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Democracy and the Process of Privatization in Croatia

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Democracy and the Process of Privatization in Croatia

by Davor Barisic

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Abstract

The subject of my research is the process of transition in Croatia. It is the process of social, political, and economic changes, which includes the implementation of the multiparty political system and the parliamentary democracy, the restructuring of the economy, and the process of privatization. In my work, I relied on various written sources and spoke with politicians, economists, legal experts and journalists. I conclude that the political leadership of Croatia has to change the countries' foreign and domestic policies. Foreign policy has to be more open and transparent. Domestically, the Government needs to spur the new, positive democratic changes, and create an environment in which the clear division of power and responsibilities between its legislative and executive branches is possible. It needs to urgently come up with measures to stop the economic recession. Revision of the failed process of privatization also has to take place. Favorable laws should be enacted in order to attract foreign investment. These changes will create a new image of Croatia internationally, and open the door to its integration into European and transatlantic communities.
Introduction

"Democracy and the Process of Privatization in Croatia" is a subject of special interest to me. Croatia is my homeland and these processes are its reality. They have a direct effect on the quality of life of the citizens, they affect the overall economy, the culture, the health system, the educational system, human rights, and the process of incorporation of Croatia into the European and transatlantic communities. In order to evaluate these processes objectively and critically I have studied the writings and research of many authors and conducted interviews with different experts in the field. Before I describe the move toward democracy and the process of privatization, I want to give a short overview of the historical events that preceded the period of economic and political transformation. Without the historical background, analysis of economic and political transformation would not be clear, understandable and exact. I can not imagine a discussion about such deep changes as my country is going through without looking back on the historical and ethnic traditions of its citizens.

Through centuries, the Croatian nation was subjugated and under constant pressure from foreign regimes that ruled over it. However, Croats never lost their national consciousness nor did they give up their fight for independence. Through time, they lived in different regions. The notion of "regions" includes historical and traditional Croatian territories. Depending on geo-strategic interests of powerful empires, different foreign powers ruled over these regions. The "tissue" of the Croatian nation did not change despite the circumstances, traditions were kept and the Croats did not allow
themselves to be assimilated. In the historical period I am describing, the phrase “imagined community” best describes Croatia (Anderson, 1991). Even though foreign empires ruled different Croatian lands, Croats kept their allegiance to Zagreb. The “imagined community” lasted for centuries until it slowly, through two Yugoslavia’s, World War II, and the “War for Independence” evolved into an independent country, the Republic of Croatia in 1992.

In contrast to the free Western world, Croatia does not have a tradition of democracy. Democratization process has just started. Croatian people need to undergo their own mental transformation in order to achieve the democratization of their society. Croatia’s goal is to become a member of European and transatlantic communities. To achieve their goal, Croatian people and their newly elected political leadership need to satisfy high international democratic standards, which translates into the complete transformation of their society.

The border between the two historical epochs is never a straight, sharp line, it is usually determined by the future generations. Individuals with the ability to see the future and predict the events that will mark the two epochs are rare. In people’s lives, the old and the new is intertwined, these two live together fighting one another for supremacy, until one of them disappears through the natural process of life and death. In the young forest, the old trees die, but under those that remain new life blossoms (Horvat, 1990, p. 25).
A Personal View

Before I begin the historical analysis of Croatia, I would like to say something concerning my family. This narrative will show how many changes took place during the lifetimes of four individuals representing four different generations. Three of us are still living. All four individuals were born in the same town, Osijek in Eastern Slavonija, and two still live there. I am the youngest and was born in 1974, in the Socialist Republic of Croatia, which was an integral part of the Socialist Federal Republic of Yugoslavia (SFRJ) at that time. In 1991, when I was 17, the Federal Republic simply fell apart. The independent and sovereign Republic of Croatia came into existence. I then lived in the same town, but in a different country. The first military conflicts arose in Eastern Slavonija at that time. Units of the Yugoslav National Army (JNA) and Serbian paramilitary units completely surrounded my town. Together with my family, my mother, father and a younger brother, I lived as a refugee in nearby Hungary and then returned to the free Croatian capital of Zagreb. My father was lucky to live in peace for forty-two years, until 1991. My Grandmother who is still alive, was born in 1923. She lived in four different countries. She was born in the Kingdom of Yugoslavia, and witnessed the destruction of the country in World War II. As a teenager, she lived in the fascist Independent State of Croatia, or NDH\(^1\) that was formed in 1941. Grandmother saw the end of World War II and continued to live in Tito’s SFRJ. In 1991, she witnessed the newest war and the dissolution of SFRJ. I remember my great
grandmother who was born in 1900 and died in May 1991. While my grandmother lived in four countries, witnessed World War II and the War for Independence of Croatia, great grandmother was born in the Austro-Hungarian Empire. She lived in five different countries: the Austro-Hungarian Empire, the Kingdom of Yugoslavia, NDH, SFRJ, and she lived to see the Croatian declaration of independence. Surviving World Wars I, and II, she died before the tragic hostilities broke out in Croatia in 1991.

I believe that this testament of events that have affected a part of my family tree sheds some light on the complexity, speed, and intensity of changes that this region has experienced.

\[1^{NDH} \text{(Nezavisna Drzava Hrvatska) Independent State of Croatia}\]
History

To be able to grasp the meaning of the two processes I will analyze in the thesis, it is necessary to have the basic understanding of the history of Croatian State. Historical overview of the development of Croatian State consists of the following parts:

Period until 1918
Period from 1918-1941
Period from 1941-1945
Period from 1945-1980
Period from 1980-1991
Period from 1991-1995
Conclusion
Period until 1918

Since 1102, the Kingdom of Croatia and Slavonija had an autonomous status in a union with Hungary. In 1527, together with Hungary, the Kingdom became a part of the Habsburg Monarchy. The Kingdom of Croatia and Slavonija preserved its statehood and judicial sovereignty through the “Ban,” who was endorsed by the Habsburg Monarch, a supreme ruler of the states within the union. The Ban was also endorsed by the Croatian Assembly, which retained legislative and judicial power and preserved the Croatian tradition of statehood and sovereignty. The Croatian Coat of Arms stayed the symbol of the Croatian State (Boban, 1990).

The Republic of Venice, a strong Mediterranean power, ruled the Dalmatian part of today’s Croatia, from 1000 until 1797, with many interruptions, since it fought the Habsburg Monarchy, which wanted access to the Adriatic. After the war between Austria and France, and with the Peace Treaty of Campoformio in 1867, the Venetian Republic was dissolved. Dalmatia became a part of the Habsburg Monarchy outside the Kingdom of Croatia and Slavonija, to the disappointment of contemporary Croatian political and economic leaders who wanted to see Dalmatia as a part of the Kingdom of Croatia and Slavonija (Boban, 1990).

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2 In 1527 the Croatian Parliament in Cetingrad decided that the Kingdom of Croatia and Slavonija, together with the Kingdom of Hungary, would enter into a union with the Kingdom of Austria, ruled by the royal Habsburg dynasty. Since then and until the dissolution of the Habsburg Monarchy, Croatia, Hungary and Austria represented a personal union of three independent sovereign states that were tied together through a king from the Habsburg dynasty.

3 “Ban” means a ruler in Croatian, a person that had authority over a state or territory.
The Habsburg Monarchy, or the Austro-Hungarian Empire, as it is more popularly called, remained a unified, centralized monarchy until 1867 when the Austro-Hungarian Treaty divided the Habsburg Monarchy in two parts, the Austrian part and the Hungarian part. The loser in the deal was the "third party," the Croatians. Croatian territories found themselves in two different parts of the Monarchy. Dalmatia was in the Austrian, while Croatia and Slavonija stayed within the Hungarian part. The division was made in regards to the territory and areas of authority. Both the Austrian and the Hungarian part of the Monarchy had its independent legislative and executive bodies. The Monarch, the military and foreign affairs remained unified. (Boban, 1990)

The cornerstone of the Kingdom of Croatia and Slavonija was the Croatian Assembly, "Sabor," and a government headed by the "Ban." The Assembly meant limited independence for Croatia, with autonomy in regards to its internal affairs. However, the Hungarian government broke the resistance of the Croatian People's Party, and through illegal elections characterized by the use of force insured Hungarian majority in the Croatian Parliament (Boban, 1990)

The Croatian lands of Dalmatia and Histria, and the cities of Trieste and Rijeka remained in the Austrian part of the Monarchy. Dalmatia had its own Parliament and Government while in 1825, Histria, as a part of the Austrian coast, constituted the HISTRIAN region with the capital of Pazin. In 1861, Histria was declared a province with a Provincial Parliament sitting in Porec with limited executive powers. In 1850 Trieste enjoyed effective autonomy under the governance of Vienna, but in 1891 it was stripped of its status as a free city. From 1465, the city of Rijeka was ruled by the Habsburgs and
from 1779 it was governed by Hungary. The city was returned to the Kingdom of Croatia and Slavonija in 1848, but the struggle between Hungary and Croatia for this city was not resolved. The “status quo” remained until 1918, when the Habsburg Monarchy ceased to exist. In World War I Croats fought on the Austro-Hungarian and German side, as regular soldiers of the Austro-Hungarian Monarchy, however, there were mixed feelings in regards to the war, since the Croats sought to rid themselves of the Austro-Hungarian domination.

In this part of the analysis, I would also like to mention the Ottoman expansion in 15th century. In 1463, Bosnia became a part of the Ottoman Empire. By occupying Bosnia, the Ottomans threatened the borders of the Monarchy. In 1683, they briefly threatened to take Vienna itself. In the Croatian territories, in 15th and 16th century, Austrian part of the Monarchy formed the “Vojna Krajina,” military border, in order to protect its southern and western borders from invasion of the Turks. (Horvat, 1990)

Period from 1918-1941

After the breakup of the Austro-Hungarian Monarchy, which occurred on October 10th, 1918, the People’s Council of the Slovenes, Croats and Serbs, proclaimed the independence of the newly formed State of the Slovenes, Croats and Serbs on October 19, 1918. The new state included all the lands inhabited by South Slavs that have been a
part of the Austro-Hungarian Monarchy. These were Vojvodina, Bosnia and Herzegovina, Dalmatia, Croatia and Slavonija, Slovenian lands (Koruska, Kranjska, Stajerska, Gorenjska, Gradisce) and Histria plus the cities of Trieste and Rijeka. To the east of the State of the Slovenians, Croats and Serbs lay the independent Kingdom of Serbia and the Kingdom of Montenegro. They gained their independence from the long Ottoman rule in the 19th century.

The Central Board of the People’s Council of the Kingdom of Slovenes, Croats, and Serbs accepted the unification of their State with the Kingdom of Serbia and the Kingdom of Montenegro and together they formed the unified state of the Serbs, Croats and Slovenes. The unification represented the realization of South Slav efforts to stop foreign domination over their territory and populations. This event happened on November 23, and 24, 1918 and the unification was officially proclaimed on December 1, 1918 (Boban, 1990). Divergent ethnic groups found themselves in a unified country unprepared and without knowing one another.

In the beginning, this country was ‘democratic’ and pluralistic, but it could be debated whether it was pluralistic or heterogeneous. There were elements of the pluralistic society which were the national parties, differentiation in regards to the social classes and its political environment in general. The country gave an impression of a pluralistic society but it was just an impression because the starting point of every pluralism is equality. If there is no equality of the pluralistic subjects there is no democracy (Boban, 1990, p. 343).

Even though the new country guaranteed a free political, economic and cultural environment to the Croatian people, in fact, the country was a betrayal of national

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4 "Vojna Krajina," military border, was a territory in a Croatian part of the Monarchy, along the
interests of most peoples, which enabled the centralist Serbian authority to prevail. The Croats lost their statehood that had been continuous for hundreds of years. The Croatian name, flag, and history were outlawed. Cultural and economic development was slowed. For the first time, the Croatian Assembly was sometimes prevented from meeting because of the Serbian pressure and domination that was exerted towards anything Croatian. The new country did not bring freedom to its many peoples (Macedonians, Montenegrins, and the Albanians were not recognized as “nations” even within the frameworks of the country). It was a reactionary state burdened with national and social contrasts, which would prove to be the main factors that contributed to its dissolution in 1941 (Horvat, 1990).

The Kingdom of the Serbs, Croats and Slovenes was not well harmonized. The differences between institutions in Serbia and in the other lands were not ameliorated through merging of Serbian institutions with the institutions of other lands from which the new institutions would derive. Serbian institutions and practices were simply implemented everywhere. The new country was a Serbian Monarchy. There was no ideological basis for the unity of the peoples. From 1918, onwards, the spiritual boost that the different Slavic nations might have enjoyed from entering into this South Slavic union was increasingly disappearing. (Dabinovic, 1990)

The country remained a monarchy ruled by the Serbian Karadjordjevic dynasty with the capital in Belgrade, as a sign of the Serbian State continuity, which insured Serbian supremacy. The country was defended by the Serbian army, which did not

western and northern border of Bosnia inhabited by soldiers who fought the Turks, and their families
transform itself into the Yugoslavian\textsuperscript{5} military. It became an obstacle to equality and a threat to parliamentarism and political and human freedoms. It was a threat to the very future of the country because it always intervened for Serbian causes and often against other peoples of the union. In Croatia, the regime behaved as if it was in an occupied land, violence, beatings, punishments without the legal process, people's property being taken away, and the repression of anti-regime political activity were an everyday sight. The police was entirely a Serbian institution. The strongest Serb political parties represented conservatives in Serbia and were not federally and democratically oriented. The ideas of the creation of "Greater Serbia," orthodoxy as a main religion, and assimilation were represented by the Radical Party. Ideas heralding Yugoslavian centralism and unitarism with a Serbian mark on it represented by the Serbian Democratic Party were also present. In this new country, there was a strong desire for the destruction of Croatian sovereignty, institutions, autonomy, and national consciousness. Proponents of this kind of politics tried to strengthen and consolidate their position and found fertile ground among the Serbs in Croatia. Although both Croats and Montenegrins lost their independence and sovereignty by entering this union, the position of the Montenegrins within the Kingdom was better than that of the Croats because of the influence of their religion (Croats are Roman Catholic, while Montenegrins, like the Serbs, are Orthodox). Slovenia had the status of a Province before entering the union; Bosnia and Herzegovina was annexed to the Austro-Hungarian Monarchy in 1908, separating from the Turkish Ottoman Empire, while Macedonia was freed from the

\footnote{The term Yugoslavia that I am using refers to the South Slavs since the word Yugoslavia in}
Ottoman rule in 1918. In this state of affairs, the Croats were not proportionally represented in the government and diplomatic undertakings of the country. Positions were filled with the unitarists and their political followers. Serbian laws stretched throughout the whole country. Serbian traditions were forced on people through the educational system. Croatian teachers and professors were often discriminated against. High administrative and judicial posts were exclusively filled by Serbs (administrators in Croatia were appointed by the central administration in Belgrade); taxes in Serbia were lower; concessions were given to Serbian companies; majority of the foreign credits were spent in Serbia; the whole Orthodox Church was under the governance of the Serbian Orthodox Church (Dabinovic, 1990).

In the new country, the real battle for democracy, between the liberal and the conservative concept was never fought. The battle over the national question dominated and it blocked the democratization of the political life. It was the period in which the Serbian and the Croatian opposition tried to outsmart one another. Serbian opposition thought that the democratization of the society should be the first task and the national question should be solved thereafter. Croatian opposition held the opposite point of view. Primarily the national question had to be solved and then the democratization of the society would take place. The struggle lasted until the both oppositions realized that the two processes had to take place simultaneously. The domestic problems were closely connected with the position of the Kingdom internationally. It had very complicated relations with its neighbors because of the unresolved border and minority questions. This is why the neighboring countries acted against the domestic stability and integrity of the country (Boban, 1990, p. 344).

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Croatian means "The Land of the South Slavs"
The Kingdom thwarted Croatian political and economic aspirations because the Croatian national sovereignty, parliamentarism, and political and human freedoms were lost.

The nature and the form of the government in the new country were to be determined and executed by a Constitutional commission elected in 1920. The elections were not democratic. They favored the parties of the regime and were held under the terror of the police. The unitarist parties won the majority of the votes. The Constitutional Commission without the participation of the representatives of HRSS, HSP, KP\(^6\) and some other parties, came up with the "Vidovdanski Ustav"\(^7\) on June 28, 1921. The Constitution was decided upon without the participation of the Croatian, Slovenian and the Macedonian nations. The capitalist system, national inequality, state unitarism and centralism, monarchy and Serbian supremacy were made law. The Constitution recognized only three nations: Serbia, Croatia and Slovenia, but by dividing the country into regions, the Constitution destroyed the last remnants of Croatian statehood. Serbian hegemony was felt by all nations in Yugoslavia. However, the national interests could be fully achieved only thorough equality that would allow for overall progress of all Yugoslav ethnic groups—not Serbian domination (Macan, 1992).

In 1927, in politicians in Croatian Assembly started to fight openly against Serbian centralism. The conflict was ripened by the Serbian politicians who organized

\(^6\) HRSS (Hrvatska Republikanska Seljaka Stranka) Croatian Republican Peasant Party, HSP (Hrvatska Stranka Prava) Croatian Party of Rights, KP (Komunisticka Partija) Communist Party

\(^7\) "Vidovdan Constitution" (Vidovdanski Ustav) stands for the Orthodox holiday when the Constitution was created
the assassinations of Croatian representatives to the National Parliament (Pavle and Stjepan Radic, Djuro Basaricek, Ivan Pernar and Ivan Grndjo) on June 20, 1928 in Belgrade. The assassinations signified the end of an era that started with the "Vidovdanski Ustav." On January 6, 1929, King Aleksandar Karadjordjevic annulled the Constitution, dissolved the Parliament, and introduced his absolute power or dictatorship over the country. The country was renamed into The Kingdom of Yugoslavia. The army general headed its government, which was appointed by the king. The Kingdom of Yugoslavia was divided into provinces, called "Banovine." With this division, Croatian territory was broken down in many parts. The provinces were formed in a way that would ensure the majority of the Serbian population within each province. The traditional territorial principles were not followed in favor of guaranteeing Serbian domination. Violence and anarchy ruled. Laws against communists and nationalists were especially tough. There was no freedom of speech or freedom of the press. The Court for the Protection of the Country was formed and it issued many long imprisonments and death sentences. The nationalist and separatist groups that called themselves "Ustase" and whose members gathered abroad around their leader, Dr. Ante Pavelic started to become influential. (Horvat, 1990)

The resistance to Serbian domination was becoming stronger, nations who felt discriminated against were increasingly dissatisfied. Centralism was especially despised, and the forces of cohesiveness that were based on the feeling of "Yugoslavianism" or

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8 Provinces (Banovine)
belonging to the common group of South Slavic nations lost all of their credibility. In 1931, pressure from the opposition forced the king to reintroduce the Constitution.

In 1934, King Aleksandar was assassinated in Marseilles. His successor, Prince Pavle, had the ability to compromise. He represented true federalism and insisted on clearly defining the territory and competencies of Croatia. On August 26, 1939, the Prime Minister Dragisa Cvetkovic, and Vlatko Macek the President of HSS\(^9\) signed the treaty creating the Province or “Banovina” of Croatia within Yugoslavia. It had self-government and it gained some territories in Bosnia and Herzegovina that had a Croatian majority as well as Dalmatia, which found itself in its “homeland” after long centuries of foreign rule.

**Period from 1941-1945**

With the beginning of World War II, the Yugoslav government of Cvetkovic-Macek proclaimed neutrality for the Kingdom of Yugoslavia, but its real position was far from neutral. On March 25, 1941, Yugoslavia signed the “Triple Pact” with Germany and Italy. At the same time, the Communist Party of Yugoslavia or KPJ\(^11\) organized demonstrations against the pact. Two days after its signing, the army turned against the

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\(^9\) Up-risers (Ustase)

\(^10\) HSS (Hrvatska Seljačka Stranka) Croatian Peasant Party

\(^11\) KPJ (Komunistička Partija Jugoslavije) the Communist Party of Yugoslavia
treaty and fought the German occupation for a short period of time. The Yugoslav army dissolved, King and the government went into exile.

German and Italian forces occupied the Yugoslav territories. On April 10, 1941, with Hitler’s blessing, the Independent State of Croatia, the NDH headed by “Poglavnik” Ante Pavelic was proclaimed. This was a fascist state that persecuted Jews, Serbs, Gypsies, and the anti-fascist Croats. In the period until 1945, there were two active political factors in Croatia, the “Ustase” and the communists that in their own ways tried to solve the Croatian “national question” in the midst of unfavorable conditions of war. The KPJ was the ideological force behind the movement for national liberation from fascist occupation. Josip Broz, more commonly known as “Tito,” headed the party that gathered and united all the progressive powers in a fight against fascism. A national liberation army was formed and later it would evolve into the Yugoslav National Army, or JNA. In order to successfully liberate the country, the Russian dictator Stalin gave Tito nine infantry divisions, general Zdanov’s motorized corps, four airforce divisions and the Second Bulgarian Army only for the operations within Serbia. Anti-Yugoslav forces in Serbia were the ‘Chetniks’ led by Draza Mihailovic that numbered about one hundred thousand soldiers, there were also thirty nine thousand soldiers from the Nedic’s Serbian National Guard, ten thousand soldiers were from Ljotic’s voluntary corps...to the west of the Drina river, the situation was very different. From 1944 to 1945, the manpower of the NDH military forces in Croatia equaled the forces of Tito’s partisans there. The

12 Leader of the “Ustase” movement

13 JNA (Jugoslavenska Narodna Armija) Yugoslav People’s Army

14 Name “Chetnik” in Croatian language stands for an individual member of a military unit, before World War II they were the elite units of the Serbian Army

15 Partisans were the voluntary anti-fascist fighters led by Josip Broz “Tito.” The movement was made up of members from all ethnic groups present in the area.
decisive battle between these two forces did not take place. NDH military forces were not militarily defeated. "Wermacht" helped them retreat to Austria. At the end of the war in Slovenia, there were forty thousand partisans and twenty thousand "anti-partisans" (Bilandzic, 1999, p. 121).

As the basis for the federal concept of the new country, the national liberation movement relied on the historical borders of the various provinces. The second Yugoslavia came into existence with the decisions made at the second meeting of the AVNOJ.\textsuperscript{16} It became a country based on equality among its nations. In 1944 the Federal Democratic Yugoslavia was founded – Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Serbia and Macedonia were the federal republics. From April until May 1945 the popular governments were elected in individual federal republics, which was the foundation for forming the Yugoslav federation. On November 11, 1945, the Popular Parliament was formed from the delegates of all nations of Yugoslavia, with the task to draft a new Constitution. The Popular Parliament annulled the monarchy on November 29, 1945 and declared the Federal People's Republic of Yugoslavia, FNRJ\textsuperscript{17} (Boban, 1990).

\textsuperscript{16} AVNOJ (Anti-fasisticko Vijece Narodnog Oslobodjenja Jugoslavije) Anti-fascist Council of the Yugoslav National Liberation

17
Period from 1945-1980

In 1946 and 1947, both the federal and the individual republic Constitutions were created, and laws on the agricultural reform, repatriation, nationalization, and a five-year plan were passed. The law on repatriation\textsuperscript{18} and nationalization was the first law that dealt with ownership issues and enterprise relationships. This law expropriated all large real estate holders with no regard as to who the owners were - individuals, banks, companies, churches, or peasants - when the estate's size exceeded the allowed maximum. The land became state owned, without compensation to its previous owners. The government formed agricultural collectives to whom it gave the expropriated land. The land was also given to the families of war veterans and the families of those that had died in combat. At the same time, the repatriation process was taking place. It moved populations from the poor Yugoslav areas into the rich provinces of Slavonija, Baranja and Vojvodina where they were given land and estates. Newcomers were also placed into the houses that belonged to German families that had emigrated. With repatriation, the demographic picture of the country was changed. For example, Croats from Herzegovina came to Slavonija, Serbs from Croatian region of Lika went to the province of Vojvodina (Maticka, 1990).

Factories, banks, stores, hotels and infrastructure were all nationalized. They became state - owned. Even though minor compensation to the owners was planned, it

\textsuperscript{17} FNRJ (Federativna Narodna Republika Jugoslavija) Federal People's Republic of Yugoslavia

\textsuperscript{18} Repatriation, moving of populations
was never executed. The Yugoslav economy followed the model of state central planning and regulation (Maticka, 1990).

In 1948, the Fifth Congress of the KPJ in Belgrade disregarded all the accusations leveled against Tito by Stalin. Accusations were leveled in regards to many different issues (Trieste, Albania, Yugoslav economy, etc.), but the underlying cause for the conflict was Stalin's desire to directly and totally control Yugoslavia in a same way in which he controlled Eastern European countries. Tito's speech in Ljubljana on May 27, 1945 marks the beginning and best illustrates the reasons for the break between the two leaders and countries. The speech was given following the crisis over the governance of the city of Trieste (now in Italy), from which the Yugoslav troops were forced out by the Western Allies and without any Soviet reaction (Djilas, 1983).

It has been said that this was a just war, and we have regarded it as such. But we also seek a just conclusion. Our goal is that everyone be the master in his own house. We are not going to pay the balance on others' accounts, we are not going to serve as the small change in anyone's currency exchange, we are not going to allow ourselves to become entangled in political spheres of interest. Why should it be held against our peoples that they want to be independent in every respect? And why should that autonomy be the subject of restrictions and dispute? We will not be dependent on anyone ever again, regardless of what has been written and talked about – and a lot is being written, and what is written is ugly and unjust, insulting, and unworthy of our allies.\(^9\) Today's Yugoslavia is no object for bartering and bargaining (Djilas, 1983, p. 91).

Tito broke away from Stalin and the overwhelming influence of the Soviet Union. Relations between Yugoslavia and the Warsaw Pact countries normalized only in 1953.

In 1950, the Law on Enterprise Management was passed. According to this law, workers

\(^9\) "Tito" was thinking of the Western press: Yugoslavia had fallen into the Soviet sphere of influence, and was viewed as a satellite of the U.S.S.R.
themselves would manage the enterprises. The system of socialist self-management came into existence. In 1955, counties were given more autonomy as units of local self-government. The new Constitution of 1963, written by the constitutional commission and approved by the National Parliament provided the foundation for the development of the self-governing system of the country and changed the name of the country to Socialist Federal Republic of Yugoslavia, SFRJ. In 1967, 1968 and 1971, Constitutional amendments were passed. They transferred some of the responsibilities of the federation to the republics and provinces. The re-organized federation was made up of six socialist republics, (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia), and two autonomous provinces, Kosovo and Vojvodina. At the federation level, the legislative body was the federal Parliament whose representatives were selected from all the republics and provinces. The Federal Executive Council had the function of the federal government. Its members came from all the republics and provinces.

The ruling KPJ whose name had changed into the League of Communists of Yugoslavia or SKJ was organized in a similar manner. The central body of the party on a federal level was the Central Committee, CK of the SKJ to which the representatives from all the republics and provinces were chosen. Every republic and province had its own CK.

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20 SFRJ (Socijalisticka Federativna Republika Jugoslavija) Socialist Federal Republic of Yugoslavia

21 SKJ (Savez Komunista Jugoslavije) League of Communists of Yugoslavia

22 CK (Centralni Komitet) Central Committee
The republics and the provinces passed their own Constitutions and laws that had to be in accord with the federal Constitution and laws. The SFRJ President and the President of the CK. SKJ was Marshal Josip Broz Tito. The center of power was Belgrade. Contrary to the Soviet Union and the Eastern European communist regimes, the communist system and rule in SFRJ was less totalitarian and less rigid. The notion of “central planning” in SFRJ was not the same as that practiced in the Soviet Union and satellite Eastern European countries. Managers of Yugoslav enterprises had certain freedoms in decision making and they maintained business relationships with enterprises from Western Europe. Cultural and scientific cooperation between Yugoslav and Western specialists and experts grew. Travel for Yugoslav citizens was not limited; they could travel to Western, as well as Eastern European countries.

In its foreign policy, Tito found equilibrium for the country through skillfully walking the tightrope between the East and the West. He was a leader among the heads of states of the third world, one of the founders of the “non-aligned” movement. Yugoslavia chose not to take part in either the NATO\(^23\) or the Warsaw Pact.

The regime in the country was clearly autocratic. Tito controlled the party and the army. Everyone who disagreed with him found him or herself out of the official politics. One of Tito’s closest aides, Milovan Djilas, was completely removed from the Yugoslav political arena and subsequently imprisoned. One of the reasons for his removal were his articles in Borba,\(^24\) in which he called for the KPJ to be reformed in order to take the

\(23\) NATO North Atlantic Treaty Organization

\(24\) Borba, Yugoslav Daily Newspaper
leading role in democratization of the country. Tito was the main proponent of the slogan “brotherhood and unity” between all the nations and nationalities of SFRJ. In order to stay in power throughout his years as a ruler, Tito had to fight the centralist Serbian and the pro-autonomy forces in SFRJ. He was an expert at playing this delicate role.

Yugoslavia was a very conflicting country, more volatile than the Soviet Union. It was because the Russian nation, in comparison to other nations in the USSR demographically, culturally and economically had the power to keep the USSR while it could exist in the global arena. The Serbian nation in SFRJ made up only about 36% to 37% of the country’s population and was unable to do the same (Bilandzic, 1999, p. 124).

In 1971, the so-called “Croatian Spring” movement signaled the culmination of a 4-year Mass Movement or MASPOK.\textsuperscript{25} MASPOK was a movement aimed at liberalizing the Yugoslav economy and granting more recognition to the Croatian nation. The younger, reformed part of the communist elite were the ideological engine of the movement. Cultural and health institutions as well as the students and employees of public institutions also participated in this movement.

The main tenets of the MASPOK were the following demands:

1. Mixed economy (gradual transition towards market economy);
2. Multiparty political system;
3. Equality in regards to the language (Serbian language was the official language in the JNA);
4. More autonomy for the federal units;

\textsuperscript{25} MASPOK (Masovni Pokret) Mass Movement
In 1971, students of the University of Zagreb, supported by the students from Split and Zadar, started the protest seeking political and economic reforms. Students specifically asked for changes in the trade and foreign currency systems in order to stop foreign currency from flowing into the central treasury in Belgrade. They wanted foreign currency to remain in the hands of those who earned it, namely Croatian economic entities. In order to put down the movement, Tito used centralist Serbian forces. A series of repressive measures against the leaders and the participants of the movement followed. Dr. Mika Tripalo, one of the ideological leaders of the movement, was forced into retirement losing his job. Savka Dabcevic-Kucar who was the President of the Croatian government and President of the Central Committee of the League of Communists of Croatia, CK SKH, was relieved of all her duties. Stjepan Mesic, Croatian Parliament representative, and the Orahovica county President, ended up in jail. Drazen Budisa, student President of academic affairs at the University of Zagreb, was expelled from the university, and ended up in prison as well. Ivan Zvonimir-Cicak, one of the student leaders, was also imprisoned as were many others. This was the time of numerous framed political processes that produced many political prisoners (Cohen, 1995).

26 CK SKH (Centrlni Komitet Saveza Komunista Hrvatske) Central Committee of the League of Communists of Croatia

27 Individuals mentioned above, among others were crucial for creation of today’s Republic of Croatia. Mika Tripalo and Savka Dabcevic-Kucar were the founders of the HNS (Hrvatska Narodna Stranka) Croatian People’s Party, Drazen Budisa was one of the founders and is the President of the HSLS (Hrvatska Socijalno-Liberalna Stranka) Croatian Social-Liberal Party now, Ivan Zvonimir Cicak is the President of the HHO (Hrvatski Helsinki Odbor) Croatian Helsinki Committee, Stjepan Mesic was elected President of the Republic of Croatia in the 2000 multiparty elections
Eduard Kardelj, Tito's closest aide and an ethnic Slovenian, recognized that national movements for autonomy were strengthening in Yugoslavia. He advised Tito that a new Constitution was necessary to bring about compromise between the two currents and calm the situation down.\(^{28}\) The Federal Parliament announced the new Constitution in 1974. It reflected the ideas of Eduard Kardelj. The new Constitution, brought about the basis for the different system of government, the Confederation in stating the right of every nation to self-determination and the right to secession based on the free will of the citizens. This scheme was later used as the basis for republics to separate from SFRJ because the Constitution of 1974. In the time period from 1974 to 1980, Yugoslavia enjoyed relative political and economic stability.

**Period from 1980 to 1991\(^{29}\)**

In 1980, Josip Broz Tito died. His role as the President of the country was taken over by a collective and rotating Presidency. This body was made up of one representative from each republic and each autonomous province. On October 24, 1987, the Serbian Academy of Arts and Sciences, SANU,\(^{30}\) published a "Memorandum"

\(^{28}\) Student protests and skirmishes with the police in Croatia threatened to escalate and draw the federation into larger crisis.

\(^{29}\) Due to the large number of relevant events that happened from 1980 until 1995 I placed the events in chronological order for clarity. In creating the chronology, I used the book "War in Croatia and Bosnia and Herzegovina 1991-1995" edited by Branka Magas and Ivo Zanic (1999)

\(^{30}\) SANU (Srpska Akademija Nauka i Umetnosti) Serbian Academy of Arts and Sciences
according to which the Serbs in Yugoslavia were demographically in danger, they were politically oppressed and economically discriminated against. The SANU called for the re-centralization of the country (an even more centralized Yugoslavia), and the revision of the borders between the republics to reflect Serbian demography. In November 1987, Slobodan Milosevic became the President of the CK SKS\textsuperscript{31} and he took control of the party in Serbia. The tensions between the Serbs and the Albanians in Kosovo were becoming more and more visible. In 1988, extreme nationalism in Serbia was awakened. Serbian demonstrations and meetings of the so-called “anti-bureaucratic revolution” were taking place in Vojvodina and Montenegro, and brought down their provincial and the republic governments. Politicians loyal to Belgrade (to Milosevic personally) were appointed to head these governments. Demonstrations of Croatian Serbs in Croatia started as a support for Belgrade in a struggle against the “counter-revolution” in Kosovo. This would be the beginning of future Serbian rebellion in Croatia (Ramet, 1995).

On March 16, 1989, Ante Markovic became the President of the FBC. He created the program for the transition to a mixed and then market economy and for “controlled” political pluralism.

On March 28, 1989, the Serbian Parliament announced a new Serbian Constitution with which it stripped the two autonomous provinces of Kosovo and Vojvodina of their autonomous status, but Serbia kept its three representatives in the SFRJ collective Presidency. Under this system, Serbia de facto got three votes in that

\textsuperscript{31} CK SKS (Centralni Komitet Saveza Komunista Srbije) Central Committee of the League of Communists of Serbia
body, and with the vote of the satellite representative of Montenegro, Serbia could block actions in all federal institutions.

On March 25, 1989, the Croatian Social-Liberal League was founded as the first non-communist party in Croatia. On June 17, 1989, Croatian Democratic Union, HDZ\textsuperscript{32} was established in Zagreb. Its President was Dr. Franjo Tudjman. He would later play an important and decisive role in the transformation process.

On September 27, 1989, Slovenia passed Constitutional amendments in which it placed its laws above those of the federal republic. Slovenia decided that a state of emergency in SFRJ can not be declared without the consent of the Slovenian Parliament.

On December 6, 1989, Slobodan Milosevic became the President of Serbia.

On December 8 - 25, 1989, the citizens of Zagreb asked for multiparty elections to take place. The international political arena had been drastically changing. The Berlin Wall has fallen, the two Germanys were united, the Soviet Union fell apart, movements similar to those in Croatia took place in many Eastern European countries.

On December 25, 1989, reformists in the SKH led by Ivica Racan wrote a proposition or initiative for the legalization of the multiparty system, which the Croatian Parliament would eventually endorse.

On January 20 - 22, 1990, on the occasion of the Fourteenth Congress of the SKJ, an attempt to impose Serbian domination failed with the departure of the Slovenian and Croatian delegations during the session of the Congress.

\textsuperscript{32} HDZ (Hrvatska Demokratska Zajednica) Croatian Democratic Union
On February 17, 1990, in the Croatian town of Knin, Serbian Democratic Party, SDS was formed with Jovan Raskovic acting as its President.

On February 21, 1990, a federal state of emergency was announced in the province of Kosovo. Army and police forces appeared on the streets, putting down Albanian demonstrations.

On February 24, 1990, the first official HDZ congress took place in Zagreb. The gathering had the nationalist rhetoric that was enhanced by the statement of Dr. Franjo Tudjman who legitimized the fascist NDH. The Croatian Serb response to this was a huge meeting on Petrova Gora mountain in Croatia.

On April 7 - 8, 1990, parliamentary and presidential elections were held in Slovenia. After the elections, five non-communist parties formed the new government. The leader of the reformed communists, Milan Kucan, was announced President of the republic by the Slovenian Parliament.

On April 22 - 23, 1990, parliamentary elections took place in Croatia. The HDZ won the elections with 43% of the votes, which gave the party 68% of the seats in the Upper House of the Parliament.

On May 14, 1990, the federal army command made the decision to disarm the units of territorial defense of the republics of Croatia, Slovenia, and Bosnia and Herzegovina, except in the counties where the majority of the population was ethnic Serb.

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³³ SDS (Srpska Demokratska Stranka) Serbian Democratic Party
On May 30, 1990, the peaceful transfer of power to the new election winners took place. The new multiparty Parliament chose Dr. Franjo Tudjman as the President of the collective Presidency of Croatia (collective Presidency was an organ inherited from the previous system, since the constitutional changes did not take place yet).

On June 27, 1990, SDS united the counties of northern Dalmatia and Lika in which the ethnic Serbs made up the majority of the population. This was the first step towards the creation of the unconstitutional rule of the SDS in that part of Croatia.

On July 29, 1990, federal Prime Minister Ante Markovic registered his own political party on the federal level, the League of the Reformed Powers, but the party's success was marginal.

On August 12, 1990, JNA distributed weapons to the Serb population in the continental part of Croatia's northern Dalmatia.

On September 10, 1990, Slovenia and Croatia proposed the peaceful transformation of Yugoslavia from a federation into a confederation. Their proposal was rejected by Serbia and Montenegro.

On December 22, 1990, the new Constitution of Croatia was written by the "Commission for the Constitutional Matters." It was endorsed by the Croatian Parliament.

On December 23, 1990, Slovenian Parliament endorsed a plebiscite about the sovereignty and independence of this republic.
Period from 1991-1995

On January 9, 1991, the SFRJ Presidency ordered all the paramilitary forces disarmed by the army; however, this order was not executed. The Croatian government considered the Serbian militia as a paramilitary force, but the SFRJ Presidency considered the Croatian National Guard, ZNG,\textsuperscript{34} which was formed within the regular police forces in Croatia, to be the paramilitary force.

On January 25, 1991, the SFRJ Presidency made the decision against military intervention in Croatia despite the pressures from Serbian and Montenegrin leaderships.

On February 21, 1991, the Croatian Parliament announced the supremacy of republic laws over federal laws. It endorsed a resolution about the process of peaceful separation from the SFRJ.

On February 28, 1991, the so-called “National Council of Croatian Serbs of the Serbian Autonomous Region, SAO\textsuperscript{35} Krajina” endorsed a declaration on separation from Croatia. According to the council, SAO Krajina would stay within SFRJ, together with Serbia, Montenegro and the remaining republics and nations that accepted it as their country.

\begin{itemize}
\item \textsuperscript{34} ZNG (Zbor Narodne Garde) Croatian National Guard, police forces that evolved into the Croatian Army
\item \textsuperscript{35} SAO (Srpska Autonomna Oblast) Serbian Autonomous Region, it was a Serb self-proclaimed autonomous region within Croatian territory
\end{itemize}
On March 12 - 13, 1991, an attempt to invoke a state of emergency in the country didn’t pass at the special session of the nine member SFRJ Presidency (representatives from each of the republics and autonomous provincès and a SKJ President).

On March 14, 1991, the President of the Presidency of SFRJ, Borislav Jovic of Vojvodina, resigned in order for JNA to take over the country through a military coup, but the JNA chiefs did not follow through. The Croatian representative Mesic was supposed to succeed Jovic.

On March 15, 1991, Croatian Serbs declared independence of the so-called SAO Krajina from Croatia, in Knin.

On March 25, 1991, Serbian and Croatian Presidents Milosevic and Tudjman met in Karadjordjevo. There are strong indications that the talks revolved around the overthrow of the federal government and the physical division of Bosnia and Herzegovina between Serbia and Croatia.

On March 31, 1991, the first armed conflict between the regular Croatian police and the Croatian Serb paramilitaries took place in Plitvice, Croatia.

On April 1, 1991 SAO Krajina requested annexation to Serbia, but the official Serbia never responded to that request.

On May 5, 1991, a regular Croatian police unit in Borovo Selo was attacked by the Croatian Serb paramilitaries aided by the JNA. 12 policemen were killed.

On May 15, 1991, the Serbian block of the SFRJ Presidency prevented the regular annual rotation of the President. The President was supposed to be the Croatian representative Stjepan Mesic.
On May 19, 1991, Croatia held a referendum on which 93.24% of the citizens that participated voted for an independent and sovereign Croatia.

On May 28, 1991, ZNG was publicly introduced in Zagreb. It would gradually evolve into the Croatian Army, HV.36

On June 12, 1991, Presidents Izetbegovic (Bosnia and Herzegovina), Tudjman and Milosevic met in Split to discuss the possibilities for the peaceful resolution of the conflict; however, their attempt was futile.

On June 21, 1991, in Belgrade, American Secretary of State James Baker protested against the use of force for preserving Yugoslavia, as well as protesting the independence of Slovenia and Croatia.

On June 25, 1991, the Parliaments of Croatia and Slovenia declared independence and sovereignty of their republics from SFRJ.

On June 26, 1991, the federal government declared these decisions illegal and ordered federal police and JNA to take control of the borders of the federation. Representatives of Slovenia and Croatia walked out of the federal Parliament.

On June 27, 1991, war broke out between the units of the JNA and the territorial defense units of Slovenia.

From June 30 - July 1, 1991, under constant pressure from the EU, Stjepan Mesic was named President of SFRJ.

On July 5, 1991, the EU placed an embargo on import of weapons in SFRJ and froze all financial help for the country.
On July 7, 1991, under the umbrella of the EU, negotiations in Brijuni took place ending the war in Slovenia. Slovenia and Croatia agreed to postpone their decisions on independence for the next three months.

On July 8, 1991, the U.S. government announced that it would accept the independence of the two republics if it were achieved peacefully, also it joined the embargo of the EU.

On July 18, 1991, SFRJ Presidency ordered the withdrawal of the JNA from Slovenia. In July and August, Serb paramilitaries terrorized the Croats in eastern Slavonijan villages in Croatia.

On August 2, 1991, all the parliamentary parties formed the government of “democratic unity” by consensus and in order to better defend Croatia. Conflicts in western Slavonija started. JNA armed and trained the Serb paramilitaries.


On September 7, 1991, under the sponsorship of EU the “Yugoslav Peace Conference” opened in the Hague. Lord Carrington of Great Britain presided over the conference. The basis for the negotiations was insuring of minority rights and the fact that the borders of the republics can not be forcefully changed.

On September 14, 1991, all the army bases in Croatia were blocked by the ZNG. On September 17, under Lord Carrington’s sponsorship, Presidents Tudjman, Milosevic and the federal defense minister Veljko Kadijevic signed the cease-fire, which was broken in three days.

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36 HV (Hrvatska Vojska) Croatian Army
On September 20, 1991, Veljko Kadijevic announced that the JNA would militarily intervene in Croatia.

On September 21, 1991, the Croatian Army headquarters were established with the former JNA general Antun Tus as the Chief of Staff.

On September 25, 1991, resolution 713 of the Security Council of the UN invoked an arms embargo for all the SFRJ republics.

On October 1, 1991, JNA and the Montenegrin paramilitary forces attacked the Croatian historical city and the famous Adriatic tourist resort of Dubrovnik. The navy of the JNA blocked Croatian ports. War raged in Croatian towns of Zadar, Sisak, Vukovar, Osijek, Sibenik, Vinkovci, Karlovac; artillery demolished Croatian towns and villages. It produced about four hundred thousand displaced persons who found their refuge in neighboring countries and free Croatian areas.

On October 7, 1991, the three-month grace period for Slovenian and Croatian confirmation of independence ran out. Slovenia activated its independence declaration and the JNA started to withdraw from that republic. The presidential and government headquarters were attacked by surface to air missiles.

On October 8, 1991, Croatian Parliament broke all legal ties between Republic of Croatia and SFRJ. It denied the legitimacy and legality of all federal bodies with jurisdiction in Croatia. Cyrus Vance was appointed as a personal representative of the UN Secretary General for SFRJ.

On October 18, 1991, at the conference in The Hague the EU proposed a plan for Yugoslavia to be the union of independent states, which would cooperate in economic
and security areas. The joint institutions were to be the “Council of the Ministers,” an “Executive Commission,” and the “Court of Appeals.” The republics that accepted this plan would be recognized as independent without changing their present borders. Minorities would have an opportunity to hold dual citizenship. The Presidents or Parliaments of all republics except Serbia accepted the plan, however Montenegro later withdrew its support. The war in Croatia was still raging.

On November 8, 1991, the EU Council of Ministers invoked a trade embargo on the practically non-existent SFRJ. At the same time, the UN Security Council proposed an oil embargo.

On November 18, 1991, the JNA, Serbian territorial defense units and the Serb paramilitaries occupied the Croatian city of Vukovar after months of artillery siege. Many of the civilians remaining were in flight and others were killed or transported into Serb concentration camps.

On December 9, 1991, at the “Yugoslav Peace Conference” in The Hague, Badinter\textsuperscript{37} Commission reported that the SFRJ was dissolving.

On December 17, 1991, the EU requested that the republics which desire independence file an application for international recognition. The application was to be reviewed by the Arbitrary Commission. Slovenia, Croatia, Bosnia and Herzegovina, Macedonia and Kosovo responded to this proposal. Serbia and Montenegro rejected the conclusion of the Arbitrary Commission maintaining instead that the republics were

\textsuperscript{37} Robert Badinter, President of the French Constitutional Court, President of the Arbitrary Commission of the Yugoslav Peace Conference created by the EU in the fall of 1991, the Arbitrary Commission of the Yugoslav Peace Conference was called Badinter Commission
unilaterally seceding. They declared themselves to be the only legal successors to the
SFRJ.

On December 19, 1991, SAO Krajina proclaimed itself an independent state even
though it was on Croatian territory. Its name was “Serbian Krajina Republic,” RSK\textsuperscript{38}.

On December 20, 1991, Ante Markovic resigned as the federal Prime Minister.

On December 23, 1991, Germany announced the recognition of Slovenia and
Croatia, which was to become official on January 15, 1991.

On December 30, 1991, President Tudjman stated that the three way partition of
Bosnia and Herzegovina and the annexation of Serbian and Croatian parts to Serbia and
Croatia respectively, with the independent Bosnian Muslim state as a tampon zone would
be the best possible solution for Bosnia and Herzegovina.

On January 2, 1992, Croatian Defense Minister Gojko Susak and General Andrija
Raseta signed the unconditional cease-fire in Sarajevo.

On January 8, 1992, the UN Security Council approved the deployment of UN
peacekeeping troops as a part of Cyrus Vance’s plan.

On January 15, 1992, the EU recognized Croatia and Slovenia as independent
states.

On February 21, 1992, under resolution 743, the UN Security Council formed the
UNPROFOR\textsuperscript{39}. Based on Vance’s plan, troops were supposed to be placed in four
sectors of Croatia that were controlled by local Serb paramilitaries.

\textsuperscript{38} RSK (Republika Srpska Krajina) Serbian Krajina Republic

\textsuperscript{39} UNPROFOR United Nations Protection Force
On April 6, 1992, the U.S. recognized Bosnia and Herzegovina, Croatia, and Slovenia.

On April 7, 1992, Croatia recognized Bosnia and Herzegovina in its original borders.

On April 27, 1992, in Belgrade, the Federal Republic of Yugoslavia or SRJ\(^{40}\) was proclaimed. It was made up of the republics of Serbia and Montenegro and the former provinces of Vojvodina and Kosovo.

On July 7, 1992, the Croatian army broke the siege of Dubrovnik.

On January 22, 1993, the Croatian army freed an occupied part of Dalmatia. After the operations, it took control of an important bridge of Maslenica, the Zemunik airport, and the Peruca power plant.

On April 23, 1993, strong UN international sanctions were invoked on SRJ.

On May 5, 1993, the Norwegian Thorwald Stoltenberg replaced Cyrus Vance as the President of the UN sponsored “Peace Conference on Yugoslavia.”

On May 25, 1993, with resolution 827 of the UN Security Council, the ICTY\(^{41}\) in The Hague was established.

On September 9, 1993, the Croatian army took control of an occupied pocket Medak in the Croatian province of Lika, crimes against the Serb civilians were committed in this action.

\(^{40}\) SRJ (Savezna Republika Jugoslavija) Federal Republic of Yugoslavia

\(^{41}\) ICTY International War Crimes Tribunal for Former Yugoslavia
On September 24, 1993, the Croatian Parliament called on the UNPROFOR to disarm and dissolve the Serb Paramilitaries in the so-called “pink zones.”

On November 2, 1993, secret negotiations between Croatia and RSK took place in Oslo.

On November 15 - 16, 1994, Lord Owen and Thorwald Stoltenberg presented the outline of an agreement on the economic cooperation of Croatia and RSK (distribution of electricity from Croatia to RSK, opening of the oil pipeline, opening of a Zagreb-Belgrade highway).

In November 1994, the Croatian army and the HVO started an offensive on Serb positions in Livanjsko Polje region in Bosnia and Herzegovina. The goals of the offensive were the approach to the RSK capital of Knin from the north and connecting with the fifth corps of the Army of Bosnia and Herzegovina in Bihac.

On November 21, 1994, NATO launched a missile attack on the Udbina airport (the airport was used by the Bosnian Serb forces for air attacks on Bihac and other areas) in the Serb occupied Croatian province of Lika.

On December 2, 1994, Croatian government representatives and the RSK leaders signed an agreement to solve various economic questions. Co-signers of the agreement were the Russian and the U.S. Ambassadors to Croatia, Peter Galbraith and Leonid Kerestedjijanc.

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42 “Pink zones” were parts of Croatia controlled by the Serb paramilitaries and under protection of UNPROFOR

43 HVO (Hrvatsko Vijece Obrane) Croatian Defense Council, the army of Bosnian Croats

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On January 12, 1995, Croatia refused to extend the UNPROFOR mandate after its expiration on March 31, 1995.

On January 30, 1995, EU, the U.S., Russia and the Co-Presidents of the “Peace Conference on Yugoslavia” introduced the Z-44 plan for RSK, but the RSK refused to accept it.

On March 31, 1995, the UNPROFOR mandate in Croatia expired. The UN Security Council endorsed three resolutions that divided the forces of the UNPROFOR into UNCR045, UNPROFOR in Bosnia and Herzegovina and the UNPREDEP46 in Macedonia.

On May 1 - 2, 1995, through its operation “Lightning,” the Croatian Army liberated Serb-held western Slavonijan part of Croatia. Rebel Serbs launched missiles on Zagreb and other Croatian cities in retaliation.

In June 1995, the Croatian Army reached the top of Mount Dinara and advanced toward the rebel Serb stronghold of Knin. Croatian Army and HVO took the towns of Bosansko Grabovo and Glamoc in western Bosnia and Herzegovina (near the Croatian border). The Croatian town of Knin was half-surronded.

On August 4 - 8, 1995, in operation “Storm,” the Croatian Army took control of all the Serb occupied Croatian territories except for eastern Slavonija. The operation

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44 Z-4 was the plan determining the position and the degree of autonomy RSK would have after it is integrated into the Republic of Croatia

45 UNCR0 United Nations in Croatia

46 UNPREDEP United Nations Preventive Deployment
produced a massive Serb exodus from these parts. Those left behind, the old and disabled were exposed to violence and terror.

On November 12, 1995, leaders of Croatia and the local leaders of the eastern Slavonijan Serbs signed a treaty on peaceful reintegration of Eastern Slavonija into the Republic of Croatia. This was the end of war in Croatia and the beginning of the peaceful reintegration of Eastern Slavonija into Croatia.

Conclusion

Based on the literature I have studied, my opinion about the dissolution of former Yugoslavia; causes and responsibilities for the war in Croatia; and the consequences of war in Croatia is best reflected in following paragraphs.

In “Tito’s” period, Yugoslavia had three basic integral factors; “Tito” with his charisma, SKJ as a multiethnic party and JNA as a multiethnic army. Seven and a half years after “Tito’s” death in September 1988, at the 8th session of the CK SKS, Slobodan Milosevic removed all his opponents from the party and from the republic bodies. In January 1990 at the 14th congress of the SKJ the federal party organization was destroyed. This was followed by the dissolution of multiethnic JNA and the beginning of its evolution into the Serbian army. Growth of the Serbian nationalism and the militant policies of Slobodan Milosevic led to homogenization of multiethnic bodies and nationalisms in Croatia and Slovenia. Milosevic used nationalistic rhetoric to gain the
support of the Croatian and Bosnian Serbs for his militant politics. He was encouraged by Croatian President Tudjman's approach. Tudjman wished to enlarge Croatia at the expense of Bosnia and Herzegovina. Milosevic had total control over JNA and it became his army. If we add the passive, undetermined and divided international community that did not intervene on time, the war in Croatia was unavoidable (Mesic, 1999). The legacy of war strongly affected processes of democratization and economic transformation of newly independent Croatia.

From 1990 until 1999, 700,000 jobs were lost in the industrial sector of Croatia. The country experienced strong intellectual downfall. Academia did not participate in the development of Croatian society because the political leadership did not respect, acknowledge, or use, the expert advice of the academics. Answers for economic problems were not sought from expert economists. Process of de-urbanization started as well. Money was invested only into Zagreb, other regions and towns were left to themselves. Young, qualified, and bright cadres are leaving Croatia, because they don’t have a chance to apply their expertise at home. These negative processes have to be stopped. In order to overcome its present difficulties, Croatia needs to rely on itself, and try to meet the conditions that would allow it to receive help from the international community (Bilandzic, 1999).
Development of Democracy in Croatia

"Theory and Practice"

This part of my thesis consists of the following subheadings:

Democracy

Electoral Systems and Elections in Croatia

Constitution

Croatian Parliament “Sabor”

President

Government

Judiciary

Conclusion
Democracy

In the beginning of the 90's, democratic changes spread through the former communist countries in Europe, causing the destruction of communism and introducing democracy as a form of government. In most countries, this was a relatively peaceful process. However in former Yugoslavia, political, economic, and ethnic instability was complicated by the war. Break up of Yugoslavia and the war in Croatia and Bosnia and Herzegovina surprised and shocked the world. Bombed cities, burned villages, killed civilians, invalids, concentration camps, rivers of displaced persons and refugees were the everyday pictures from the war torn areas of Croatia, which filled the news headlines throughout the world. In the environment full of nationalism, hatred, and intolerance, newly independent Croatian State had to undergo the transformation of its political and economic systems and implement democratic changes. Process of democratization was greatly hindered by war, however some changes did happen. Definitions of democracy come in all shapes and sizes. Here are a variety of definitions.

“Democracy (is) not majority rule; democracy is diffusion of power representation of interest, recognition of minorities” (John Calhoun as paraphrised by Rojek 1989,63).

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47 Definitions of democracy, its basic principles and requirements I derived from “The Book of Democracy” by James David Barber (1995) and “Democratic Theory and Post-communist Change” by Robert D. Grey (1997). Many books on democracy have been written, but these books gave me the basis upon which I will evaluate the state of democracy and human rights in my country.
"Democracy is government by the people; that form of government in which the sovereign power resides in the people as a whole, and is exercised either directly by them... or by others elected by them" (Oxford English Dictionary, 1993).

"Democracy is the form of state within which the distribution of power in the state is determined exclusively by the social factors of power, but is not shifted in favor of any one class through the application of material means of coercion" (Otto Bauer in Meyer 1957 [1986], 65).

"Democracy is a system in which parties lose elections. There are parties, divisions of interest, values and opinions. There is competition organized by rules. And there are periodic winners and losers" (Przeworski 1991, 10).

According to James D. Barber, fundamental definition of states that a "Democracy is Government Elected by People" (Barber, 1995, p. vii). Democracy is not perfect in any country. It largely depends on health of the political system of a given country. Political structure of the country has to be as healthy as possible because the only hope for respect of dignity of an average man is democracy. Democracy needs to be derived from people and it goes back to the people. Democratic society has to have a regulated economic, political and legal system, which need to enable every citizen to in practice participate in the process of decision making, and in everyday life freely exercise
his or her democratic rights and freedoms. Here are the three essentials and requirements for democracy as seen by Barber:

The Three Essentials of Democracy:

1. Democracy is a national government elected by the people
2. Democracy requires a Constitution
3. Democracy requires human rights (Barber, 1995, p. 3)

On free, direct democratic elections, people have to choose their representatives. Constitution is the highest law of a country. It shapes all areas of social life as well as human rights. Croatian Constitution is a solid framework, which ensures basic freedoms and rights of people and citizens, however in practice mechanisms that control the realization of these rights have to function. Concentration of power in Croatia was mostly in the hands of the President. The balance of power in the country was altered, since other democratic institutions were not able to exert enough power to keep the necessary democratic equilibrium. Here are the four major requirements of democracy as seen by Barber:

1. Democracy must control violence.
2. Democracy must provide freedom and equality.
3. Democracy requires real law.
4. Democracy needs reason. (Barber, 1995, p. 4,5,6)
Violence has to be controlled in a democratic manner. Every democracy has its police and army, which have to respect and obey the law. Police has to function within the state in order to fight violence. Army is in charge of defending the sovereignty and territorial integrity of the country. Democratic governments have to control the army and police.

Laws have to implement and provide justice. Law in itself has to be democratic and just. Many countries have laws, but they don’t have democracy. In order to realize their democratic rights, legal system has to exist independently from politics.

In order to realize their democratic rights, people need to posses some knowledge that is gained through education, media, in the workplace and through various other means.

Electoral Systems and Elections in Croatia

First Multiparty Elections

On December 12, 1989, at the 11th Congress of SKH, the democratically oriented politician Ivica Racan was elected party president, at a time when tensions between republics were rising. Racan believed that multiparty elections needed to take place in Croatia for peaceful resolution of this crisis. The elections were held on April 22, 1990, shortly after Racan’s inauguration. It was done in order to avoid JNA blockade of the
elections, since there was a growing threat of army intervention. In the meantime, the first political parties, each with a different program were formed. The main problem was organization of multiparty elections after 40 years of one party rule in Croatia (Plestina, 1995).

Since the electoral system shapes the nature of the government which emerges, as well as its relationship to the society on behalf of which it rules, it can be seen as the foundation of the entire socio-political structure (Plestina, 1995, p. 127).

The committee of experts for elections held deliberations and came up with the majority system to be adopted for the elections. This system favors large political parties. The proportional system instead bases itself on proportional representation and a coalition government. It favors, small political parties and variety of interests. At the time, political parties were mushrooming, 40 parties were registered for the 1990 elections. The decision to adopt the majority instead of the proportional electoral system was backed by the argument of simplicity of majority system, its clarity for citizens and transparency of results, which increased legitimacy of the process. In the majority rule electoral system, the winning party would receive 50% plus one vote of all registered voters, which had to exceed one third of the votes of the electoral roll. If the first round did not produce a winner, candidates above 7% cut off line would move to second round where the candidate with plurality would win (Plestina, 1995). The elections did proceed smoothly.
HDZ won the elections after two rounds. Croatia and the international community recognized the results of the elections. SKH changed its name into SKH-SDP,\textsuperscript{48} then to SDP.\textsuperscript{49} HDZ had 43% relative majority that translated into 69% of seats in the Parliament. SDP and the Socialist Alliance had 34% of votes and it translated into only 25% of seats in Parliament. This shows how the majority electoral system, even though it was implemented according to rules and regulations, did not translate the will of the voters into the composition of Parliament. HDZ through its euphoric media campaign, made its relative majority seem almost as the victory by consensus of all Croatian citizens. This was achieved through skillful media manipulations. HDZ became the center of political power. All opposition parties were labeled communist by HDZ whose election campaign was sponsored by the Croatian diaspora. The Croatian President, Prime Minister and Parliament President were all HDZ members (Plestina, 1995).

The HDZ electoral campaign was based on nationalist rhetoric. The party favored the biggest possible autonomy of Croatia within the Yugoslav confederation, but it preferred Croatian independence. It identified itself with the Roman Catholic Church that has a strong following among the Croatian people. The program of the HDZ united the Croats, while one part of the Croatian Serbs supported de-centralization of Yugoslavia and the other part declared themselves Yugoslavs and favored centralization of the country. (Plestina, 1995)

\textsuperscript{48} SKH-SDP (Savez Komunista Hrvatske-Stranka Demokratskih Promjena) League of Communists of Croatia-Party of Democratic Changes.

\textsuperscript{49} SDP (Socijal-Demokratska Partija) Social-Democratic Party
The biggest achievement and contribution to democracy derived from the first multiparty elections was destruction of communism and adoption of multiparty system of government. However, the dominance of the HDZ largely precluded the development of democratic practices in Croatia.

**Elections and the Electoral System in 1992**

After the Croatian Constitution was approved, parliament decided that a three-member expert group from the HDZ should draft the new electoral law. They were nominated by the “Legislative and Law Commission” of the HDZ dominated Parliament. There was no cooperation between the group and the opposition politicians. On April 18, 1992 the Parliament endorsed the “Law on Election of Representatives of Republic of Croatia” and the “Law on Election of President of Republic of Croatia.” These two laws determined the form and nature of the electoral system and the format of the Croatian State, which adopted the half-majority and half-proportional electoral system. Despite repeated criticism from the opposition, which believed that the elections shouldn’t be held during the war when a large part of the population could not physically participate in them. The government went forward with elections, arguing that parliamentary elections needed to be held as soon as possible, in order to have Presidential elections, which would give legitimacy to the President (the Presidential elections were not held in 1990, the President was named by the Parliament that had the HDZ majority). Meanwhile a war was being fought for independence and sovereignty of the Croatian State, economy was being devastated and the processes of transformation and privatization were waiting
to be implemented. Parliamentary and Presidential elections took place in August 1992. Out of 75% of the electoral body that voted, 43.72% voted for HDZ. This translated into 62% of the seats in Parliament. HSLS ended up with 10% and HSP won 4% of the seats. Out of the leftist parties SDP was above 3% electoral threshold and gained 5% of the parliamentary seats. Regional opposition parties of Dalmatia, Istria and Rijeka gained 3% of the parliamentary seats. The elections for the House of Representatives showed that the political scene in Croatia is dominated by the HDZ, which did not transform itself into a political party. It represented a national movement of groups and coalitions that followed its ideology (Plestina, 1995).

Dr. Franjo Tudjman won the presidential elections of 1992 with an impressive 56.73% of the electoral roll, while HSLS candidate Drazen Budisa won 21.87% of the votes. Presidential elections showed that President Tudjmant was very respected and popular among the voters.

**Elections for the House of Districts**

Elections for the House of Districts or Upper House of the Parliament were held in February 1993. HDZ gained 43.14% of the votes and HSLS became the strongest opposition party with more that 26.32% of the votes, which was a 50% increase in voter support from the last elections. HDZ lost the elections in all major cities except Zagreb, which tells us that young educated voters voted for liberal parties. SDP and some
regional parties strengthened while other parties disappeared from the political scene. Even though HDZ control of the Parliament and the House of Districts was expected, these elections showed that the HDZ couldn’t proclaim itself to be the national movement of all Croats. A new profile of voters, who support liberal opposition is in creation in Croatia (Plestina, 1995).

**Constitution**

Preparations for drawing up a new Constitution were taking place in an atmosphere of uneasy peace, in July 1990. The “Commission for Constitutional Matters” had to come up with the first draft of the Constitution by August 1990. On August 12, 1990 President Tudjman decided to form a wider body that included 220 people from a wide variety of social categories, for the creation of the Constitution. He wanted the Constitution to reflect the wishes of all citizens of Croatia. Five to six different drafts made their way through the Parliament before the Constitution was approved. It was made official on December 22, 1990 (Plestina, 1995).

This Constitution defined Croatia as a national state of all Croats. It left open the question of what “all Croats” meant. Does it mean all citizens of Croatia or does the Constitution discriminate against other citizens of Croatia. The dilemma was solved with Article 1 of the Constitution, which says the following: “In the Republic of Croatia, the
power derives from the people as a community of free and equal citizens.” Croatian national feelings were satisfied in the Preamble of the Constitution, which states:

The Republic of Croatia is established as a national state of Croatian nation and the state of members of other nationalities and minorities who are its citizens: Serbs, Muslims, Slovenes, Czechs, Slovaks, Italians, Hungarians, Jews and others, who are guaranteed equality with citizens of Croatian nationality and realization of national rights in accordance with the democratic norms of the UN and the countries of the free world.
(http://www.nn.hr/Glasilo/USTAV/ustav_Hr.htm)

The Constitution guarantees classical liberties and human rights like the freedom of thought, speech, press and information, movement, the right to strike, presumed innocence until proven guilty, equality of all religions and the separation of church and state. Article 15 of the Constitution guarantees the right to use its own language and writing and in this framework cultural autonomy to all minorities in Croatia. An independent judiciary is a checking point for realization of all these rights. The general principle of the separation of powers and the principle of the rule of law is stressed through the Constitution.

Croatian Parliament “Sabor”

The Croatian Parliament is the representative body of citizens and the carrier of legislative power in the Republic of Croatia. Croatian Parliament is composed of the House of Representatives and the House of Districts. House of Representatives has at least 100 and no more than 160 representatives. Representatives are chosen based on
overall and equal voting rights and through direct secret voting. Citizens of every district elect 3 representatives for terms of 4 years. The representatives to the Parliament have diplomatic immunity.

**House of Representatives**

- decides about the adoption and changes of the Constitution
- passes laws
- passes the state budged
- decides about war and peace
- decides about changes of borders of the Republic of Croatia
- decides on the referendum
- selects and dismisses candidates for functions according to the Constitution and law
- oversees the government and other public offices responsible to Parliament according to the Constitution and law
- gives amnesty
- performs other duties determined by the Constitution (Article 80 of the Constitution)

**House of Districts**

House of Districts is composed of representatives from local self-government units elected on direct secret elections. On November 19, 1992 government decided to divide the republic into 20 districts and 2 regions (where Serbs have a special status). 22 cities are capitals of districts and regions. There are 383 counties in Croatia. House of
Districts has an advisory function. It gives its suggestions about solutions to different cases and questions. It has the right to return some laws to the House of Representatives, with its explained opinion and for repeated voting. The laws then have to be endorsed by a two-third parliamentary majority (Plestina, 1995). Control of the Parliament operations is supposed to be done by the electoral body because they choose its representatives on parliamentary elections.

The HDZ used its political power to curtail the ideals of the Constitution. HRT broadcasts the sessions of the Parliament live and since the Director of HRT was a member of HDZ, times of broadcasts was determined by the ruling party. Also, numerous laws were passed through the emergency procedure even though this procedure is supposed to be used only in special circumstances. Representatives would get large materials right before the start of the session with no time to study them. During the session, they had to discuss them and make their decision. Furthermore, all the criticisms and suggestions of the opposition were not taken into consideration. Sometimes the seats in the Parliament were half-empty only to fill up when the decision had to be made, because decisions were made by majority vote and HDZ had it. It was known ahead of time that decisions will be endorsed, if they were made by HDZ (Plestina, 1995).
President

President of the Republic of Croatia represents the country domestically and internationally. He makes sure the Constitution is respected. He ensures the survival, integrity and normal functioning of the country. The President is elected on direct secret elections and on term of 5 years. The President cannot perform any public or professional duty except its political party obligations. According to the Constitution, following articles regulate presidential powers:

Article 98

President of the Republic of Croatia,

- calls for elections for houses of Croatian Parliament and calls for its first session
- calls for the referendum in accordance to the Constitution
- names and dismisses the Prime Minister
- based on suggestion of the Prime Minister, names and dismisses ministers in the government
- issues amnesties
- gives honor in accordance with law
- performs other duties determined by the Constitution
Article 99

President of the republic, on government suggestion decides on establishment of diplomatic and other missions of the Republic of Croatia abroad.

President names and dismisses diplomatic representatives of the Republic of Croatia. He receives the letters of appointment and dismissal of foreign diplomatic representatives to the Republic of Croatia.

Article 100

President is the supreme commander of military forces of the Republic of Croatia.

President names and dismisses army functionaries in accordance to law.

President names members of the “Council of Defense and National Security” and presides over the council.

Based on decision of the House of Representatives of the Croatian Parliament, President of the republic declares war and peace.

Article 101

President can pass emergency ordinances in case of war, immediate threat to sovereignty and independence of the country or when state institutions can not perform their duties on regular basis. While President uses the above-mentioned powers, House of Representatives can not be dissolved.

HRT (Hrvatska Radio Televizija) Croatian Radio and Television
President has to submit his legal ordinances for endorsement of the House of Representatives of the Croatian Parliament as soon as Parliament is able to meet for the session.

Article 102

President can call for government session and put the questions he sees important on the agenda of the session.

President presides over the government session if he is present.

Article 104

President can dissolve the House of Representatives on suggestion of government and with co-signature of Prime Minister and after consultations with President of the House of Representatives, if the House of Representatives does not endorse the government or state budget a month after it was drafted.

President is responsible for his own actions that contradict the Constitution. Constitutional Court of the Republic of Croatia decides about his responsibility.

I quoted the articles from the Constitution to show the power that is concentrated in the hands of the President. The President has more power than the other executive body, the Government. Government was more responsible to him than to Parliament. President could call for referendum or dissolve the Parliament. He controls army forces and can pass emergency ordinances with the force of law. President Tudjman was also
the HDZ party President. Enormous political power was concentrated in his hands. He declared his critics to be “un-patriotic.” It became very vivid that the President and the HDZ had a monopoly of power in Croatia. President Tudjman’s mandate is best described as a “super-presidency” he was an autocratic ruler (Plestina, 1995). But he was democratically elected for a 5-year term and could lose the next elections.

Government

The government of the Republic of Croatia had, and still has the executive powers. It consists of the Prime Minister, Vice-Presidents and Ministers. Ministers in the government were members of the HDZ. Besides their governmental duties, they held key positions in economic and cultural spheres of Croatian society, which should be independent according to democratic principles. One person carried many functions of great importance besides the duties he or she had within the government. The President of the Republic of Croatia changed ministers in the Government with tacit approval of the HDZ dominated Parliament.
Judiciary

The Croatian Constitution guarantees an independent judiciary. In practice however, this was not the case. War and communist inheritance could be cited as objective reasons for the drastic deviations between the Constitution and actual practice. Political maneuvering also played a large role.

During the war, military courts were set up through Presidential Decree, but they held civil trials. Decisions that were supposed to be made in civil courts were made in military courts. This was not in accordance with international judicial norms. The military courts were dissolved after the war (Plestina, 1995).

Furthermore, judges and prosecutors were massively purged from their posts. They were replaced by the HDZ favorites. It is important to note that according to the Constitution, appointments of judges are permanent unless they resign, are found incompetent or guilty of a criminal charge.

Large concentration of power in hands of the President and government was the cause of political pressures on judges in some processes of criminal investigations. All above-mentioned examples were the reasons for poor functioning of the judicial system (1 million unresolved cases). Newly elected Croatian government will have to prevent the politics getting in a way of establishing a fully independent judiciary in a real sense of this word. Only then will the citizens be able to realize their rights and freedoms guaranteed by the Constitution.
Conclusion

I would like to comment on development of democracy and state of human rights in Croatia over the past ten years. In the time period from 1991 to 1995 war in Croatia was raging. Objectively, war stopped democratic transformation of Croatia. One of the limiting factors for democratic changes was the economy that was totally destroyed in zones and areas of war. Therefore I will base my conclusion on the five-year post war period 1995-2000. HDZ ruled Croatia during that time span. The five-year post war rule of the HDZ I can not qualify as being positive from the standpoint of development of democracy. I believe the Constitution gave a good legal framework for development of democracy and human rights in Croatia. Politics of the ruling party, the government, and the President were based on the accumulation of power that was used in all spheres of public life. The Constitution in itself did allow for that. However, HDZ interpretation of the Constitution further enhanced the accumulation of power in the hands of the President. "The Republic of Croatia is a Constitutional Parliamentary Democracy with the strong Presidency."


Citizen's freedoms and human rights proclaimed by the Constitution could not be realized in practice because the judicial system did not function properly. Judiciary was not independent. Ruling structures had significant influence over it. Democracy was sacrificed for majority rule.
Constitution guarantees equality of all nations and minorities in the Republic of Croatia. Besides the aggression of Serbia and the JNA, ethnic conflict between the Croatian Serb population and Croats did occur in Croatia. After the war, "bad blood" between the two nations remained. It was enhanced by media campaign, especially electronic media controlled by ruling HDZ. HDZ was sending out daily "messages of hatred." Croatian Serbs who remained in Croatia as loyal citizens were exposed to constant pressures, threats, and discrimination at work.

International community applies constant pressure on political structures in Croatia in order for Croatian Serb refugees from occupied territories to return to their homes. Program of return is hard to implement for Croatian refugees and displaced persons as well. Reconstruction is slow, economy of these areas has been destroyed, mines are everywhere. Both Serb and Croatian returnees have one more problem that is hard to solve. How do they continue to live together? Neither the international community, nor legal and political structures can answer this question. They have to find the answer themselves. They have to change themselves from inside and it is a hard and painful process because what has already been done can not be corrected. Serbs in Croatia do not need ghettos in which some self-proclaimed Serb leaders see themselves as rulers. Croatian Serbs need democratic Croatia into which they would integrate as equal citizens. Only in a democratic state can human rights and freedoms for all be realized. The citizens of Croatia need a stable economy and a fair process of transformation and privatization in order to realize their right to work. Freedom of the media is a mirror of the level of democracy for a specific country. In Croatia, press and
especially electronic media have been strictly controlled by HDZ. HDZ named directors and main editors of HRT, it dismissed politically “incorrect” reporters, spied on them, invoked censorship, prevented their free communication by listening in on their phone conversations with the help of secret services and started many legal procedures against them. Many governmental and non-governmental organizations of the EU, European Commission, Helsinki Watch, Council of Europe, Reporters Without Borders, American State Department, issued reports in which they evaluated the media situation as being poor and in need for improvement. The media has strong influence on public opinion. Therefore it has to be separated from politics. Reporters and journalists have to be free and independent in their work, HRT has to become public television as soon as possible (the process is in motion). Free media will gradually change the mentality of people, who carry the inheritance from former communist system within themselves whether they want to or not.

Current Croatian government has to speed up democratic changes in order to propel Croatia into Euro-Atlantic integrations. In the latest elections, Croatian citizens showed that they know exactly what kind of state they want to live in. They voted for change and for liberal and democratic Republic of Croatia. HDZ was heavily defeated in the elections, it doesn’t have the parliamentary majority and with it the ability to exert such power in the Croatian political arena. The party also experiences divisions among
its members ideologically and is in deep crisis overall. Some of its key members stepped out of the party and founded a new political party.\textsuperscript{52}

\textsuperscript{52} Former Foreign Minister Mate Granić founded the Croatian Democratic Center
Process of Transformation and Privatization in Croatia

I have divided this chapter of my thesis into 11 subheadings:

Yugoslav “self-management”

Background to the Process

Social Aspects of Transformation

Analysis of “Basic Law on Transformation of Public Enterprises”

Analysis of “Law on Privatization”

Evaluation of Success of Processes of Transformation and Privatization

How was the Croatian Economy Destroyed?

Models for Comparison

Croatian Economy from Independence until Today

How do we Beat Recession?

Conclusion
Yugoslav “self-management”

...This country whose labor force approximated the population of Michigan and whose size approximated the area of Wyoming enjoyed economic success that some observers characterized as miraculous. Then came the 1980’s when economic success turned into economic failure... (Gapinski, 1993, p. 1)

From 1945 until 1948, Yugoslavia was deeply rooted in Stalinism. Stalin had designs on Yugoslavia, but the country had other ideas. In 1948, Tito broke away from Stalin. Yugoslavia took its own route and created its own model of political and economic development. Economic blockade from the U.S.S.R and other communist Eastern European countries was the punishment for independence. The blockade would have destroyed the Yugoslav economy without an aid from the West. In 1949, Truman administration granted Yugoslavia a $20 million aid package and by 1960, Yugoslavia had consumed more than $2 billion worth of non-repayable Western Aid (Bennett, 1995).

Yugoslavia created and implemented its own economic model, the “Socialist Worker’s Self-Management.” The Yugoslav economic model of “self-management” was also present in Croatia, while it was one of the republics within the Yugoslav Federation. Capital was owned by society as a whole rather than by the state. Workers managed the socially owned firms consonant with legislated dictates. Workers acted as partners in the firms, and as such they participated in the decision making process. In socially owned enterprises, workers implemented “self-management” through referendums, and through delegates in worker’s councils. From 1950, the doctrine of “self-management” evolved gradually. Two important events marked the evolution, one was the economic reform in 1965, other was the Constitution of 1974.
The goals of the reform were to increase the presence of the market in business activity, to decrease the presence of the state in income redistribution, and to streamline foreign trade while strengthening its domestic impact. Relative prices were revised dramatically, tax reductions were invoked. As a result, the national currency, the Dinar, devalued, while the customs duties were decreased. The reform made banks accountable to all of their depositors instead of to the state alone. The banking system gained independence from politics. Independent banking led to the increase in investments. As a part of the reform package, the new Dinar was created, one unit being equivalent to 100 old Dinars, the decimal point was shifted two places leftward (Gapinski, 1993).

On February 21, 1974, the “People’s Council of the Federal Assembly” announced the new Constitution of the SFRJ. Its ideological creator was the Slovenian Eduard Kardelj. It was one of the longest Constitutions in the world. It regulated everything, from the principles of economic and political systems to the rights of parents in family planning.

In economics, it strengthened the role of workers in the conduct of firms by ratifying OOURs, or the Basic Organizations of Associated Labor. OOURs were the central legal entities of the economy. Each OOUR acted as an independent work unit, groups of which constituted a firm (Gapinski, 1993).

On May 4, 1980, Tito died and the economy started to stagnate as the old animosities between the republics entered the scene. Attempts to change the economic system and adopt the market economy followed. “Self-management” was based on the
social ownership of the capital, whereas the axiom of market economy is the private ownership of capital, thus the process of reconstruction and privatization had to take place then, otherwise the economic system would not be transformed to a market economy.

The period from 1980 to 1988 was characterized by the constant decrease in productivity, and investments. In order for the Yugoslav goods to be competitive in foreign markets, the Dinar constantly depreciated. Unemployment rose, prices of goods domestically increased. The whole period was marked by the galloping inflation, which in December 1990 was 2,700% annually.

...Yugoslav currency had eroded to the point where money brokers at the Austrian border were measuring the Dinar in cubic meters, and the once proud and cherished ‘Tito’ bill of 5,000 dinars was being exchanged in ‘brick’ lots rather than in individual units... (Gapiński, 1993, p. 5)

In December 1990, Serbia initiated an action that absolutely infuriated Slovenia and Croatia and that contributed to already high inflation and further crippling of the Yugoslav economy. Serbia’s government approved in secret and without legal basis a measure requiring Serbian-controlled banks to issue massive amount of currency without backing. The banks were instructed to run the printing process. Slovenia and Croatia branded the Serbian deed as outright robbery. From that point, depreciation of the Dinar could not be stopped. In January, 1991, inflation amounted to 3,280% annually.

Processes of political and economic disintegration of Yugoslavia were underway. In 1992, Croatia became an independent, internationally recognized country, and it
gained a historic opportunity to independently transform its economic and political system, and join the countries with developed democracy and market economy.

I will end with the comparison of the Yugoslav economic model to economic models of the Eastern European communist countries. Eastern European communist countries had the centrally planned economy. Hunter and Ryan (1998), characterize the results of the economy of central planning in any command structure as the following:

1. Sever disequilibrium of demand;
2. Rapid growth of economic and political bureaucratic (the nomenklatura) involvement in the mechanisms of planning;
3. Permanent underdevelopment of the enterprise level, which produces consumer goods, and the nondevelopment of management techniques, objectives, and prerogatives; and
4. Continuous lines in shops, with the burden of inefficiency and failure falling squarely on the consumption sector (Hunter and Ryan, 1998, p. 33).

Yugoslavia left the central planning model of the economy in 1950, and it designed its own "self-management" system. The directors and the managers had the degree of independence in business decision making. My father was a Commercial Director of a small textile manufacturer in Osijek, Croatia. He independently made business arrangements and sold goods throughout the whole Yugoslav territory. With the Austrian textile firm, he set up a so-called "loan-arrangement," which meant that the foreign company gave the material, while the Yugoslav firm did the work. In this manner, my

51 OOUR (Osnovna Organizacija Udruzenog Rada) Basic Organization of Associated Labor
father increased his production and acquired much needed foreign currency to buy materials necessary for further production. Materials for production were usually bought in foreign markets. Here are some of the better known Croatian enterprises that had similar arrangements. “Varteks” from Varazdin, manufactured Lewis jeans, Volkswagen Golf automobiles were assembled in Sarajevo, Bosnia and Herzegovina, French “Citroen” and “Renault” cars were assembled in Koper and Novo Mesto, Slovenia. Yugoslav car manufacturer “Zastava,” cooperated with the Italian car manufacturer “Fiat.” Big construction companies, “Jugomontaza,” “Industrogradnja,” “Energoinvest,” “Rade Koncar” did businesses in the Middle East, Asia and Africa. They were building large infrastructures, dams, bridges, roads, irrigation systems. Yugoslav workers and managers performed these jobs. Shipyards in Pula, Rijeka, and Split built and repaired ships for foreign customers. Tourism was also a very developed branch of commerce. It brought in large amounts of western currencies since the western European tourists were the most frequent visitors of the Croatian Adriatic coast. Private initiative was allowed in Yugoslavia. Small shops, restaurants, cafeterias, craft shops, boutiques, etc. were present and privately owned. The number of allowed employees in the private sector was limited to seven. It is interesting to note that the private sector was the most efficient, but it was burdened by high taxes. “Self-Management” was not free from the “nomenklatura,” (Hunter, 1998, p. 33) the economic and political bureaucracy, high-ranking party and company officials who used their positions of power for enrichment. Every enterprise had its worker’s council and its communist party organization, however worker’s councils usually only confirmed the decisions of the nomenklatura. In regards to
shortages of goods, Yugoslavia was not the country of "long lines" in front of shops. There were no shortages of everyday goods. After the 1979 "oil-shock" there was a shortage of oil and gas. All the existing reserves though were made available to commercial users. The citizens felt the shortage but the problem was solved through the issuance of gas coupons. All shortages that appeared in the Yugoslav market were very brief and were solved by the government intervention, through urgent imports or by relying on reserves. During the hyperinflation period, artificial shortages of goods appeared because of the sharp increases of prices. Traders held the goods in storage and waited for prices to rise.

Ultimately, neither the model of "self-management" based on social ownership, nor the model of "central planning" based on state ownership, survived. Both models had to be transformed into the market economy through the processes of restructuring and privatization.

**Background to the Process of Privatization**

Privatization is a process of reorganization and restructuring of enterprises whose majority ownership was held by the state. Its main purpose is to make the enterprises competitive in domestic and global markets. Giant state owned enterprises, or SOEs\(^5\)
needed to be restructured in order to become more flexible in response to market globalization. The goals of privatization are greater productivity, increased market competitiveness and improved efficiency of enterprises, which had stagnated under the former political and economic climate. Privatization is not an entirely new phenomenon that started in the post-communist countries in transition. This process began in 1980 in the United Kingdom. In continental Europe it took place ten years later (Petricic, 2000).

According to annual reports of the EBRD,\textsuperscript{55} which publishes data on national economies of countries in transition, the main economic and political events for the past decade are presented here in chronological order, for Croatia.

1991 - declaration of independence from Yugoslavia; “Law on Transformation of Public Enterprises” was enacted; first transitional Croatian currency Croatian Dinar, HRD\textsuperscript{56} was put in circulation

1992 - massive transformation of enterprises starts in the midst of war

1993 - HFP\textsuperscript{57} starts to operate; “Law on Stabilization” enacted in order to stabilize Croatian economy

1994 - HRK\textsuperscript{58} becomes the permanent currency unit

1995 - Croatia put bonds on international market in order to obtain foreign capital instead of taking out expensive foreign loans, Eurobonds

\textsuperscript{54} SOE State Owned Enterprise

\textsuperscript{55} EBRD European Bank for Reconstruction and Development

\textsuperscript{56} HRD (Hrvatski Dinar) Croatian Dinar, Croatian transitional currency unit

\textsuperscript{57} HFP (Hrvatski Fond za Privatizaciju) Croatian Privatization Fund
1996 - "Law on Privatization" enacted

1998 - coupon privatization begins and the value added tax is created (Petricic, 2000).

All post-communist countries in transition had different models of transformation and privatization of enterprises according to economic and political conditions. Croatia was among the first post-communist countries to start the process of privatization. Working groups organized by Prime Minister Dr. Franjo Greguric suggested that the formulation of law had to be left to a multi-disciplinary team of economists, financial experts, bankers, sociologists, futurists, politicians and lawyers. Croatian short-term and long-term economic goals needed to be clearly identified. However, other leaders of the ruling HDZ did not endorse and accept the suggestion. Under pressure from HDZ, the Prime Minister appointed Prof. Jaksa Barbic of the University of Zagreb, to come up with the draft of the "Basic Law on Transformation of Public Enterprises." The working groups were surprised by this choice since the chosen person was a legal and not an economic expert. The "Basic Law on Transformation of Public Enterprises" was published in Narodne Novine\(^{59}\) nr. 19, in April 1991. At about the same time the "Law on Croatian Fund for Development" was passed, as well as the "Law on Croatian Agency for Restructuring and Development." The agency and the fund later merged into one institution, called the "Croatian Privatization Fund," or the HFP. The first version of this law had 48 articles, but the law underwent many changes from between 1992 and 1996. Entrepreneurs and potential shareholders had a hard time following this "hyper-

\(^{58}\) HRK (Hrvatska Kuna) Croatian Currency Unit

\(^{59}\) Laws do not become official until published in Narodne Novine, the official state newspaper
production” of laws creating fertile ground for various illegal maneuvers, uncertainty, and manipulations that took place during the process of transformation and privatization.

After the “Basic Law on Transformation of Public Enterprises” was enacted, every year, from 1991 to 1997 new laws on transformation were introduced. These laws underwent numerous changes and corrections. For example, in 1992 three changes of these laws were published in Narodne Novine. From 1991 to 1996 ten laws were enacted and published in Narodne Novine. They regulated the process of transformation. Two other laws were enacted in 1996 and 1997. These laws regulated the process of privatization. The working groups of economic and legal experts recommended four models for transformation in Croatia:

- sale of enterprises through auctions;
- additional capitalization (by enlarging the capital of an enterprise, a legal entity acquires the appropriate percentage of ownership of an enterprise);
- transformation of debts of enterprises into shares;
- coupon privatization.

The time (during the war in Croatia, described in Chapter I), as well as the way in which the “Basic Law on Transformation of Public Enterprises” was enacted were not fortunate or logical from their beginnings (Petricic, 2000). The state of war doesn’t allow for the proper functioning of the country’s legal system, which enables criminal deeds to take place. It left space for such maneuvers in this highly sensitive process as well.
Social Aspects of Transformation

Change of ownership in the Croatian economic system was done in two phases. The first phase was the transformation of enterprises in terms of their ownership. During this phase, enterprises owned by the public were transformed into state owned enterprises. This change and the transfer of shares were implemented through the HFP. The second phase was the privatization phase. Public or state owned enterprises became privatized through selling of their respective shares to concrete owners. The fund sold shares from its portfolio according to the “Basic Law on Transformation of Public Enterprises” and later according to the “Law on Privatization.” “Joint stock holdings” and the “holdings with limited liability” were formed. They were formed in the following manner:

a) by sale of the whole enterprise or a specific (lucrative) part of an enterprise;

b) by investing into an enterprise;

c) by transforming investments into an enterprise and the claims against the enterprise into shares;

d) by transferring all shares into pension funds or into the “Croatian Privatization Fund,” or HFP without compensation. (Petricic, 2000)

Even though the transformation of public enterprises was meant to be the process of change of ownership and transformation of enterprises into flexible, competitive firms, as the process moved along, its goals have changed, mostly as a result of financial problems
caused by the war in Croatia. At the end, transformation was used to fill the holes of a state budget as a compensation for material losses of displaced persons and human and material losses of families whose providers lost their lives in the war. It was also used for financing reconstruction, creating a pension fund portfolio, decreasing public debt, rehabilitating banks that went bankrupt and compensating people for nationalized property. In these circumstances, enterprises that underwent the process needed to be financially revitalized, they could not achieve their goal of becoming competitive.

Pension fund portfolios were created from the transfer of shares of 2,500 enterprises to these funds. In Croatia, the number of retirees is constantly rising. People with many years of service were forced to retire in order to avoid losing their jobs. The process of transformation influenced this trend and made these people a surplus in the work force. Shares that were being sold by the HFP ended up in the state budget. The most profitable enterprises that would have been able to pay dividends to the pension funds were or would be sold to foreign investors who offered the most. Because of a “one-time” financial bust, the constant flow of dividends into pension funds was lost. Privatization decreased the public debt because shares from a portfolio of the HFP were given to banks in order to return old foreign currency savings that were blocked in 1990 (the old foreign currency savings were declared public debt). Portfolios of banks were strengthened, while bank claims against enterprises were satisfied.

De-nationalization of enterprises was planned by the reservation of shares that eventually ended up in the state budget. Effectively, the de-nationalization process in Croatia did not take place. It was supposed to happen at the beginning of these processes.
Property should have been returned to its original pre-World War II owners before the process of transformation and privatization even started.

Analysis of the "Basic Law on Transformation of Public Enterprises"

I will analyze and comment on the articles of the "Basic Law on Transformation of Public Enterprises," which I consider important for explaining the process and models of transformation and privatization, on their practical application, and on the negative effects derived from them. I will quote directly from the articles that underwent many changes before their final format.

I analyzed this law to show the loopholes that enabled certain participants in these processes to amass personal fortunes from the process. I also analyzed the law to show that a large number of citizens did not participate in these processes (especially the populations of war-torn areas including my hometown of Osijek). For example my father worked as a Commercial Director of a textile manufacturer until he retired in 1992. Neither he nor any other member of my family participated in the transformation and privatization of that enterprise. The law anticipated some negative events that could possibly happen in the process (especially, "managerial loans"); it qualified them as illegal, but despite this, they did happen in practice.
Article 1

This law regulates the transformation of an enterprise whose capital is public into an enterprise with a designated owner. According to this law, enterprises whose capital is public are public enterprises as well as mixed enterprises, when the public share of investment in the enterprise is not sufficient for obtaining the majority ownership rights of the same...

Article 2

According to this law, public capital is equal to the difference between the value of assets of an enterprise and the value of liabilities of the same, including liabilities to legal and physical entities based on their lasting investments in an enterprise...

In the first two articles, state ownership, as well as state investments into an enterprise, are not mentioned at all. That did not prevent the HDZ and the government from making these enterprises state owned. We can view this process as some sort of “new” nationalization.

Article 3

...This law applies to all enterprises with their headquarters in the Republic of Croatia...
According to this article, foreign owned enterprises headquartered in Croatia were also to undergo the process of privatization. The article has been changed and it now states:

*This law applies to all enterprises and legal entities from Article 1 headquartered in the republic of Croatia, but not for enterprises established by legal entities headquartered outside Republic of Croatia. Their status will be solved by international agreements or some other legal acts...*

Articles 5 and 9 refer to enterprises that did not undergo the transformation of ownership. Their shares would be carried over to the HFP, which is free to use them as it sees fit. The enterprises became state owned and dependent on plans of the fund or future buyer.

Article 8

*... enterprise in the process of transformation can not credit the purchase of shares nor be a guarantee for the loans taken out for this purpose...*

The above stated part of Article 8 refers to so-called “managerial loans.” In the process of privatization in Croatia, enterprises were illegally purchased through these “managerial loans.” A bank would approve a loan and the enterprise that was being
purchased was a guarantee for purchasing itself or for purchasing other enterprises. Article 8 was supposed to prevent this from happening.

Article 9

...An enterprise must undergo transformation until June 30, 1992 at the latest. If it doesn't act according to Clause 1 of this article, the decision on transformation will be made by the Agency...

Croatian enterprises rarely complied with this deadline. This article will later undergo further changes and additions.

Article 11

With the decision on transformation, an enterprise delivers the following to the Agency:

1. Program of transformation of the enterprise, which contains information about the model of transformation and how it will be implemented;

2. The report from the Office of Public Bookkeeping of Croatia confirming that the annual financial report for the past year adheres to rules and generally accepted accounting standards;

3. Information about manufacturing capacities, technological and technical capacities, capacities of human resources, organizational capacities, position in the market, and evaluation of liquidity of an enterprise;
4. Business plan;

5. Information and evidence about the right to use immovable assets;

6. A document that proves the registration of an enterprise in a judicial registry;


An official statement about the estimation of value of an enterprise contains the book value and the estimated value of an enterprise. It can be created by the enterprise itself or its creation can be entrusted to legal or physical entity authorized for performing this task.

The agency can ask the Office of Public Bookkeeping of Croatia or other legal entities to perform the revision of this statement about the estimation of value of an enterprise.

The valuations of enterprises was often performed by chosen entities which were connected with the HFP, and how many illegal maneuvers took place because of this practice, will be discussed below.

Article 12

...If the Agency estimates that proposed transformation is in accordance with conditions determined by this law, it will give its consent for implementation of transformation.
If the Agency estimates that the proposed transformation is not in accordance with conditions determined by this law, it will deny the implementation of proposed transformation...

In this article, we can see that the Agency may permit or deny the transformation without any controlling mechanisms and clear criteria.

Article 19

...Entities from Article 5, Clause 1, Point 1 and 2 of this law can purchase up to 50% of the value of enterprise at discount, with the stipulation that each one of them can buy shares at discount up to the nominal value of 20,000 DM...

According to this article employees and the persons with rights to discount could not become the majority owners of an enterprise in transformation because the possibility of new capital being brought into an enterprise was left open. This article underwent many changes (Petricic, 2000).

Article 20

This article allows for installment payment for shares over a maximum 5-year time period. The “Croatian Fund for Development” is obliged to adjust the value of shares that weren’t paid off in proportion to the increase of costs of living. If a potential shareholder doesn’t pay the whole amount of the value of shares, he loses rights to shares
that weren’t paid off as well as the right to appropriate discount. A potential shareholder gains the right to part of the profit of an enterprise proportional to the value of shares that have been paid for and increased for a proportional amount of a permitted discount. Proportionally to the nominal value of shares, owners gain rights to run the enterprise. The “Croatian Fund for Development” can let the chosen banks to handle its transaction business. This article was changed in 1992. Overall rights and responsibilities of the “Croatian Fund for Development” are regulated by Article 31, which changed every year since its adoption in 1991. The law was written during the war, and invalids of war, former prisoners, displaced persons and families of dead soldiers became a category with rights to shares of enterprises.

Article 47

The article attempted to solve the problem of nationalized property, but it was never implemented in practice.

The “Basic Law on Transformation of Public Enterprises” underwent its first changes in 1992. In 1992, the “Law on HFP” was passed as well. It was created through a merger of “Croatian Fund for Development” and the “Agency for Restructuring and Development.” With this law, the name and internal organization of the fund were changed. Article 6 of the “Law on HFP” discusses the organization of HFP. The governing body of the fund is its nine member “Executive Board.” Members of the board
are named by the Parliament. Five members are Parliament representatives, and two members are Ministers in the government. The President of the “Croatian Chamber of Commerce” is also a member of the board by definition. The Vice-President of Government of Republic of Croatia in charge of commerce is also a member of the board by definition. The “Executive Board” makes decisions based on 50% plus one majority of the number of members on the board. The mandate of members of the board lasts until they are recalled.

The ownership portfolio of the HFP was created from the shares of former transformed public enterprises, which were not sold to employees and former employees in the process of transformation. By voiding contracts with potential shareholders whose shares were purchased with an option for installment payments, those shares entered the HFP portfolio through exchange of shares with pension funds, banks and capital groups. Shares reserved for the de-nationalization process were in possession of the fund as well. Fund shares were sold in auctions for cash, old foreign currency savings or government bonds. They were also distributed to war invalids and families of soldiers who died in the war for independence. A certain number of shares was transferred to joint stock companies to bail them out of financial difficulties. They were also distributed for payments of obligations of a deteriorating health system, pension funds, and for reconstruction. The HFP portfolio is thus never permanent. It is constantly changing. It is dependent on the position of joint stock holdings in the market and on the transfer of shares of the joint stock holdings from the newly “liberated” Croatian territories to the

Analysis of the “Law on Privatization”

The “Law on Privatization” was passed (Narodne Novine, No 21, 1996) on March 14, 1996. It regulated the second phase of the sale and distribution of shares. According to this law, shares obtained by the HFP through the “Basic Law on Transformation” were sold, or transferred to new owners at no cost or compensation. A stipulation that prevents issuance of managerial loans or credits as a way to purchase the enterprise was carried over to the “Law on Privatization” from the former “Basic Law on Transformation of Public Enterprises.” Article 5 of “Law on Privatization” deals with enterprises located on occupied territories, which didn’t undergo the process of transformation. All shares of these enterprises were transferred to the HFP. Present and former employees had a right to purchase these shares at a discount and shares could be paid for in installments.

Article 6 determines the method of sale of shares. The fund sells shares through public auctions. Implementation of public bidding could be entrusted to other legal entities, as well. If shares were sold on a stock market, they could be paid for in installments over a period of five years. In 1999, the time limit for paying for these shares was extended from five to twenty years. Smaller shareholders could not foresee that the extension for payments would be passed and in fear of defaulting, they sold their
shares to large "tycoons" at about 50% of their real value. The fund blamed the small shareholders for the "tycoonisation" of the economy.

The "Law on Privatization" in its Article 7, created a higher body that decided about sale of shares with the nominal value of up to 10 million HRK. The Executive Board of the fund decided about the sale of shares with nominal value of up to 100 million HRK. The government of Republic of Croatia decided about sale of shares with nominal value of over 100 million HRK. This law did not change the position of foreign investors; they were not given incentives (tax breaks and other monetary incentives) to invest in Croatia.

The law announced the privatization of the remaining state enterprises; Croatian Oil and Gas Industry, Croatian Electric Company, Croatian Railways, Croatian Radio and Television, Croatian Post and Telecommunications, and other state enterprises. Special laws were passed to regulate their privatization. In the mean time, Croatian Telecommunications was separated from the Croatian Post and sold.

The third phase of transformation was coupon privatization. With the "Law on Privatization" a list of persons to whom the shares could be distributed was enlarged to include the invalids of war, families of dead defenders, families of imprisoned and missing defenders, families of imprisoned and missing civilians, disabled persons that were injured at work, displaced persons, refugees, and political prisoners. In this way, the HFP distributed the excess shares gained through the "Law on Privatization."

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60 In Croatian, the connotation of the word "Tycoon" represents the person who used political connections, managerial loans, legal flaws or "holes" in order to become an owner of one or more
Individuals that were given shares free of charge were issued a coupon. The owners entrusted their coupons to the Privatization Investment Funds, or the PIFs\(^\text{61}\) in order to have experts manage their shares (Petricic, 2000).

The Association for Management of PIFs paid the government a security deposit of at least 12 million HRK in order to participate in coupon privatization and run the PIFs. Before establishing the fund it also had to gather privatization coupons with at least 100 million privatization points.\(^\text{62}\) The PIFs could save the 12 million HRK in deposits only if they transformed the money to government bonds. The coupons they received were usually from enterprises that were not attractive and desirable, enterprises that did not make big profits. If the HFP simply gave shares from its portfolio directly to these individuals, coupon privatization would not have been necessary. PIFs complicated the privatization process and ultimately punished the small stockholders. PIFs were supposed to cooperate with the management of enterprises, but many refused to coordinate their businesses with PIFs. PIFs couldn't obtain information about businesses that were being conducted by enterprises and about their financial condition. Ultimately, PIFs could not obtain a controlling portfolio of shares in the enterprise. Therefore, in 1999, most PIFs decided to return their shares to the HFP portfolio. Small shareholders lost the most, because the values of shares decreased drastically.

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\(^{61}\) PIF (Privatizacijski Investicijski Fond), Privatization Investment Fund

\(^{62}\) Tycoons are not businessmen in the real sense of that word, they gained their wealth after 1990.
Evaluation of Success of Processes of Transformation and Privatization

According to Petricic (2000), the success or failure of the process of transformation and privatization is determined according to following elements:

1. Number of privatized enterprises;
2. Percentage of public capital that was privatized;
3. Number of shareholders that participated in privatization;
4. Number of employees in state enterprises in comparison to the number of employees in privatized enterprises;
5. Contribution of private enterprises towards the GDP;\(^{63}\)
6. Problem of de-nationalization (property nationalized in 1945, had to be returned to its owners);
7. Amount of foreign investments brought in the country;

The reports of HFP for 1998 show that the state remained the majority or minority owner of more than 50% of enterprises (Petricic, 2000).

The percentage of shareholders that are diligently paying off their shares is only 3.2% of the Croatian population. That is very low percentage because transformation and privatization were conducted during and after the war, in times when citizens were

\(^{63}\) Each privatization coupon was worth a certain number of privatization points

\(^{65}\) GDP Gross Domestic Product
financially and physically exhausted. The number of employees in state and public enterprises is larger than number employed in private enterprises. This fact points to the failure of transformation and privatization.

According to reports of EBRD, the stake of the private sector in the Croatian GDP is only 60%. Since then, some enterprises were returned to the state augmenting this percentage.

Denationalization was not done in the beginning of the transformation process. This problem was left for the end of the process; however it was not solved then either. For former owners of enterprises, symbolic percentages of shares of the fund were reserved. Former owners could not influence change of the ownership structure of enterprises. The “former owners” owned many of the enterprises that are now being privatized before 1945. After 1945, their property was expropriated. Foreign investment of $50 billion was expected, but little more than $2 billion actually entered the economy. At the end of 1999, per capita foreign investments were a mere $444 (Petricic, 2000)

According to these statistics, the transformation and privatization process, which occurred from 1991 until 1998 did not succeed. The model for the process was ineffective and it was implemented at the wrong time due to the war. The process led not to privatization, but to destruction of the Croatian economy.
How was the Croatian Economy Destroyed?

Role of the Financial Appraising Houses

Financial appraising houses played the crucial role in the whole process of privatization. They were estimating the value of enterprises. It is an important task that needs to be done fairly and diligently. In practice, some enterprises were overestimated, and others were underestimated, still other enterprises had financial appraisal approved by the “Agency for Restructuring and Development.”

Overestimation of the value of enterprises hindered small shareholders if they wanted to buy an enterprise. If “tycoons” showed interest in an enterprise, its value would be overestimated. The value of basic capital of an enterprise in transformation would be overestimated in order to prevent small shareholders from obtaining a majority of shares. If small shareholders controlled the majority package of shares, the HFP enlarged the basic capital of an enterprise and therefore small shareholders would lose their majority position.

Underestimated enterprises were mainly companies that were not in a good position on the market and there was not much interest in their purchase. It would then be bought cheaply in order for its immovable assets to be sold. Buyer of an enterprise would earn a big profit, and the employees would lose their jobs.

Enterprises whose financial appraisal was approved by the “Agency for Restructuring and Development” were usually marginal enterprises for whom no one showed any interest. The agency would approve the estimation done by financial
appraisers and the approval would automatically be official after sixty days if in the meantime the agency did not inform the enterprise that its transformation is voided.

Methods of Financial Appraisals of Enterprises

The “Basic Law on Transformation of Public Enterprises” mentions two kinds of financial appraisals of enterprises. Those two are the book and the estimated value of an enterprise. The book value of an enterprise is equal to the sum of all assets of an enterprise decreased by the rate of depreciation for a designated period of time. This estimation comes up with lowest possible value of enterprise.

The estimated value of an enterprise is more difficult to explain. Lawmakers did not define this category whatsoever, which left it open to political interpretations. If it was supposed to be an estimation of the market value of an enterprise then it should have been clearly stated in the law. The law also did not define which one of these two kinds of estimations would be used or accepted for the purchase of given enterprise. In the theory of transition, the value of enterprise is determined by referencing to the following three components - what does the enterprise own; what does the enterprise earn; and what makes the enterprise unique in the market. The value of an enterprise that was estimated in this manner appears to be greater than the book value of that same enterprise.

Financial appraisers use relativist and absolutist methods of estimation of the value of an enterprise. The relativist method of estimation is based on the market value of enterprise, whereas the absolutist method of estimation is based on the business value of
an enterprise. The later is widely used in Western European countries, especially in Germany.

Neither the HFP nor lawmakers concretely determined which methods will be used for estimation of value of an enterprise. Therefore, estimations could vary from extremely high to extremely low ones. Estimation of value of an enterprise could be adjusted for different customers. Every estimation could be denied or approved by HFP. The HFP favored certain financial appraising houses with which it cooperated (Petricic, 2000)

Managerial loans

If the entrepreneur had political connections, a bank would grant him a managerial loan. His guarantee to the bank was the enterprise he was buying with that loan. In this manner, the “tycoon” came in possession of an enterprise without investing any money. The loan would be paid off (or was not paid off at all) from the daily operations earnings of an enterprise (Petricic, 2000)

In the other case scenario, an entrepreneur would acquire the enterprise through the “managerial loan.” The enterprise itself is a guarantee to the bank until the loan has been paid off. The enterprise may fail to pay enterprises that provide it with goods or other materials needed for its business. It also doesn’t pay salaries to the employees as or taxes and contributions to the state. The entrepreneur keeps those funds for himself or they are
siphoned off through private companies that do business with the enterprise. Providers stop the distribution to an enterprise since they have not been paid; an enterprise stops functioning; and employees end up at the employment bureau. The entrepreneur pays its basic responsibilities, sells the company, returns the loan to the bank and keeps the rest of the money. According to data from HNB\textsuperscript{64}, commercial banks in 1993 alone approved 2,000 managerial credits in total value of 300 million DM\textsuperscript{65} which is 80\% of the money gathered from transformation until that point (Petricic, 2000).

\textbf{Buying Shares from Small Shareholders}

In order to take over the enterprise, an entrepreneur had to own 51\% of its shares. A portion of shares was usually bought from funds, while the rest was bought from small shareholders. Brokers would make rounds among small shareholders and buy their shares. They would pay them 30\% to 70\% of their real value. When the entrepreneur gained a majority possession he would stop buying (Petricic, 2000)

\textbf{Directors Become Owners}

Directors took over many enterprises because they had information on how many shares were registered. Under the threat of dismissal, employees had to transfer their shares to the director or manager of the enterprise. In a better case scenario, if employees

\textsuperscript{64} HNB (Hrvatska Narodna Banka) Croatian National Bank

\textsuperscript{65} DM (Deutsche Mark) German Mark, German currency unit
kept their shares, installments for payment for their shares were deducted from their paychecks (Petricic, 2000)

**Enlargement of Basic Capital of an Enterprise**

Through this model, every enterprise that completed its transformation process could be taken over. The only pre-condition for a takeover was a good relationship of the potential buyer with the fund. If employees and management held the shares in the amount of 60% of basic capital of an enterprise, the rest of shares would be transferred to the fund. The fund would then sell its shares to a “chosen” politically compatible purchaser. He could then enlarge the capital of an enterprise and become the majority owner. Instead of the entry of fresh capital (money), the enlargement of capital could be done through the entrance of different goods and other assets into an enterprise. The bank would approve the loan for the enlargement of capital of an enterprise. As soon as the money from the loan would appear on the account of an enterprise the purchaser would become a new owner. The new owner would return the money to the bank that same day the capital was “enlarged” and he remained the owner (Petricic, 2000)

**Bankruptcy Procedure**

If an enterprise was expensive and its management was interested in purchasing it. They would often make business decisions that would lead an enterprise to bankruptcy. The business of the enterprise would be directed towards private firms owned by the
individuals drawn from management. At the end of any bankruptcy proceedings, these private firms would have larger capital than the enterprise. The enterprise could now be easily taken over (Petricic, 2000).

Managerial Loans from Insurance

Enterprises in transformation can arrange for life insurance of their managers. These insurance policies are paid out of the daily cash earnings of enterprises. Managers then used these policies as a guarantee to the bank for a loan. The loan is then used for purchase of shares (Petricic, 2000).

Transformation of Fixed Claims to Stakes

This maneuver was implemented through cooperation of a private enterprise and an enterprise in transformation. A private enterprise that desired to buy the public enterprise starts to deliver goods and services that are highly overpriced to a desired enterprise. A director of a public enterprise, signs for all the deliveries but doesn’t pay for them. When claims of a private enterprise reach the desired amount it transforms its claims into shares of a public enterprise. It becomes its new owner and honors the director of a formerly public enterprise with a high level position in the new firm (Petricic, 2000).
Internal Enlargement of Capital

If a certain enterprise’s purchase value is established at 10 million DM for example, 5 million DM of its value is bought by small shareholders, 5 million is then taken over by the state. The buyer working within the enterprise buys shares with value of 2.5 million DM from the fund. On those 2.5 million the same buyer is given 2.5 million DM worth of shares by the fund and he now owns 50% of an enterprise. As a small shareholder that works for an enterprise, he has the right on a regular discount of 20,000 DM. If he uses this discount, as a former small shareholder, he now becomes a majority owner of an enterprise. In this case the money only passes through an account of an enterprise; the enterprise gets a new owner; and the same money is used for the privatization of other enterprises (Petricic, 2000)

Old Foreign Currency Savings

An enterprise in transformation could have been taken over through so-called “old foreign currency savings.” The “tycoons” bought off the blocked deposits from the depositors for 50% to 70% of their value. The HFP would approve “tycoons” real value of deposits and issue them shares for it. According to law, less than 50% of the enterprise in transformation could be purchased through old savings, but in combination with other “models” used, the “tycoons” purchased whole enterprises. The state would rid itself from public debts in this manner as well. Enterprises would get privatized and the banks avoided the payment of interest to depositors (Petricic, 2000)
One of the tasks of the newly elected government is the revision of the transformation and privatization processes. Everyone in Croatia, with the exception of "tycoons" and creators of the transformation that took place, agree that a major revision needs to take place. However, there is no consensus over a method of implementation of revision. I think that the most rational solution is the selective, case by case approach to the revision of transformation and privatization. Lawmakers anticipated most of the abuses that happened in the process of transformation; but the judicial system of the country needs to function normally and prohibit these illegal maneuvers.

Models for Comparison

Implementation of a capitalist system was difficult and painful for many countries in transition. They all desired to transform their economies as soon as possible in order for them to be efficient and competitive in world markets. Methods and implementations of transformation and privatization differed in individual countries in transition. For comparison purposes, I will give a short overview of some models from different countries in transition.
Slovenia

Slovenia had the most successful transformation and privatization in comparison to all other countries in transition. Slovenia’s population numbers about 2 million. It has the biggest per capita GDP out of all countries in transition. After seceding from SFRJ in 1991, Slovenia embraced a market economy. Until the process of transformation, enterprises in Slovenia were publicly owned. Workers associations and the management of enterprises had the executive role within enterprises. Before transformation, Slovenia had some kind of a “half-market” economy and was the most developed republic of former Yugoslavia. The structure of its economy before transformation saw a large number of private enterprises registered before 1990 (88% of the overall number of enterprises were small enterprises). A strong private sector existed and participation of large enterprises (more than 5,000 employees) was only 2%.

The basic principle for transformation was to enable every citizen to participate in the process. The Slovenian model of transformation was a combination of a few elements, restructuring, public offerings, distribution of certificates, inclusion of investment funds and participation of employees. Before the beginning of the process, restructuring of the economy was done. With the dissolution of SFRJ, Slovenia lost a large part of the market for its products, therefore some enterprises were operating with a loss. The government helped these companies with restructuring. The “Slovenian Fund for Development” was in charge of restructuring. The “Agency of the Republic of Slovenia for Restructuring and Privatization” was in charge of privatization. Every citizen of Slovenia was issued a certificate with nominal value of 1,600 DM to 6,400 DM.
depending upon the age of the citizen. All citizens were informed about the value of coupons and how they can be used. Ownership certificates could not be transferred and were not issued in paper format. Their value was determined through a certificate account. Therefore, certificates could not be bought illegally. The main methods of privatization in Slovenia were the following:

1. Transfer of shares to funds free of charge. 10% of shares were carried over to the “Slovenian Fund for Damages,” 10% of shares were carried over to pension fund, 20% of shares were carried over to “Slovenian Fund Development” (these shares would be sold to PIF’s in return for owner’s certificates);

2. Internal distribution;

3. Internal purchase;

4. Sale of shares (public auctions or bidding, public sales, public offer gathering);

5. Sale of all assets of an enterprise;

6. Ownership transformation (change of ownership through the enlargement of assets of an enterprise); and

7. Transfer of remaining shares to the “Slovenian Fund for Development.”

On November 11, 1998, the process of privatization was finished in Slovenia. Slovenian model was massive in regards to number of participants but it was also successful. Basically all citizens participated in the process. By the end of 1998, 94% of the certificates issued were used (Petricic, 2000).
Poland

At the end of the last decade, in 1989, as one of the communist Eastern European countries, the problem of transformation and privatization of its economy faced Poland. It had to implement macro and microeconomic reforms with the following goals:

- Stabilization of the economy, which included the reduction of the budget deficit, anti-inflation policy, stabilization of the external-balance debt management, export promotion, etc;
- Market and price reform (liberalizing prices, cutting subsidies, tax reform, new tax administration and tax policy-creating labor and capital markets);
- Enterprise reform which included the restructuring of the domestic industries, privatization, restructuring of individual enterprises);
- New role of the state in the economy (tax laws, tax administration, new laws and regulations for foreign investments).

Poland had to destroy the system of central planning, nomenklatura, create a new commercial banking, and undergo the process of privatization. The country was facing a dilemma on whether to take the approach of “gradualism” or privatize by “shock therapy” or “big bang” technique. Poland opted for the “big bang” approach.

In July 1990, the “Law on Privatization of State-owned Enterprises,” SOEs, was passed. It gave priority to commercial privatization through public offerings.

Capital privatization proceeded in two phases. Initially the SOE was transformed into a “joint stock” or “limited liability” company under the control of the State Treasury. Then, during a second phase, shares in the company were offered to private investors. A
public offering was organized, and investors were then selected or invited to take part in the bidding process.

Second method of privatization was called "privatization by liquidation." Liquidation was a legal process whereby the SOE is transformed into commercial company in which the State Treasury holds 100% of the equity. The term "privatization by liquidation" (Hunter and Ryan, 1998) has been applied to both financially viable and bankrupt firms. During the first two years of privatization, about 1000 enterprises were privatized by this method. "Privatization by liquidation" became the most popular and most successful privatization strategy, outside the field of small privatization. However in the second half of 1991, the process slowed down (Hunter and Ryan, 1998)

To speed up the process of privatization, in June, 1992, the "Mass Privatization Program," or MPP, enacted in the first half of 1992 was revised. Commercialization became the intermediary step before actual privatization. It was the transformation of a state-owned company into a "joint stock" or "limited liability" company, controlled solely by the State Treasury. This was intended to provide a clear decision making and control structure; adjust the legal status of the SOE to the market environment, create pressure for market-oriented restructuring and prepare the enterprise for privatization. The "Mass Privatization Law" was passed on April, 30, 1993. The law provided for the commercialization of SOEs, the establishment of National Investment Funds, NIFs, and the payment of participation fees. SOEs were commercialized through privatization of

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MPP Mass Privatization Program
about 600 state-owned large and medium-size companies. They were transformed into "joint stock" companies. Under the financial provisions of this law, the structure of ownership for each company was clearly defined as follows: 60% of the stock would be allocated to the NIFs with 33% of the stock given to the leading NIF and 27% of the stock distributed among all other NIFs, 30% of the total stock will be held by the State Treasury, and 10% of the total stock will be given for free to the employers of the company (Hunter and Ryan, 1998).

Later in the process, MPP changed its name to the "NIF Program." NIF Program was designed to transfer a significant part of the assets of the state sector to all adult citizens of Poland for nominal fee. NIF privatization was a coupon or voucher privatization that at the same time helped with restructuring of the enterprise (Hunter and Ryan, 1998).

**Hungary**

Like all other Eastern European countries, Hungary had to transform state ownership into private ownership. According to Petricic, Hungary created one of the best privatization programs. Its basic goal was to transform the state companies into profitable enterprises. With the law on privatization, methods for change of ownership were determined. Principles of sale as well as methods of purchasing companies were determined. Hungary did not have basic rules for privatization. The privatization process was based on public and private offerings, issuance of shares to citizens.

\footnote{NIF National Investment Fund}
issuance of shares to private investors, issuance of shares to employees, auctions and negotiations. Before privatization, the market value of an enterprise was determined. According to specific criteria decided upon beforehand, the best offer was chosen through public offerings. Hungary did not have the process of massive share distributions, but it issued shares to everyone who wanted them. The main goal of Hungarian government was to bring new capital in the country. Today, foreign capital plays the dominating role in formerly state owned enterprises. More than $11 billion was invested in the Hungarian economy. State management operates the energy, infrastructure, agriculture, forestry, and banking sector enterprises. Today, percentage of privatized enterprises is very high. Hungary was able to bring in large foreign investment into the country (Petricic, 2000).

**Czech Republic**

The Czech Republic and Hungary are examples of how foreign capital can change an economy within a short period of time. Favorable laws, a stable political situation, good geographical location, membership in international trade organizations attracted foreign investors to the country. The process of transformation in the Czech Republic can be divided in four stages,

1. Change of ownership, from large state enterprises to joint stock companies;
2. Commercialization of state companies. The state retained ownership over some companies but they were operating according to laws of market economy;
3. Nominal privatization. Companies were quickly privatized through the process of mass privatization;

4. Real privatization. The enterprises were privatized through bank loans.

Foreign companies chose the Czech Republic for investment of their capital because the Czech government guaranteed them the following incentives:

a) grace period of 10 years for tax payment;

b) the government pays $3,300 for every new job opening within the foreign owned enterprise that will employ the local population;

c) 50% of expenses of the skill re-qualification of an employee are paid by the government;

d) government guarantees low prices of infrastructure when new facilities are built;

e) government guarantees custom free import of machines and equipment and location of facilities within the custom free zones.

The privatization process in the Czech Republic experienced some difficulties such the absence of financial assets, and inflexibility of large state banks. Also, managers of state enterprises were establishing private companies and the assets were being transferred to those enterprises. Large state enterprises had a monopoly in certain markets and no one could anticipate how they would behave in a market environment; therefore they stayed state owned. Czech government did not declare bankruptcy for the enterprises that weren’t efficient. It continued to invest in them,

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64 IMF International Monetary Fund, WTO World Trade Organization, OECD Organization for European Co-operation and Development
and did not prevent their bankruptcy. If these shortcomings had been eliminated, the Czech privatization process would have been much more successful (Petricic, 2000).

**Croatian Economy from Independence until Today**

The Croatian economy from 1990 until 2000 has been marked by the fall of all leading macroeconomic indicators. The HDZ government blamed the five-year war in the area, and the unstable political and military surroundings (wars in Bosnia and Herzegovina, and later in Kosovo) for this downturn. It can not be denied that the war is one of the causes for economic stagnation, but the biggest reason is Croatia’s inability to use its comparative advantages in relation to other similar countries in transition. It is true that Croatia had to transform its economy into a market economy fast or it would loose its advantages in the ten-year unfinished process of transformation and privatization.

From 1994 to 1998, the Croatian economy showed more positive indicators than in the years that would follow. Even in the earlier period, growth rates in the economy did not reach the level of 1990. The growth stopped in 1998 and declined in 1999. GDP is falling and the public sector spending part of the GDP rose from 40% in 1994 to 50% in 1999. The budget is being constantly increased. It doubled from 1995 to 2000. The level of industrial production in 1998 was only 64% of production in 1990. *Per Capita GDP* in Croatia is about the average in comparison to other countries in transition. Its
lowest point was recorded for 1992 and it amounted to $2,291. In 1998, it rose to $4,820 (Petricic, 2000).

In international exchange of goods and services, a rise in imports and stagnation in exports leaves Croatia in deficit in its international balance of trade. From 1991 to 1993, the deficit in international balance of trade was less then $1 billion. In 1994, because of the appreciation of the domestic currency, the country started to import without control, giving a $5 billion trade deficit in 1997. The deficit in international balance of payments for the past ten years reached a record level of $2.4 billion in 1997 (Petricic, 2000).

**Foreign Debt**

Croatian foreign debt has been increasing since 1993. In 1994, foreign debt amounted to $2.8 billion. It rose to $8.2 billion at the end of 1997. According to data from the EBRD, the largest proportion of foreign debt in Croatian GDP was 37.5% in 1998. The exports in the same year amounted to 56% of the foreign debt. Foreign currency reserves are the only significant macroeconomic indicator that recorded growth in past few years. Foreign currency reserves, excluding gold reserves, rose from $167 million in 1992 to $2.816 billion in 1998. If we consider foreign currency reserves, foreign debt of Croatia is still high. *Per Capita* foreign debt in 1991 amounted to $660. At the end of 1998, it was $1,800 (Petricic, 2000)
Causes for the Recession

The largest problems in the Croatian economy at the end of the 90's are stagnation of overall economic activity and a high level of unemployment. Part of the problem was inherited from the old economic and political system. The early 90's was marked by closings of industrial "giants" and big agricultural concerns. The war then paralyzed the process of societal transformation, prices started to rise, and the country started to experience inflation. Because of these tendencies, the "Program for Stabilization" enacted in 1993, restricted monetary and fiscal policies. However, these policies did not stimulate economic development. The small amount of cash in the market and a large demand for foreign currencies caused the interest rates to increase up to 20% per year (Petricic, 2000).

Monetary Policy and Banking

In 1993, through monetary policies of the "Program for Stabilization," the domestic currency became stable and inflation stopped. However, the exchange was kept stable through restrictive monetary policies, which favored importers who made big profits. Exports stagnated because domestic goods became non-competitive in foreign markets. Because of high interest rates, money from the economy was being transferred to banks, and investments decreased. People with money, instead of investing in the economy, were putting their money in banks that guaranteed high interest on cash. Interest rates of commercial banks were not coordinated and related to an interest rate
determined by the HNB (Croatian equivalent of the Federal Reserve System). The equilibrium between the profit rate and interest rate is the bases for functioning of a modern market economy. Economists believe that the decrease of high interest rates can be achieved with the increase of bank efficiency, a decrease of risky investments made by banks, increase of assets of banks, and a decrease of the percentage of mandatory reserves of banks. The decision of HNB that 55% percent of savings of Croatian depositors have to be held in foreign banks caused large assets of banks to be blocked. Risk was included in the price of capital because of the absence of domestic liquidity. Enterprises could not pay their bills because their claims against other enterprises were not paid. Many banks once again approved managerial loans. In 1995, the first state bailouts of banks started in the Slavonian Bank. The burden of bailouts was placed on the taxpayers though. A second wave of bankruptcies started in 1998, with the crises in Bank of Dubrovnik. The causes of these crises in the banks have both an economic and political dimension. In 1998, the "Law on Added Value Tax" was enacted. This tax brought additional money to the state budget. The money was not used for development. It only increased state spending and it was an additional financial burden for consumers, since it was included in a price of every good and service (Petricic, 2000)

**Employment**

The employment level in Croatia is constantly falling. At the end of 1999, 335,000 people without jobs were registered, the largest number of unemployed persons in the last 20 years. If we include employees who work without getting paid and
employees with monthly salaries of less than 1,000 HRK ($120) the rate of unemployment would be about 30%. The number of unemployed persons and retirees in proportion to employed is 1:1, a large burden to carry for the employed population of Croatia (Petricic, 2000).

How do we Beat Recession?

The difficult position of the Croatian economy was worsened by conditions in the neighborhood (specifically the Kosovo Crises), also, Croatia is not a member of international economic organizations such as CEFTA, WTO, IMF, EBRD, IBRD, and OECD. Croatia doesn’t have a formal cooperation agreement with the European Union. Agreements about the avoidance of double taxation and about custom free zones are rare. “Closed doors” towards international markets are additionally burdening the Croatian economy.

In mid 1999, a program named the “State of the Economy with the Suggestion of Measures for Economic Development” (Petricic, 2000) was published by the HGK. Program measures were designed to achieve the following:

- Political and macroeconomic stability;

- Economic growth of 3% to 5%;

- Growth of exports that is faster than the GDP growth, coupled with decrease of the deficit in the international balance of payments;
- Increase of foreign investments;
- Fast integration into international economic organizations;
- Decrease of public spending as part of the GDP;
- Decrease of unemployment rate with the gradual increase of job openings;
- Completion of process of privatization, with increased participation of foreign investors;
- Stabilization of the banking sector;
- Continuation of the development of capital market;
- Definition of the protective social minimum;
- Independent and efficient judicial system

At the macro and micro levels, economic policies have to provide the following:

- Conditions that would create more opportunities for exporting;
- Implementation of adequate developmental, monetary and fiscal policies as well as interest rates policies;
- Adjusted customs system for increase of compatibility of Croatian exports;

**Conclusion**

Economists believe that political and economic stability, an efficient judicial system, and functioning of democratic institutions are necessary for overall economic
development. According to their opinions, the situation in the Croatian economy is difficult, but not hopeless. To overcome present difficulties, experts, entrepreneurs, and government have to establish new, higher levels of communication. Croatia has to use its comparative advantages better if it wants to develop and fulfill its great economic potential.
“Quo vadis Croatia?”

The best answer to this question was given by Croatian Finance Minister Mato Crkvenac in his interview to *Central European*, a banking and finance monthly magazine (Davidson, 2000). Parts of this interview, with the bombastic title “Saving Croatia,” point to the political and economic changes that need to take place in Croatia over the next few years, and their effect on the Croatian population.

After the parliamentary elections in December, 1999, the HDZ fell from power. The SDP led coalition, won the elections. Soon after, in January, 2000, HND candidate Stjepan Mesic became the new Croatian President. He wants to see the Constitutional changes that would decrease the powers of the President, and result in the decentralization of political power in the country. His predecessor, Dr. Franjo Tudjman, who died after a long illness, was a supreme army commander and was able to veto appointments of the Government Ministers, Ambassadors, and regional officials. The planned new division of political power would balance the relations between the Parliament as a legislative body, and the Government and the President as the executive bodies. The Government would enjoy more responsibility and independence.

The Government is faced with very difficult tasks of restoring the economic growth and moving the country towards the EU membership. The key figure in these processes is the new Finance Minister, Mato Crkvenac. He had formulated the economic strategy of the opposition, which became the Croatian strategy after the elections. His program calls for the tax cuts that would stimulate economic activity. Direct foreign
investment is expected to be the engine for restructuring finance. To attract the foreign investors, the Government plans to reduce the profit-tax from 25% to 20%. There will be no taxation on re-invested funds starting in the second half of this year.

Crkvenac states: “The old Government was just giving money to companies without any logical reason” (Central European, 2000, p.17). I believe it was a short-term solution, which arose from the fear of social upheavals. After the latest elections, we witnessed a short-lived post-election euphoria, because the population expected quick and radical changes. Soon after, the people were faced with a difficult reality. Some formerly high-ranking people had to go to jail, there were many bankruptcies. Period of clean up of the Croatian economic and political systems is ahead of us and it will hurt.

Asked about what he sees as the hardest part of his job, Crkvenac replies:

It is necessary to change people’s mentalities. I am not sure how far we are prepared for the market economy. For twenty years, Croatia was California of Central Europe. But now we have to change our mentality, our views. That takes time. You can’t change people over night (Central European, 2000, p. 18).

One of the SDP pre-election promises was the decrease of the value-added tax to 5% from 22%. This will not happen right away. One of the Government goals is to decrease public spending. The Government expenses will also be cut. Bureaucracy needs to be fought, costs of the army and the police have to be lowered. The Government will stop subsidizing the loss making companies, and support the companies with good prospects and market abroad. Many people will lose their jobs, but the government will work on socially protecting the people and creating the new job openings for them.
During the Tudjman era, Croatia was isolated from the international investment community because of the widespread corruption. "We have to be an honest government, an open and transparent government," said Crkvenac (Central European, 2000, p. 18). To achieve this goal, anti-corruption legislation is being prepared. Crkvenac also says, "Looking at the question of how to attract foreign direct investments and other types of support, first of all, it is a question of democratization. We have to prepare measures which will encourage foreign investors to come here." (Central European, 2000, p. 20) The Government needs to press ahead with privatization.

One of the most frequent criticisms of the previous regime expressed by the international community, regarded Croatian politics towards the neighboring Bosnia and Herzegovina, and the Government's poor human rights record. The previous regime wanted a foothold on the Bosnian territories inhabited by ethnic Croats. Today, the President and the Government in Croatia are in complete agreement in regards to the Croatian policies towards Bosnia and Herzegovina. They made a complete turnaround, Croatia doesn't interfere into the internal matters of Bosnia and Herzegovina, which doesn't mean that it doesn't care about what is happening with the Bosnian Croats, but all the problems that arise between the two countries now, are solved by their official leaderships. Second complaint Croatia repeatedly received from the international community over the last few years regarded the poor treatment of Serb minority, lack of a free press, and rigid elections. With the arrival of the new Government, new political climate was created in Croatia. It brought about the more positive perception of Croatia in the eyes of foreign investors. Stocks of some Croatian companies, like the Zagreb
based “Pliva” drug company rose on foreign stock exchanges. Many foreign banks are interested in participating in the process of privatization of Croatian banks.

According to Milivoj Goldstajn, director of the international division of “Zagrebacka Banka,” a Croatian bank, which like the “Pliva” is listed on the London Stock Exchange, Crkvenac has to adopt one of the UK Prime Minister Winston Churchill’s famous maxims, which says: “I have nothing to offer you but blood, toil, tears and sweat” (Central European, 2000, p. 21).
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