GRADUALISM (INSTITUTIONS BUILDING) AND RADICALISM IN ECONOMICS: REALITY VERSUS IDEOLOGY OR HISTORY VERSUS ILLUSION –THE CASE OF NOT ONLY B&H

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Abstract
Today, the shock therapist have retreated, given the havoc that many feel they wreaked in Russia,but not only in Russia (see Solzenjicin). Bagwaty (2004) reminds us on Keynes work in 1933 of the danger of haste, citing the ironically enough the example of Russia moving towards socialism...» The economic transition of a society is a thing to be accomplished slowly... We have a fearful example in Russia today of the evils of insane and unnecessary hate. The sacrifices and losses of transition will be vastly greater if the pace is forced...For it is of nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, worse than the old, and the grand experiment will be discredited « In this paper we deliberate on topic gradualism versus radicalism pointing out several historical cases, and B&H transition in particular. We point out that the choice between speed (radicalism) and wisdoms (gradualism) is determined more bay the ideology and interest of dominant parties in the world economy than by the state of economic knowledge.
Key words*: ideology, interests, knowledge, influence, dominance.*

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Introduction

In terms of economic reforms and openness of an economy, as a decisive part of the reform, an important and still unresolved question between economists remains: How quickly should an economy be transformed from a socialist into free market economy fully integrated into the world economy (Croatia or Serbia or B&H for an example) ?

It is tempting to argue, as some influential reformers proposed in Russia at beginning of Russia's transition process, that a program aimed at extremely rapid transition is a right answer. Today, the shock therapist have retreated, given the havoc that many feel they wreaked in Russia and B&H.

Bagwaty (2004) has pointed out that « Few now share the enthusiastic, almost technocratic belief that equates full speed ahead with sensible paced reform policies. In fact, if one looks back at the great economists in the past, they have uniformly been against shock therapy".

In similar spirit, Bagwaty (2004) reminds us on Keynes work in 1933 of the danger of haste, citing the ironically enough the example of Russia moving towards socialism...» The economic transition of a society is a thing to be accomplished slowly... We have a fearful example in Russia today of the evils of insane and unnecessary hate. The sacrifices and losses of transition will be vastly greater if the pace is forced...For it is of nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, worse than the old, and the grand experiment will be discredited « B&H case confirms that Keynes was right.

I The Speed of Reforms of Transition Economies-the Russia case repetition

1. Sachs –Warner Report and ideological deceptions

In an important article in the recent 25th anniversary edition of the Brookings Papers, Jeffrey Sachs and Andrew Warner (1995) have provided an extended and distinctly influential defense of overnight free market orientation and an openness of foreign trade as a factor of "real" income convergence between less developed and developed economies. Their discussion of the period 1870-1913 has strongly inoculated the destiny of transition countries on the basis of four stylized facts.

«First, from the 1860s onwards, low tariff barriers and technological breakthroughs in long-distance transportation and communications stimulated export growth and rising trade shares. Differences in resource endowments ensured that this trade had a strong North-South dimension as developing countries in Latin America, much of Asia and parts of Africa specialized in raw material exports and imported manufactured goods«. This argument basically earmarked revival of H-O postulate on foreign trade, and has been imposed on TE.

«Second, the adoption of appropriate legal institutions in a number of countries along with the spread of the gold standard, convertible currencies and the assumption of financial leadership by Great Britain stimulated large and relatively stable international capital flows. Because these capital flows were driven by the search for higher profit opportunities in emerging growth markets they strongly complemented trade flows«. The argument has been strongly followed by the IMF statute reform in 1966, and imposed on TE.

«Third, the spread of capitalist institutions and free trade and capital flows generated a new growth momentum encompassing the whole world economy. Industrialization spread rapidly beyond the core North Atlantic economies to include the emerging markets of Continental Europe and Japan».

This argument is deeply involved in Washington consensus and has created mirage of expectations in transition countries.

Fourth, «Sachs and Warner (1995) make a direct parallel between these features of 19th century globalization and developments in the late 20th century anticipating similar results in terms of broad economic trends in the world economy. The world economy at the end of the 20th century (as they have seen it) looks like the world economy at the end of the 19th century. A global capitalist system is taking shape, drawing almost all regions of the world into arrangements of open trade and harmonized institutions. As in the 19th century, this new round of globalization promises to lead to economic convergence for the countries that join the system«. This argument spoke in favor of *shock therapy for transition* economies and their switch from an unproductive socialist into productive capitalist economic system. The argument has opened the door for unquestionable worldwide passion for globalization.

These four arguments (*commandments*) were in fact the lesson –directive -for transition and less developed economies. Simple recipe for an easy success for these countries was:

a) Governments, but particularly those in the developing world, must commit themselves to a rapid and comprehensive agenda of liberalization in areas of trade, capital flows and foreign direct investment.

b) Governments of TE and less developed countries should only press the start button, and then follow «hands off» economic policy.

Neoliberalism once again become mainstream economics in the 1990s as it was in XIX century in the times of Ricardo's theory of comparative advantage. It was believed that neoliberalism provides enough strength for prompt and efficient inclusion of TE into world system of free trade, regardless of "path-dependence", and the «state of affairs» in different countries.

According to the OECD (1998) more open and outward –looking economies consistently outperform countries with restrictive trade and foreign investment policies... Anne Kruger has no doubt those countries that liberalized trade grew faster. The IMF (1997) shares the same opinion «policies towards foreign trade are among more important factors promoting economic growth and convergence in developing countries»

II "Famous" Economists at work

Nowadays, we may ask the question: have those expectations, formed by influential economists and political leaders, been pure economics dreams and deceptive mirage for transition economies?

D. Rodrik as long back as(1999)would have replied to the question by following way: « Yes, but only if a number of side conditionals are met. These side conditions are:

- The liberalization must be complete, or else the reduction in import restrictions must take into account the potentially quite complicated structure of substitutability and complementarities across restricted commodities.
- There must be no microeconomic market imperfections other than the trade restrictions in question, or if there are some, the second-best interactions that are entailed must not be adverse.
- The home economy must be "small" in world markets, or else the liberalization must not put the economy on the wrong side of the "optimum tariff."
- The economy must be in reasonably full employment, or if not, the monetary and fiscal authorities must have effective tools of demand management at theirs disposal.
- The income redistributive effects of the liberalization should not be judged undesirable by society at large, or if they are, there must be compensatory tax-transfer schemes with low enough excess burden.
- There must be no adverse effects on the fiscal balance, or if there are, there must be alternative and expedient ways of making up for the lost fiscal revenues.
- The liberalization must be politically sustainable and hence credible so that economic agents do not fear or anticipate a reversal.

All these theoretical complications, Rodrik points out, could be sidestepped if there were convincing evidence that in practice economy and trade liberalization systematically produce improved economic performance. But even for this relatively uncontroversial policy, it has proved difficult to generate unambiguous evidence«.

The point is that even the simplest of policy recommendations - "liberalize your trade" - is contingent on a large number of judgment and calls about the economic and political context in which it is to be implemented.

Such judgment calls are often made implicitly. Rendering them explicit, Rodrik did warn us about the potential minefields that await the standard recommendations, and it stimulates creative thinking on alternatives (as in China) that can sidestep those minefields (Similar deliberations to Rodik's we expressed in own articles published prior 1999, and in 2000).

One another J.Sachs(1987) , different from J.Sachs who wrote « Sachs –Werner Report» (1995) ,seems to confirm D.Rodrik suggestions pointing out that : " A new orthodoxy is emerging from this search, which links recovery in the debtor countries to a shift to « outward-oriented» development strategies designed to produce export-led growth. The new orthodoxy defines the policy content of outward orientation to include the following measures: Trade liberalization, especially the conversion of quantitative restriction to low, uniform tariffs; real exchange rate depreciation and unification of the exchange rate, an emphasis on the private sector as a source of growth, including the privatization of state enterprises; and a general reduction in all forms of market intervention by the government, in capital markets, factor markets, and in overall level of government taxation and expenditure."

This « liberalization package» is urged by the U.S. government, by many influential academicians, and by the IMF and World Bank»continues Sachs.

Sachs comment on the «liberalization package» in the same article was the following: »At the very least, the strategy can find little historical support...From a global point of view ,liberalization might be defended not as in the interest of the initiating country , but rather in the interest of the rest of the world. .Some of the U.S. pressures for liberalization in the developing countries indeed emanate more from concerns about U.S. trading interests than from concerns about the welfare of the developing countries».

This was J. Sachs's opinion on «liberalization package» in 1987, against »Sachs-Werner Report« on the same subject in 1995! *What does that difference in opinion between J. Sachs (1987) and J. Sachs (1995) suggest to a thinker on economic development and an "infamous" economist?*

III Historical Lessons

According to the Bairoch-Kozul-Wright paper (1996) « Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy:

"The period 1870-1913 certainly witnessed a rapid expansion in international trade. But, during the three decades up to the First World War rising protection was the common trend in the developed world, largely as a result - in Continental Europe at least - of a coalition between agrarian interests and the representatives of fledgling industry who found common ground in higher tariffs as a response to the inflow of cheap grain from the United States and Russia and the long depression of 1870s Although tariffs rose only gradually up to the early 1890s, because most new duties were based on specific quantities and were not ad valoren, and because this was a period of falling prices, the significance of tariff protection was greater than the nominal figure might otherwise suggest. From the early 1890s protectionism became a much more pronounced trend and by 1913 all the large countries had adopted a protective stance. Even some of the smaller European economies, such as Sweden, made a decisive move in this direction. And after regaining its autonomy over tariff policy in the late 1890s, Japan also sought tariff protection for its infant industries.

By 1913 trade policy in the developed world is best described as islands of liberalism surrounded by a sea of protectionism. The developing world might best be characterized as an ocean of liberalism with islands of protectionism. In many cases, openness to trade was the direct result of colonial rule, where the general principle consisted of free access to all the products of the colonial ruler«. Authors continue: « But if unevenness among the more advanced countries was an important feature of industrialization in the era of globalization, just as striking was the polarization of industrial activity between the North and South.

Deindustrialization in developing countries(like *extant one in TE*) predated the era of global integration; both in absolute terms and as a share of world manufacturing output, the position of the developing world declined sharply between 1830 and 1860. But this process continued, and indeed, accelerated, during much of the period of global integration. Between 1860 and 1913, the developing country share of world manufacturing production declined from over one-third to under a tenth. There seems little doubt that deindustrialization in the South was the result of a massive inflow of European manufactured imports. This was particularly true of the textile and clothing industries, where free trade exposed the local artisan and craft producers to the destructive competitive gale of more capital intensive, high productivity Northern producers. The destruction of the Indian textile industry provides the most familiar example of this process, but similar cases can be found across Latin America and the Middle East (Batou, 1990). The absolute destruction of industrial capacity in the South appears to have been reversed beginning around 1900 and was, in some instances followed by quite rapid bursts of growth, often with advanced industrial techniques linked to FDI. However, in no case was the basis for sustainable industrial growth laid in the developing world in this latter period.

While late industrialization certainly opened up a sustainable growth path for those States able to intervene effectively to alter their position in the emerging international division of labor, the question still remains whether it was necessary to industrialize to benefit from globalization.

An increasingly popular myth from this earlier period is that, in line with comparative advantage, the export of primary products provided the best growth path for many parts of the world economy.

There is, of course, an element of truth behind this myth; in 1913, five exporters of primary products were among the world's richest countries. Indeed, the United States which had become the lead economy in the world had an export profile dominated by primary products.

The other capabilities, as well as the creation of new linkages within and between industrial sectors, associated with the dynamic complementarities and externalities associated with technological progress. Moreover, as Alexander Gershenkron suggested a long time ago, all the successful late industrializes in this era were characterized by *reforms to their State* structures which helped encourage accumulation and technological progress, through infant industry protection and other (incipient) forms of industrial policy.

Thus, from this brief review of the evidence, we can conclude that while specializing in exports of primary goods was consistent with a high level of income, maintaining that level and pushing the economy on to a new dynamic growth path required not only that the export sector increase its productivity but that there was a structural shift in the pattern of economic activity towards industry.»

1. The Case of Argentina

An interesting case from the globalization in XIX century is the case of Argentina where rapid liberalization of trade and finance in the late 1880s, disturbed a more balanced and stable development path.

"... The crisis of 1890 subjected the Argentine State to the dictates of the international banks that imposed severe financial conditions on both the national and the provincial governments in order to guarantee that they would recoup their loans and to assure the profitability of allied enterprises, such as British railway firms. At the same time, the European bankers took advantage of the failure in 1890 of numerous Argentine-owned enterprises, public and private, to further consolidate the dominant position of foreign capital in key spheres of the Argentine economy. And after the turn of the century they promoted a renewed burst of capital exports to the Rio de la Plata region, coordinating their strategies closely with commercial, railway and industrial magnates interested in expanding their interest there. This trend was common to many other Latin American nations as international bankers promoted a new and powerful wave of loans and direct investments that continued to run strong until World War I"(Bairoch-Kozul-Wright 1996)

2. Lessons from India

Madison (2002) in his seminal book «The World History: A Millennial Perspectives» reminds a reader that «Mogul India had a bigger industry than any other country which become a European colony, and was unique in being an industrial exporter in pre-colonial times. A large part of this industry was destroyed as a consequence of British rule...

The second blow came from massive imports of cheap textiles from England after the Napoleonic wars. Modern cotton mills were started in Bombay in 1851, preceding Japan by 20 years and China by 40. Exports were half of output. India began to suffer from Japanese competition in the 1890s. Exports to Japan were practically eliminated by 1898.Shortly after; Japanese factories in China began to reduce India, s market there.

If the British had been willing to give tariff protection, India could have copied Lanchasire, s textile technology more quickly. Instead, British import entered India duty free. By the 1920s, when Indian textiles were coming mainly from Japan, British policy changed. By 1934 the tariff on cotton cloth had been raised to 50% with a margin of preference for British products»

IV Direction to possible concluding remarks

A lesson concerning dynamically changing economic and trade policy requirements seems apparent both from the Industrial revolution and from the policies adopted by the currently most successful industrialists.

At first, Irma Adelman (2001) points out « as we learned from 19th century overseas territories, the establishment of political stability and political support for the promulgation of laws furthering market development was sufficient to promote rapid expansion of primary exports. Dependent politics were sufficient for this stage.

But, unless the *political institutions* were later adopted as to provide support for the economic needs of rising domestic commercial and industrial classes(as happened in Australia, Canada, New Zealand), the translation of the initial impetus from exports into long-term economic development become blocked, as in Argentina and Brazil. At that point, a certain degree of domestic political autonomy become necessary»

V One more Lessons-from not so distant past

Let us here recall one more historical case. After World War II, the USA proposed to Western Europe a complete transition strategy consisting of macro-economic stabilization, price reform, liberalization of foreign trade, but without privatization. The starting position of Western Europe was to a great extent similar to the position of Eastern Europe since the beginning of the transition process, except that the countries of Eastern Europe had to take the revolutionary step of privatizing state assets as soon as possible. Practically speaking, the problem of Eastern Europe has been much more complicated than was the problem of Western Europe after World War II. The B&H problem, and this should be emphasized, is even more complicated than that. Because this country has been suddenly faced with a triple transition:

a) transition from war to peace,
b) transition from socialism to a market economy,
c) transition from rebuilding and reconstruction of the country towards a market economy.

"Despite visible evidence to the contrary, the belief of the USA was that Western Europe could accomplish recovery in a matter of a few years thus enabling the vision to become a reality. Western Europe was expected to liberalize its external trade and payments as soon as possible, irrespective of its economic and political circumstances (Panic, 1991) The example of post-war reconstruction of the UK is of interest here. The USA granted to the UK a large loan in 1945 under two specific conditions: that the pound should be made convertible within a year and all discrimination against USA exports be abolished by the end of 1956. The convertibility of the pound was introduced in July 1947 and ended abruptly in the following month, by which time most of the $ 3.5 bilion of the loan has been used to satisfy the demand for USA dollars at the existing exchange rate. "Given the relative strength of the two economies and currencies, the most surprising thing about this episode is that anyone could have expected a different outcome."(Panic,1992)

VI Lesson not Learned : New Orthodoxy as a Theoretical Base for the B&H Transition Process

The package of economic reforms for transition, both for Eastern European countries and for B&H, was based on several (at first sight) logical postulates – so logical to understand that their easy implementation also has been logical for a main-stream economist.

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."

Yet the evidence indicates otherwise. The "urgency"of transition and its imprudence has produced the "Frankenstein" economy, which simply does not perform as has been expected

1. An Example of Frankenstein Economy: Inter-Entity Trade as Systems Failure

Inter-Entity trade (trade between republic Srpska and Federation of B&H) is relevant for B&H and its two entities for at least two reasons:

A) Economic, 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 represent 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 policy bodies of both entities have had a more complete picture of inter-entity trade, since they monitor it closely in the given political circumstances.

Still, a logical, although (at first glance) paradoxical question is: would inter-entity trade have developed without pressure from OHR, and if so, to what extent? Similar relevant questions are the following: Is trade in B&H really 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 are 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 cooperate 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 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 is 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?

These questions lead us to the theses that B&H must have 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 current development concept.

2. Ethnic and Entities Privatization

Privatization was/ still is / the "alpha and omega" of all transition packages despite some questions as to its success in eliminating de facto state control. In the case of the B&H economy, there were additionally two "Frankenstein" issues concerning privatization. Privatization in B&H has been supported, even by the World Bank and the IMF experts as an Entity privatization. The property of B&H as a state has, thus, been partitioned into two parts: the property of the state of RS and the property of the state of the Federation. Such a solution has contributed seriously to the further division of an already divided B&H economic space. It has contributed to the development of Inter-entity trade and to the confusion between citizens. A huge company such was „Energoinvest" covering all of B&H territory suddenly had to be divided into two parts: one that belongs to the Republic Srpska and the other one that belong to Federation of B&H The same destiny has been faced by all big B&H companies.!! Furthermore, in the specific B&H case of having three ethnic groups (Croats, Bosnia and Serbs), privatization along the proposed lines has been contributing to „ethnic privatization”. That is, the Bosnia oligarchy gets the companies in the region dominated by Bosniacs, Croats in the region dominated by Croats. In RS, Serbs are anyhow the dominant part of the population. To add to this, employees are then selected on the basis of ethnicity!!!

Consequently, economic idea had spilled oil over fire of ethnic division of B&H provided by Dayton Peace Accord. Additionally, the idea that state companies should be: a) first privatized, and then b) afterwards restructured has delayed the restructuring process indefinitely. In the meantime state-owned companies, waiting to be privatized by this most inappropriate and mostly impossible way, become: a) technologically more obsolete, b) unproductive and loss makers c) irresponsible both to the government and to themselves, d) "asset stripping" took place. State companies become a source of capital and profit for new private companies. Inter-company income distribution also takes place. Now state companies represent the problem that they cannot be easily sold, or even sold at all. Another serious question for both domestic authorities and the international community regarding privatization has become apparent: what to do with non-privatized companies, and how to re-invent unique economic space both politically and economically?

VII Epilog

What could we conclude after all? Let us mentioned what The Portland Trust suggests. 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 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 (The Portland Trust, 2009)].

After triple transition and many foreign prescriptions and advices B&H has become a Frankenstein state!? *Economy sometimes may be a strange science.*

VIII There was an Alternative Strategy

When the transition began, there was the promise and expectation of a "blooming landscape". Today it seems more like a mirage. Economic development has hardly started. It has become obvious long time ago that an alternative solution was needed for economic development of the country... 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". Exactly that element we have offered in Economic Development Strategy we had prepared under UNDP auspices in 1997. However, international community: the IMF, World Bank and the Office of High Representative (OHR) have rejected the Strategy with a pretext that is obsolete, that is the Strategy has been out of line with respect to main-stream neoclassical concepts of transition (see appendix) Therefore, we have not been surprised by findings of Oxford Research Institute that great many of inhabitants of B&H prefer to leave B&H for ever. Such an economic reality begs for a new economic development beginning for B&H based on an alternative approach.

IX Conclusion

"In such an inexact science such is economics everything is possible" (P.Samuelson). We would add: that is in particular true when politics dominates over humanity.

Appendix

Some Excerpt form Rejected Economic Development Strategy 1997

THE PRINCIPLES AND CRITERIA OF POLICY SELECTION

The last few years have witnessed epoch-making changes in the former socialist countries. Two concepts have emerged regarding the overall approach to transition: the "big bang" or "shock" approach and the gradualist approach. These differ substantially on the issues of time-frame, the speed at which implementation of economic measures (known as "hard budget constraints") are to be imposed within that time-frame and the role of governments in the transition process. Both approaches have strengths and weaknesses. By combining their respective strengths, we feel that the best conceptual approach is one of "aggressive gradualism".

Obviously, the key word is "gradualism", suggesting that the time-frame we are looking at is a fairly long one and that the economic pressures to be applied within that time-frame should be phased in, rather then implemented immediately. This does not mean that all change must come slowly. On the contrary, certain actions must be carried out decisively within a very short period of time. Gradualism refers primarily to the method of gaining the momentum for change and is a much more gradual process then the "big bang" or "shock therapy" would allow for. While the economy needs to be galvanized by drastic action being taken in certain areas, such as eliminating inflation and its accompanying speculation, shock therapy would not be always appropriate in view of the effect it could have both on people and on enterprises. If the key word is gradualism, then the operative word is aggressive. The Strategy will suggest measures which will aggressively exploit the potential of certain situations by actively designing and implementing policies conducive to change. "Aggressive" means overturning the status quo. It refutes the argument that things will change on their own, that there is no need to drive change, that inaction and a lack of commitment are normal. Expecting abrupt solutions where they are not possible is economically counter-productive and politically harmful. Yet, delaying the implementation of measures which can yield quick results is inefficient and wasteful. The right time-frame for the implementation of changes is, therefore, one of the key problems to be addressed in this programme. The transformation of the system must be as quick as possible but not unduly hasty.

The task at hand is to confront simultaneously the many problems which arise in the following sequence: *market creation* ➔ *stabilization* ➔ *liberalization* ➔ *restructuring* ➔ *privatization.* Both theoretical economics and practical experience demonstrate the necessity of taking action on all these matters simultaneously as they are all interdependent. An intervention in one major area cannot be isolated from other areas; there is bound to be a spill-over of the positive and negative effects into other areas, activities or measures. It is therefore impossible for all the areas mentioned in the above sequence to be addressed simultaneously and for smooth and universally acceptable solutions to be achieved. Nevertheless, there is no alternative but to intervene in some way make in all of them. Two criteria may be helpful in confronting this problem: As managers of the transition process, the government must focus on what is important, not on what is urgent unless what is urgent is also important. This comment concerns not only creating priorities, but also preserving scarce governmental resources.

The sequence of measures to be taken must avoid widening the existing gaps and "black holes" in the economy. Transition should be conducted in such a way as to create new opportunities which can be filled by individual and collective initiatives, not open gaps which will further exacerbate the situation. With these criteria in mind, we propose, as a first policy priority, the aggressive development and implementation of market institutions. There is absolutely no need, no reason and no excuse to delay this process. It does not require physical or material resources, simply political will. At the same time, the market itself and the ability to create a market within a short period must not become an obsession. It must be recognized that the transition to a market economy is a period during which the market does not function well or fully. Next on the agenda of priorities is the consolidation of ownership, ownership claims and transformation of property. The objective of this is to enable enterprises, as economic entities, to carry out the necessary restructuring and reorganization to enable them to respond adequately to market opportunities and pressures. An important element of ownership consolidation lies in the provisions concerning the functioning of private ownership. There must not be discrimination against the private sector; the enforcement of private contracts must be guaranteed by law and upheld in the courts; absolute security of private property must be declared and there should be no review of private property values and holdings; the tax system should not restrain private investment. At the same time, there should be no discrimination against other forms of property.

This leaves two large areas outstanding: macroeconomic stabilization and the restructuring of the economy (overhaul of production facilities, employment, investments and foreign trade structures). More than the others, these are beset by contradictions and mutual interdependences. Just to indicate a few examples of the tradeoffs that policy makers are currently facing: Price and current account stability require one set of measures to be implemented, while increased employment. Production and investment require another, sometimes opposite, set of measures. To halt the decline in productivity and stimulate recover fiscal measures, such as tax concessions and publicly financed investments, need to be introduced. Such measures. however, could further increase the budget deficit. To improve the fiscal balance and encourage financial discipline, a hard budget constraint needs to be observed in that subsidies for persistent loss-makers need to be removed. Such an uncompromising stance could, however, result directly or indirectly in higher unemployment, lower aggregate demand, and lower output or, in the short term, slower growth. Measures that will reduce budgetary spending, such as cuts in welfare, will at the same time significantly lower the living standards of many citizens and threaten their security. Balancing the budgets requires a reduction in public spending, while the rapidly deteriorating economic situation requires increased expenditure on welfare and social security. To resolve these contradictions and define acceptable and workable policies, the following principles are proposed: The main emphasis must be concentrated on supply-side measures, in other words all the factors which will change the supply side of the economy in qualitative and quantitative terms. The old socialist habit of demand-management must be reduced to a minimum, in particular the notion that public works and government-directed investment cycles will stimulate stable and sustainable economic growth. The concept of macroeconomic stability must be understood and interpreted in its full and deeper meaning as a crowning achievement supported by a transformed and efficient economic base, not simply as the icing on a rotten cake. Although stable macroeconomic financial conditions are extremely important, they must not be treated as an end in themselves or be allowed to draw attention and resources away from other areas of transitional policy. Policies affecting income distribution must give the strongest possible incentives to those most able to contribute to the growth of the national income. This means to individuals as well as enterprises.

A social and welfare policy will be conducted, but without prejudice to the overall effort to mobilize productive resources which, after all, are the providers of welfare and social well-being. Burden-sharing among the generations will, of necessity, show a strong bias against future generations so that present needs can be met. In other words, future generations will have to shoulder a disproportionately large share of the costs of transition. It is impossible to pay all the bills resulting from previous and current mismanagement at once or even in a short time-span. Though clearly unfair to future generations, this seems the only practical way of proceeding. The resources of existing generations have been so depleted that it would be difficult, indeed impossible, to involve people in yet another general and collective belt-tightening exercise.

As far as timing is concerned, the Strategy points to the wisdom of the old adage: "Do not put off till tomorrow what you can do today". This philosophy is consistent with aggressive gradualism. It is very important to evaluate the measures and their consequences by their inherent merits, both known and anticipated. They should not be judged by well-worn or even new prejudices. Nothing must, a priori, be discarded as a useless instrument of change simply because it happened to be part and parcel of a previous system which was undesirable and wrong. A sense of realism is of utmost importance in the guidance and selection of policy. If credibility and political stability are to be maintained throughout the transition process, expectations must not be allowed to develop wildly or to become out of touch with the hardships through which the transition process must lead. The old maxim that "we are capable of doing in two years what others have taken twenty to accomplish" is no longer acceptable.

To these principles, we must add the following objectives, which will also guide the selection of economic policy measures and instruments: Quick revived of economic growth. The current economic situation is precarious. It can sustain neither further decline nor a continuation of the status quo. Sustainable economic growth can be accomplished only through the transformation of existing production facilities. The "flagships of growth" concept has to be abandoned since past history has shown that too many of the enterprises in question turned out to be "white elephants".

Integration into the world market in general, and the European market in particular, should be accomplished by a combination of the rational liberalization of trade and a modem industrial policy. Revived of a trading area and economic space among entities from the former Yugoslavia once political obstacles are removed, economic cooperation could expand very quickly, bringing considerable benefits to all involved.

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