

## UNEMPLOYMENT IN THE CONTEXT OF ORTHODOX ECONOMIC POLICY

Novo Plakalović<sup>1</sup>

### ABSTRACT

After the armed conflict in Bosnia and Herzegovina (B&H) from 1992 to 1996 has already conducted two decades of orthodox economic policy which is a key objective of macroeconomic stability. Although in this respect the good results achieved, the level of unemployment remains extremely high and among the highest in Europe. Economic policy that is based on orthodox neo-liberal recipes prescribed by IMF failed to solve the problem of unemployment of the labor force in B&H as well as in other countries of the region. The signing of the Agreement on Stabilization and Association with the European Union causes problems for local agriculture. On the other hand these treaties prevent the application of measures to support the domestic industry that could create new jobs. There is almost no space for conducting domestic industrial policy. Economic policy that is focused solely on securing macroeconomic stability hinders solving the problem of unemployment. Therefore, it is necessary for all these countries with similar economic policies to search for new, alternative or heterodox economic policies that would implement the governments in order to re-industrialization of the national economy and creating new jobs.

**Keywords:** *Unemployment, ortodox economic policy, heterodox economic policy, reindustrialization*

**JEL Classification:** *E6, E60, E61, O25*

### Introduction

In this paper, we deal with the problem of unemployment in B&H and the countries in the region. We're interested in economic policy and possible ways to overcome the acute problems of unemployment, especially of young people. Orthodox economic policy focused on achieving macroeconomic stability does not solve the problem of unemployment and at best will eventually solve it but in the extreme long term. Therefore, we emphasize the necessity of searching for unorthodox policies and solutions to give more effect to the plan of employing a vast number of unemployed labour force.

### 1. Unemployment in B&H

After the end of the armed conflict in B&H, with great financial support from multilateral financial institutions and the international community approached the reconstruction of the country, its infrastructure and economy. Much has been done in order to recover the economy and society in B&H. War, destruction and „revolutionary“ privatization of industrial enterprises has led to de-industrialization of the country and thus very slow recovery in industrial production. Inadequate privatization (incompetent new owners and speculative actions during the

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<sup>1</sup> Ekonomski fakultet Univerzitet u Istočnom Sarajevu, Full professor, gmail: novoplakalovic@gmail.com

privatization) could not contribute to employment growth. The development of the private sector couldn't have impact so quickly on job creation that would substitute a number of closed jobs, as a result of privatization.

Unemployment rate in B&H is the highest in the region. Only Macedonia has such level of unemployment.

**Table 1. Rate of unemployment by countries**

	Unemployment (%) 2014 year	Work force (%)
Albanija	16	55
B&H	28	-
Croatia	17	-
Macedonia	28	28
Monetenegro	19	30
Serbia	22	33
Slovenia	10	38
Bulgaria	12	37
Romania	7	3
Hungaria	8	40
Greece	26	23

**Source:** World Development Indicators, World Banka, 2016

According to the records of official statistics in 2002 in B&H was 41.1% of the unemployed. After the monitoring methodology of unemployment changed and unemployment statistics monitored on the basis of surveys that anyone who is doing anything or is employed in the informal sector of the economy cannot be treated as unemployed. That's why in 2006, unemployment is 31.1%. A review of trends in unemployment can be seen from the following table.

**Table 2. Rate of unemployment in B&H** (%)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Rate of unemployment	31,1	29,0	23,4	24,1	27,2	27,5	28,0	27,5	27,5	27,7	25,4

**Source:** Bulletin of the Central Bank of Bosnia and Herzegovina, no. 2, 2016.

**Table 3. The structure of employees by activity :**

Employees by activity in %	2013	2016
Agriculture	18,9	18,0
Industry	29,8	31,2
Services	51,3	50,8
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

**Source:** Bulletin of the Central Bank of Bosnia and Herzegovina, no. 2, 2016.

Although parts of the joint State in two entities B&H (Republic of Srpska and Federation B&H) which have their own responsibility for economic development situation is not the same in terms of the relative importance of specific economic sectors both in the overall economic potential and capacity for employment.

Employment structure by activities in entities gives the best picture of the structure of the economy.

**Table 4. Structure of employment by sectors of economy**

Employees by activity	Republic of Srpska				Federation B & H			
	2006	%	2015	%	2007	%	2015	%
<b>Total</b>	<b>248 139</b>	<b>100,0</b>	<b>245 975</b>	<b>100,0</b>	<b>413 676</b>	<b>100,0</b>	<b>450 121</b>	<b>100,0</b>
Agriculture	8 340	3,4	8 345	3,4	7 805	1,9	7940	1,8
Manufacturing industry	59 114	23,8	49857	20,2	81 383	19,7	86 428	19,2
Tourism and catering	16 730	6,7	11 602	4,7	17 180	4,1	20 636	4,6
Financial activity	2814	1,1	5 608	2,3	8 723	2,1	10 256	2,3
Professional, scientific and Technical activity	6 566	2,6	7 130	2,9	9 996	2,4	13 877	3,1

**Source:** Statistical Yearbook of the Republic of Srpska, in 2016. Statistical Yearbook of the Federation of BiH, in 2016.

In the Republic of Srpska 2006 were 144 106 unemployed whereby over 54 thousand of people were trying to find job for more than three years. In 2016, out of 135 585 unemployed persons 72 088 were seeking job for more than 3 years. Unemployment among young people in B&H is valued at around 60% and is again among the highest in Europe.

The average salary in the public administration and social insurance in 2016 is around 550 euros and in the manufacturing industry around 300 euros. Higher average salaries are only in the financial services sector and is around 630 euros.

## 2. Economic policy in service of employment

In B&H there is no own economic policies of constituent entities or State. Economic policies have been replaced with “Program of economic reforms”. ([www.ekapija.com](http://www.ekapija.com)). In this way disclaims the need to maintain our own economic policy in the belief that the free market and the private sector will lead to full employment and general welfare. Faith in the free market was the starting point for the spread of globalization and the liberalization of all kinds (except freedom of labor flow).

In the world, the current inverse processes of globalization or in public discourse, are marked as *de-globalization*. This means that gradually comes to the reaffirmation of national state and national interests of the dominant economic interests and efforts that national states are starting to take more account of its own objectives and with the desire to increase the welfare of the nation.

Economic development and more intensive employment will be exclusively provided by industrialization of a country. New jobs can be opened only in the industry in which it is possible to increase productivity and hence national income. The development of modern industry is based on technological development and innovation.

The dominance of technology is related to science and economic theory innovation (Freeman c. (1982). Nelson and Winter (1982) emphasize competitive contest between innovators and imitators, the impact of government policy, which determines the nature of competition and the relationship between innovation and price performance in the industry. Lundvall B-A (1992,

2008) says that the national systems of learning and innovation are necessary regardless of the processes of globalization and innovation that make all states “little”. Justman M. & M. Teubal (1993) provide integral view of 'structuralist' prospects of economic growth and development. It is contrary to the current "mainstream" orthodoxy or views of neoclassic. The economic success of newly industrialized countries is based mainly on the adoption of technologies from developed countries. This was the necessary in entrepreneurship which was taking a risk, effective learning and innovation that what is framed in “theory of assimilation”. (Kim I. Nelson r. 2000. p. 2). The success of Asian countries is not just a result of investment in physical and human capital but it was the result of learning, entrepreneurship, and innovation which made them from copycats in the 60 's to innovators in the 90 's. Reducing the technological gap requires constant efforts on the supply side to adjust and improve the use of capital equipment and sequential development of various forms of tacit learning and growing, along with the transfer and acquisition of foreign technology. In addition to the expansion of employment, together with the growth of labor productivity related to the diversification of the economy, expansion of highly technological activities and export dynamism and, consequently, domestic and international demand.

Markets alone are not enough to their transition and switching from production of primary products towards products of higher stage of processing or new products. Markets alone cannot provide sufficient incentives other than short-term private profitability, in terms of the incentives that are needed for the productive continuation. Rodrik (2013. p. 138) believes that the latest entrepreneurial activities in the world have their roots in the *proactive* government intervention. None of the newly industrialized country or Asian Tigers did not achieve success without an extremely active state and its effective influence (Japan, China, South Korea, Taiwan) which were dedicated to economic diversification and able to empower its private sector.

All the domestic development process in B&H as well as in other countries of the region, is based on the orthodox macroeconomic stabilization policy, foreign direct investments that have *otherwise* been totally inadequate in relation to the expectations and endogenous development of the sectors of micro, small and medium-sized companies which help provide some of the many non-governmental organizations (no one knows how many are active in B&H but it is assumed that there are 12000 registered). The fact is that the countries in the region imposed or lifted the ability to created development policy and to freely use different strategies. Estimates of policies and institutions of the country which is under the supervision of international financial organizations leads to 'socially remains subordinated to economic imperatives of stability ', balance and encourage the private (and foreign) sectors' (Ван Вејенберге, 2010. P. 120). Standard economic policies for transition economies of the European periphery, very effectively solves the problem of economic stability but does not solve the acute problem of unemployment. Such economic policy does not encourage economic growth. After the crisis rates of economic growth in B&H can range from negative growth rates in some years up to a rate of about 1% per year.

The role of international financial institutions, as the major 'producers of knowledge', that scientific value is „neutral”, that is, objective, identify, codify and transmit experiences related to the development of the whole world has made the ability to analyze the policies of countries with low income levels, and especially in our country, completely eroded. ([Gerard J. van den Berg](#), 2010. P. 125.). Our education is not helpful to overall economic and social development but rather leads, let us use the Eric Reinert phrase (2006, p. 68), in the direction of “technological dead end”. That, observed insolated, would not help to solve big, almost unsolvable,

developmental problems, at least in the short term. Since the domestic economy, for a variety of reasons, is almost completely de-industrialized that “surplus” university educated citizens are increasingly seeking job abroad with a prospect even more intense brain drain.

Unemployment is not solved by foreign investments. Domestic production and service sector can not absorb the labor force which is why almost the same unemployment rate are held twenty years after the armed conflict. Surplus labor necessarily emigrates to neighboring countries or countries where there is a demand for foreign labor. Countries of emigration become dependent on remittances which migrants send to their families. In addition to other problems such country is faced with the consequence that it could not develop such a structure of the economy that would employ all its citizens. In the long run this form stops the development of the country, because it does not encourage local elite to invest in economic structure that could employ all unemployed citizens. Instead, the development is uneven and does not deal with the problems that encourage workers to emigrate. " (Turner J. 2009. s. 459.). Remittances that in significant proportions come from abroad are again largely returned to the countries from which they come through the purchase of imported goods from Western Europe.

Regardless of the existence or non-existence of formal economic policy the Government always withdraws a number of moves and undertake different measures in the context of resolving the pending issues thereby becomes *an implicit policy* of presenting the result “of the final sum of the many policies and tools that no one group or organization does not understand, nor good controlled” (Fairbanks M Lindzej s. p. 179.). Good national strategy is based on the information, achieve a balance between the past and the future, require integration, opening up numerous opportunities and provide concrete choices. When States fall on those tests, there is confusion and gets the unpredicted results (Plakalović N. 2015.)

### **3. What are alternative measures of economic policy?**

The problem of keeping economic and development policies in countries that are at a lower level of economic development or not industrialized countries is that they must unwillingly or willingly rely on *the mainstream* economic paradigm. These “theories” do not always correspond to, or better to say, cannot be sufficiently understood, respond and tolerate idiosyncratic character of individual national economy and serve the progress of these countries. Therefore, Dani Rodrik says that it is desirable to rely on local and experiential knowledge as an addition to economic theory. “The world will better serve syncretic economists and policymakers who can hold a lot of ideas in his head, then the 'one-armed' economists who promote one great idea, regardless of the context” (Rodrik, D.2013. p. 122.). Therefore, Rodrik goes on to and say that ' you become what you are producing' as the inevitable fate of Nations. If the country is specialized in raw materials and products of primary processing it will get stuck on the periphery of the world economy (Rodrik,D. p. 137). The country will thus be exposed to global price fluctuations and will suffer under the rule of local elites. If the country manages to break through the path to production of industrial products and other tradable goods has a chance to get closer to rich countries. This means greater resistance in world prices fluctuations and helps building a modern institutions which requires growing middle class instead of repressive that were used by elite to hide behind them (Rodrik, D. p.138.). Globalization intensifies problem for countries that are trapped in the production of raw materials and products of primary processing.

In order for the Government and local authorities act proactive need to, among other things, to apply and non-standard ways of implementing economic policies. This involves the application of various types of indirect measures to stimulate investment and development firms and sectors that show positive performance and which are estimated to be competitive on the international market. Domestic economic policy cannot rely on the standard support measures (subsidies and safeguards) sectors or industries ("infant industry"), which wants to develop.

The prospect of entering B&H to the European Union has led to the conclusion of an agreement with the Union (Stabilization and Association Agreement Process and the revised agreement) that B&H market opened for competitive goods coming from EU countries. Weak B&H market with a number of agricultural units is undefended and unprotected. Although the entry of B&H and Serbia in the EU considerable illusion (Đurković M. 2015). These countries are in a subordinate position and can't keep any of its own policies nor protect or encourage their economic activities. Signed the Stabilization and Association Agreement between B&H and the EU in its article 71 provides that State aid does not distort competition on the market. It is prohibited thus giving priority to certain companies or products to the extent that it may affect the trade between the Community and B&H. The abolition of customs duties, for example, for agricultural products from the EU, which are highly subsidized will make damage to domestic producers of milk and cattle breeders. In February 2017, is expected to import 4500 tons of milk from the EU that will be cheaper duty-free for 13 to 15 cents per liter. It is estimated that the damage caused to the domestic agricultural sector will be around 330 million euros. Import quotas will be from year to year steadily increases. ([www.rtvbn.com](http://www.rtvbn.com) 22.01.2017)

The Government must have full cooperation with the private sector and not only with companies that have new owners of former socially-owned property. Here we think primarily on companies that are formed endogenously, *de novo* (not from privatization) and of course firms from privatizations that have export performance and are competitive on the domestic market.

#### **4. How some poor countries solved unemployment**

South Africa in 1995 had a low rate of growth (about 2%) and unemployment is a huge labor force (young, unskilled and black population) with a rate of 26% and taking into account discouraged workers, the unemployment rate has reached a percentage of 40%. The choice was to pay fall to lowest levels or will be present high unemployment. The Government has chosen the high unemployment and relatively generous social welfare system. Government of South Africa, whose finance minister was well versed in the world "academic news", has provided consulting assistance of professor Dani Rodrik with his colleagues. Their proposal was an eclectic mix of politics (tighter fiscal policy that would leave the central bank room to cut interest rates and allow Rand to depreciate, the proposed temporary subsidies for jobs in order to reduce the cost to employers in hiring young people). Proposal of industrial policy was such that it probably would not conflict with WTO rules. The traditional approach is based on the selection of the sectors and support measures (customs protection, tax rebates, subsidies for research and development, cheap credit, industrial zones). Rodrik's approach was *process-oriented*. This means that they should reposition existing institutions, such as the Ministry of trade and industry or the Industrial Development Corporation, in the center of the dialogue between the business sector and the Government. The dialogue is supposed to identify bottlenecks and opportunities in industrial

activities, of which only some may be known in advance and to react quickly with different policies. (Rodrik in 2013. P. 157.)

Joseph Stiglitz (2004; p. 59.) lists examples of countries that with their smart economic policies have high economic growth, although they are categorized as poor countries (Botswana, Ethiopia). This means that such attempts may not be an impossible mission.

Some countries, however, after the collapse of socialism and the painful transition managed to recover and strengthen its economy under the baton of very active state. This is for example the case of Kazakhstan, which poverty rate since 1991 decreased from 47% to only 2.5%, the unemployment rate, from 13% to 5% and the GDP per capita rose from 302 dollars per capita to \$10,500 dollars. As a result of the comprehensive structural reforms were developed a completely new high-tech industry: petrochemical, automotive, railway engineering, information technology, production of artificial satellites. This is all the result of the successful implementation of the Strategy 2050 program of industrial innovative development. It was built and is building a large number of powerful infrastructure projects. (Kazakhstan-from poverty to 50 the most competitive country in the world, Politika 19.12.2016). The Government has made market reforms and program of diversification of economy which was basically dependent on oil and gas production (The largest exporter after the Russian Federation). The government implemented an interventionist strategy of diversification of industry and invested billions of dollars in industrial policy program with quality objectives and development priorities and potential resources for achieving diversified and competitive economy. (Wandell J. 2015. p. 97). It's about indirect industrial policy that is favored by Hausmann-Rodrick (2003) and Joseph Stiglitz. This policy is half way between the free market and rigid state dirigisme which forms the sectoral composition of economy on a balanced partnership between the public and private sectors. The role of the State was to facilitate, coordinate and risk-sharing tasks.

Dialogue between the Government and the private sector, whose base must be Rodrik's strategy 'stick and carrot', 'carries the risk of private sector activity in the direction of playing the game with the government with goal to get rents. (Bomol v. 2006. s. 55-63). On the other hand, the Government should get information in the dialogue with the business sector about major constraints on development of *certain* industries because the Government is not omniscient. On the other hand, since companies know that the government wants to provide assistance they may exhibit the initiative to perform the distortion of information in order to obtain advantages to achieve benefits from the government.

If we do not access the variant of policy reindustrialization, in a possible and acceptable form, we practically remain on the Easterly's (who does not believe in the effects of aid) development strategy that goes from the bottom (small and medium enterprises) and which is most desperate option that will take decades and decades of recovery and reaching some acceptable level of development.

In the book, in which he criticizes the policies and practices of the IMF and World Bank Joseph Stiglitz (2004; p. 267.) stands for a selective approach that should be followed by the World Bank. World Bank later moved on such way of providing development assistance to countries with lower levels of income. This means that the conditionality is replaced with selectivity where aid depends on already achieved results in a certain country. Countries that have achieved results in development could be assisted in such a way that they can *choose their own* development strategy. There is evidence that this approach can encourage growth and reduce poverty.

In the domestic industrial policy, certainly would be useful whether attention devoted to industry sectors that have already achieved market success with the aim of supporting successful industries and their intensive growth and job creation.

## 5. Conclusion

Orthodox macroeconomic policies successfully stabilize macroeconomics. However, they give a weak effect on reducing unemployment. The market itself does not provide reconstruction and development of the industry or and the country's economy reindustrialization. International multilateral institutions provide their credit support only if country conducts a strong stabilization policy. International agreements do not allow (IMF, WB, WTO, EU) any active policy of the state to support and increase the competitive advantage of domestic industry. International agreements open up the domestic market, failing to protect domestic production and create favourable conditions for foreign companies. Domestic economic policy makers must search for alternative solutions that would not be in conflict with international agreements and that will encourage and assist the industrial reconstruction of the country. These policies to some extent must be covert character. Assistance of international consultants are welcomed if they would be fund by domestic authorities and who will not work on behalf of international financial institutions.

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