresses the trade creation effect! The Neo-liberal concept for development of the economy of B&H eliminates state intervention in the economy, the infant industry argument, and foreign trade policy. At the same time, the convertibility of currency and a liberal foreign trade sector (with deconstructed domestic production) provokes a rational entrepreneur to import products from third countries, thus increasing the balance of payments deficit of B&H and its entities respectively. The question is this: how long can this endure without support of the international community? What is the prospect for inter-entity trade without import from third countries like? These questions lead us to the theses that B&H must have had its economic borders, but only if the necessary precondition is achieved in the form of dynamic economic development. Dynamic economic development of an infant economy can hardly be achieved by the imposed development concept.

5.2 The “Washington Consensus”: Basic Strategy for Recovery

In the chapter “Towards Establishing a Market Economy” in the document “B&H Towards Economic Recovery”(1996) prepared by the World Bank, European Commission and EBRD, a basic strategy for recovery and the role of government was set forth. The World Bank document states:

“The basic strategy for economic recovery should rest upon the private sector as a main starting device of the growth of the economy and employment. Further, most of medium-term economy growth will have to come from the extension (the development) of the service sector and the development of light industry on the basis of private enterprises. The property now held by state firms which do not operate can be used by the private sector. What is needed here is to identify the useful parts of the state firms and to sell them through a simple and quick mechanism of privatization”.

Therefore, a quick privatization, the dismantling of state firms, the development of SMEs along with light industries and the service sector were supposed to be levers for the growth of the B&H economy in the coming period. The World Bank continues:

“The role of the state in the economic and development strategy which is governed by the private sector is not unimportant, but it is of shifted focus. It should concentrate on the maintenance of healthy macro-economic conditions, on the establishment of a relevant legal and institutional framework, which motivates uninterrupted functioning of a free market and provides basic public goods and social services, such as defense, public order, education, and health service.” The reform of banks and firms is a major project which must be implemented in B&H. Sizeable inherited bad credits, as well as old foreign currency accounts must be excluded from the balance sheets of banks. At the same time, large and inefficient state firms must be closed or restructured”.

Regarding the institutional structure of the B&H state, the World Bank has argued that the most appropriate approach may be a flexible process for the restructuring and privatizing of firms and banks on a regional basis. In line with this approach, the privatization programs should have been applied regionally (i.e. on the level of Republic Srpska and on the level of a cantonal group, an individual canton or on local levels, within the Federation).

5.3 Macro-economy of the Economic Recovery

The World Bank has stated that at the begging the stimulus for economic growth will come from the reconstruction process, and not from exports, as has been the case in East Europe. The macro-economic policy of the 2-3 year transitional period must be different, therefore, from the standard one. World Bank experts were of the opinion that the main macro-economic challenge of the transitional period (reconstruction period) is management of the great influx of donations and favorable credits, the removal of bottlenecks during the reconstruction period, and control of inflationary pressures. Maintaining macro-economic stability, however, is considered a key issue for successful recovery and for progress and development later on. (World Bank, European Commission, EBRD, Bosnia and Herzegovina on the Road to Recovery, 1996) Under the World Bank and the IMF program, the Central Bank of B&H was supposed to have a foreign governor for the next 6 years. Monetary policy was to be restrictive and carried out by a currency board regime. B&H was supposed to be integrated into international markets as a "price taker" with a fixed exchange rate of national currency pegged to the DM. In practice, this meant that the prices in B&H could not deviate from the German (world) price level. The country, thereby, lost the potential advantages of the effects of the so-called "Philips curve". Monetary policy, one between the strongest instruments of macro-economic policy, has virtually being taken out of hands of the B&H authorities, since: the exchange rate of the national currency is fixed. However, in time, some problems of national currency management will appear as a result of price increases on the one hand, or the large influx of capital, on the other hand. For the time being, from the time the Dayton peace accord was signed, that question had to be put aside, particularly as the country did not have a single currency, but rather four different currencies: the Dinar, Kuna, Serb Dinar and DM. Additionally, at that time, no-one could trust the domestic nationalist-oriented politicians. The "hard budget constraint" is a rule which B&H authorities had to accept in the package. A budget deficit cannot become a source of inflation. B&H economy has been expected to function as in old good days of gold standard!

6. Conclusion

Majority of citizens see the situation in B&H as "bad". Four in ten would leave B&H if given an opportunity. Two thirds of respondents aged between 18 and 30 say that they would like to move abroad. Nearly half of the Bosnian people believe they are first and foremost B&H citizens; most of the others subscribe to a dual identity. Critically, 14.2 per cent of 3,580 Respondents reject a B&H identity. Many experts believe that this feeling of social exclusion is a result of the poverty in Bosnia and Herzegovina. 31.3 per cent of households in the Federation of B&H and 22.5 per cent in the Republic Srpska have no apparent monetary income. Other studies found that 50 per cent of the population is generally socially excluded. On a long-term basis, 47 per cent of the population is excluded (Stojanov, 2009).

Such a devastating level of social exclusion and dissatisfaction we consider is nothing but a normal consequence of Washington consensus type of economy applied under Frankenstein's condition created by Dayton Peace Accord. We have been sure from the 1996. On that increase in productivity and competitiveness is the key for efficient transition from the formerly socialist economy into a market economy. In the medium term there is no other way. Macroeconomic policy can only contribute in the short run. This underscores the importance of supply side industrial policies for productivity, competitiveness and convergence, the element which has been missing from the package of the "Washington Consensus", but has been proposed by UNDP supported „Economic Development Strategy“ 1997. However, UNDP's strategy was rejected by the IMF and World Bank. Economic barbarism has prevailed. Therefore, it is extremely difficult to restart the economy of B&H. Contemporary world economic crisis seems to confirm our opinion concerning rightness of proper economic strategy but not only for B&H . We hope that our continuous work on the economy of B&H has been contributing to those parties in economic thinking who

were opposed to „Washington consensus“ and its demerits. However, looks like we still have to wait for a new economist to be born!?

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