



# Bosnia: Post-Industrial Society and the Authoritarian Temptation

executive summary of a report by  
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*The vast post-war reconstruction program intended to kick-start the new market economy has passed straight through Bosnia, leaving a mountain of debt but little development. This model of development, which could be called “authoritarian development,” was imposed from the outside, without mobilizing the resources or entrepreneurial energy of Bosnian society. It was fuelled by vast foreign credits, which allowed the Bosnian government to make investments based on political, rather than economic, logic. While the international reconstruction effort overlooked the structural failings left over from Bosnia’s authoritarian past, the government focus on form over function in government, and the continued passivity of the Bosnian people, suggest that these problems will get worse once reconstruction funds stop flowing. First and foremost, civil society and the media need to mobilize Bosnian citizens to demand better performance from government, to resist the “authoritarian temptation” – distrust of the democratic process and a preference for distant, isolated governance.*

*This article is the executive summary of a longer report, Governance and Democracy in Bosnia and Herzegovina: Post-Industrial Society and the Authoritarian Temptation prepared by the European Stability Initiative. This report is available at [http://www.esiweb.org/pdf/esi\\_document\\_id\\_63.pdf](http://www.esiweb.org/pdf/esi_document_id_63.pdf) (in English) or [http://www.esiweb.org/pdf/esi\\_document\\_id\\_64.pdf](http://www.esiweb.org/pdf/esi_document_id_64.pdf) (in Bosnian-Croat-Serbian).*

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Less than a decade from the end of a bitter conflict, Bosnia and Herzegovina has managed to escape the cycle of violence that traps so many post-war societies – an achievement sufficiently rare around the globe that it will be studied for decades to come. Yet few Bosnians seem to find much reason for celebration. They have watched their standards of living decline steadily over the past twenty years. The vast post-war reconstruction program that was supposed to kick-start the new market economy seems to have passed straight through Bosnia, leaving a mountain of debt but little development. Whatever else Bosnians may disagree about, they share an intense frustration with their system of government, which seems powerless in the face of accumulating social and economic problems.

Why hasn't peace delivered the rewards that were promised? To understand why government in Bosnia seems to be failing, it is important to understand the roots of Bosnia's deep social and economic problems.

## **The Crisis of Industrial Society**

Bosnia is experiencing the final collapse of a model of development that saw industrialization as the tool for creating a modern society from an underdeveloped and isolated province. It began in the

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*The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 800 local initiatives in over 90 developing countries, involving the private sector in policy advocacy, institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE programs are also supported through the United States Agency for International Development.*

**Center for International Private Enterprise**  
1155 15<sup>th</sup> Street NW • Suite 700 • Washington, DC 20005 • USA  
tel: (202) 721-9200 • fax: (202) 721-9250  
web: [www.cipe.org](http://www.cipe.org) • email: [forum@cipe.org](mailto:forum@cipe.org)

1950s, after Tito's celebrated split with Stalin, when Bosnia's remote interior was turned into Yugoslavia's mountain fortress, with a dense concentration of military infrastructure and production facilities. It reached its peak in the 1970s, when vast investments from the Federal Fund for the Accelerated Development of the Underdeveloped Republics and Kosovo (FADURK) – around US\$3 billion in the 1970s and 80s – spread factories and industrial jobs to almost every valley in Bosnia. New towns were created, often around a single, major enterprise, and hundreds of thousands of people moved from the villages into the urban areas. Many Bosnians came to enjoy the benefits of education, travel and standards of living that exceeded those of other socialist systems. This was Bosnia's industrial golden age, culminating in the Sarajevo Winter Olympics of 1984.

This model of development could be called "authoritarian development." It was imposed from the outside, without mobilizing the resources or entrepreneurial energy of Bosnian society. It was fuelled by vast foreign credits, which Yugoslavia attracted through its non-aligned status. The investments were directed by a political logic, and often made little economic sense. They were entrusted to self-managing enterprises that invariably ran at a loss, and were kept alive only by constant injections of public money. In 1979, with the second oil crisis, foreign borrowing came to an abrupt end, and Bosnia's industrial economy began to unravel. By the end of the 1980s, living standards had fallen drastically, and the 'big systems' that had been the backbone of Bosnia's industrial society were little more than hollow shells.

Historians will debate the extent to which the failure of authoritarian development contributed to the disintegration of Yugoslavia. But it is clear that, in Bosnia's case, war and industrial collapse went hand in hand. War brought production to a standstill, destroyed half of the capital stock and displaced a large proportion of the population. By 1996, much of Bosnia's enterprise sector was beyond saving – particularly the armaments industry, which had been the core of the industrial economy.

When international agencies began planning for post-war reconstruction, they believed that Bosnia would make an easy transition to a market economy, through rapid privatization and a large injection of reconstruction aid. They overlooked the combination of misplaced investment, outdated technology, excess capacity, over-employment and enterprise debt that was the real legacy of authoritarian development. Though the privatization process was slow and poorly designed, in truth there were few enterprises left that could be sold as going concerns. In the early post-war years, some companies managed to scrape together the funds to restart production, but most were unable to bring their products to market and soon closed their doors again. Reconstruction aid rebuilt houses, schools, medical clinics, roads and bridges, alleviating the suffering of the population. But it could not save Bosnia's industrial economy.

Now that the reconstruction era is drawing to an end, the real story has become clear. Bosnia is going through a process of de-industrialization on a devastating scale. From the large industrial centers like Tuzla and Zenica to smaller or medium-sized towns like Novi Travnik, Capljina and Modrica, we have found the same story: 70 to 80 percent of the old industrial jobs have already disappeared, and many of the remaining enterprises are unlikely to survive. The new private sector is dominated by micro-enterprises in trade and basic services, generating very little employment. Bosnia seems to be developing backwards: where once it manufactured jet aircraft, it now exports aluminium; where once it exported furniture and finished wood products, it now sells only raw timber. Outside the larger cities, many Bosnians are abandoning the towns and returning to the land their families left a generation ago. Forced out of the formal economy, they scrape together a living through some combination of casual labor, informal trade and subsistence agriculture.

Only in the large administrative centres – Sarajevo, Banja Luka and Mostar – is there a feeling of more prosperity, but it is here that the reconstruction program and the large international presence have produced the most obvious distortions. The large inflow of foreign money caused a bubble in tax revenues, allowing Bosnia's governments to increase their budgets dramatically. As industry collapsed, public administration became the main source of employment for the urban population. Almost all the employment growth in recent years has been in the administration. Public servants were able to protect themselves from the decline in living standards affecting the rest of the population by demanding relatively good salaries and benefits. Though their pay may not be high in absolute terms, particularly among lower-level officials like teachers or policemen, across the country the public administration is on average the best-paid sector of the workforce, or close to it.

For Bosnian society as a whole, the results are highly inequitable. Citizens and enterprises pay heavy taxes, but receive few services in return. Public revenue is spent disproportionately on public-sector

salaries. This favors the administrative centres where the public servants are located – particularly Sarajevo, with its five layers of government – which have more economic activity, and therefore more tax revenues, and so the cycle continues. Sarajevo canton is able to spend far more on education or social welfare than Zenica or Una-Sana. Similar imbalances exist in Republika Srpska, between Banja Luka and the rural areas. In effect, government in Bosnia works by transferring wealth from the poorest to the most privileged members of society.

### **The Passive State**

The failure of authoritarian development has left Bosnia with vast development challenges: a workforce trained for jobs that no longer exist; infrastructure designed to service enterprises that have disappeared; severe rural underdevelopment; whole population centers dependent on failing industries. We cannot blame Bosnia's post-war governments for these uniquely difficult legacies. However, we can and we must hold them accountable for their policies: that is, how well they have understood and responded to these challenges.

After eighteen months of studying the effectiveness of Bosnia's institutions at different levels of government, our conclusion is that the dominant feature of government in Bosnia is its passivity in the face of this social and economic crisis. In the most critical development areas – industrial policy, agriculture, infrastructure development, natural-resource management, education and training, social welfare – we have found a vacuum of credible policies. All too often, government policies in Bosnia are little more than broad statements of good intentions. They are not based upon hard information, or any real analysis of the problems. They are not developed in consultation with the groups they are supposed to help. They do not affect what public institutions actually do. Nor do they affect the way public money is actually spent.

One of the clearest signs of this policy vacuum is how little information government in Bosnia possesses about the changes underway in Bosnian society. It begins with the population. Without a census, no-one knows Bosnia's population. In Republika Srpska, the official figure is 1.4 million, but officials privately admit the real number may be as low as one million – a difference of forty percent. In individual towns and municipalities across Bosnia, we find the same uncertainty. A government that does not know its own population cannot be making credible policy in areas such as health care or education. This lack of information extends across many areas of government. There is very little hard information available about the new private sector and its activities, the state of agriculture, or the needs of the poorest members of the community. If government were making active policy in these areas, it would have to generate this information.

Another sign of government's passivity is the way it spends money. A large share of public money in Bosnia is spent by government on supporting its own institutions. Much less is spent on operations (the activities of government) or on capital expenditure (investments in future development). During the reconstruction period, international donors took over the role of maintaining and developing infrastructure. This enabled Bosnian governments to shift their resources to other areas, such as public-sector salaries, in effect moving out of the development business. No wonder that many Bosnians see government as essentially self-serving.

There is no doubt that Bosnia needs international assistance to meet its development challenges. Yet so long as government in Bosnia remains passive, no amount of aid will lead to sustainable development. In fact, as the reconstruction program draws to a close, Bosnia must face the consequences of its heavy dependence on international aid. The artificial bubble of consumption and imports caused by the influx of foreign money will soon disappear, taking with it an important part of Bosnia's tax revenues. At the same time, Bosnia must begin servicing its foreign debt, which according to the World Bank will rise at an 'explosive' rate over the next few years if economic growth does not pick up.

This is a critical moment for government in Bosnia. It needs to rein in the privileges of the public administration – a difficult task for any elected government. At the same time, it needs to become much more active, but with fewer resources. If it fails to break Bosnia's cycle of underdevelopment, it will soon find that many of the institutions built up in the post-war era will become unaffordable, and the state-building process will meet its most serious challenge yet.

### **Invigorating Government in Bosnia**

The most important question facing Bosnia is therefore: what can be done to overcome the passivity of government? This is not a technical problem. Improving the performance of government is

fundamentally a political process. Public institutions perform best when they are under strong pressure from a watchful public. When citizens expect little from government, when nobody knows who is responsible for what, when nobody investigates to see whether politicians are delivering on their promises, then government inevitably becomes remote and unresponsive.

Many people point to Bosnia's complex constitutional structures as the main cause of its governance problems. We find this to be exaggerated. After studying the performance of institutions at different levels of government, we found very similar patterns in the Federation, with its cantonal structure, in Republika Srpska, which has a unitary system, and even in the District of Brcko, under international administration. It is too simple to blame the Dayton Agreement, and it is misleading to think that the solution lies in constitutional reform.

What is clear, however, is that Bosnia's federal system is not yet working effectively. The different governments operate in isolation from each other, hardly communicating, let alone developing joint policies or programs. There is considerable confusion as to who is responsible for what, particularly on the Federation side, with different institutions overlapping and competing with each other. This fragmentation of government weakens accountability: most citizens do not understand the system, and have no idea who to blame when they are dissatisfied. Governments compete to capture more public funds, rather than agreeing on a rational method for sharing them. Usually, it is the lower levels of government who lose out, leaving them without the resources to discharge their functions. To address these problems, Bosnian governments need to start taking federalism seriously. They need to clarify the distribution of responsibilities, make sure the resources are shared appropriately, and start to co-operate with each other, both vertically and horizontally.

Governments in Bosnia need to learn the skills required to support development. In the socialist era, it was the responsibility of government to make sure that socially owned enterprises survived, whatever their economic value. In a market economy, the relationship between government and business is very different. Government supports development indirectly: developing transport links; providing access to land and infrastructure; educating the workforce; simplifying administrative and legal processes; helping local businesses find foreign partners. To do this well requires detailed knowledge of what is going on in the Bosnian economy, and the skills to analyse and respond to these developments. It requires that institutions are responsive to the needs of the community, rather than trying to direct the development process.

This requires changing some deeply ingrained institutional habits, and will not happen overnight. As Bosnia moves toward Europe, it will receive more focused help to develop these new skills. However, the pressure for change must come first of all from the Bosnian public. At present, while many Bosnians are dissatisfied with the way government works, they have such low expectations of government that they do not agitate for change. Some groups in society, such as private farmers and small entrepreneurs, never received much help from government under the socialist system, and do not expect it now. They are not organized into interest groups to lobby for the programs and policies they need. In a democratic system, interest groups play an extremely important role. They monitor the performance of government, and provide the ideas and the feedback needed for good policy-making. The message needs to go out to Bosnian citizens, through the media and civil society, that if they care about the performance of government, they have to become much more energetic in lobbying for change.

The young Bosnian state faces a dual legacy of war and socialism that would challenge even the most effective of governments. Yet Bosnia is no more trapped by its past than other countries of the region, many of which are successfully tackling similar problems with the help of the European Union. If it begins to focus on the function of government, and not just its form, Bosnia can halt the cycle of decline and begin to chart a way forward. But to do this, Bosnia will have to overcome one of the most pervasive and difficult legacies of the past, which we call the "authoritarian temptation". The authoritarian temptation is a distrust of the democratic process, and a preference for a government of 'experts' who are isolated from the people they are supposed to serve. It is a tendency to look to outsiders to solve Bosnia's problems, rather than finding home-grown solutions. Democracy is a messy business that depends upon constant debate and compromise. But it is the only system we know that forces a government to respond to the needs of the people.

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