The Need for Economic Development and Democratic Planning[1]

European Stability Initiative

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1. Introduction

Bosnia-Herzegovina is going through a period of profound social and economic dislocation. The industrial society built up over decades of socialist development has collapsed, without leading to the development of a new economy driven by private-sector growth. The effects of this collapse on Bosnian society are severe, with alarmingly low levels of employment, worsening poverty rates and widespread economic insecurity. The economic crisis also sharply curtails the ability of the government in Bosnia to provide basic services, from road maintenance to social benefits, and threatens the financial sustainability of the state itself.

In the aftermath of war, the Bosnian policy agenda was focused on peace-implementation tasks: security, demobilisation, reconstruction and return. Nine years on, economic and social problems have re-emerged as the main preoccupation of Bosnian citizens.[2] They have also become the primary concern

1 This article is based on a study which the European Stability Initiative (ESI) conducted with support from the United Kingdom's Department for International Development (DfID): European Stability Initiative 2004. Governance and Democracy in Bosnia and Herzegovina. Post-industrial Society and The Authoritarian Temptation. Part of the Governance Assessment of Bosnia-Herzegovina. Berlin/Sarajevo. The study was designed to "assess more fully the constraints on positive decision-making" across all levels of government in Bosnia. Its goal was to promote an open debate within Bosnian society on what constitutes good governance, in order to build up democratic pressures in favour of change. Using a team of Bosnian researchers, ESI carried out investigations across Bosnia-Herzegovina in 2003. This article is an edited and shortened version. The full report and additional background material on the governance assessment is available on the ESI website (www.esiweb.org).

2 A World Bank study concluded: "Unemployment and poverty are perceived as the most important problems of the post-war period" (World Bank 2002a:11). In a poll in February 2002, 60% of respondents rated employment as one of the two most important issues determining their vote, far ahead of corruption in government, emigration of youth and adequacy of public services (National Democratic Institute 2002).

in: Martina Fischer (ed.) 2006. Peacebuilding and Civil Society in Bosnia-Herzegovina. Ten Years after Dayton. Münster: Lit-Verlag, 69 -106.

of international organisations active in Bosnia.[3] This study therefore focuses on how government in Bosnia is responding to this new set of challenges.

The article begins by looking at the problem of legacies and policies, and by introducing the key concepts of the passive state and authoritarian development. The following section analyses features of Bosnia-Herzegovina's development path that set it apart from other transition countries. The third section looks at what the crisis of "industrial society" means in different parts of the country and for different social groups, including public servants. The fourth section investigates the public sector's response to social and economic problems. Here the policy area of land allocation and spatial planning serves as an example.[4]

2. Legacies of Authoritarian Development

The Bosnian war was such a traumatic and disruptive event that it is easy to suppose that Bosnian history began in December 1995 with the signing of the Peace Agreement. The horrors of the war and the difficulties of the post-war period were so intense that it is tempting to regard the pre-war period as a golden age. But both ignoring the recent past and glorifying it are obstacles to understanding the challenges that Bosnian society, and Bosnia's elected leaders in particular, face today.

To build institutions, one must always begin with what is there – with structures, traditions, skills and expectations inherited from the past. To promote development, one must start from where people live, where factories have been built and what skills and expectations different groups have acquired. For this one must first study the *past in the present*: the enduring legacy of assets, liabilities, norms and expectations built up over many decades.

The path of Bosnia's industrialisation is particularly important. It reveals a long tradition of authoritarian development and provides a backdrop to the ongoing collapse of most of the industrial base and the persistence of large areas of rural underdevelopment. These conditions define the problems which Bosnia's politicians must struggle to overcome, while at the same time sharply constraining the resources available to them to do so. Over the past 120 years, the development and industrialisation of Bosnia have been imposed from above.

3 High Representative Ashdown told the BiH parliament in December 2002: "Nothing, I repeat nothing, worries me more than this country's economy."

4 ESI undertook a series of case studies in areas ranging from industrial policy, agriculture, forestry, land allocation and spatial planning to education and social policy.

This tradition began under the Austro-Hungarian administration before the First World War, continued under the Yugoslav monarchy in the inter-war period and reached its height under the communist regime from 1945 to 1990. It leaves a society, and particularly a political elite, strongly inclined to look to outsiders for solutions to their problems.

2.1. The Agrarian Question in the Austro-Hungarian Period

Making their case for the occupation of Bosnia-Herzegovina to the Congress of Berlin in 1878, the imperial authorities of Austria-Hungary argued that the chief causes of instability in the remote province were social and economic. Referring to the unresolved "agrarian question" – a system of land tenure, which kept the overwhelmingly rural population trapped in underdevelopment – Foreign Ministry Andrassy announced: "Only a strong and impartial government can solve it" (Tomasevich 1955:107). The Austrians argued that imperial rule would be a blessing to Bosnia, delivering stability by improving the lives of the common people. They pledged "first to raise the living standard of Bosnia-Herzegovina; then to concentrate on education; and finally to turn to political self-government" (Sugar 1963:56).

The Austrian administration initiated the first investments in road and rail infrastructure. It granted concessions in forestry and mining, built up the old Turkish saltworks in Tuzla, and funded its own costs by establishing government monopolies over salt and tobacco. While in the Ottoman period the highest social prestige had been enjoyed by Muslim landowners, in the Austrian period their place was taken by public officials, most of whom were foreigners. The rapid growth of the bureaucracy led to the development of a small service sector in Sarajevo.

However, during the Austrian period there was little evidence of a domestic entrepreneurial class emerging. The longest-serving governor, Bernhard von Kallay, offered generous subsidies and guaranteed purchase agreements to foreigners willing to invest in Bosnia. Private businesses were almost exclusively foreign, operating with close links to the government. None of the main industrial plants were established with loans from banks located in the province itself.[5] Foreign investment of this kind did little to stimulate development in Bosnia. Committed to ensuring the survival of new industries, the government ended up heavily subsidising and ultimately owning and managing many of the enterprises. Although the industrial labour force grew to around 65,000 by 1912, life changed very little for most of the population. When the Austrians withdrew

5 The first local savings bank was located in the city of Brcko, famous for exporting dried plums (Sugar 1963:92). The first manufacturing company established by Bosnian entrepreneurs was a small textile factory with a dozen workers in 1884.

in 1918, "Yugoslavia inherited some good roads, a railway network, a few fully equipped and operating industrial plants, and several empty factory buildings" (Sugar 1963:67). Crucially, despite the concentration of legislative and executive power in the hands of the governor, the Austrian administration made no attempt to tackle the "agrarian question", and the problems of rural overpopulation and poverty became worse than ever.[6] The majority of people were bonded tenant farmers (*kmets*), paying heavy taxes to support a narrow administrative and clerical elite. An average Herzegovinian *kmet* in the late 19th century paid more than 44 percent of his income in taxes and dues to the government and the landowner, which stifled innovation and investment. As Peter Sugar noted, the result was that "most peasants were not very ambitious and devoted more energy to devising means of fighting the landowners, crop evaluators and tax collectors than to raising production" (Sugar 1963:11).

The situation changed little in the inter-war period, when Bosnia became an economic backwater within the new Kingdom of Yugoslavia. During the brief period of Yugoslav parliamentary democracy, "constitutional and ethnic politics absorbed so much energy and begat such ill-will that insufficient time and vigour were available for pressing social and economic problems" (Rothschild 1974:236). The fragile parliamentary process collapsed with the onset of the Great Depression. Capitalising on widespread public disgust with parliamentary paralysis and governmental instability, a royal dictatorship launched itself with a display of enthusiasm and administrative reforms, suggesting for a while that a benevolent autocracy might make progress where parliamentary democracy had failed. However, it quickly exhausted its energy in the face of escalating social and economic problems. On the eve of World War II three quarters of Bosnia's population still depended on subsistence agriculture. Bosnian society remained trapped in underdevelopment.

2.2. The Communist Period: "Fortress Bosnia"

The central promise of Yugoslav communism was the mass transformation of peasants into industrial workers, under the guiding hand of the communist party. As Tito's leading ideologue, Eduard Kardelj, saw it, "the peasant question is not to be resolved primarily in agriculture but in industrialisation of the country, with the transfer of a large part of the labor force from the village into industrial production and other economic activities" (Woodward 1995:67). Fifty years of Yugoslav socialism can be assessed through the successes and failures of this project.

6 The Bosnian population grew rapidly from 1.158 million people in 1879 to 1.898 million people in 1910 (Zeman 1989:43).

In its first phase, however, socialist development in Bosnia was driven by a quite different logic. Following Yugoslavia's expulsion from Cominform in 1948 and the sharp rise in tensions with the Soviet Bloc, Bosnia became central to Tito's self-defence strategy. Fearing simultaneous attack from the north (Hungary) and east (Bulgaria), and drawing on the experience of Partisan successes in World War II, Tito turned the remote central Bosnian region, with its rugged mountains, heavily wooded areas and natural caves, into Yugoslavia's fortress and the centre of its military industries.[7] Defence-related investment on a grand scale was made possible because the split with the Soviet Union brought massive financial assistance from the United States. By 1962, aid from the US had reached US$2.3 billion (Woodward 1995:192) by some estimates, adding as much as 2 percent to average annual GDP growth (Lampe 2000:275).

Before this period, the forbidding geography of Bosnia's remote central region had been a barrier to development. The population had gravitated towards the more accessible north of the country, particularly the fertile agricultural plain of the Posavina. By the 1950s, however, this logic was reversed as the Yugoslav regime poured enormous resources into defence-related projects across the mountainous centre, building the impressive network of roads, bridges and tunnels which still form the core of Bosnia's transport infrastructure.[8] Formidable engineering works were undertaken across the republic: underground hangars and airstrips in Bihac and Blagaj, underground arms factories near Gorazde and Konjic (the latter, Igman, has five galleries enclosing 20,000 m^2), and underground command and control centres.

During this period, military industries became the driving force behind industrialisation: Bratstvo in Novi Travnik (howitzers, multiple rocket launchers), Slobodan Princip Seljo/Vitezit in Vitez (explosives), Soko in Mostar (jet aircraft), Famos in Sarajevo (engines for tanks and armoured personnel carriers), Slavko Rodic in Bugojno (fuses for mines and grenades), Pobjeda in Gorazde (detonators), Cajevac in Banja Luka (radar and electronics) and many others. Energoinvest produced mortar barrels and guns in Tuzla, using steel founded in Zenica and cast in Jelsingrad near Banja Luka (Vego 1994:213). The largest of these companies were later amalgamated to create the vast UNIS (United Armaments Industries Sarajevo) complex, which eventually incorporated 60 separate plants across the former Yugoslavia and built Sarajevo's landmark twin tower blocks. As well as supplying the Yugoslav army, the defence industry

7 S/1994/674/Add.2 (Vol. I) – 28 December 1994, Final report of the United Nations Commission of Experts established pursuant to Security Council Resolution 780 (1992), Annex III: "The military structure, strategy and tactics of the warring factions".

8 The share of national income spent on defence reached 16.7% by 1950 (Lampe 2000:253).

exported extensively to "non-aligned" and other developing countries, including Iraq, Saudi Arabia, Libya, Kuwait, Burma and Algeria, earning around US $20 billion in hard currency during the 1980s. On the eve of Yugoslavia's collapse, 55 percent of this industry, one of the largest in Europe, was located in Bosnia-Herzegovina (Vego 1993:63). One report of the US Agency for International Development states that Bosnian military contractors fulfilled state orders of over US$700 million in the year before the war (USAID 1998:87).

To meet the needs of this production, more than 100,000 skilled workers were relocated to Bosnia from other republics in the 1950s. The rise of new military enterprises required building new urban centres. The founding of the modern town of Vitez in Central Bosnia, for example, coincided with the building of the Slobodan Princip-Seljo explosives factory in 1950. The factory and the town were planned together from Belgrade, and a military-controlled company from Travnik undertook the construction work. New apartment blocks were built to accommodate the large number of soldiers and technicians settled in the area, many from Serbia and Slovenia. Similar stories can be told for Novi Travnik, Bugojno and other towns across Bosnia.

However, the extent of military-related investment in the 1950s and 60s proved to be a mixed blessing. Because of the volume of investment, Bosnia was long treated in official policy as a "developed republic" and denied the civilian investments channelled into Serbia, Macedonia and Montenegro, even though it remained objectively one of the poorest parts of Yugoslavia. Bosnia's development fell further behind the other republics. In 1953, it had a *per capita* income of 74 percent of the Yugoslav average; by 1971, this had fallen to 53 percent. By 1971, only 1 percent of the population had completed university training and 36 percent had less than three years of primary education (Ramet 1992).

One of the most important social trends during these decades was the rise of the peasant worker (*seljacki industrijski radnik*), who continued living in the rural areas while often travelling long distances to jobs in the factories (Kostic 1955:138).[9] Many agricultural households supplemented inadequate subsistence agriculture with a modest wage income, taking advantage of the social services (pensions and health care) that came with jobs in the socially owned economy. A study of Bosnia's industrial flagship, the Zenica steel plant, in the 1950s showed that rural workers faced a daily commute of up to 8 hours from their villages (Palairet:18-19). Internal migrants formed the bulk of the labour force in the

9 While the urban population grew relatively slowly, from 14% in 1948 to 28% in 1971, the number of people employed in agriculture fell sharply, from 77% of the population in 1948 to 40% in 1971 (Ramet 1992:138).

textile, wood and construction industries across Yugoslavia, and 60 percent of the miners in Serbia and Bosnia (Woodward 1995:1993).

Of the military-industrial base which once formed the backbone of the Bosnian economy, little now survives. In 1992, the Yugoslav People's Army (JNA) transported as much military industrial plant as possible back to Serbia. The armaments factories were fought over and divided among the warring parties, and much of the skilled labour force left the country. Moreover, the old integrated system of production collapsed with the break-up of Yugoslavia. Through conscious policy, military industries had been developed around a network of mutual dependence between Bosnia and Serbia. It was said that, in order to produce a single bullet, it was necessary to cross the river Drina three times, rendering isolated plants of little value in the post-war climate. The collapse of military industry was a shock to the Bosnian economy at least as severe as the closure of the Welsh coalmines or the decline of traditional industries in Southern Belgium, Northern England or the new German *Länder*. Yet it has received surprisingly little attention from either Bosnian or international policy makers.

2.3. The "Golden Age" of Bosnian Socialism

The industrialisation of Bosnia reached its high point during the 1970s. Massive investment in industry finally brought about dramatic changes in Bosnian society. Standards of living rose, surpassing those of other socialist countries at the time, creating an increasingly educated and urbanised population. For most Bosnians, these were years of achievement – an industrial golden age culminating symbolically in the Sarajevo Winter Olympics of 1984, and the reference point against which most Bosnians measure their current lives. As the World Bank noted, "this standard conserved itself as a notion of the last 'normal' period in the economic history of the nation; the current living standards still fall short of this benchmark" (World Bank 2002:5).

Industrial development in the 1970s saw the rise of new social groups. There was a massive increase in wage employment across the country. Women entered the work force in ever-larger numbers, particularly in the textile sector. The 1970s also saw the rise to prominence of a new group of educated, white-collar employees. Until 1945, Bosnia had no institutions of higher education. The first non-theological faculties began to appear in Sarajevo after the Second World War, and in the 1970s new universities were established in Banja Luka, Tuzla and Mostar, often with a strong focus on technical subjects such as engineering and metallurgy. By the late 1980s, 14 percent of the Bosnian workforce had a university qualification.

The newly educated elite filled the growing number of managerial and technical jobs in the enterprise sector and the public administration. The rise of self-management and social planning in the 1970s – a system of government where resource allocation decisions were taken not by central planners, as in other socialist systems, but through an intricate system of negotiations and voluntary agreements among countless autonomous actors – magnified the number and importance of these white-collar positions.[10] Although they were periodically condemned by official ideologists as "unproductive", it was these groups, rather than blue-collar workers or peasants, who were the real power base of the Communist Party.[11]

During the 1970s, Bosnia acquired 322,000 new jobs – a 59 percent increase – at a rate of nearly 3,000 jobs a month for a decade. This was accompanied by rapid urbanisation. The economic geography of the republic changed substantially. The Tuzla basin doubled its employment between 1970 and 1990. Peripheral areas such as Herzegovina acquired for the first time a network of enterprises. In all, more jobs were created in the 1970s and 80s than over the previous century.

As in earlier periods, however, the resources to fund this rapid development came largely from outside the republic. Between 1965 and 1988, Bosnia received around US$3 billion in investments from the Yugoslav Fund for Underdeveloped Republics (Ramet 1992:51). This in turn was dependent on generous credits from the World Bank and international commercial lenders. In the first half of the 1970s, a massive 32 percent of annual investments in fixed and working capital in socialist Yugoslavia came from foreign sources.

Table 1: Employment growth in Bosnia, 1948–1990[12]

	1948	1952	1971	1981	1990
Total population	2,564,000	2,791,000	3,761,000	4,136,000	4,516,000
Working-age population	1,381,996	1,598,000	2,222,000	2,696,000	3,037,000
Total employment	**210,063**	**352,370**	**546,337**	**868,451**	**1,054,295**
Employment in the socially owned sector	–	264,900	538,046	854,557	1,026,254
Official unemployment	**–**	**4,272**	**32,549**	**142,912**	**283,478**

10 C. Wright Mills uses the idea in his book White Collar: The American Middle Classes, first published in 1951 (Mills 2002).

11 As Susan Woodward (1995:30) put it: "The most vexing employment problem in the 1980s was not with industrial workers but with civil servants, white collar administrators and staff, and the social services – in the language of Yugoslav socialist ideology, 'unproductive' people on 'guaranteed salaries' from budgetary employment".

12 Materijalni i drustveni razvoj SR Bosne i Hercegoine 1947-1972; Statisticki gosdisnjak 1991, 447-467. Note that the estimated population in 1990 here exceeds the 1991 census figure.

With the second oil crisis of 1979, the golden age came to an abrupt end as commercial credit from international banks dried up. However, employment growth continued by official *diktat*, with socially owned factories instructed to increase their workforce year by year without regard to their financial performance. In this way, Bosnia acquired another 150,000 jobs in the socially owned sector. Despite the systematic over-employment, unemployment rose steadily, while productivity and wages fell. Yugoslavia found itself in a spiralling debt crisis, forced to postpone repayments of principal. Real social product fell by 6 percent from 1979 to 1985, in a process of decline that accelerated towards the end of the decade.

By the late 1980s, it was clear even to official observers that Yugoslavia's industrial structures had been built on the flimsiest of foundations. Much of the foreign capital raised in the 1970s had been squandered, with vast sums poured into large-scale projects that proved to be either technically or economically inefficient (Lydall 1984:53). In 1987, Yugoslav prime minister Branko Mikulic (a Croat from Bugojno) informed the federal parliament that "more than half of the foreign debt was invested in projects which turned out to be mistaken, or was used for consumption" (Lydall 1984:53).

This short-lived golden age left Bosnia with a mixed heritage. Although employment creation had been the primary rationale for the investment boom, employment in Bosnia always remained low. Even at its peak in 1990, only 35 percent of the Bosnian working-age population was employed, compared to an EU average of 64 percent. An important part of the working-age population also left to seek work "temporarily" in foreign countries, particularly from Herzegovina. Furthermore, the system of compulsory employment creation in socially owned enterprises created high rates of underemployment and paid positions which were highly artificial. This was part of a wider problem of Yugoslav industrialisation. In 1981, *socialist* Yugoslavia had the highest unemployment figures in all of Europe. As the president of the League of Communists of Yugoslavia, Stipe Suvar, stated in 1988: "If an efficiency-oriented reform were put into place, two to two and a half million workers would be thrown out of work" (Woodward 1995:191).

In the last few years of Yugoslav socialism, the entire economic system was in deep crisis, threatening to undermine the social advances of the previous decades. The resulting mismatch between the expectations of a society, which aspired to European standards of living, and the harsh economic realities created an environment that was dangerously conducive to conflict.

3. Contemporary Policy-Making Environments: The Crisis of Industrial Society

3.1. The Limits of Reconstruction

3.1.1. Hopes and Realities

In addition to its horrendous human cost, the Bosnian war of 1992 to 1995 was an economic catastrophe on a vast scale. According to World Bank estimates, nearly one half of the capital stock was lost during the war. More than 412,000 units of housing were damaged or destroyed, i.e. one third of the total housing stock (World Bank 2000). More than a million people left the country. War brought industrial production in Bosnia almost to a standstill. The cumulative effects of mass displacement of workforces, isolation from markets and materials, disputes over control of industrial property and the destruction or theft of plant and equipment left Bosnian industry in 1996 operating at as little as 10 percent of its pre-war capacity (World Bank 1999a:13).

Many people, both Bosnian policy makers and their international advisers, argued that, once the physical effects of the war were overcome, the Bosnian economy could pick up where it left off and make a quick transition to market conditions. The expectation was that, within a few years, Bosnians would recover at least their pre-war living standards. As late as 2002, the World Bank wrote:

> "Bosnia-Herzegovina … had a relatively diversified economy, a well developed industrial base, ranking among the leaders of the region, and a highly educated labour force. Unlike other centrally planned economies, its economy was relatively open and was market oriented. All these factors augured well for the country's relatively smooth and successful transition to a market economy… However, war interrupted this process" (World Bank 2002b:9).

This interpretation, which was widely shared by members of the post-war Bosnian political and economic elite, overlooked the extent of the problems on the supply side of the Bosnian economy – the legacies of outdated technology, excess capacity, over-sized workforces and enterprise debt whose origins stretch back well before the war. It also explains why international financial organisations consistently overestimated the potential for recovery of the Bosnian economy.

In its first post-war review of public spending published in 1997, the World Bank set out its hope that by 2000 the country's output would be back at 70 percent of the 1990 level, and public spending would be close to the regional average of 40 percent of GDP. This proved unattainable. In fact, even the worst-case scenario outlined by the World Bank was too optimistic. By 2000, growth had slowed sharply before Bosnia had recovered half of its pre-war output, and public spending remained at 66 percent of GDP (IMF 2003:25).

Table 2: Over-optimistic growth projections, 1998–2003 (World Bank 1997)

	1998	1999	2000	2001	2002	2003
Projected GDP growth (%)						
Best case – 1997	27	20	12	10	8	5
Worst case – 1997	15	10	8	6	6	5
Projected – 1999[13]	18	15	15	14	10	5
Projected – 2001[14]	18	8	14	14	10	5
Actual GDP growth (%)[15]	**15.6**	**9.6**	**5.4**	**4.5**	**3.8**	**3.3**

Four years after the end of the war, the levelling out of GDP growth was not the only sign that the post-war recovery was running into difficulty. Sector studies showed that Bosnian industries were accumulating losses at an alarming rate. A USAID *Economic Update* from February 2000 concluded that "growth was negative or flat in many sectors where the Federation ought to enjoy a comparative advantage," and that employment growth in the Federation had largely come to a halt. In Republika Srpska, industrial production was collapsing from an already low level (USAID 2000:4). Enterprise indebtedness was becoming a serious problem. The USAID report estimated that, in the Federation, for every 100 Convertible Marks (KM) of wages paid to (private and public) employees, there were 30 KM of losses (USAID 2000:4). In Republika Srpska, losses per employee (KM 3,500) were double the average annual net wage.

Thus, Bosnian companies were sinking ever deeper into debt just as they were to enter the privatisation process. Not surprisingly, there were few serious investors willing to take on responsibility for loss-making, indebted and increasingly insolvent enterprises.[16] The privatisation process turned into a costly charade. Most companies were sold through a complex voucher system, designed to compensate Bosnian citizens for the pre-war and wartime debts owed them by the state. In reality, however, granting citizens the right to acquire shares in companies, which in many cases had negative asset value, was a purely notional compensation. No effort was made to restructure companies in advance of sale, and no system of privatisation through liquidation was established.

13 World Bank 1999a:47.

14 World Bank 1999b.

15 IMF 2003.

16 This situation led to very different projections. As USAID noted: "The World Bank sees another three years of double-digit GDP growth for BiH. By contrast, analysis carried out at the Private Sector Development Task Force resulted in a much gloomier picture" (USAID 2000:4).

Voucher privatisation attracted neither new managers nor new capital to change the trajectory of the companies.

3.1.2. Consequences for Public Policy and Governance

Systematic overestimation of the country's economic potential and the impact of outside assistance also had dire consequences for the making of fiscal policy. Despite the severity of the economic conditions, all levels of government in Bosnia except cantons and municipalities in the Federation increased their budgets steadily (see table 3). The international community, led by the Office of the High Representative (OHR), contributed to the problem through institution-building strategies which attracted qualified staff into key institutions by offering unsustainable salaries. The year 2000 marked the intensification of international efforts to build up the institutional capacity of the central government. The State Border Service was established, initially with foreign funding, but by 2002 it was the second largest budget entity in the central government at KM 52 million. Several other independent agencies were created with salaries above the usual administrative scales. An OHR decision in 2000 more than doubled the salaries of judges across the country. There was a sharp rise in public expenditures in the District of Brcko, which soon had by far the highest levels of public salaries in the whole country. Each of these initiatives were seen as a key state-building objective, and pushed by international organisations. Collectively, they added considerably to the cost of government and reinforced the problem of public-sector wage inflation.

Table 3: Public Expenditure, 1998–2002 (million KM)[17]

	1998	2002	Change 1998-2002	% Change
State	138	495	+ 357	+ 258%
Federation	682	1,040	+ 358	+ 52%
Cantons & municipalities	1,106	1,082	- 24	- 8%
FBiH off-budget funds	879	1,359	+ 480	+ 54%
Republika Srpska	357	879	+ 522	+ 146%
RS municipalities	42	69	+ 27	+ 64%
RS off-budget funds	261	499	+ 238	+ 91%
Brcko District	0	150	+ 150	-
Total	**3,465**	**5,573**	**2,108**	**+ 60%**

17 2002 figures from IMF (2003:29-30). The table excludes transfers by the entities to the state budget. The state budget includes debt servicing.

The result is that today government in Bosnia-Herzegovina imposes a heavy burden on an impoverished society with an extremely weak economy. In 2002, Bosnia-Herzegovina had domestic revenues of KM 5.6 billion, equivalent to 52 percent of its total estimated GDP (KM 10.8 billion).[18] This made Bosnia "one of the highest-taxed economies in Central and Eastern Europe" (World Bank 2002d:1). Bosnian governments and public funds then spent KM 6.1 billion, equivalent to almost 56 percent of GDP.[19] This compares to a regional average of public spending of around 40 percent of GDP (World Bank 2002d:17).

However, although Bosnia's public expenditure is very high relative to national income, it is low in absolute terms. The Bosnian public sector spends €846 per resident annually, compared to €4,299 in Slovenia.[20] Total public spending across all levels of government in Bosnia amounts to less than a third of the annual budget of the city of Vienna.[21] Furthermore, a large share of this total is spent on current expenditure – that is, sustaining the public institutions and administrators themselves – rather than on government programmes or investments in Bosnia's future development.

As compared to the compressed living standards in the rest of society, Bosnian public servants in general live well. The prize public servant positions – at state level, in independent agencies, the Federation administration, Mostar City and the Brcko District – offer among the best salaries in the country. In both Republika Srpska and the District of Brcko, public administration jobs on average constitute the most highly paid sector of the economy. Outside the administration, salaries in forestry, agriculture, trade or hospitality were all below KM 300 (even though a basic food basket for a family of four cost KM 408 in July 2002 (Brcko District Statistical Office 2002:7-8). This suggests that the higher salaries in Brcko were not related to any high level of productivity in the local economy.

Salary pressures are strong across all levels of governments. Government employees have a clear sense of entitlement, stemming from their education levels and their pre-war standard of living. However, only certain levels of government have found the means to fund higher salaries. Outside these privileged institutions benefiting from close international attention, there are layers of government whose bargaining position is low, and who find themselves starved of funds. The Federation cantons have faced declining revenues, in large part because decisions on their tax rates have been taken at Federation level.

18 The numbers are based on estimates of the IMF (2003:27).

19 The difference between revenues and expenditures is made up largely by international credits (IMF 2003:27). See also Bernasconi 2003.

20 Slovenian consolidated public spending was €8,500 million for a population of 1.9 million. Slovenia's GDP was €22.9 billion.

21 The budget of the City of Vienna in 2001 was €9.95 billion: www.wien.gov.at/finanzen.

In addition, regional variations are significant and widening. The most prosperous parts of post-war Bosnia are the administrative centres, which host both international and domestic public institutions. The regional economic "success stories" are those with a bureaucratic growth pole: Sarajevo, Mostar and Banja Luka. The concentration of public servants leads to higher rates of domestic consumption, stimulating the private sector by attracting traders, retail services and, increasingly, financial institutions. This in turn leads to higher indirect tax revenues that can be used to fund public-sector wage increases. This arrangement works well for the administrative centres but it is highly disadvantageous for other parts of the country, squeezing service delivery in most other municipalities and Federation cantons.

The imbalance between salaries in the public sector and in the rest of the economy poses serious challenges. The growing financial crisis means there is little scope to continue with a model of institution-building, where independence and interethnic cooperation are 'purchased' with abnormally high salaries paid by Bosnian taxpayers. The inequity is likely to become an increasingly serious political issue, forcing Bosnian governments to take on what is perhaps the most important of Bosnia's interest groups – the administration itself. At the same time, an open-ended process of cuts in salaries and staff numbers would complicate administrative reforms and make it more difficult to create a motivated and proactive administration.[22]

3.1.3. Industries and Infrastructure: Waiting in Vain for a "Kick-Start"

The fundamental problem of Bosnian public finances is the disappointing post-war economic recovery. Nine years after the end of the war, the former mainstays of Bosnian industry have not recovered. Very little secondary wood processing still takes place in Bosnia, and the timber industry is reduced to the export of logs. Agro-processing is severely limited by overcapacity in old facilities such as dairies, and by a shortage of domestic agricultural produce. The chemical industry has largely collapsed. Textiles and leather industry sectors, developed in the 1970s to boost employment in rural areas and among women, have been rendered largely uncompetitive by Bosnia's high wage costs. Metalworking, previously centred on military production, is in a deep crisis. The big names of Bosnia's industrial history – Energoinvest, Unis, Sipad, Bratstvo –

22 As Pollitt/Bouckaert argue, while there is no contradiction in principle between spending cutbacks and productivity increases, "continued, repeated downsizings destroy any basis for confidence and commitment… They also destroy institutional memory, reduce the chances of survival for any 'public service ethic' and lead to a hollowed out and ultimately less competent form of government" (Pollitt/Bouckaert 1999:163).

are little more than hollow shells, whose decline has continued throughout the privatisation process.

The international reconstruction programme did not "kick-start" the Bosnian economy, as its authors had hoped.[23] High growth rates reported in the period from 1996 to 1999, averaging 40 percent of GDP annually, proved to be shallow. These numbers were registering the direct effects of international spending, and were driven in part by the rapid increase in *public* sector salaries, set against the disastrously low post-war GDP. It was the equivalent of a temporary oil boom, driving up imports and prices without changing the structure or competitiveness of the economy. This form of economic growth generated little new employment outside the public sector.

Post-war reconstruction aid to Bosnia did not change the basic dynamics of decapitalisation and depreciation of public assets, including infrastructure. This is clear from looking at the condition of public utilities like railways, water or district heating, all of which have benefited from large injections of international funds in recent years. In 1990, the Bosnian railway transported 26 million tons of freight and 13 million passengers. A decade later, following a heavy international capital injection, it moved only 4.8 million tons of goods and 1.3 million passengers. The collapse of domestic output had left Bosnia with little need for freight services. With demand so low, the railways do not generate enough revenue to cover routine maintenance. As a result, the two entity railway companies generated combined losses of over €29 million.

In Sarajevo, the cantonal water company has been a major recipient of international reconstruction aid since the war. In 2001, it managed to cover its operating costs of KM 41 million only with the help of a KM 8 million subsidy from the cantonal budget. However, according to its own accounts, it failed to cover its annual depreciation costs of KM 25 million, and is therefore dis-investing at an alarming rate. This problem is common across the water sector, and most other utilities. A 1999 USAID report examined the financial condition of ten water utility companies and concluded: "by almost any measure, almost all the vodovods are in extremely poor condition" (USAID 1999:30).

There are various reasons why the utility sector continues to de-capitalise, despite the extent of international assistance. One is the low capacity of many Bosnian households to pay for utilities, and the genuine reluctance of municipal companies to discontinue services to displaced persons and social cases. The gap in collections often becomes an implicit social transfer. Since municipal or cantonal institutions have little cash to support poor households, utility companies end up consuming their own capital in order to provide subsidies in kind.

23 Conclusions of the Peace Implementation Conference held at Lancaster House, London, 8-9 December 1995, para. 3.

A second problem relates to external conditions. Certain infrastructure networks were built to support the needs of companies or industries that no longer operate, and are poorly suited to a post-industrial community. The excess capacity translates into higher maintenance costs, which often cannot be extracted from consumers. Again, the implicit survival strategy of utility companies is to transform fixed capital into working capital by neglecting maintenance and re-investment.

A third reason is institutional weakness in the utility companies themselves. There has been extensive legal reform of their corporate governance. However, despite new laws, utilities continue to operate as they did in the pre-war period. The introduction of modern accounting standards that take into account items such as depreciation is recent, and companies often lack the expertise to operate them. As the World Bank noted after international accounting standards had been introduced into the law: "It is clear that few accountants understand (or are capable of applying) the entities' accounting and auditing standards in the preparation of financial statements" (World Bank 2003:87). Supervision of public utility companies by the appropriate government (the "owner") is done through "governing boards" (*upravni odbori*), which are responsible for approving annual reports and important financial and operational decisions. Being on a board is a lucrative post by the standards of Bosnia – often paying well above KM 500 for one monthly meeting. Board members tend to have little interest in controlling wage inflation – a problem that is particularly acute in the large post, telecommunications and electricity utilities. Most importantly, they fail to represent the interest of the "owner" of the company – society at large – in preserving the value of the company over time and ensuring its long-term viability. Relatively high wages in utilities suggest that funds which should go into maintenance are going into remuneration.

With these problems unresolved, international reconstruction provided Bosnia's utilities with a capital injection that enabled them to continue on for a few more years. It has not been able to remove the causes of the overall dynamic of de-capitalisation and decline.

3.2. The Social Consequences of De-Industrialisation

In the West since the 1970s, sociologists have described the emergence of "post-industrial society". They refer to the decline in industrial employment caused by rapid advances in technology, accompanied by the emergence of a sophisticated service sector in which knowledge and information are at a premium. In advanced economies, de-industrialisation is associated with rapid development, when the growth in the service sector absorbs workers displaced

from manufacturing as a result of rising productivity. In Belgium or the United Kingdom, the proportion of civilian employment in industry declined by 45 percent between 1955 and 1998 (Kariotis 2003:243).

In those Central and East European countries that are candidates to join the European Union, employment in industry has also fallen between 25 and 50 percent between 1989 and 1997 (European Commission 2001:22). As the European Union found when preparing for future regional development strategies, old industrial centres and peripheral regions are the areas hardest hit by the economic transition. Industrial centres are severely affected by privatisation, enterprise closures, high rates of unemployment and the difficulty of re-integrating workers with low or outdated skills into the new labour market. Rural areas are marked by underdeveloped infrastructure, low educational levels and a partial return to subsistence agriculture (European Commission 2001:23). However, in recent years, Central European countries have shown signs of *re-industrialisation*, and are catching up in the productivity of manufacturing (Hawlik 2003).

In Bosnia-Herzegovina, the collapse of industrial employment takes place against a very different background. First, even before the war there was a very low activity rate (i.e., the percentage of the working-age population that is actually working). Second, the social system of socialist Yugoslavia had always been markedly inegalitarian: for decades, there had been a *de facto* redistribution of resources from poorer, rural areas to wealthier, urban areas. Under today's crisis conditions, the poorest receive almost no support. Third, underdevelopment always had a strong regional dimension in pre-war Yugoslavia. The problem of regional imbalance is exacerbated in post-Dayton Bosnia by a highly inequitable system of fiscal federalism. In the UK, there are *positive* transfers into regions with structural problems (through investment programmes by the UK government and the European Union, and through unemployment and social benefits). In Bosnia today, the transfers of funds between regions is regressive, with the distribution of indirect taxes strongly favouring administrative centres where consumption is relatively high. In the former Yugoslavia, despite endemically low employment rates, there was no real attempt to provide for the social needs of the unemployed, particularly in the rural areas. The authorities tended to deliberately under-report the problem, as Susan Woodward (1995:196) notes.

In Bosnia today, the social groups with least access to employment are women (who have among the lowest employment rates in all of Europe, comparable to Kosovo and Turkey) and the young. Labour market policies, in so far as they exist, target those who already have jobs – hence the continuous rise in wages since 1996, despite high unemployment. A highly static labour market,

in which workers change jobs only slightly more frequently than in the socialist period, favours the older, educated and male population. It is, to quote the World Bank (2002b:ix), a labour market that "militates against young workers, labor market reentrants (who are often women) and the unemployed". The gap between male and female participation in the labour force "is easily the highest in the region" (World Bank 2002b:xii).

The share of people younger than 35 in the workforce has decreased strongly in comparison to the pre-war period. In 2000, the employment share of the age group between 25 and 43 was 23 percent, compared to 37 percent in 1990, while the share of those with more than 20 years of work history increased by 10 percent (World Bank 2002b:x).

> "In sum, new formal employment has brought little fresh blood – the postwar formal sector workforce largely consists of the same pool of workers, who are becoming gradually older and who exit the workforce at pensionable age" (World Bank 2002b:x).

This is precisely the opposite of structural change in the post-industrial West: few new jobs are created, few unproductive jobs are brought to an end, and there is little shift of employment from less productive to more productive sectors. The losers are those who were never part of a workers' collective, those who were excluded during the war for ethnic reasons, and those who have never had a chance to enter the labour market.

Those hardest hit by social and economic change – the very poor – receive very little support from the state. Outsiders are often surprised by the lack of demand for social welfare reform in post-war Bosnia:

> "Despite significant distortions in the social safety net (social welfare and child protection expenditures in BH are the lowest in South East Europe, while veterans benefit expenditures at 3.5-4 percent of GDP are extremely high by any country's standards) and long standing discussion dating back to 1999 (involving both potential winners and losers in the reform process) on what needs to be done to restructure the system, beneficiaries of reform and the public at large are still reluctant to press for changes" (World Bank 2002e:11).

It is indeed striking how little public debate on these issues goes on within Bosnia. In fact, this too is in large part a reflection of expectations inherited from the socialist period, in addition to objective financial constraints. It appears that those social groups who received little from the state in the pre-war period continue to have the same low expectations. Until they coalesce as an interest group, able to assert their rights through the political party system, or unless political parties begin to see in them a possible constituency by specifically addressing their needs, they are likely to continue to be marginalised.

In the former Yugoslavia, the primary social welfare strategy was employment creation. Social transfers played a minor role in the system, and were not, by and large, directed towards relieving poverty. One regressive form of social transfer occurred in housing. Socially owned apartments, which were allocated by employers to their workers, were largely the preserve of officials, managers and technicians. Only 23 percent of socially owned apartments were occupied by manual workers. Thus, social housing was used for those with higher qualifications and greater social influence, while the poorer classes built their own houses or lived as sub-tenants or with extended family.

The tendency to tolerate high levels of inequality still exists in many policy areas. As the World Bank noted in relation to higher education: "Access to academic secondary schools and subsequently to tertiary education is much too limited and unequal" (World Bank 2002d:88). In both tertiary education and health care, public funding tends increasingly to be supplemented by informal contributions from consumers, creating a partially privatised system, which favours those able to pay for services.

In the absence of a functioning social safety net, poverty is becoming a widespread phenomenon. According to the Living Standards Measurement Survey, 15.6 percent of people in the Federation and 24.8 percent in Republika Srpska are living below the general poverty line (KM 1,843 per person). An additional 1.1 million people are living precariously just above this line. As the World Bank (PRSP Team 2002) notes, poverty "risks affecting even a typical household". Less than a quarter of the estimated 190,000 people most in need (those with mental and physical disabilities, and elderly persons without family care) receive any assistance (UNDP 2002:54). According to a detailed study of social welfare in the municipalities of Zenica and Gornji Vakuf in the Federation and Banja Luka and Trebinje in Republika Srpska, of a combined population of 425,740 only 1,700 people receive any cash support (DfID 2000).

The vast majority of transfers to households are benefits for war invalids and families of fallen soldiers. Veterans' benefits must be understood against the background of the rapid and strikingly successful demobilisation of three large armies after Dayton. However, veterans and their families are not a vulnerable social category – according to the available data, their level of welfare is somewhat above the average (PRSP Team 2002:8) – and their benefits are not means-tested. However, as a well-organised and highly vocal interest group across the country, the veterans have resisted all attempts to reduce their benefits.

Finally, it is a remarkable feature of Bosnian society that the areas hardest hit by the consequences of economic decline are also those that have the fewest resources to confront them. Both in Republika Srpska and in the Federation,

Centres for Social Work are largely financed from municipal budgets. The benefits they are able to offer therefore depend upon the financial situation of each individual municipality. In Republika Srpska, the variation in spending levels *per capita* between the lowest and highest spending municipalities is 1:10, although for those who do receive benefits, the monthly payment is the same across the entity (KM 40). In both entities, there are laws setting out clearly who is entitled to social welfare, but the percentage of those who actually receive a benefit varies with local conditions. Not only does this produce highly inequitable outcomes; it also means that the limited staff resources of the Centres for Social Work are consumed by assessments, which may bring no benefit to the citizen.

3.3. The Example of Post-Industrial Republika Srpska

It is common to hear both Bosnian and foreign commentators attribute problems of governance in Bosnia to the complex constitutional system, with its decentralisation and institutional duplication. The case of Republika Srpska provides a useful counter-example to this idea. As a unitary entity, Republika Srpska is not burdened with a complex constitutional structure. Social and economic policy rests in the hands of a single administration in Banja Luka. Yet the government of Republika Srpska seems largely paralysed in the face of the economic and social problems engulfing the entity.

In Republika Srpska, the trajectory of de-industrialisation has been much steeper than in the Federation. Republika Srpska was denied the cash injection of international reconstruction aid for the first years after Dayton. In 1999, when aid began to flow, it managed a slight recovery, before slipping back into recession (IMF 2002:5). Some companies managed to re-start production, but few succeeded in bringing their product to market. Industrial output was achieved through the accumulation of debts, mainly in the form of unpaid taxes, contributions and utility bills, all of which end up on the public budget, and through wage arrears. Companies accumulated 2 KM in debts for every KM they paid out in salaries. Industrial output fell by 14 percent from 2000 to 2001 (IMF 2002:5), as companies became too insolvent.

Not surprisingly, privatisation in these conditions has proved next to impossible. There were 66 large companies in Republika Srpska which entered the privatisation process with more than 400 workers. In the first three years, no more than five managed to attract a serious buyer, whether domestic or international, who was willing to pay cash for the company and invest further funds in production. As a result, Republika Srpska has disastrously low employment figures. In 2002, 232,700 people were

registered as employed.[24] More than half of them work for the government or in public companies. There are only 48,800 jobs left in the former socially owned sector, even though the liquidation of defunct companies is yet to begin. The new private sector is small in scale, dominated by traders and retail services. With no more than 60,000 registered employees, its capacity to absorb redundant industrial workers is minimal (RS Institute of Statistics 2002:46). Compared to official employment numbers, Republika Srpska's social burden is large and growing. There are 217,600 pensioners (RS Institute of Statistics 2002:46), 84,000 families on child welfare benefits and 92,700 war invalids and families of fallen soldiers (PRSP Team 2002:30). There are also 100,530 registered "social cases" (World Bank 2002d:81)[25] and 143,800 officially unemployed (RS Institute of Statistics 2002:33), although only a handful of these receive regular benefits. The massive imbalance in these figures makes it clear why Republika Srpska is struggling to provide social benefits.

Beneath these bleak outlines, however, it is remarkably difficult to find any reliable data about how people live in Republika Srpska. In this post-industrial society, citizens have become isolated from the state. Forced to pursue survival strategies outside the formal economy, from subsistence agriculture to black-market trade, they do not contribute to public revenues and receive little in the way of public services. They have become, quite literally, invisible to the state. The most dramatic sign of this is the uncertainty over Republika Srpska's population. The official figure is 1.47 million. However, one Bosnian demographer has convincingly challenged this, estimating the real number to be as low as 1.06 million.[26] There can be no clearer evidence of low governance capacity in Republika Srpska than the fact that the entity cannot ascertain its own population within a margin of 40 percent. With such uncertainty, all other socio-economic data, from unemployment rates to poverty estimates, are almost worthless. For example, it is commonly said that *per capita* income in Republika Srpska is significantly lower than in the Federation. However, as table 4 shows, depending on the population figures used, citizens in Republika Srpska could be anything from 30 percent poorer to 9 percent wealthier than in the Federation.[27]

24 RS Institute of Statistics 2002; World Bank 2002b; PRSP Team 2002; UNDP 2002, Annex III: Social Sector.

25 This includes 100,531 cases registered with the municipal Centres for Social Work and 84,000 beneficiaries of child welfare payments.

26 See UNDP 2002, Annex II, quoting studies carried out by Ilijas Bosnjovic.

27 The international community in Bosnia has resisted the idea of holding a census in BiH, for fear that it would be seen as marking the end of the refugee return movement and somehow legitimise remaining ethnic divisions.

Table 4: Per capita GDP in 2001 under different population estimates

	Population estimate	GDP (mil. KM)	GDP per cap. (mil. KM)
Federation			
Central Bank figures[28]	2,822,862	7,224	2,559
Statistics Institute figures[29]	2,318,972	7,224	3,115
Republika Srpska			
Statistics Institute figures	1,449,477	2,978	2,055
Unofficial estimate	1,066,324	2,978	2,793
Bosnia-Herzegovina			
High case	4,272,339	10,202	2,388
Low case	3,385,296	10,202	3,013

One attempt to fill the gaps in the official data was the Living Standards Measurement Survey (LSMS), which surveyed 2,395 households across 11 municipalities in Republika Srpska in 2001. In this relatively small sample, 36 percent of all employment was in the "grey economy" (World Bank 2002b:xi). This has led some observers to conclude that unemployment across the country is far less severe than the official statistics indicate. However, most of the "grey economy" is simply the survival strategies of those who have been forced out of regular employment. It includes some unregistered employment in private business (without social contributions or health insurance) and informal trading activities. The largest part of the "grey economy" (47 percent), according to LSMS data, is subsistence agriculture. What appears to be happening is that many of the families who first moved from agriculture into industrial employment in the 1960s and 70s are now forced to return to the villages and lifestyles they abandoned a generation ago. For many people, the preferred option is to emigrate or, in the case of the displaced, never to return.

4. Post-War Policy Making: A Case-Study of Land Allocation and Development Planning

The previous two sections have concentrated on the social and economic context of governance in Bosnia – what we call the crisis of industrial society – and the objective constraints it creates for the operations of government and the

28 Central Bank of Bosnia-Herzegovina 2002:45.

29 Federal Statistical Agency, www.fzs.ba.

delivery of public services. ESI conducted various case studies of how public institutions reacted to this crisis in a number of specific policy areas in recent years, ranging from industrial policy, education and social policy to agriculture politics, management of natural resources as well as land allocation and planning of post war development. Each of these case studies investigates the relationships among different actors – public administrations (ministries, municipalities); independent agencies (privatisation agency, forest agency); public enterprises (both industrial companies and utilities); and the private sector – and how the interaction between them affects governance outcomes.

Based on this investigation, we identified some very serious shortcomings in the present system of governance in Bosnia-Herzegovina. A number of key *governance capabilities* – attributes recognised internationally as constituting basic building blocks of an effective, democratic system of government – are clearly absent from Bosnia today.

- Many important social groups, particularly the poor and the rural population, have limited opportunities to influence the formulation of public policy and government practice.
- Public policy in key development areas (industrial, rural or social policy) fails to facilitate private-sector investment or to promote the growth needed to reduce poverty.
- The pattern of public expenditures is not pro-poor; on the contrary, it is notably regressive in favour of the more privileged social groups and areas with large concentrations of civil servants.
- The objective of equitable and universal provision of effective basic services appears ever more remote.[30]

In the absence of these key capabilities, governments in Bosnia are manifestly failing to mount an effective response to the social and economic crisis which is presently unfolding. It is this lack of capacity that now poses the principal threat to the Bosnian state-building project.

Each of the above policy areas is crucial for the further development of Bosnia. This article will just select one area and focus on land allocation and its significance for planning post-war development. This policy area is especially linked with the question of a) how to deal with the direct consequences of war (migration and displacement of huge parts of the population) and b) how to fulfil the requirements of the Dayton Accords with respect to refugee return.

30 DfID has proposed a set of seven "key governance capabilities". In addition to the four mentioned above, they include ensuring "personal safety and security with access to justice for all", "accountable national security arrangements" and "honest and accountable government that can combat corruption" (Beetham/Bracking/Weir 2000).

Effective planning of land use is a key function of any government. Effective spatial planning polices are also crucial to the improvement of the business environment, particularly for small and medium enterprises. In the socialist system, land management, urban planning, infrastructure and housing policy were dominated by the needs of the socially owned sector. There were always insufficient provisions for private housing and private business development. There was also, as a result, a widespread culture of disregarding planning controls. Planning was a top-down process, where central planners determined the location of apartment blocks and socially owned enterprises. It was not a responsive system to reflect demographic trends and patterns of development in an independent new private sector.

Planning in a democratic and free-market environment, where people make their own choices where to live or found a business, raises unfamiliar challenges for Bosnian post-war institutions, used either to the command-and-control planning of a socialist industrial economy or to no planning at all. The last major planning exercise in Bosnia-Herzegovina was carried out in the mid-1980s. Since then, there have been radical changes in the economic system, in the industrial base and in the population distribution, and most existing plans are severely out of date.

In the post-war period, the question of planning also became directly linked to one of the largest *social* issues: the problem of finding housing for displaced persons unable or unwilling to return to their pre-war homes.

4.1. The Displaced and Post-War Politics

Studies on the post-war social environment all concur that displaced persons constitute the most vulnerable group in Bosnian society. A poverty profile prepared as part of the Poverty Reduction Strategy Paper found that displaced persons are "considerably more susceptible to poverty than the population that was not forced to move" (PRSP 2002b). The Living Standards Measurement Survey found that displaced persons constitute 45 percent of the extremely poor in the Federation, and 21 percent in Republika Srpska (World Bank 2002). A social capital study commissioned by the World Bank in February 2002 found that displaced persons have an unemployment rate of 37.6 percent, compared to 24.5 percent among permanent residents (including returnees) (World Bank 2002:21). If they are working, they are twice as likely to be in insecure, informal employment. In most parts of the country, they have no access to social benefits.

In the bleak economic conditions, which prevail across much of the country, families with housing of their own can scrape by on irregular income patched together from different sources. Those without permanent accommodation may be unable to pay for housing on the open market, and are at risk of falling below

the minimum conditions for survival. For this reason, housing has become a dominant issue in local politics across the country.

From 1997 onwards, municipal governments were elected by communities where displaced persons with genuine humanitarian needs figured prominently. Many of them were unable or unwilling to return to their pre-war homes. As international support was concentrated on returnees, municipal authorities came under strong pressure to provide for the housing of displaced persons who wished to stay. Whatever their ethnicity or political orientation, authorities across the country considered it legitimate, and indeed imperative, to help displaced persons to resolve their housing problems. However, in most places, the means available to local authorities for conducting a social housing policy were extremely limited. Outside Sarajevo Canton and Herzegovina, where stronger public finances have allowed for a limited programme of publicly funded housing construction, most authorities did not have the resources to build any new housing.

4.2. Land for Free

The one resource that appeared plentiful at the local level was socially owned land. Authorities across the country therefore resorted to allocating land free of charge to displaced persons, to allow them to construct new houses. Under modern conditions, resettlement programmes absorb huge public resources. The only authority in post-war Bosnia-Herzegovina with the financial means to attempt to undertake a major resettlement programme for reasons of *ethnic* politics was the Croat para-state of 'Herceg-Bosna', using resources provided by the Croatian government. Money from the Croatian Ministry of Defence financed the creation of new settlements along some strategic transport routes running south of Mostar towards the coast, and around militarily significant assets like Mostar airport and the Vitez explosives factory. One of the settlements in Capljina municipality, Suskovo Selo, was named by its residents in honour of Gojko Susak, the wartime Croatian Defence Minister and chief architect of the resettlement programme. The building programme was closely coordinated by the Croatian Ministry for Reconstruction and Development, which donated large amounts of construction material according to detailed, annual operational plans.[31]

The bulk of the Croat settlements are concentrated in the triangle Mostar South-Stolac-Capljina. It is estimated that around 4,200 plots of land have been allocated across Herzegovina-Neretva canton.[32] Many of the settlers are Croat, displaced persons from Central Bosnia and Bosniak-controlled parts of

31 See, for example, Republic of Croatia, Ministry for Development and Reconstruction 1997.

32 Estimates provided by OHR-RRTF Mostar.

the Neretva valley, with a high concentration of war veterans. However, if the settlement programme was intended to create a string of fortified towns to guard the borders of a Greater Croatia, it has proved a failure. Stolac and Capljina have both seen sizeable return movements, with more than 1,800 Bosniaks and 1,500 Serbs registered as living in the two municipalities.[33] Across Herzegovina, new settlers are living in close proximity to returnees, with few signs of tension. Instead they are suffering from an absence of employment opportunities in their new homes. Some settlements, although created only a few years ago, are already losing population, with people leaving for Croatia.

In Republika Srpska, the financial resources that allowed the resettlement of internally displaced persons were never found. Instead, after the international community forced the adoption of laws on the return of minorities, the government of Milorad Dodik promised that plots of land would be allocated to all Serbs who faced eviction from temporary accommodation and wished to stay in Republika Srpska.[34] He announced in 1999 "this year there will be a programme of building 10,000 housing units to resolve the housing problem".[35] The question of how all this new housing construction would be funded, however, was never resolved.

Republika Srpska was receiving emergency budgetary support from international donors at the time to keep the government afloat. It had no scope within its own budget to invest in building programmes. The only resource that seemed cheap and plentiful was land. Empty construction land on the outskirts of urban areas and farmland abandoned after the collapse of socially owned agricultural combines were at the disposal of municipal authorities.

The Dodik government's solution was to authorise municipalities to grant this land free of charge to displaced persons, so they could build houses for themselves. On the surface, this looked like a cost-effective solution to the housing problem. In reality, creating new urban areas generates huge infrastructure costs. In this case, these were left to the municipalities or deferred to the future. An Instruction signed by prime minister Dodik on 20 August 1998 elaborated the procedure. The municipalities were responsible for drawing up technical documentation and providing access roads. The usual fees on the allocation of land were waived. It was left to each municipality to decide how much land to allocate to displaced persons, according to its assessment of its own needs.

33 UNHCR, "Recorded minority returns from 01/01/02 to 31/07/02 in Bosnia and Herzegovina" & "Returns summary to Bosnia and Herzegovina from 01/01/96 to 31/07/02", www.unhcr.ba. This represents approximately 15 percent of the pre-war Serb and Bosniak population.

34 See, for example, interview in Reporter, 28 February 1999.

35 Glas Srpski, 29 January 1999.

Based on partial surveys carried out by international agencies and data collected from the municipalities themselves, it appears that just under 20,000 plots of land have been allocated across Republika Srpska between 1999 and 2003. However, beyond distributing land, the RS government was able to contribute only modestly to the costs of building houses. It prepared a plan for the distribution of 1,600 packages of bricks, cement and roof tiles valued at KM 8,000, providing around a quarter of the material needed to construct a typical family house. The total cost of the programme came to KM 13 million in materials, plus several million more in transport costs. Only six percent of all those allocated land plots across Republika Srpska received a donation of building materials from the government. The vast majority were forced to rely entirely on their own resources to construct a house. Those who managed to sell a property in one of the Federation's urban centres during the post-war real-estate boom may have earned enough to build a house. However, a substantial majority of displaced persons in the RS are living in dire economic conditions. It is therefore not surprising to find that, based on the limited available data, only a minority of the land plots allocated by municipalities in Republika Srpska are actually under any form of development.

From the perspective of the government of Republika Srpska, the policy of distributing land has had limited success in resolving housing problems. Of the original 415,000 displaced persons in RS, only 6,500 families have begun building on a land plot by the end of 2002. At the same time, land allocation has generated large contingent liabilities against municipal budgets, in the form of public demands for infrastructure, which are likely to take many years to clear.

Even Sarajevo Canton, which has more resources at its disposal than governments in other parts of the country, had limited ability to implement a public housing policy through the construction of new housing. Most of its programmes have been directed towards helping war invalids and the families of fallen soldiers. According to the Ministry for Veterans Affairs of Sarajevo Canton (Ministry for Veterans Affairs 2002), 955 new apartments have been constructed with public funds over the years 1999–2002, including 160 for war invalids and 450 for demobilised soldiers. The Ministry has also donated 749 packages of building material to veterans, valued at around KM 6,000 each. In addition, the Canton Sarajevo Fund for Housing Construction has extended 120 long-term housing credits for building purposes.

In Sarajevo, the political leadership also permitted large-scale housing construction for displaced persons who wished to stay in Sarajevo. In 2002 the canton was host to around 72,000 displaced persons, making up 18 percent

of the post-war population of 400,000[36] of whom 75 percent originate from Republika Srpska (Sarajevo Canton Government 2002:5). The population of the canton had fallen by at least 60,000 since 1991, and there is now more housing space per head than before the war. However, population displacement has led to distribution problems, with post-war family sizes lower and many apartments standing vacant. Housing prices in Sarajevo are high, though, depending on location. With little commercial housing finance available, buying property is beyond the reach of most people. As a result, the Cantonal Ministry for Housing Affairs estimated that there was an unmet demand for around 20,000 new housing units in Sarajevo in 2002.[37]

In addition to reconstruction the greatest growth in Sarajevo's housing stocks since the war has therefore occurred through the resumption of illegal construction of individual houses. Although there is no official data available, various informed sources estimate that there may be as many as 20,000 housing units constructed illegally across the canton since 1996.[38] The social costs of illegal construction can be vast. New housing is being built on unstable slopes, in water catchment areas and in the protected zone around Sarajevo airport. There are even reports about new housing above the main gas pipeline into the city, and in other areas reserved for infrastructure development. As was the case before the war, the authorities are unable or unwilling to enforce planning controls, and there has been no demolition of illegally constructed housing in Sarajevo.

In summary, across the country, the distribution of free building land to displaced persons has not proved to be an effective housing policy. In Republika Srpska, the cost of supplying infrastructure to the new housing areas – including preparing the land plots, access roads, water and sewerage, electricity and telephone connections – was left to the municipalities. However, under the 1998 regulation, the municipalities were required to waive the revenue, which would normally be used to fund the development of the land. By waiving this fee, the full cost of infrastructure development had to be borne by the municipal budget, or charged to the land plot

36 The official population figure published by the Federation Statistics Institute is 400,498. However, the Institute acknowledges that this figure is an estimate, as there is no reliable way of tracking continued urbanisation, the return of displaced persons out of the canton or emigration in the post-war period.

37 Interview with Suad Dzindo, Deputy Minister for Housing Affairs, 12 October 2002.

38 Interviews with Suad Dzindo, Deputy Minister for Housing Affairs, 12 October 2002; Fatima Hadzibegic, Deputy Federation Minister for Urban Planning and the Environment, 14 April 2002; Nazif Babaic, Deputy Mayor of Ilidza, 13 April 2002; Ljubisa Markovic, Mayor of Sarajevo Centar Municipality, 20 November 2002. The Institute for Architecture, Urbanism and Spatial Planning has data on 12,000 new houses, most of which are illegally constructed, but believes the real figure may be much higher (Institut za Arhitektura 2002).

beneficiaries themselves in the form of connection fees.[39] As a result, infrastructure connections are being developed very slowly, as and when the means allow.

Even in Sarajevo, the chaotic development of large-scale illegal construction places enormous strains on the infrastructure of the city. According to the municipality of Ilidza (2000), "the building of such a large number of illegal objects, which after construction are connected to existing infrastructure, places at risk the functionality of that infrastructure". This severely compromises the ability of the cantonal authorities to plan for or finance future infrastructure development. Connecting wild settlements after the event is considerably more expensive than planning the infrastructure in advance.

4.3. The Absence of Democratic Planning

Spatial or regional planning goes beyond the issue of land use control. One of its purposes is to control patterns of development so as to minimise infrastructure costs, and to maximise the return on public investments. In Bosnia-Herzegovina, the lack of effective systems for planning and financing infrastructure development is bringing existing infrastructure systems to the point of collapse.

The problem of illegal construction is an old one in the former Yugoslavia. Official housing policy centred around the construction of apartments by socially owned enterprises for their employees, and was never sufficient to meet the pressures of rapid urbanisation. The authorities therefore turned a blind eye to the practice of illegal construction. By 1991, the city of Sarajevo was surrounded by a ring of more than 40,000 illegally constructed houses,[40] taking up more than 3,000 hectares of the city's most valuable construction land (Institut za Arhitektura 2002:15). Approximately every decade, the authorities initiated procedures to legalise the new situation.

In the post-war period, the system of development planning has decayed even further. Most municipalities do not have the basic information on demographics and housing stocks which would enable them to assess their long-term housing needs. Urban planning systems are not functioning effectively, and the problem of illegal construction is rampant. Many municipalities complain that they do not have the resources to undertake expensive planning exercises. However, without proper planning, they are unable to use their scarce capital budgets effectively.

39 An exception is Srpsko Sarajevo (principally Pale, Srpsko Novo Sarajevo and Srpska Ilidza), where the beneficiaries were required to pay for the land in instalments over ten years, with a three-year grace period. The City of Srpsko Sarajevo obtained a credit from FRY which enabled it to undertake some of the necessary infrastructure development in advance; information from Srpsko Sarajevo officials.

40 Information provided by the Sarajevo Cantonal Ministry for Urbanism.

Developing a functional system of democratic planning in Bosnia, which addresses the need for new housing policies, sustainable infrastructure development and a new system of land tenure, is thus an urgent requirement. The problem is that any real process of reform must involve not just the entities and the state, but also municipalities and Federation cantons, as the levels of government most directly involved in land use and planning matters. At this moment there is no forum for representatives of the state, cantonal as well as entity ministries of urban planning, representatives of municipal associations from both entities, and experts in the areas of planning, infrastructure, land use and finances. There is nothing similar to the German Spatial Planning Advisory Council (*Raumordnungsbeirat*), established under the German Spatial Planning Act (Alterman 2001:139), a body made up of representatives and experts from municipalities, the spatial planning ministries of the *Länder*, urban development interests from the private sector and civil society and employers' organisations and trade unions.

Planning and land-use policy affects the economic prosperity of an area, and cannot be viewed as an isolated function of any single public agency; it is inherent in all governmental activities. Planning policy "is the product of a long process of bargaining, negotiation and political compromise that encompasses the views and activities of a wide range of organisations, including central government, local planning authorities, statutory bodies, the market and the public" (Tewdwr-Jones 2002:8). In Bosnia, however, a strong constituency for planning and land use practices is yet to emerge, despite the obvious benefits it would offer.

4.4. The Lack of Information

One of the most important discoveries of this governance assessment was the striking absence of reliable information on matters of public policy in almost every policy sphere. Government in Bosnia operates without a solid base of information on what is happening in society. A detailed age and gender breakdown of population forecasts is needed if local authorities are to plan their public services efficiently. School enrolment rates have implications for staffing levels in schools and for school buildings, and a detailed occupational breakdown of workforce forecasts is needed if establishments of further education are to develop appropriate training programmes. A detailed breakdown of industrial output is required if authorities are to undertake effective industrial policies.

One of the most striking problems in Bosnia is the absence of a census. A census was deferred in the post-war period due to the high level of internal displacement and the on-going process of return. With property repossession now complete, Bosnian governments urgently need an accurate picture of the post-war population. However, there seems little interest in pursuing the matter. The

lack of demographic data feeds into a lack of reliable information at all levels of government. Public institutions are operating in an information vacuum, cut off from the social groups they are supposed to serve. As a result, many of their policy choices are strikingly detached. This also makes it difficult for citizens to judge the performance of government by tracking the impact of social services, or comparing the performance of different public institutions. As the former director of the World Bank Operation Evaluation Unit noted:

> "Social learning cannot take place without institutions that can channel public protest into responsive shifts of public policies. That channelling is done through the *generation, dissemination and interpretation of information* that promotes public understanding of policies and programs… Public protest and participation transform the energy of disappointment into reform, when evaluation lends a helping hand" (Picciotto 1994:219).

The shortage of information in Bosnia is not primarily a problem of *supply,* however. The results of investigations, fact-finding missions or institutional audits undertaken by foreign or local consultants in the post-war period add up to a substantial body of knowledge. The problem is in the way this information is used within the policy process – in the *demand* for information. Across the different areas we have examined, there is a remarkable absence of goal-oriented approaches to solving real-world problems. This is a reflection of a profoundly distorted political process, which generates little demand for tangible social and economic policy outcomes. In contemporary Bosnia-Herzegovina, reform debates tend to be so superficial that policy makers have little need for reliable information.

A critical part of the daily task of all public institutions in a democracy is the gathering of the information they need for their operations. Only where government interacts on a daily basis with different social groups, and interest groups press information on the government as part of advancing their interests, will the business of government naturally generate information. The shortage of information in Bosnia is above all a sign of the passivity of government and the weakness of interest-group politics.

5. Conclusion: Resisting the Authoritarian Temptation

Observers of government in Bosnia typically begin with the question of *structure*: whether or not the constitutional design that emerged out of the compromises that ended the war is conducive to effective governance.[41] The research for

41 There were three main steps: the Washington Agreement 1994, creating a Federation of cantons; the Dayton Agreement 1995, which turned this Federation and Republika Srpska into two units of a federal state; and the Brcko Arbitration in 2000, which added a "District" as discrete unit.

this project, however, produced two important findings which challenge this conventional approach. First, there are clear continuities between problems of governance found in the former socialist Yugoslavia and those in Bosnia-Herzegovina today. Second, problems of governance in Bosnia are remarkably consistent across different regions and layers of government, despite wide variations in constitutional architecture. If similar dynamics can be seen in the multi-tiered Federation, in unitary Republika Srpska and even in the District of Brcko, which operates under international control, it suggests we need to look beyond the formal structures to patterns of behaviour, which run deeper than the shortcomings of the constitutional settlement.

At the heart of the Bosnian governance problem – from social policy to natural resource management, from rural development policy to debates over the most appropriate way to spend scarce education resources – lies the lack of engagement by Bosnian citizens and interest groups in the practice of government. Just as a company without the interest of an owner will not use its assets wisely, public institutions that are not subject to constant pressure from citizens exerted through the democratic process will not respond to the needs of the public effectively.

There are many objective reasons for this lack of popular involvement. One is sociological: a society that has suffered so extensively from massive displacement sees many pre-war social networks disrupted. The other is institutional: not only are most of the Bosnian government institutions a recent creation – every ministry in the country above the level of municipal government is a wartime or post-war creation – but the continuous changes of the institutional landscape and the lack of clarity about responsibilities and division of labour between different levels of government all render attempts by citizens or interest groups to influence the policy process extremely difficult.

However, despite the massive displacement of people and the complete novelty of almost all institutions, the most striking feature of Bosnian governance today is not discontinuity and disruption but continuity: the striking similarities both in policy debates and actual policies implemented between the present and the pre-war socialist past. The most striking continuity concerns the most basic understanding – in the eyes of a significant part of the country's political and intellectual elite – of what good governance actually means. Faced with the enormous problems of today, an important part of the Bosnian elite is giving in to an authoritarian temptation – the belief that policy (mainly understood as legislation) can best be formulated outside the political process, and imposed on society without the participation of stakeholders.

This way of governing has deep roots in the former Yugoslav system. It has been reinforced by developments in the post-war period: the overwhelming economic dependency on outside funding, the youth and institutional weakness of public institutions, the preoccupation with interethnic issues (often reduced to the question of where public sector jobs are to be located) and the availability of outsiders prepared to take responsibility for hard political decisions. Many factors combine to feed this authoritarian temptation. There is a long tradition of top-down development, where decisions were taken by outsiders rather than by a domestic entrepreneurial or political class. This leaves an expectation that real development will also have to arrive from outside. There is a lack of tradition of participatory politics in Bosnia. Interest groups have been slow to develop.

Both the Yugoslav socialist tradition and, ironically, the international mission in Bosnia extol the role of the expert as a qualified *outsider* whose expertise allows him to identify the public interest without needing to go through the slow and painful process of debate, compromise and constituency-building. This assumes that the public interest *can* be objectively determined, rather than being the outcome of a process of bargaining and balancing among the different interests of many groups. The practical result of this authoritarian temptation is a striking passivity of citizens, interest groups, politicians and – in the final analysis – the public sector as a whole.

Bosnian society faces overwhelming problems associated with structural economic legacies inherited from both the pre-war past and the war itself, which constrain what any government can possibly achieve and deliver. Most citizens see public institutions as self-interested, even parasitic. As we have seen, there is a marked tendency of many public and semi-public institutions to cling to their privileges, allowing public resources to be wasted and public services to decline, while deferring difficult decisions and pushing costs and problems into the future. This, however, is reaching its objective limits. A society which allows its public assets to be run down as soon as they have been reconstructed, which invests little in the education of its future work-force, which spends its resources on (public sector) consumption and which fails to develop policies that might allow the economy to catch up with its regional competitiors is not on a sustainable path, however many reforms are accomplished on paper. The looming public finance crisis, if it is to be mastered, will create an even bigger need for a negotiated process of adjusting the use of scarce public resources. Alternatively, it could reinforce the temptation of those who still benefit under the present system to shield the present, highly inequitable and inefficient distribution of public resources from *political* pressures.

Bosnian governments will need to find ways to increase their effectiveness dramatically, without consuming more resources. The Yugoslav system of government distributed important public functions across a wide range of autonomous ("self-managing") institutions. It also blurred the lines of division between the public and private spheres, often mixing production, regulation and policy setting within the same institutional setting. The costs of this arrangement were readily apparent. Autonomous institutions developed interests of their own which often diverged from the public interest. In the public sphere as much as in the private economy, they tended to run down the value of their assets over time. Self-management weakened the capacity of government to control the use of public resources and to ensure they were used to further public policy. The role of the state was limited to mediation, with much of the policy or strategic policy-making capacity located outside the administration.

This legacy survives in Bosnia in numerous hybrid, semi-public institutions and agencies, from the bodies managing the country's forests, the faculties of its universities, the chambers that legally represent its businesses to the public body which in Sarajevo Canton is responsible for managing market stalls. What these bodies have in common is the right to use public resources in a non-market setting without much control on behalf of those who provide these resources. Overcoming the self-management legacy means subjecting these institutions to clear lines of authority back to an elected government, and ensuring that they are permanently accountable for their use of public resources. It also means drawing clear lines between the public and private spheres, and ensuring that commercial functions are separated from government and subject to the discipline of the market.

To improve the performance of government, the most basic premises of Bosnian politics need to change. There would need to be an open discussion of what is really happening to the Bosnian economy, and a willingness to recognise the structural legacies of the pre-war mode of development. There would need to be a concerted effort to build up concrete information on what is happening in Bosnian society, from the village level to the macro-economy. Citizens would need to demand that their governments respond to their problems and new interest groups would need to begin to believe that it is worth their while to assert their interests through the political system.

Most importantly, Bosnian society – and in particular the Bosnian political and intellectual elites – would need to discard the authoritarian temptation that is such an enduring legacy of the pre-war system. The belief that good governance can be the outcome of a process of *bargaining without stakeholders* and that the public interest can be defined by bypassing elected representatives – core values

of the technocratic system of self-management socialism – had created a system of governance whose shortcomings were visible well before the outbreak of war. Until those illusions are discarded, the essential problem of the old Yugoslav system of governance would remain untouched, and the potential of Bosnian democracy to deliver good governance outcomes would appear as limited as it is at present.

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