

CAUSES OF ECONOMIC CRISIS**Prof. Dr. Rajko Kasagić**
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Equitable distribution of income to ensure equality, fairness and productivity are important activities in the economy to avoid an economic crisis. Redistribution of income for the development of poor areas partially affects the productivity of labor in the economy, but it achieves fairness in the economy with the aim of expanding the market.

The economic crisis is a product of human activity contrary to the economic laws of supply and demand. Discovering economic opportunities on the world or national market means discovering what is applicable to human well-being, what "works" and even contrary to the principles of conventionality. In economics and all other scientific discoveries, knowledge cannot be based on the divination of physical and other laws, but it must be confirmed in practice.

The economic crisis is causing a disturbance in the economy, that is, in the relations between production and consumption. The gold standard, which is closely linked to the countries of the world in the network of fixed exchange rates, has played a key role in the transmission of the American economic downturn, as in other countries. Recovery from the Great Depression was largely fueled by the rejection of the gold standard on August 15, 1971. This has led to rising inflation rates and a significant rise in the price of gold over the next few decades. It is better for the economy of some countries and the whole world not to have a gold standard, because the central bank can stimulate economic growth with monetary policy, reduce the unemployment rate, manage the exchange rate of its own currency.

Keywords: *economic crisis, Great Depression, income disproportion, capital allocation.*

Introduction

An important issue in economic relations is the distribution of income in order to avoid an economic crisis. Many economists, philosophers, and politicians have created normative standards for income distribution. The state applies three standards for redistribution: needs, equality, and productivity. In market economies, all three standards are combined, while productivity is the primary standard. What is the nature of the relationship between efficiency and equality? Does a society characterized by a higher degree of inequality generate better conditions for economic growth, or does economic equality drive economic growth? Economic inequality is a characteristic of all societies and all political systems in all epochs of development of human civilization. A certain degree of economic inequality is desirable, because as such it encourages individuals to make greater efforts, stimulates competition, savings and investments. However, economic inequality can slow economic growth and generate socio-political and social problems in the country. Ingrained inequalities in the outcome of economic activity can, to a significant extent, undermine the education and professional choices of individuals.

Modern markets are far from perfect and in such conditions the market is not able to allocate resources efficiently, which results in inequality in distribution. State intervention is necessary even in the conditions of modern efficient markets, in order to reduce economic inequality and stratification of the population, ensure balanced growth and development. When the state redistributes income to reduce economic inequality, it results in a decline in efficiency and a reduction in overall levels of economic well-being due to the net loss that results from the transfer of income from rich to poor. Through this redistribution, the poor

never receive the full amount of income taken from the rich through progressive taxation. Thus, it is a matter of the relationship between the mass of capital and the flow of capital income. The relationship between capital and income is in a very simple way related to the share of capital income in national income.

The state should provide the necessary infrastructure for the smooth functioning of the market, where the success of all will depend on their productivity. The state creates the necessary conditions for the growth of competition, which will result in increased productivity and increased efficiency of the entire economy. Redistribution reduces efficiency. How much is the state willing to sacrifice the loss of prosperity in order to achieve a certain degree of equality? With its policies and measures, the state should ensure continuous growth that is shared and that its redistributive policy should ensure that the growth of inequality is not faster than the growth of real GDP.

Activities that stop economic growth in the economy

The Great Depression led to fundamental changes in economic institutions, such as the one launched by John Maynard Keynes in the focus of economic theory and politics, which, in addition to establishing macroeconomics and the doctrine of fixed expansion, was remembered for: "There is no long term. In the long run, we are all dead. "

What is destroying the European economy? Economic policy pursued between America and Western European countries. Wars have been fought and are being waged on the soil of the European continent, which is destroying the European economy. It takes time and money to rebuild a destroyed

economy to get back into the business cycle.¹ The Marshall Plan after the Second World War European economies and their management are to a large extent Americanized.

The goals of the United States were to rebuild war-torn regions, remove trade barriers, modernize industry and, most importantly, prevent the spread of communism and the influence of communist parties in Western countries. Yugoslavia received financial assistance from the United States after 1949 after parting ways with Russia, not under the Marshall Plan. Assistance was granted on the basis of the Law on Emergency Aid to Yugoslavia until 1960.

The plan included reducing barriers between countries, increasing productivity and adopting modern governance procedures².

There are two key phenomena in the world, especially in Europe, which have occurred since 2019 and continue to do so. The economy is significantly impoverished due to reduced activities of economic entities caused by the Covid-19 pandemic. When the end of that phenomenon is already noticed, the war was provoked on February 24, 2022, between Ukraine and the Russian Federation. It leaves significant economic consequences for the warring countries, but also for European countries. The Russian ruble is eroding, the country's credit rating is declining, investors and their capital are leaving the country. Strict economic sanctions have been imposed on Russia. Western Europe is dependent on Russian oil and gas, the industry is dependent

on Russian fossil fuels, oil prices are reaching a new record. Russia's nickel, which is necessary for steel production, has risen by 50%. They also increased the price of palladium, aluminum and precious gases, important raw materials that Western European companies mostly import from Russia. Inflation is becoming a big problem. Can Russia be excluded from the world market? It is difficult, if not impossible. As usual, sacrificial lambs will be sought in order to maintain the trade and economic relations that existed before.

The course of the crisis and the factors that caused it

There are many factors that have played a significant role in causing the economic crisis in the world. The main reason for the Great Depression is the combination of unequal distribution of wealth and the intensification of stock market speculation. Poor income distribution is done by unequal distribution of money, disparities between the rich and the middle class, between industry and agriculture, between the US and Europe. The existence of unprofitable wealth competition has created an unprofitable economy. Excessive speculation keeps stock market turnover unnaturally high leading to stock market crashes. These market failures, combined with the misdistribution of wealth, cause the collapse of the American economy, which in the midst of additional circumstances is very easily accepted in Europe, and from there to the rest of the world.

¹ After the Second World War, the European Renewal Plan was adopted, which was the official name, and was launched in 1947. Based on that plan, the United States has invested 13 billion dollars (currently 130 billion) in the next four years for the reconstruction of 15 Western European countries, Turkey and Greece. On the basis of that Plan, all countries have achieved economic growth and increased living standards, and it is considered a threat to European integration. It was not a pure altruistic approach because it was in the

interest of the United States. European countries were to be built on the basis of a trade and business partnership with the United States - Angela Merkel at a ceremony held in Berlin on June 21, on the 70th anniversary of the Marshall Plan, demostat.rs/sr/.

² The Marshall Plan had critics among intellectuals. Noam Chomsky said that he "established this program for large American private investments in Europe and thus laid the foundation for modern multinational corporations", demostat.rs/sr/.

Crisis and wars are changing a lot in the economy. After the Second World War, the New World Order was created, but also the United Nations, which was supposed to prevent the devastating wars from happening again. After the global financial crisis, countries tightened their control over banks. During the corona crisis, we learned to appreciate the benefits of digitalization that allow us to work from home. This type of work has its advantages due to more efficient work, eliminates travel to the subject in which the person is employed, but also disadvantages because it distances the person from the person by losing direct contacts with their associates.

The war that started on February 24, 2022, closes the market between European countries on European soil. The application of the created *lex mercator* is being stopped, and the United Nations commissions have been working hard on it. The Economic and Social Council of the United Nations stated that it is necessary to establish appropriate economic commissions for certain areas in order to better understand economic and social problems, economic development that have created economic entities³. The creation of a single *lex mercator* imposed the development of technology and the interdependence of economic entities in different countries. Economic needs primarily influenced the unification of legal norms of international trade law in order to connect economic entities on the world market. The uniform material law that regulates these relations corresponds to the world market and the development of international economic relations. It removes legal particularism, which is characteristic of open national economies, and thus affects the development of the world market as an

integral community of national economies.

In the international division of labor and exchange of goods and services, at the current stage of development, it has its own specifics. In such relations, regional international economic organizations are increasingly emerging, which are playing an increasingly important role in the business world. They connect the economy of the members of that organization, but also limit economic relations with businessmen from other countries. This brings us to the broader notion of the particularization of unified rules in business relations.

Despite all the obstacles, unified rules enable the expansion of the market and the creation of greater opportunities for product placement and services, as a stimulator of creating a world market. The international division of labor has become a form of internationalization of the productive forces of human society. This is how we come to the emergence of the world market and the world economic system. However, the world market is not unique due to the different levels of economic development of individual regions and economic sanctions imposed on individual countries for political reasons. International economic relations always depend on political relations between countries that, in some cases, do not care about the established economic relations between businessmen of different countries and the great efforts of world institutions to unify trade rules. Only unified rules of conduct for businessmen only correspond to the world market. It removes legal particularism that favors the development of the world market. How to eliminate the unequal distribution of capital between rich countries, on the one hand, and poor ones, on the other? The

³ Four economic commissions were established: for Europe, in 1947; for Asia and the Far East, 1947; for Latin America, 1948; for Africa, 1958, Fundamentals

of Law and Business Law, Kasagić, R and Salkić, A, p. 251, Travnik, 2015.

answer should be sought in the harmony of modern practice and economic doctrine. An important role is played by the export of capital and the emergence of capital as a significant external factor in the process of expanding reproduction, and not just the movement of goods, which is the result of developed countries. Rudolf Gilferding, the former Minister of Finance of Germany, pointed out the social and economic consequences of the export of capital, which is defined as "export of value with the aim of producing surplus value abroad".

The export of capital achieves several goals:

- Increasing the territory under the jurisdiction of national laws, in order to ensure a monopoly and reduce the effects of the theory of comparative advantage;
- Enclosing the national economic territory with a customs wall is one of the goals of the cartel;
- Monopoly organizations are trying to provide the exclusive right to exploit the colonies, which leads to the collapse of the colonial system⁴.

In which area of economic activity is there a monopoly on the export of certain products? The arms export treaty also contains a technology treaty. The two largest arms exporters are the United States, with a 33% share of the main market, and the Russian Federation, with 25%. The United States supplies weapons to about 50 countries, while the Russian Federation mainly sells its weapons to China, India and Algeria. China's presence as a major arms exporter demonstrates the country's growing importance in international politics. India is the largest importer of weapons. The United States is also a major importer, as parts of American weapons are produced around the world, in countries that are partners of the

United States. The United States is at the center of the global arms industry, both as an exporter and as an importer. America is a major supplier of weapons to many countries such as Saudi Arabia, the United Arab Emirates, Australia, Turkey, Pakistan and Vietnam. Data from the International Institute for Peace Research, which monitors armed conflict and arms transfers, has determined that American companies are dominant in the main military industry. Seven of the ten companies that sell the most weapons are from the United States⁵.

During the Cold War, military technology led to the development of civilian technology. Many innovations that have changed everyday life, such as satellite technology or the Internet, have emerged from military research. The situation changed after the Cold War and more and more civilian companies are contributing to the development of weapons. International arms transfer treaties play an important role in structuring international policy. Arms control allows the most powerful states to impose their arms transfer conditions, thus contributing to the increase in inequalities in power by preventing certain states and actors from acquiring weapons.

The Treaty on the Non-Proliferation of Nuclear Weapons is one such example of arms control. The agreement defines nuclear states as those that produced and tested nuclear weapons before January 1, 1967, namely: The United States, the Russian Federation, Great Britain, France and China. This is opposed by: India, Pakistan, Israel, which have never signed the Agreement. North Korea withdrew from the 2003 agreement.

Economic crisis in Bosnia and Herzegovina
Bosnia and Herzegovina is a decentralized

⁴ Gilferding, R.: Financial Capital, Part III, according to Adamović Lj: "Yugoslavia and the International Economic Environment", Belgrade, 1983, p. 13.

⁵ googl.com/am...

state, which should include effective mechanisms of government levels in order to achieve common development goals. BiH has serious problems in achieving policy coordination at various levels of government and in constituting the economic functions of the State, tailored to the market and the needs of market participants. In the territory of BiH, there is no continuous functioning of the market that would shape the authentic economic principles of behavior of individuals, companies and the State. There is no stability in the functioning of the State, which does not build an authentic concept of the relationship of state institutions to the free market, private property, free entrepreneurship, political freedoms, democratic rights.

Low level of efficiency of institutions, which is reflected in: insufficient protection of the rights of citizens and the business community, quality public services are not created. Their establishment is mainly under the mentorship of the international community. A large number of reforms in recent years in BiH have been completed on the initiative and tailored by foreigners. They shape its political and economic structure. The strategic shaping of BiH does not make it stable. The current role of the international community limits the effectiveness of reaching internal consensus on important issues of functioning and development.

The global financial and economic crisis comes as a threat to BiH's fragile economy and social security. Over small, underdeveloped and import-linked countries, such as BiH, the economic crisis looms as a

force majeure threatening their economic and political statehood⁶.

Indications of the serious effects of the global economic crisis on BiH are present, which is felt on the stock exchanges. Many stock market investors have suffered huge losses.

The economic crisis has strengthened the role of the state and partially curtailed free enterprise. Gradually, the doctrine of the new economic role of the state, or the new conception of economic federalism, differed between different levels of government.

The International Monetary Fund defines a period of global growth below 3% as the nature of an economic recession⁷.

Bosnia and Herzegovina is a country in transition where the first step is in the phase of transformation that requires drastic changes in which people need to learn how to behave. There is a significant change in the transition from a self-governing planned economy to a market economy. Economic indicators show that we are still relying on a wall that does not exist or on the help of the international community.

The creation of surplus labor separates economic entities from state or international institutions, counting on the single world market and the competition that awaits in that market. Redundancy is decided by the one who creates it. Redundancy is a common economic interest and economic connection as a factor that determines a nation⁸.

This establishes a social connection between the social structure of society and the emergence of the nation as an integral part of

⁶ Tomaš, R., Crisis and Gray Economy in Bosnia and Herzegovina, 2010. p., 20.

⁷ After the end of the third quarter of 2020, the Agency for Statistics of BiH announced that the gross domestic product fell by 6.3% in that quarter. A recession was formed with a decline in two consecutive quarters, in the second with a decline of 9.3% and the third with a decline of 6.3%. In the fourth quarter, an expected

decline of 5.2%. In BiH, which has a chronic deficit of foreign trade, consumption in the first three quarters of 2020 amounted to 27.88 billion KM, with a deficit of 3.63 billion KM, which gives the amount of 24.25 billion KM. So, only 87% of domestic consumption was used to generate GDP, google.com/am

⁸ A nation in the economic sense implies all peoples citizens of one state living in that state.

certain socio-economic relations⁹.

Economic indicators show the cyclical movement of the economy in Bosnia and Herzegovina. The concept of cyclical economic development was developed by Branko Horvat, despite planning, a regional increase and decrease in production whose experts reach a difference of up to 20% of gross domestic product¹⁰. Based on his econometric work, Byte came to the conclusion that micro cycles lasting ten or more years are manifested in the industry¹¹. Economic analysts believe that in segments of the economy where the law of supply and demand applies, such as stock exchange, auction sales, where high depreciation of participants in economic events, inflation shocks are much greater than disruptions in those segments of the economy organized in the form of large companies. are the bearers of the costs of inflation. If inflationary costs are apparent, certain conclusions are drawn from it and behavior is adjusted rationally¹².

General attitude

Economic flows are cyclical. Various factors can affect cyclical movement. The state can use its measures to redistribute income from rich regions to poor ones. Supply and demand also have an impact, as well as the monopolistic behavior of large economic conglomerates, a pandemic that from 1919 to 1922 had a significant impact on economic flows and activity in the economy. War conflicts that occur cyclically in the world have severe consequences for the economy, followed by economic sanctions against businessmen in certain countries. The

production of weapons and the placement on the market of buyers of these goods are beneficial and harmful. It is beneficial for exporters due to the large inflow of funds, as well as cooperative cooperation with other economic entities, which increases labor productivity and improves the production process. It provides defensive power against attacks in order to use natural resources that belong to another state. It is a pity due to the large allocation of capital for the production and purchase of weapons that are used for physical attacks on citizens and the destructive effect inflicted on the attacked state.

Bosnia and Herzegovina should provide a more efficient economic and political system that will provide conditions for a happy life of citizens. Reliance on the representatives of the international community will not provide the citizens of Bosnia and Herzegovina with what belongs to the citizens and what is the duty of their state.

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⁹ Krager, S., How to Get Out of the Crisis, Zagreb, 1985, p. 17.

¹⁰ Pjanić, Z., Autonomy of Crisis, p., 36.

¹¹ Pjanić, Z., Ibid.

¹² Expected inflation in BiH measured by consumer prices in 2022 is 7.7%, and in the European Union 6.8%, in Russia 20%, in Serbia 9%, [https // www.cbbh.ba. ShowNevs](https://www.cbbh.ba>ShowNevs)

The Agency for Statistics of BiH announced that the prices of products and services used for personal consumption increased by 10.2%. Food and non-alcoholic beverages in March this year compared to March last year increased by 14.8%, alcoholic beverages and tobacco 0.7%, furniture and household appliances by 6.3%, housing and overhead costs by 8.3% , transport 24.5%.

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