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**PATTERNS
OF
TRANSITION
AND NEW APPROACHES TO COMPARATIVE ECONOMICS**

**“Pareto,
Institutional setting and
Bosnia and Herzegovina Transition Failure”**

Abstract

The First theorem of welfare economics postulates that an equilibrium brought about by perfectly competitive markets unquestionably results in an optimal exchange, that is „equilibrium in competitive markets is Pareto optimal“

The Second postulate of welfare economics suggest that such an optimum in the sphere of exchange inevitably leads to optimal allocation of inputs and optimal income distribution.

No words are said about the role of institutions in which such an exchange and allocation takes place.

Paradoxically from the point of view of neoclassical economics Pareto optimum become an Absurd -Pareto under “real” institutional setting like one present in majority of transition economics at the beginning of transition process. The case of maximum absurdity of Pareto optimality criteria and welfare economics is the case of Bosnia and Herzegovina (B&H) economics. Since the very beginning of transition (1996) neoclassical paradigm has been applied in B&H. Expectations were great. Both: majority of economists and politicians expected to meet soon Pareto optimal results in B&H economy. Twelve years latter both subject and people in particular are

witnessing Pareto-Absurdity. There are many poor people, social capital is at the weakest point and official unemployment rates around 40%. Main thesis of this paper that Pareto optimality, or the first and second theorem of welfare economics, applied under the conditions of imperfect markets and „real economic setting“ normally result in Pareto-Absurdity .B&H just pays the price of such naivety and (or) dogmatism of B&H's, IMF's and the EU economic instructors.

Key words: welfare, Pareto, absurdity, B&H

1. about „Pareto“optimality

Elementary textbook from Microeconomics teaches us that when marginal rate of substitution in consumption between good(X) and good (Y),that is : $MRS_x = MRS_y$ (we eventually may nominate as aggregate demand) is equal to marginal rate of transformation between good (X)and good (Y): $MRT_x = MRT_y$ (aggregate supply) an economy reaches state of equilibrium

At that moment an economy enjoys the privilege of general equilibrium having all efficiencies and properties of general equilibrium (microeconomica and macroeconomics) reached: that is :efficiency in consumption, efficiency in production, efficiency in allocation of factors of production with maximised both :producers and consumers surplus.(Salvatore, 2003)

Pareto optimum within a national economy suggests that the economy is at the level of full employment, there is no neither: balance of payments deficit nor surplus.Consequently, when an equalization between aggregate supply and aggregate demand is reached there is no room for inflation.

Next point raised usually by main-stream economists is that Pareto optimum might be increased by means of free foreign trade.Foreign trade , based on Theory of Comparative Advantage, might enlarge both: consumers surplus and producers surplus increasing well-being of all inhabitants of two(all) countries involved in exchange.

According to Theory of Comparative Advantage,(which we consider as a component part of neoclassical economic model), and Say's law, two countries with common tastes and consumers preferences , and having the same technology plus being of equal or similar size, may enjoy benefits of open foreign trade,that is they can enlarge „common“ GDP by means of international division of labour, and by international specialization in production..

Specialization in production in both countries reaches optimum-equilibrium when marginal rate of transformation between goods (X) and (Y) equalizes with prices of good (X) and good(Y).

At that very moment both countries enjoy full economic equilibrium expressed by equation as follows:

$$MRT_{xy} = P_x/P_y = MRS_{xy}(A) = MRS_{xy}(B)$$

Where (A) means country A and (B) means country B.

The logic of perfect competition, treating two countries as one country, or one country with two regions, and suggesting that both countries or regions are functioning as „connected dishes“, may enlarge well-being of both (all) countries importing lower priced foreign goods and therefore bringing social indifference curve to higher position. in comparison with pre-trade levels.

Under the condition of „International Pareto Optimum“ free foreign trade contributes for both countries (global world) to the following effects:

- Optimal allocation of resources world-wide,
- optimal and enlarged consumers surplus without endangering producers surplus (win-win situation),
- Equalization of prices and wages in both countries and world-wide
- convergence of the growth rate of GDP in both (all) countries engaged in foreign trade.

All of these optimums are reached together with:

- full employment in both countries (world-wide),
- Price stability world-wide,
- balance of payments equilibrium.

Having in mind all of these brilliant properties and achievements of free market economy and free foreign trade, neoclassical paradigm suggests firmly to all countries theoretically, and to transition countries in particular, not to disturb automatic mechanism of market forces. The paradigm pleads for abstaining from all of possible sorts of social (state) intervention into the market and entrepreneurial animal and rational spirit.

1.2. Issues Pertaining the Free Market Paradigm and Pareto Optimum

The most challenging of all of possible questions relating to eventual discussion of „optimums“ of neoclassical paradigm might be the following one: is it at all wise to ask any question concerning the relevance of such an elegant economic paradigm and its application for a real world of living.?

If answer is: yes, and we believe it is, let us try to question at least some of the postulates of the Pareto optimum and neoclassical paradigm.

Let us start with the following question:

1. How is possible (and why) that when two countries have the same level of technology and equal consumers preferences, one of two

countries specialises in producing „bananas“ and the second one in producing „computers“?

2. is it both: possible and rational to deliberate about an unequal economic growth and different economic structure of the two countries if they both do have the same consumer's preferences, and access to technology and capital?

3. Why should more developed country (one producing computers) allow factor price equalization (wages equalization with less developed partner), as suggested by H-O-S theorems?

4. How is it possible that in both countries (world-wide) consumers (workers) enjoy benefits, except in case when import prices drop down more quickly than wages.

5. Issue of particular relevance for Pareto optimality consideration is: to what extent is Theory of Comparative Advantage reliable under the process of globalization of the world economy led by transnational corporations, therefore under the condition of imperfect market structure? Under the condition of contemporary imperfect competition developed world-wide, an intra-industry trade becomes dominant form of foreign trade followed by increasing return to scale.

6. International microeconomics suggests that huge companies are much more often price-makers than price-takers, and goods are not homogenous but differentiated. (That is presumably why goods arbitrage does not perform ideally even within a country.)

7. Therefore, companies often do not reach equilibrium at point where MC intersects MR at competitive price. The prices reflect much more Lerner's formula determining the price level under the condition of imperfect competition.

1.3. Winners and Losers in an economy of perfect markets

Who are possible winners, and are there (in the same time) any potential losers between countries entering the condition of free market economy and free foreign trade? These were questions missing from all known prescriptions for a successful transition package suggested to transition economies by the IMF and World Bank. Moreover, The IMF and World Bank were silent on such a question eventually raised by a sober economist in a transition economy. The question is, according to them unwise one, for simple and good reason suggested convincingly by neoclassical economic paradigm. For a transition country sufficient momentum for transition success is a simple recipe: just stick your economy to free market dogmas and wait for Pareto optimum to be reached overnight.

However, simple facts emanating even from the paradigm may disturb a patient and sober reader. One of those facts concerns equalization of wages between more and less developed country, suggesting that worker in a more developed economy may

unexpectedly suffer from free foreign trade. In his country (in the same time) there are winners, and winners are capital owners in more developed economy. (P. Lichteinsten, 2007).

In order to compensate for losses to the worker(s) one can suggest compensating role of fiscal policy that is state intervention into the free market. At that very moment Pareto optimum is disturbed and brought into question. (Salvatore, 2003).

On the same line of reasoning, a proposition that process of globalization contributes to increasing misery of the more poor and enreaches already rich countries, cannot be taken as a great surprise. J.Vanek, therefore, renamed Theory of Comparative Advantage into Theory of Destructive Trade. (Vanek, 2004).

The father of the Theory of Comparative Advantage (D.Ricardo) wanted to criticize destructive effects of dominating trade doctrine in his time-Merchantilism., on UK industry development

Being the most competitive economy world- over (except from the Netherlands in some of the industries) in his time, UK needed to open up and free foreign trade in order to:

- a) Sell its goods world.wide
- b) Provide or outsource *inputs for domestic industry*.

Moreover, at that stage of economic development of UK, a redistribution of income between rentiers and entrepreneurs has been welcomed from the stand point of economic interests of so called capitalist class. Such a income redistribution could be brought into picture of UK economy freeing import of cheaper agricultural goods from Germany and France, as less developed countries at that time. So, the state intervention has already begin at Ricardo times ,but at that times expressed itself as substitution of merchantilism by free market ideology having a practical and palpable meaning for UK manufacturing industry and entrepreneurs..The UK Parliament had to approve the switch from merchantilism into free market and free foreign trade doctrine.

1.4. Pareto optimum and arguments

Jumping over the time of XIX century, 1929, the Second World War and Keynesianism revolution, just into our time in order to make a long story short, one may recall of comment of Stiglitz and Charlton concerning the free market mantra and the role of state involvement into an economy. Stiglitz i Charlton (2005) stress out the following points and lessons learned from economic practice world-wide we consider of utmost importance for transition economies:

1. Successful East Asian countries did not trust to free and unregulated free market.The essential factors of their success are: efficient companies and well organized market (institutions), together with a key role of efficient government

2. Successful countries were applying creative economic policy: No successful country world-wide has become rich by applying free market mantra and waiting for Pareto optimum to take place automatically.

3. Comparative advantage is static: unemployment appears, export does not necessarily increase all the time, therefore unemployment in unprotected sector do not necessarily get job again,

4. Under possible and realistic assumption may be shown that free trade may be Pareto inferior in relation to autarky- everyone might be worse-off. In less developed country markets are underdeveloped and non transparent, price effect and substitution effect are not functioning.

5. Neoclassical economy considers institutions as unnecessary and unwelcome burden for an efficient economy. Such an attitude rests on three propositions:

- economic result is a function of fundamental market forces reflecting resources, consumer's preferences and technology,

- these forces lead a country towards Pareto optimality,

- institutions do not affect neither selection processes nor equilibrium in economy

6. Neoclassical economist does not care about path-dependency effects and income distribution effects (Stiglitz-Charlton.2005)

7. Neoclassical theoreticians cannot close an eye on fact that the process of economic convergence does not take place and that state intervention becomes a necessity, (opinion of Stiglitz and Charlton is shared by many distinguished economists among others by: Horvat (1995) Easterly (2002), Adelman I. (u: Stiglitz – Meier, 2001), Panic (2003), Pitelis, (2000), Stiglitz (Stiglitz – Meier, 2001), Murakamy (1996), Madison (2002). S. Fisher u *Economic Growth and Economic Policy* (1987). Summers and Heston (Stojanov – Kandzija, 2007), Krugman-Eichengreen (Frankel, 1999).

2. Bosnia and Herzegovina Case

2.1. History does (not) matter

Since 1995, Dayton Peace Accord; B&H economy is basically a transition economy. As such B&H was launched on the road of transition by instruction and prescription given by international community, in particular by the IMF and World Bank. The therapy attempted to rediscover state of B&H has been treating B&H economy and society as a novelty without past and structure.

However, we stick to the opinion that history matters and that “path dependency” approach to economic matters even more. Brief story of Bosnia and Herzegovina’s past might be presented by means of a following table. (The table speaks for itself and seems that for any Bosnian and any one familiar with B&H comment would be superfluous and unnecessary)

Table 1.

B&H’s Past: period 1946-1990.

1. Political setting	One of six republics of former Yugoslavia
2. Political system	Self-managed socialism
3. Economic system:	Self-management based on social ownership over the means of production
4. Living standard:	Well-balanced income distribution (Meier, G; Main Issues in Economic Development, Stanford University Press, 1995)
5. Social security:	Full health and social security for all citizens
6. Political democracy:	Second in the World to the OECD (Vanek, J. The Participatory Economy, Cornell University Press, 1971)
7. Economic Democracy:	Highest in the World (Vanek, J, ibidem))
8. Ethnic Configuration:	Multiethnic republic (leopard skin sort of)
9. Religious configuration:	Three religious groups; (Catholic, Islamic and Orthodox, plus atheists)

2.2. The war (1992-1995)

Break up of former Yugoslavia was caused by the process of inter-ethnic tension all over Yugoslavia and territorial aspirations of some political leaders.

Outbreak of the war in 1992 in B&H has made terrific damages to BiH' society. Politically, economically, and ethnically BiH become a devastated country. Ethnic configuration significantly has been changed by ethnic cleansing. Religious leader enter the stage of religious fundamentalism feeding its clients (former secular citizens of BiH) with intolerance and wrong aspirations. Dominant slogan of long-lasting „common life“ in BiH between religious and ethnic group was suddenly changed into a less-clear slogan “let us live next to each other”“.

Economically BiH was faced; in fact country leaders have made the choice, with predatory capitalism as the most promising way towards brilliant future. In making such a choice they have been full -heartedly supported by international community.

2.3. Entrance to economic labyrinth

The war, DPA, the Washington Consensus, the acts of domestic politicians, and the lack of institutions have transformed Bosnia and Herzegovina from a republic of former Yugoslavia into an “independent “state (or semi-protectorate) with a new economic system of wild capitalism

Table 2.

B&H Transformation

Dayton	Independent state BiH –Frankenstein country (Republic of Srpska and Federation B&H with 10 cantons and District Brcko)
Washington Consensus	A wild type of capitalism established on Ethnic basis (ethnic capitalism)
Living standard	a few w reach, many poor, insecurity And unequoliy
Political system	ethnically based parliamentary democracy
Population structure	Dayton skin sort of (people do not live together but side by side in almost totally informally separated regions)
Religious structure	three ethnic –religious groups

In prescribing economic recepies for 1996 and on, international community had forgotten that:

- B&H used to be: part of former Yugoslavia with firm economic ties with former republics (new states)
- B&H was part of self-managed economic system,
- Basic type of property was “social property over the means of production, belonging to workers (what meant that property has been already privatized)
- Workers in B&H enjoyed job security,
- Citizens enjoyed social security,
- B&H was a secular state, etc.

2.4. Institutions do (not) matter

When considering the economic development and development strategy for B&H and its effects since 1995., one has to consider several external and internal factors of an economic and political nature that have been of decisive importance for B&H destiny. Two determining external factors are: globalization of the world economy driven through by the Washington consensus, and the Dayton Peace Accord.

DPA has made B&H a crippled orphan, a „Frankenstein „ state. Dayton placed banking and customs regulation on the central state level, while fiscal policy was transferred to the entities and cantons. No instruments were provided for countrywide macroeconomic policy. This hampered the central state when formulating a strategy for economic development, including industrial policy. In practice, due to DPA Bosnia and Herzegovina lacks the powers to formulate and pursue independent monetary, fiscal, price and foreign-exchange policies, and policies on privatization, incomes, and social welfare. Industrial policy-making is effectively impossible under the rules of Washington consensus imposed to the country by the international financial institutions. Development prospects in such a poor country were poor, as the initial level of economic development was so low. Nevertheless, the policy package coming from and implemented by the IMF and the World Bank has been seen as the only way of achieving stabilization, preparing the ground for privatization, and developing pro-development macroeconomic policy under better political circumstances.

Yet the evidence seems to suggest otherwise. The ‘Frankenstein’ economy (B&H economic space divided into two single markets by DPA -Republic Srpska and Federation of BiH), simply has not been performing as expected..

A basic strategy for recovery of BiH, and the role of government was published in 1996, in a chapter entitled ‘Towards Establishing a Market Economy», in the document „Bosnia and Herzegovina on the Road to Recovery“, prepared by the World Bank, the European Commission and the EBRD. The strategy contains all the elements

adopted in theory and practice in other Eastern European countries. One unique element, absent elsewhere, however, was need for physical post-war reconstruction. The document envisaged rapid privatization, dismantling of state firms, and development of SMEs, light industry and the service sector, as basic means of economic growth. It continued, "The role of the state in the economic and development strategy which is governed by the private sector is not unimportant, but shifts its focus. It should concentrate on the maintenance of healthy macroeconomic conditions and 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, health services"(World bank,1996) The reform of banks and firms was a major project that had to be implemented, the document stated. In restructuring firms and banks, the document considered the most appropriate approach would be for state institutions to adopt a flexible program of privatization to be applied regionally. The Republic Srpska would be one region and regions in the Federation of BiH might consist of a group of cantons, an individual canton or more local levels. This regional approach consequently provided the basis for the so-called 'ethnic privatization' that has become a nuisance and a divisive factor for BiH' market, economy, and society, and practically has split big companies into geographical parts.

Under the World Bank/IMF program, the central bank functioned as a currency board for six years, starting from 1996–7. This meant integrating Bosnia into international markets as a 'price taker', with a fixed exchange rate for its national currency, which was pegged to the German mark (and now to the Euro). The country therefore lost complete control over its monetary policy and, like a ship in a stormy sea without a sail; it simply had to accept whatever direction the wind took it. However, the package contained a very hard budget constraint, which Bosnian authorities accepted even though it meant there would be an investment deficit of significant proportions. And unlike in most EU countries and in the USA, where budget deficit have been easily tolerated and, in the USA in particular, are reaching historical high levels, a budget deficit arising in Bosnia was said to represent an essential threat to the economy and society. The external sector was given a significant role in the economic transition, as it had been in other transition countries. Foreign trade is being liberalized as quickly and as fully as possible. FDI and transnational companies were supposed to be main driving forces behind economic recovery.

Dayton Accord effectively divided Bosnia and Herzegovina into two economic zones. This immediately raised the problem of trade between the two entities, which was in practice treated as

international trade. It soon became clear that this required special attention, economically and politically.

The significance of trade, domestic and foreign, to economic growth and development is beyond question especially in today's global environment. It was not surprising to find some economists, entrepreneurs and politicians (especially the Office of the High Representative) arguing for trade as the integrating factor to produce economic and political recovery in Bosnia and Herzegovina. Various OHR efforts have been made in this respect, to do with harmonizing customs duties and taxes on so-called high-tariff goods between the Federation of Bosnia and Herzegovina and Republic Srpska. The same aims explain the pressure that the OHR has put on the trade ministers of the two entities to cooperate, harmonize trade conditions, promote trade, and finally, lift various formal and informal restrictions on it.

Despite all the efforts of the OHR inter-entity trade up to June 1998 was regulated by the entities themselves and resembled international rather than domestic trade. Registered trade between them was accordingly modest in volume. The police in both entities had a more complete picture of the inter-entity trade, from monitoring it closely under the given political circumstances. But, real question at that time was: could trade in Bosnia and Herzegovina really be the integrating factor to the extent expected by the politicians and the OHR? Does favoring inter-entity trade tend to stimulate „trade diversion» or „trade creation“? Under what circumstances can inter-entity trade create or intensify a trade-generating effect, so as to act as an integrating factor in the Bosnia and Herzegovina economic and political area, and play its standard, textbook role in the interests of its citizens and entities?

Until recently, B&H entities would cooperate with neighboring countries on the principles of free trade-zone. Without customs or other trade obstacles with neighbors and with regulatory obstacles to trade between the entities until June 1998, it was natural that trade developed instead between the entities and their neighbors: between the Republic Srpska and Yugoslavia, and the Federation of Bosnia and Herzegovina and Croatia. Apart from the effects of Dayton, there were rational reasons for this diversion in the post-war period. Devastated by the war, Republic Srpska and the Federation BiH had import needs that Croatia and Yugoslavia were able to meet. Leaving aside the albeit weighty political considerations, the next question is whether inter-entity trade determines the economic flows in Bosnia and Herzegovina, or whether inter-entity trade is determined by the condition of the Bosnia and Herzegovina economy, the Dayton Accord, and the neo-liberal economic development strategy prescribed by the international financial institutions and supported by the OHR ? Bosnia and Herzegovina was far less developed than the

economies of the neighboring countries. In addition, special relations enabled simple imports of goods from these countries, so that no rational entrepreneur had had any good reason to pursue inter-entity trade. The „trade-diversion» effect was suppressing the „trade-creation» effect. The neo-liberal concept of “spontaneous” development of the Bosnia and Herzegovina meant that state intervention was not tolerated, the infant-industry argument could not be pursued, and conscious foreign-trade policy was banned. Meanwhile convertibility and a liberal foreign-trade sector (with underdeveloped domestic production) tempted a rational entrepreneur to import products from third countries, thus increasing the balance of payments deficit of Bosnia and Herzegovina and its entities alike.

2.5. Rational Man and the Irrational Man-role of culture

(Social Capital and the Trust)

During very stormy history of B& over the course of 800 hundred years one can say that trust existed between BiH's people more or less only during the period 1945/1990. Since then on: the war, the consequences of the war, dishonest and improper behavior of politicians, the role of media in promoting distrust and hatred have been contributing to the erosion of social capital. At the moment social capital in BiH is at its lowest level since DPA..

Oxford University research paper (2007) indicates that social trust in BH is virtually non-existent. In international comparisons, BH is relegated to the last position.

Social trust (Others can be trusted in %)

China	54, 5
Belarus	41, 9
Montenegro	33, 7
Croatia	20, 5
Serbia	18, 8
Macedonia	13, 7
BiH	7, 2

Source: The Silent Majority Speaks, Oxford Research International, 2007p.14.

Overwhelmingly, BiH citizens see the situation in BiH as „ bad“. Four in ten BiH's citizens would leave BiH if given an opportunity.

Critically, two thirds of respondents aged between 18 and 30 state that they would like to go abroad. Nearly half of BiH people say they are primary BiH citizens; most other subscribe to a dual identity. Critically, 14, 2% or 504 out of 3,580 respondents reject a BiH citizen's identity and thus ascribe to an exclusive identity (The Silent Majority Speak, 2007)).

Serbs from Republic .Srpska for many reasons prefer to be: a) on their own, and disconnected from BiH as a whole, or b) to be a part of Serbia. Great deal of Croats prefers independence from BiH as a whole and would opt for closer cooperation with Croatia. Different ethnic group, with different religion, different (albeit the similar almost the same) language, different historical perspectives of their position within BiH's past , and being economically unsatisfied ,consider some other solution-including dissolution of BiH as more acceptable solution .

Interesting point deliberating about social capital and general well-being-life satisfaction is that people of B&H, in international comparison, ranks favorably. Looking at a range of post-administrative-centralist countries over the past ten years life satisfaction in BiH is found in the upper part of the rank –order table. (The Silent Majority Speak, 2007)

So, we find a Bosnian satisfied with his life, on one hand, and we find him (her) dissatisfied with present affiliation as citizen of B&H. Is it amazing or not? What can one conclude out of that remark? Maybe, a more cautious approach is necessary in case of B&H, then in the cases of other countries? Namely, the Balkan's mentality, and Bosnian's one in particular, has been built over the centuries of distrust against foreign power, foreign interest, foreign presence and foreign might as such. As much so against the power of political leaders who, except for short time span during the Tito's Yugoslavia, were not of domestic origin? Such a mentality must be seriously considered entering any serious transformation of DPA. Therefore, the simple transplantation of democracy» into the Bosnian soil is more prone to produce badly, than expected results.B&H .

2.6. Pareto and Poverty

LSMS for B&H (2004) indicate that 17,8% of population of B&H or around 680.000 persons live below general poverty line .General poverty line for BiH is KM 2223 or Euro 1136 per year. Out of that number, 51% of the poor live in Republic .Srpska, while 49% live in Federation of BiH. Almost half of the poor live in rural area, above 1/3 live in mixed municipalities and 17% in urban area. The statement of Economic Policy Planning Unit (EPPU) for 2007 points out that there is not extreme poverty in BiH any more. The extreme poverty has been defined as income of KM 760 per year or one euro a day.

At the end of 2007 official unemployment rate has been registered at 40%!

How would neoclassical paradigm explain such a phenomena having in mind that Washington consensus had been applied since 1996?

3. Conclusion: from Pareto Dream to Pareto-Absurdity in B&H

DPA has preserved the state of BiH as a whole, despite the efforts from different parties to divide the country. The state institutions are partly built and rebuilt.

In terms of economic achievement DPA, supported with enormous effort undertaken by international community (the EU, USA, the IMF, World Bank, EBRD), succeeded in bringing the nominal macro-economic stability to the country. The inflation is low and very much in parity with the most developed countries of the EU. Foreign exchange rate of BiH's currency is stable and convertible, government expenditures are significantly reduced. Growth rate of GDP is, in comparison with other transition economies, high. It is consolidated around 5-6% per year in last years.

However, the great number of people in BiH feels socially excluded. On a long-term basis even 47% of population is excluded. Official unemployment rate is as high as 40%, despite "acceptable" growth rate of GDP. That means that the applied economic strategy has been economic strategy of job-destroying instead of a job-creating strategy. Trade deficit is huge and rising from year to year. Poverty is pervasive phenomena at the end of 2007.

Micro-economic structure of economy consists of micro-enterprises and a section of SMEs, and it is globally uncompetitive. Banks are privatized but detached from the BiH economy. Banks do not serve the interest of BiH economic development.

Economic solution for B&H were within the framework of Washington consensus. Washington consensus embodies neoclassical economic model and believes that Pareto optimum could be reached quickly by rational man under rational economic climate. However, Bosnian show themselves as less rational man, and economic and political climate was even less rational one.

How one could trust that marginal rules in the sphere of microeconomics may "produce" Pareto affects under such a macro and social circumstances, when mobility of workers and capital within country is restrained by ethnic fears. Moreover, one had to expect dominance of Pareto absurdity effect, what really has been happening in B&H.

Consequently, most people today want to move to the EU countries, or just to Croatia or Serbia. In sum, the role of international community in the process of BiH's reconstruction and longer run survival should have been more concerned to promote consensus,

sustainable economic development and solidarity, rather than simply brute market forces that every else are undermining the position of small and weak states.

P.S: Issues for further thinking: Pareto optimality and imperfect market

Monopolistic and oligopolistic market structure, together with intra-industry trade dominates European space. New and less developed transition countries in order to try to catch up to developed members have to rely much more than up to now on supply-side economic policy accompanied by more dynamic macroeconomic policy comparing to the policy which satisfies only "nominal convergence" criteria of successful macroeconomic. In the same time it is clear that a transfer of capital from each member of the EU to less developed one is unavoidable component part for progress of less developed members. Of course, issue for itself is the following one: is it at all possible for a less developed economy to have a pro-growth developmental policy in Murakamy sense (Murakamy, 1996) under the condition of prevailing dominance of transnational corporations, and globalization of the world economy? Innovation driven type of economic policy for development seems out of reach of less developed countries, as much as are both: "new trade policy", and "new growth" policy thoroughly (i) relevant for them.

And then, despite all of this, a transition plus war-devasted country is advised to apply neoclassical doctrine for its quick and healthy recovery.

It is high time to reconsider beneficial effects of joining the EU for unprepared and uncompetitive countries such is B&H, under the prevailing rules of the game.

Let us conclude with Pyrrhous words; "One more such victory and we are lost" as far as the main-stream concept of competitiveness and openness is concerned as well its application in transition countries.

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