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Croatia 2010: The remains of prosperity

„From the point of view of the interest of the peoples in this part of Europe, and from the point of view of peace in the world, it seems that the solution of the problem of Eastern Europe can be found only in internationalization and the elimination of military in these countries ... but as a precondition of successful internationalization and demilitarization, the Balkan countries must advance economically and become politically independent from the great powers... demilitarized, democratized, economically and politically independent, culturally integrated and educationally advanced the states of East Europe could be grouped together.“

Dinko Tomasic, Personality and Culture in Eastern European Politics, 1948¹

1. Economy

The economic crisis in Croatia has deep roots. This recession is not a mere reflection of global economic and financial stagnation. It resembles the economic crisis in the last phase of the socialist system, which was ignorant of the technological and monetary changes in the globalised economy. Huge unprofitable investments (roads, sports, apartments i.e. second homes), development of capital-intensive, energy-costly industries, lack of incentives for export and the high level of state and personal consumption were characteristics of the time. Governmental and administrative decisions regarding investments, market regulation

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¹ <http://www.questia.com/library/book/personality-and-culture-in-eastern-european-politics-by-dinko-tomasic.jsp>

and export, were unprofessional, voluntaristic (political) and not based on coherent programmes.

The economic problems are fertile soil for political changes, from authoritarian rule to parliamentary democracy, but not for the change of habits, mentality or economic behaviour. The war and the destruction, the mobilisation of resources for national defence, migration and the expansion of aspirations and after that the privatisation in a legally and politically chaotic situation, produced stagnation and bankruptcy of some economic sectors (aluminium, forestry, heavy industry, big agricultural companies). The result was not adaptation to the globalised market but high unemployment, high dependency on the state (pensions, veteran pensions, subsidies) and relocation of resources.

The level of industrial production (GDP is not a good measure because it includes import!) in 2009 is on the same level as in 1980.

The economy took a turn for the worse again in the third quarter of 2009. Seasonally adjusted figures show that GDP fell by approximately 0.5 percent compared to the second quarter. Furthermore, the year-on-year change amounted to -5.7 percent. Monetary policy has moved beyond preserving the exchange rate stability but has not yet succeeded in breaking the credit crunch. The implementation of the special tax on wages, pensions, and other incomes (the so-called 'crisis tax') in August, coupled with an increase in the VAT rate by one percentage point, has contributed to a further decline in retail trade volume. After five months of stagnation, seasonally adjusted retail trade volume started to decline again. The volume of imports declined by 23.5 percent in the third quarter year-on-year. A weak domestic demand and financing constraints were the main factors behind such a considerable drop the volume of imports declined by 23.5 percent in the third quarter. For the year as a whole, industrial production declined by 9.2 percent. The number of the unemployed has increased quite rapidly. At the end of December, 292 thousand unemployed persons were registered at the Employment Office - around 51 thousand or 21 percent, more than a year before. The newly unemployed have different characteristics than the unemployed in earlier periods – they are better educated, have more experience and are more often men.

Three models of fiscal stimuli have been presented in January although their results are not very visible and it seems that such measures are used as alibis for further loans. The estimation for GDP growth in 2009 now points to -5.9 percent. Negative trends from the second half of 2009 are expected to prolong into the current year although at a more moderate pace, thus resulting in a GDP decline of 0.7 percent in 2010. The current account deficit should be somewhat wider than earlier expected, about 5.7 percent of GDP in 2010 and 6.4 percent in 2011. Although, the economy is expected to bottom out in the second half of 2010, the recovery will probably not be strong enough to affect the overall activity. The year 2011 should bring further recovery that will primarily come from a rebound in exports and investments as well as from an improved overall climate.²

2. Society

Mass psychology is an important factor in understanding the situation in Croatia. Contrary to many other transitional countries, Croatia is not improving economically or socially as fast as was expected. In an economic sense the small improvement – with as starting point for

² Croatian Economic Outlook, 41, January, 2010.

comparison the year 1990 – is mainly due to increased debts: state, family or individual. Expenses and consumption are higher than income or production (Year by year this is covered by additional debts). For some countries (new democracies) the feeling of improvement is based on free travel, free exchange of information or new commodities. The Croats had that before. They, personally and subjectively, have a feeling of decay and decomposition of their values and perspectives.

The society is broken in one other sense. In the process of privatisation most people feel as losers. A tiny minority in society acquired a relatively big fortune through political influence or personal ties with powerful decision makers. These nouveaux riches who show off their power and wealth belong to a new strata of celebrities advertising a lifestyle which the average citizen can't get – no matter how hard he or she works. The glamorous side of society over-emphasised: the whole world recognises Croatia by their athletes, football players, skiers or other sportsmen and -women. But the ambition for sacrifices and efforts which are behind those successes is not a national characteristic.

The anomic situation, for example, is visible in the position of religion. The Catholic Church is becoming active not only in sacral issues but also in politics (elections, legislation), business (return of property, investments and new churches) and education (university, religious subjects). Their success has not shown in the recent presidential elections: in spite of the mobilisation, their candidate lost. The effect of the Church's meddling with the legislation on pregnancy was that the whole young generation, including some conservative NGO's, have been protesting against it. As regards the Church's attempts to influence the education in elementary and secondary school, the effect is absenteeism from classes. But, undoubtedly, the result is confusion in the value orientation of ordinary people who feel that the Church does not share their position and perspective. The same counts for political ideologies and misleading opinion makers and media. This process has influenced the general perspective of European integration. According to the recent Balkan Monitor only 35% of respondents told Gallup that they support EU membership, while 45% were against. In February 2007 34% were pro EU, 29% against and 37% undecided. The full importance of these data becomes evident when compared with the year 2000 when 70% were in favour of EU, 8% against and 15% undecided. The argument that the same happened in other candidate countries is not applicable because of the strength of the negative trend and the failure of pro EU campaigns. Both sides, the EU and Croatia, have to take this result seriously, because of the referendum which is necessary in Croatia in order to change the constitution before EU membership and the further ratification process.

The economy is exhausted, the average income insufficient for a decent life. At the same time the level of aspiration is still rather high: the unrealised promises, the previous standard of living, the influence of ideas, fashion, culture and the way of life from a developed Europe make the frustration even more manifest. This is fertile ground for social pathology of any sort – from corruption to delinquency, from moral erosion to alcoholism, from everyday frustration to medical problems and mental illnesses. The decreased standard of living and chances for social promotion increases the social distance between social strata and induces egalitarian demands. Some strata (new entrepreneurs, organised crime) are relatively wealthy, which makes social tensions even more pronounced. Social values are deformed. Traditional morality brought from peasant tradition or discredited ideologies have no longer any value. People search for an escape from uncertainty.³

³ My own text from 1987!!

3. Politics

The positive wordings of the Commission's Progress Report⁴ speak of certain improvements⁵. Croatia is, in spite of some suggestions for improvement, fulfilling the political criteria. The obvious problems we have is the low legitimacy. According to the recent poles⁶ the support for the government has dropped from 54% to 40 %. This is an important oscillation because the government had only 19% year ago, but increased fast after the resignation of Ivo Sanader to almost 60%. Prime Minister Jadranka Kosor achieved an increase from 33% in July to 77% in December which fell to 60% in January. The results for the new president are different: he has the support of 84% of the respondents. The only problem is that he has neither the tools nor the measures, apart from a smile and a lot of sympathy, to master the current deep economic and social crisis. This is an additional stimulus for his competition with the executive and the majority in parliament. Mainly because of an inflexible political elite, an irresponsible economic passivity and an unprofessional crisis management (education, agriculture, strikes) the legitimacy will erode further. What is happening, even the positive changes, falls under the formula 'too little and too late'.

The political elite are disoriented also because of various corruption scandals. Massive support for the investigation against members of the government and an explosion of political corruption scandals have eroded the trust in the government, paradoxically not because the scandals are disclosed, but because they are not ended in a catharsis.

To engage in public trust is not an easy task for any modern government. The lack of trust towards politicians is nothing new, neither is it unique for Croatia, but the scandals colourfully and dramatically indicate the gap between promises and reality, norms and the actual functioning of the government⁷, investigative bodies, the media, the judiciary and the

⁴ http://www.eu-pregovori.hr/files/Izvjesce/Progress_report_2009.pdf

⁵ In time, however, the warning tone concerning the absence of required reforms has become increasingly strong. First of all, as in a dramaturgical imbroglio, there comes the encouragement by the achieved successes, but then the hesitation in implementation is highlighted, then the unfulfilled promises, which results in the basic view on the top-priority need for administrative reforms. If we compare the above-mentioned quote of the 2005 report to the terms used in 2006 and 2007, what is noticeable is an increased rhetoric of the assessments, emphasis on the unfulfilled promises and achievements.

⁶ From 01. April 2010.: <http://www.tportal.hr/vijesti/hrvatska/61913/Vlada-nema-podrsku-60-posto-gradana.html>

⁷ «Anomia is not the only danger, the other is what we have called hypernomia, the wild growth of norms and sanctions and institutions ... While many legislators get themselves elected for the first time by arguing that there are too many laws already and that greater simplicity and transparency of norms are urgent, they soon join with their longer serving colleagues in proudly counting the number of laws they have enacted as an index of achievement... the trick has newer worked as quickly or as perfectly as at this time at which the plethora of sometimes incompatible rules and often unenforceable sanctions makes immobility likely even without any especial effort to comply with the letter of the law. Clearly institutions like norms are but a shell, abstract creatures which come to life when people act within and towards them. It is by no means lawyers only who are charged with sustaining even the institutions of law and order in a narrow sense, but lawyers have a special responsibility» R. Dahrendorf, *Law and Order*, Stevens & Sons, London, 1985, 146, 150.

political (national as well as the local) elite. The ritualised elections are not a strong enough instrument of renewal of legitimacy. This 'gap of trust' is growing due to laxer standards of administration and the lack of honesty in public life. The increase in trust in the institutions relies on many elements – the openness of political decision-making, the prevention of interest conflicts, freedom of speech and association, collaboration with citizens and civil society. New skills and competences are required. Officials and dignitaries are not persons who follow a political line; their role is much more creative and responsible. They must recognise new needs and tendencies in the area of their specialisation. Leadership does not require obedience to collectivism, hierarchical subordination, but competence. Hierarchy does not mean a general superiority in everything, domination and control. Leadership requires the sense for innovativeness and the entirety of the system.

The essence of legitimacy in politics is the answer to the question why politicians are leading us and why they rule – and ordinary Croatian people do not have this answer. The elections are manipulated and the results distorted by the role of the party machinery and increasing costs, role of biased and governmentally controlled media, inadequate regulation of rules and mechanism of control (i.e. the electoral commission in full power). The political parties do not have clear ideological preferences; the leaders (with noble exemptions!) are average by intellect and under average in ethics. They are divided in fractions, lobbying groups and cliques (clique + sects)⁸.

For ordinary people politicians are all same and this broadens apathy, expressed in electoral turnout (from 75,61% in 1992; 76,55% in 2000, to 59,00% in 2007!). Regarding the presidential elections the statistical trends are similar (74, 9% - 1992; 60, 8% & -2000; 51, 04% -2005; 50, 12% - 2010).⁹

"The tyranny of a prince in an oligarchy is not so dangerous to the public welfare as the apathy of a citizen in a democracy". Montesquieu

An additional reason for this apathy is that political decision making is often closed to the public, that special interests have strong effects on economic and other policies, that the government is not open and transparent. "Behind the ostensible government sits enthroned an invisible government owing no allegiance and acknowledging no responsibility to the people. To destroy this invisible government, to befoul the unholy alliance between corrupt business and corrupt politics is the first task of the statesmanship of the day."¹⁰ There is an 'overpolitisisation' of society. Some features of the political system substantially affect the

⁸ F. Riggs introduces a new concept – clects – to distinguish between specific implications of such groupings in his theoretical discourse. „This phenomenon might be thought of as formation of the cliques within bureaucracy, except for it suggests a personal and highly informal group oriented around one or few personalities... There may be no difference between two cliques beyond the personal charisma of their leaders. A bureaucratic clect then, may be defined as a branch, sector or stratum of a bureaucracy, all of whose are recruited from a given community or subcommunity, organized so as not only to carry out its formal duties but also to safeguard communal interests, to bar admission to members of rival communities and, no doubt, to administer rules in discriminatory fashion“. F.Riggs, *ibid.* 275.

⁹ http://www.idea.int/vt/country_view.cfm?country=HR

¹⁰ Theodore Roosevelt, April 19, 1906 http://www.iefd.org/articles/democracy_quotes.php

selection, promotion and structure of the persons at the top levels of the administrative authorities. Before all, political parties, or more precise, party leaders and top structures of the party machinery, play a very significant role in decision-making concerning personnel issues. Party leaders decide on lists and candidates for elections and the role of the party leader to whom personal loyalty is urged. Factional rivalries (rather: fights and settling scores) are not only not a rarity; they are the rule. Groups formed in such way are only secondarily different in their ideological sign; the primary difference is the one relating to the momentary reciprocal interest in assistance and the communities which link them together: friendly connections, origin, belonging to the same clubs, common business interests, nepotistic practices or other coincidences which have created such links.

The aggregation and representation of the interest in democracies is entrenched in the political parties and in civil society. In Croatia the political parties and civil society are isolated. Without ideology and active members, but with party oligarchies, centralised and not very democratic in their internal relations, parties are becoming less and less popular. The alternative- independent candidates, trade unions and civil society – also have weaknesses and can't replace political parties. There is no democratic system without active and supported political parties, and such a deficit is a sorrowful obstacle.

The evident problem is an inactive opposition, divided in blocks, divided by differences in tactics, not integrated because of personal jealousy and differences in temperament. Not enough and always too late is their characteristic. For the country in which no government can be formed without coalitions, this is dangerous for reforms and change – and comfortable for the government. The government is divided in two main fractions – one that openly supports Prime Minister Jadranka Kosor, whereas another part of the same government supports the ex-prime minister's less moderate and less pro-European orientation of Croatia (some of these members of government are afraid of future corruption investigations). This way we have a blocked society and a blocked government.

This is not unusual – many countries have found themselves in a similar position. Discussions on (real) reforms are a necessity in a world of fast social changes. There is, nevertheless, the impression that there are no genuine structural changes. Organisational changes have been reduced to changes of laws, titles and facades of institutions. What is absent are the complex and coordinated changes, the selection of priorities, the assignment of people and resources for the tasks. The exceptional ease of law amendments, the speeding up of the time of their changes and amendments ('law half-life') leads to a legal optimism in which the law enactment itself is at the same time the end of the interest in its impacts. "They say that implementation is absent. New and different laws have been announced that will resolve this discordance. Laws are good but their implementation is absent. The fact that there are neither instruments nor resources for the law implementation – they say: nor the will – becomes part of a political mythology and folklore. The law implementation and the effectiveness of institutions have been presented as an objective problem, independent from people. 'It is so in this country' – it is like we are talking about a contaminated soil, inescapable malediction or a ritual which can be challenged only by an unbeliever or an enemy. The interest – and even the responsibility – of political top structures for the destiny of a law ceases at the moment of its enactment."¹¹

¹¹ J.Kregar, *Kulise demokratske restauracije tranzicijskih zemalja, u Slaba društva i nevolje s pluralizmom*, Fondacija Boell, Zagreb, 2005, 123.

Changes in the personnel composition of the very top layers of the political elite are slow, not only because of the slow generational renewing, but also because of the restrictedness of interested circles. In addition, the last governments operated under the delicate conditions of party coalitions in which they had to take ambitions of party activists hungry for status and positions into account. For our purposes, the main adverse effect is not the very predominance of particularistic criteria, but the prevalence of cynicism and clientelism among those who came to managerial posts even against normal criteria, and, even more, the loss of talents who would be bearers of innovations ('non-conformist innovators'). The relatively small elite has this kind of power and the choice is small, so proven personal loyalty asserts itself as a basic criterion for promotion.

The reforms are necessary not only because of the European perspective of Croatia. They are necessary because of the very interest in a stabilised country and region. From this point of view, the implications of a predatory economy and an anomic and passive society, elections based on a corrupt political system, appear as a permanent occupation. Therefore, the remedy for the above-mentioned flaws is simple: a democratic deficit is remedied by more democracy. The remedy for the civil service is even simpler: flaws are remedied by the selection of intelligent and honest people, loyal to democracy and their vocation, and accountable to citizens. A good example and leadership would make a sign of the beginning. Toynbee is right: "Civilization is a movement, not a condition; it is a voyage, not a harbour".¹²

¹² A.Toynbee Study of History.