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PROGRESS AND REGRESS SYMETRY OF THE CROATIAN ECONOMY

Generally speaking the 20th century displayed turbulent growth performance in Croatia. Contemporary developed countries have ended the century with many a time multiplied national output. The rest of the world encompassing dominant portion of world's population and prevailing number of countries is still fighting uphill way through curving path of economic development, often exposed to many side-tracks and blind alleys. Growth periods when attained are immediately followed by periods of stagnation and/or overall regress, with unsatisfactorily growth performance in the long run. Result is widening of the development gap between vast majority of world population and minority of "lucky" ones living in developed economies. In that context Croatian experience is not only intriguing but also analytically very distinctive.

Key words: economic progress, economic regress, growth, employment, inflation, export to import ratio, fluctuations, transition, privatization, stabilization

1.1. Economic Fluctuation Dynamics in the 20th Century

In the 20th century Croatian GDP was 9 times multiplied. At the same time the population grew only 1.4 times, so the GDP per capita rose almost 8 times. Average annual GDP growth rate of 2,19% throughout century accompanied by

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the annual GDP per capita growth rate of 1,85% are considered as relatively high, for growth rates above 1,5% annually are globally considered successful.

But these trends should be confronted with more detailed growth rate analysis and with the other macroeconomic variables behavior. Analyzing annual GDP rates it becomes clear that economic activity has been highly unstable over the years. This instability can be seen in range of extreme values, but also in growth rates volatility (Družić/Tica, 2003:94).

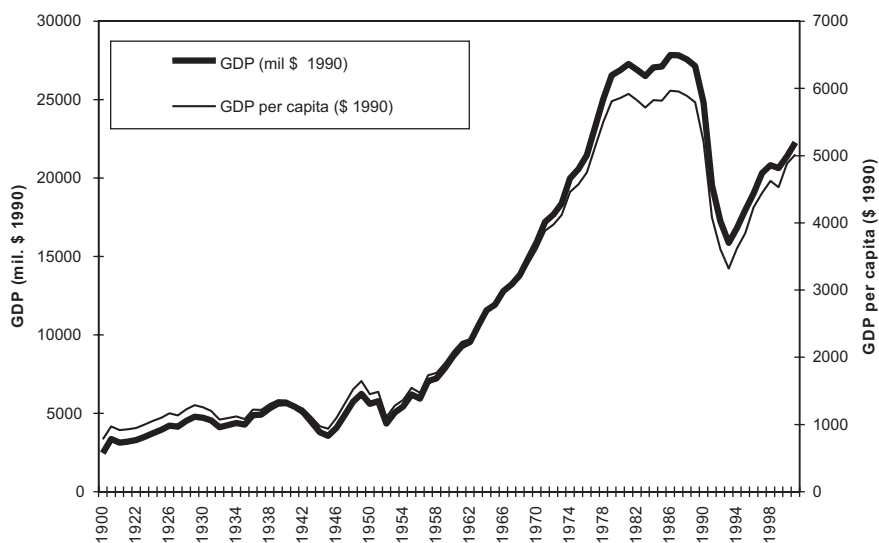
In the period of crisis, for example in 1932 growth rate was negative, -9%. Wars and natural disasters emphasize extreme values dropping the negative growth rates to over -20%. It should be stressed that non-economic constraints between World Wars I and II had been significantly and mainly unfavorably influencing Croatian economic development, especially in the 1930s (Bićanić, 2004: 238).

Positive extreme values are a bit lower than 20%, and are mostly result of a leap in growth rates in periods of reconstruction of the economy, as in 1947 when the growth rate was more than 19%. Very high annual growth rate could also originate from the recovery boost after previous year dawn fall, such case being 1956/57. After negative rate of -4.2% in 1956, follows increase of almost 19% in 1957.

The annual oscillations are noticeable in all periods. In the 1960s that are usually defined as period of expansion, growth rates were 7%, 2%, 10% and 3%. The persistent appearance of extreme values and annual oscillations show deep structural Croatian economy problems, partly caused by the frequent changes in institutional and social framework, as well as in economic system itself. The only stable behavior shows birth rate continuously decreasing through the most of the 20th century (Gelo/Akrap/Čipin, 2005:39). This “stable” population “growth” is the reason for the relatively small variations between GDP and per capita GDP growth rates. (see Figure 1).

Figure 1

GDP AND GDP PER CAPITA IN CROATIA



Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

1.2. Economic Progress and Regress Symmetry

Analysis structured in this way gives somewhat different insight in the long-run performance of the Croatian economy (Družić, 2004:192). Standard economic analysis suggests the conclusion that economies capable of tearing away from the stationary agrarian environment and apt to launch themselves into the industrialization, trade expansion and market institutionalization orbit, achieve (with temporary oscillations) continuous economic progress as a rule.

Developed Western economies continuous growth experience in the last 200-250 years, marked by significant overall economic progress, considerable average life-expectancy increase, national income growth and living standards accretion, could be deemed as the empirical confirmation of such a notion, despite occasional wars and crises during that period.

Available data instruct that Croatian economy performance could be comfortably fitted into the Western economies mainstream events. However, if the last century is divided into shorter spans, then the picture showing continuous progress of the Croatian economy in the last 100 years is becoming somewhat blurred. Even more, when zero growth rates during the two recession decades are added to the negative growth rates during the three war decades, then the twentieth century could be divided into the two almost equal time segments.

In the 50 years of "peace" comprising of the first and the third decade, and especially period from 1950-1980, Croatia experienced in the world relations an impressive growth obtaining the status of the middle developed industrial country with the average annual rate of growth close to 7%. Neglected fact of relatively successful Croatian start into the twentieth century should be also pointed out.

In the first decade (1900-1910), Croatia, as a part of Austrian Empire, steps forward into industrialization period achieving relatively high average annual rates of growth of more than 3%. Successful growth at the beginning of the 20th century hasn't been subjected to deeper research so far. Mindful attention to this period could point out the impact of the "spin off" industrialization of Croatia at the margin of the once great empire. Economic development was mostly based on the non-financial sectors growth that some scholars are apt to define as the "real" growth as opposed to the so called "jobless" growth dominantly leaning on financial sector "bubbling".

In the third decade (1920-1930), Croatia followed the post-war trend of economic expansion reaching the average annual growth rates slightly over 4%. Later events showed that the growth was mostly based on the financial sector expansion, as confirmed with the width and depth of the 1930-ies great depression.

Finally, in the three decades from 1950-1980, Croatia experienced an accelerated growth with average annual growth rates fluctuating in the wide range from 4% to 11% in certain years. Despite of particular structural and stability problems which were induced in this period and surfaced later on, it can be stated this period is the most successful continuous growth period in the twentieth century.

In the remaining "troubling" 50 years, encompassing second, most part of the fourth, fifth, ninth and the last decade of the 20th century, Croatia was experiencing negative and/or zero average annual growth rates. At the end of the century Croatia was facing a phenomenon, unknown till that time – the deindustrialization, accompanied with average negative growth rate that amounted -0.77% during this fifty years.

It seems that scholars have failed to take into proper consideration the three wars impact on the level of economic activity and the Croatian development chances.

Preparations for the World War I (1914 – 1918), the War itself and its consequences had impact on the whole decade from 1910 till 1920. As a result, the level of Gross Domestic Product was lower in 1920 than in pre-war 1913 (Vinski, 1967:163). Development wise it was a decade of regress instead of progress.

The events in period from 1940 – 1950 were very much affected by the World War II, that had dramatic consequences and resulted in extremely high human and property losses. These events had a large impact on the economic trends in the decade. Standard interpretations imply that the level of key macroeconomic indicators from pre-war 1939 was reached in the period of 1945-47 reconstruction. More detailed researches have shown that, on one hand, the level of GDP was lower in 1950 than in 1940, while, on the other hand, the GDP per capita was higher in 1950, due to the immense loss of lives in the World War II that was extraordinary cruel on the Croatian soil (Stipetić, 2002). However, the above mentioned explanation does not undermine the importance of the fact that in 1940-1950 decade Croatian economy experienced regress instead of progress.

The economic events in the period from 1990 to 2000 were prevalently ruled by the Homeland War in Croatia (1991-1995). After high human losses, devastation of utilities and industrial capacities, cultural heritage destruction, Croatia finally gained independency and became a sovereign state member of the international community. War losses, followed by visibly high costs of transformation from planned to market economy decimated development capacity and for the third time in one century expanded the average annual negative growth rates to the entire decade (Družić, 1999:1640). Still it should be mentioned that there are enough arguments supporting notion that not reaching the pre-transition GDP level after 10 years (it took 16 years to 2006 to reach the pre transition level) could not be ascribed to war and its consequences solely. Deep economic and social deformations caused by economically inefficient and socially unacceptable privatization model and by prolonged stabilization program needlessly lasting for over ten years are also responsible for the suboptimal performance of the Croatian economy in the transition decade of 1990s. Continuous and rigid stabilization model has been blamed to needlessly deepen recession by prolonged hard budget constraints and especially by unchangeable fixed national currency exchange rate undermining export oriented growth (Veselica/Vojnić, 2001:1204).

The events symmetry is also contributed by the fact that two economic crisis added to the uneven Croatian economical growth. The Great Depression of 1930's resulted in negative, i.e. zero growth rates, especially in the first half of this decade, and so the GDP level from 1929 wasn't reached until 1936. The 1980's recession resulted in zero (and by some findings, slightly negative) growth rates in the first and negative growth rates in the second half of that decade.

The important findings could be derived from comparative overview of growth and inflation rates. In opposition to the well known theories professed by

significant number of professional economists that high positive growth rates lose their effect in attending high inflation and instability, long-run Croatian economic trends do not confirm the existence of the trade off between growth and inflation rates. High growth rates from 1950 to 1980 were followed by relatively frugal and bearable annual inflation rates of 13%. As opposed to that, in periods of recession in 1980's and the crisis in 1990's with average annual negative growth rates of -0.79% and -1.48% , average annual inflation rate expands to over 100%.

This long run development perspective has shed a different light on the centennial Croatian economic performance. It gives a reason for the not so pleasant cognition that in Croatian case economic regress is almost as legitimate as progress. This impression is supported by international comparison data that emphasize periods when Croatian growth performance had been congruent as opposed to the periods when it had been contrary to the civilized world development trends.

2. Industrialization and transition 1951-2000

Findings and ideas that could come by observing the centennial trends may be of remarkable assistance in Croatian economy realistic calibration of development chances at the beginning of third millennium. But that's just the most general insight into development capacity and therefore not reliable enough for sound estimate.

To help us out modern economic analysis, that has been developing after The World War II, follows macroeconomic performances of national economy by defining and resolving four main macroeconomic variables:

- level and dynamic of national product,
- employment/unemployment,
- price level/inflation
- national currency exchange rate/balance of payments.

National and international statistics started to gather necessary data mostly in the second part of the 20th century corresponding with the appearance of macroeconomics as an autonomous discipline.

Concentration on these four pointed out macro variables doesn't eliminate the necessity of the analysis of other indicators describing the level and quality of business activity, living standard improvements, consumption, durable goods stocks, energy intensity and traffic efficiency, external economies impact etc. Nevertheless, the appropriate importance of those partial analysis couldn't come to full existence without appropriate support of the key macro variables long term behavior analysis.

In search for the relevant time frame that would enable most continuous observation of the mentioned macroeconomic variables, we have to lean against the period after the World War II, in other terms, second half of the 20th century in which statistical data gathering was enlarging and macroeconomic analytical frame was developing. Global trends analysis based on conceptual and methodological improvements in this period reported relatively dynamic development, with diminishing intensity to the end of the century.

2.1. Economic development and growth costs 1950-2000

Better part of the period between the end of the World War II and Croatian independence achieved in 1990 was marked by “late” industrialization that had accelerating effect on the economic growth. Croatia, similar to other eastern European economies, started forced industrialization with noticeable historical time lag as compared to developed west-European economies.

Industrial revolution gaining its full swing at the beginning of the 19th century, made possible industrialization of the modern developed Western economies in the span of 70 to 100 years during 19th century up until the start of the WW I. Despite differences concerning the beginning of the accelerated industrialization (England started at the end of the 18th century and Japan and Germany at the middle of the 19th century) all those countries entered the 20th century as industrialized nations.

Croatia entered the industrialization process that initiated its accelerated growth as a “late comer” being late for more than one century. Standard approach would suggest that because Croatia, in different governing systems, became a part of a modern economic development as a late comer, it was possible by passing existing experiences and development “spill over”, to accelerate its own growth. By mostly using its resources for industrial development Croatia succeeded doing in 30-40 years what took developed countries 70-90 years to do. Measuring by the key macroeconomic indicators in the mid 1970s Croatia became middle developed industrial country.

Controversial economic events in the afore transition period, especially in the light of transition recession during 1990s begot equally controversial professional discussion and adverse estimates concerning (un)successfulness of economic development in this period. Picking out most suitable periods and selecting certain indicators has rendered opportunity for diametrically opposite conclusions about development trends to be analytically valid.

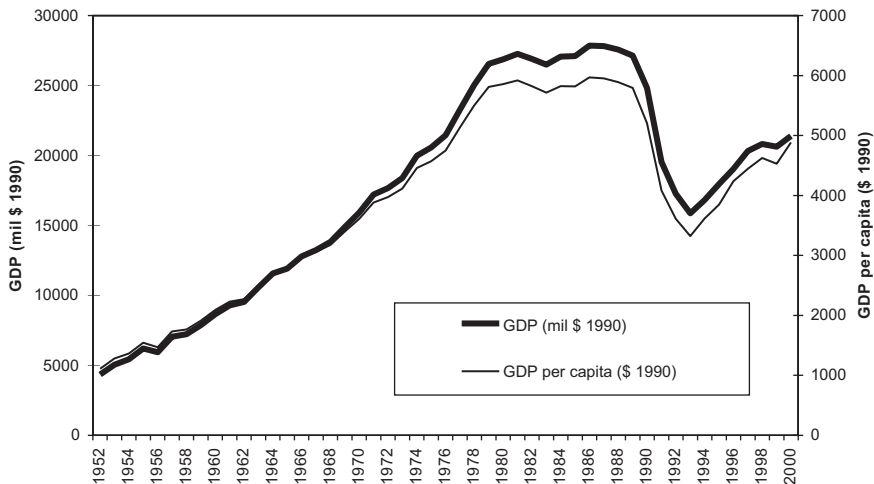
Therefore, the best effort would be put out to establish analysis that will be founded on straightforward untempered empirical facts and their possible time

frame stratifications. It is hoped to be the more objective path to the unhindered insight into the real growth mechanics.

In the second half of the 20th century Croatian GDP increased from 4.3 billion US\$ in the 1952 to 21.3 billion in the 2000 (in 1990. US\$). That means that “real” GDP, by average annual growth rate of 3.38 % increased over 5 times. If the almost stationary population growth of 13.4% or 0.24 % annually in the same period is added, then the respectable GDP per capita average annual growth rate of 3.13% resulting in more than 5 times increase could be observed in that period (see Figure 2.).

Figure 2

CROATIAN GDP AND GDP PER CAPITA 1952-2000



Source: Družić, I. (2005) “A Journey Through Transition Time – With Special Reference to Croatia” Political Culture, Zagreb pp. 285-296.

In this half century period employment grew from 477 thousand in 1951 to 1.185 million in 2000, or for about 2.5 times. In the combination with the GDP changes we get to GDP growth per employed of 9000 US\$ in 1952 to 18000

US\$. Simplifying thing considerably it could be stated that labor productivity in 50 years doubled.

Output and employment behavior in that period was followed by interesting behavior of the other two variables.

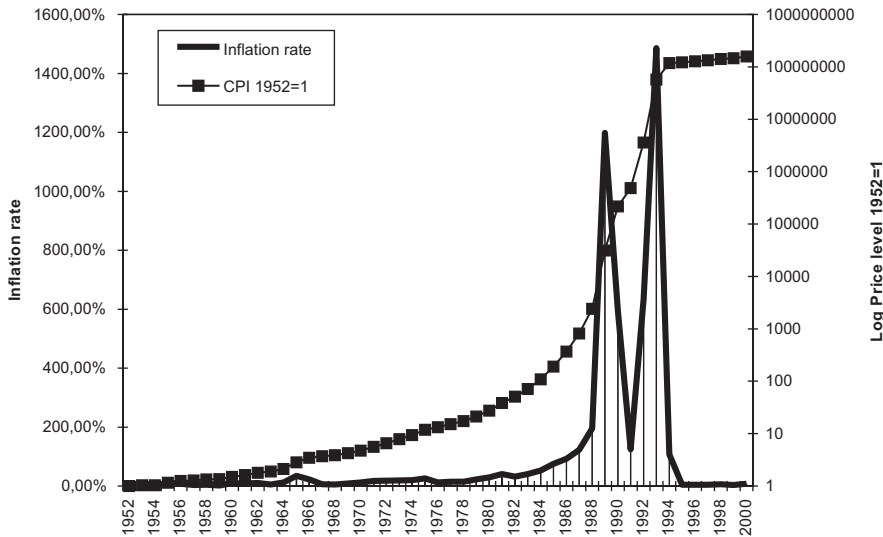
Taking the export to import ratio as a proxy for the international trade the average annual ratio could be identified at the 75 per cent, but the decreasing trend of the export to import ratio could be also identified throughout the period after the World War II. In the 1950s it fluctuated around the average of 80%, and at the end of the 1990s it fell to about 50%.

In the environment of relatively open Croatian economy, GDP growth accompanied by almost continuous fall of export to import ratio is a clear warning signal alarming of disrupted general equilibrium and growing structural disproportions. When in a small and thus necessarily opened economy, this direction of international trade relations starts to dominate, it indicates the competitiveness decrease resulting in diminishing inflows in the BOP (balance of payments) and its deficit increase, mostly covered by external debt growth.

These BOP trends could be also viewed as the back side reflecting domestic economy inner instability, its front face being inflation. It is quite noticeable that inflation, with average annual rate close to 50% during the 50 years, through several denominations had continuously been increasing its tempo (see Figure 3).

Figure 3

CONSUMER PRICE INDEX AND INFLATION RATE IN CROATIA



Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

In the 1950s, and all the way until 1963 there was relatively moderate increase in the general price level, that was doubled in this decade.

It took following 6 years, up to the 1969 for the inflation level to double. Inflation rate acceleration in 1970s resulted in the next 5 years of needed time span for its twofold increase in the year 1974. Next doubling of the general price level happened in 1978 and the following one in 1982.

In 1980s inflation was gaining a new swing. It took 2 years for the doubling of 1982 price level in 1984 and just 1 year for further twofold increase in 1985.

After that, in the second half of 1980s, inflation starts to get out of control, because the price level was doubled within the 1987 and rose three times, in 1988. In 1989 there was seven times price level increase.

In the first half of 1990s up to year 1993, price level was jumping from 10 up to 12 times within a year due to the war and other unfavorable conditions.

In the second half of 1990s stabilization program was introduced resulting in rapid disinflation, price and exchange rate stabilization accompanied by zero or low inflation rate.

The easiest way, as we could see, to trace behavior of certain variables is through their relative changes (rate changes and changes in the rate changes).

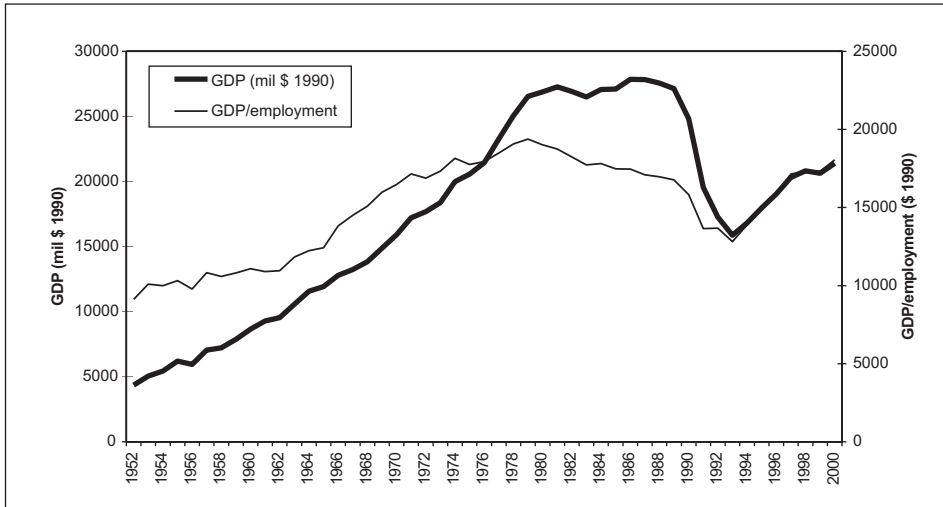
The most stable secular alternation was shown by average annual population growth rate of 2.4‰ in the second half of the 20th century. Decreasing long run rates were 7 and 8‰ in 1950s, 6 ‰ in 1960s, between 4 and 5 in 1970s, around 3‰ at the beginning and 1‰ at the end of 1980s. Very intriguing rates of population changes were recorded through 1990-ties, with annual oscillations from almost minus 4‰ to close to 2‰ positive change ending with very concerning negative population growth rate in the second part of 1990s after the Homeland War.

These types of fluctuations were virtually unknown in demography statistics and were probably the combined result of significant immigration and emigration flows caused by war. Some of the fluctuations could be explained by the population census methodology changes to the lesser extent.

Observed population changes stability in combination with the above mentioned relatively stabile average annual GDP volume growth rate of 3.38% and GDP per capita average annual growth rate of 3.13% had noticeable impact on employment and productivity. Beside relatively high long run annual average employment rate of nearly 2%, this period was memorized by the accompanying average annual labor productivity growth rate of 1.43% (see Figure 4).

Figure 4

GDP AND GDP PER PERSON EMPLOYED 1952-2000



Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

High oscillations of nearly all macroeconomic variables of Croatian economy during second half of the 20th century were showing non homogenous development trends, which calls for a need of more detailed analysis of certain periods.

2.2. Periodisation issue

Therefore, more attentive inspection of the key variables behavior in this era would direct to the roots of unstable events and unfavorable conditions of the 1980s hidden in this very period of time. Besides, this was a period whose performances has been controversially and sometimes even adversely rated in marking the causes of success and the consequences of failure within certain years or shorter time periods.

Here the sensitive problem of the base year or base period starts to surface. The major portion of statistical publications in Croatia and former Yugoslavia

takes 1952 as the base year. It has been justified by the fact that better quality statistics data from the year 1953, when the price reform and multiple currency devaluation had occurred. Therefore, earlier data have been based more or less on expert estimates. Still it has remained intriguing why exactly 1952 has been chosen, when the Croatian economy experienced 20% negative growth rate. It is especially interesting because in the previous 1951 year there has been 10% positive and in the 1950 there was 10% negative growth rate (Crkvenac 1984. 25).

Additional confusion in the estimates of growth performance would have been probably instilled by introducing 1955 as the base year. According to our estimates, the 1955 year has been real threshold when the prewar (1939) GDP level was in fact attained. If 1955 would be taken as a base year that has been close to the 1939 pre-war level, more realistic approach to the growth performance could be achieved. In that manner it could probably be established that GDP increase between 1952 and 1980 hadn't been 6 times, but probably 4 to 5 times multiplied.

“Mixing” the base years and “choosing” suitable/unsuitable time periods can in certain cases serve as a artificial empirical support to prove not so founded theories or doctrinaire models.

In these circumstances, it is reasonable to take advantage of the periodization customary to the economic policy modeling of that time and that would mean to lean on five year plans/periods that have dominated economic discussion and analysis. This approach could be disputable of course, but it describes planning economy business cycles more realistically than the other known attempts to delve into the economic mechanism of the socialist economy. Therefore we will stick to five year time frames.

2.2.1. “Climbing up” to the Growth Path

The first officially introduced was the plan for the period 1947-51. The very well known fact is that there are no suitable statistical data, for the period from 1945 to 1952 on disposal for a quality analysis, besides estimated growth rates of industrial and agricultural production and traffic. It should be also observed that available data for industrial production and traffic resulted from very modest real progress, although there could have been impression of high growth due to the extremely low base in 1946. Agricultural production is probably characterized by imprecise evaluation based on incomplete data of mandatory purchase of agricultural products, in that period of time conducted by the government

This is also the period severely influenced by the impact of non economic factors on the scope and the range of economic activity. First of all, there was a

matter of two big droughts, in 1950 and 1952, that decimated agricultural production. In the situation when agricultural production dominated over the economy structure, the country was literally brought to the verge of hunger. Other factor was the economic and political break up with the U.S.S.R. in 1948, which resulted in an economic blockade of former Yugoslavia by the Soviet bloc countries and absence of the Soviet help in the realization of the first five-year plan of an accelerated industrialization 1947-1951. Although it could be noticed that this was not homogenous period, because high positive yearly growth rates were achieved in particular years (such as 1948, 1949 and 1951) in combination with high negative growth rates (such as 1950), it could probably be assessed that in this period an average yearly growth rate was around 2 – 2,5%.

Second five year period 1952-56 was not enveloped in its five own five year plan. Due to special occasions and occurred reforms it was formally time of prolonged first five year plan. Introduction of self-management in 1950 and gradual opening toward the West in 1953/54 led to first economic reforms. In that manner, 1953 price reform accompanied with a high devaluation, significantly changed not just the price level but the relative prices as well. Those circumstances had an impact on the fact that relatively reliable time series could be constructed just for the period after the year 1952, since those relevant statistical publications started to appear at that time. For all that, some relevant structural indicators, such as the composition of foreign trade, could be monitored only since the end of 1950s. However, if we compressed the first half of 1950s (when the first five-year plan was practically being prolonged by subsequent annual plans) in a five-year time, then we would actually have a second five-year period 1952-56, following the first five-year plan. In that period an average annual GDP growth rate could be estimated at 3.6%. This period of big political changes and impressive system reforms had a large impact on the stability of business activity. Due to this occurrences perceptible oscillation in growth rates, from negative rates in two to positive growth rates in the other three years of this period could be noticed.

2.2.2. Flying (growth) colours

The goals of second official five-year plan 1957-1961 was proclaimed as fulfilled in 4 years. Therefore it is generally held as the most successful five-year period and practically seen as the only five-year plan which was fulfilled and, for that matter, ahead of schedule. The growth rate was differently estimated and thus could be stated, with a certain level of reliability, that it amounted to slightly over 10%. Especially evident was the improvement in living standards of citizens and employees. That was the consequence of the economic policy redesign and

restructuring. The policy objectives prioritizing heavy industry's capacities were changed into a model of more balanced development opening up the space to consumer industry growth, as well as to more significant market opening. Among professionals the consent was generally reached in validating this short period as a overall success. However it was also a time and a space of first dissent in the "paradise". Interesting and open discussions started, and serious doctrinaire issues were arisen culminating during the following five-year plan.

The third five-year plan 1961-1965 was based on the extrapolation of high growth rates from the former period (Horvat, 2001a:81). It was predicted that the "natural" growth rate would be 11%. But, actual events assumed radically different shape. The very next (1962) planning year, instead of high growth rates, stagnation appeared, economic and political disputes surfaced; first reforms were initiated, and on the top of this plan was formally abandoned. However, it becomes necessary to point out that somewhat heated discussions of that time obscured the more objective real events evaluation. If the obtained average growth rate of 6.7% is put into a historical perspective it could be judged as no small accomplishment. But, since the programmed growth rate exceeded 10%, and initial year results were unfavorable, it was reason enough for a negative evaluation of that plan period.

Plan proponents and creators tried to reduce their own responsibility for the development policy failure to the attempt of proving that it was the case of a standard investment cycle of a planned economy. According to them fluctuations were additionally stimulated by the insufficient wage policy because self managed firms were favoring high wages policy at the savings/investments expense. It was even tried to prove that binding wage increase to labor productivity growth was not a good policy. Namely, as labor productivity was linked to the technology/capital and technology intensity there was no reason for wages in the oil industry, for instance, to be higher than the ones in the textile industry. Besides, high wages demonstration effect initiates other sectors to increase their own wages causing inflation, instability and investments fall down (Čobeljić, 1967:219-220).

On the other hand there were claims seriously doubting proficiency and skills of professional planers, that delivered the 1961-65 plan. Inferences drew employing limited insight into global indicators, such as national income and investments, neglecting at the same time disrupted macroeconomic equilibrium stemming from structural aberrations and balance of payments disorder. An additional problem was that such a superficial analysis served as a basis for the current economic policy conduct in the 1961-65 period leading to inflation pressure, market disequilibrium and stagnation (Sirotković, 1966:189).

2.2.3. "Great" debate

Cumulated development problems were initiating number of theoretical questions occurrence as well as stimulating certain empirical dilemmas appearance. These events commonly known as the "Great debate" are of significant importance, because doctrinaire positions assumed by various groups of professional economists outlived all economic reforms, political and social changes, including the collapse of former Yugoslavia. In a different configuration main development and growth issues even survived throughout most of the transition period.

The professionals in charge of planning methodology in the specified period tried to redeem themselves by self-proclaimed theory of investment cycles discovery. Further more "natural" course of the investment cycle recession was additionally worsened by the defective short term economic policy model. The responsibility for the plans' failure in fact tried to divert to the refusal of proposed political reforms (Horvat, 2001b:119).

Opponents among professionals adopted radically different opinion asserting that poor and insufficient 1961-65 plan methodology leaning almost exclusively on extremely simplified models of trend extrapolation were the cause of plan failure (Sirotković, 1992:119).

Later on, the debate was increasingly politicized, for it was placed in the nationalistic dissent context especially serving the "Greater Serbia" ideology with other nationalisms close behind. Some of Serbian professional economists and intellectuals, members of Serbian Academy of Science in their infamous 1980s "Memorandum..." were among other things blaming the 1960s as "fatal turnover", when abandoning the plan of 1961-65 placed emphasis on the production of raw materials and energy, therefore neglecting labor force employment. That led Serbia and the other less developed regions into unequal position. The entire situation was further exacerbated by the market opening of the economy (Isaković et al. 1986).

Politically charged doctrinaire debates can be of great importance in attempts to fathom the real economic growth and fluctuations origin. Still, that kind of debate is severely constrained by the biased approach to the presentation of economic facts and the lack of objectivity in the interpretation of development events.

In any case, occurrences in this period were by no means homogenous. More detailed insight into certain economic policy periods materialized in five year plans, as well as the achieved results, do not yield enough arguments to support the claim of a "golden era" which allegedly lasted from 1952 to 1965, primarily due to the pronounced oscillations and divergent trends within selected time segments (Horvat, 2001a).

The time of the fourth five-year plan of the years 1966-70 was also known as a period of Great economic reform and renewed efforts to instilling market

activities into economy that was under the dominant control of the government and its institutions. Market restructuring and technological modernization attempts were combined with significant international opening and labor market liberalization. Labor market liberalization had strong migration impact especially on Croatia and had a leading role in establishing a special nearly half a million strong emigration category of “quest workers”, “temporarily” employed throughout Western Europe, mainly Germany. This period experienced further economic growth slowdown. However, time distance enables a more objective assessment as well. Although the growth rate was below planned expectations, it was still close to 6% annually or more accurately average annual growth rate was 5.9%. Especially convincing sounds the fact that the growth was achieved along with considerable effort to stabilize the economy. Inflation rate of almost 23% in 1966 was reduced to 6-8% within the next 3 years, and 12% in the last year of this specific period, that yields one of the lowest average annual inflation rates of approximately 10%. The fourth macroeconomic variable, defined as the export to import ratio, also showed relatively satisfying trends varying around 80% average.

Described real economy performance should be kept in mind when analyzing the vehement economic discussions regarding the causes and consequences of the Great reform that took place during the second half of the 60s and was officially proclaimed a failure.

One view held that the reform failed, because, on the one hand the economy was exposed to sudden liberalization supported by a restrictive monetary policy. That stabilized the prices, but also brought down the growth rate. On the other hand, leaving income distribution between consumption and savings to the companies and employees free choice decision, initiated wage increase at the investments expense that in turn curtailed growth rate (Horvat, 2001b:119-120).

As the employment growth rate was only 1%, the opposing view held that lower than planned, but still respectably high growth rates, were mostly the result of quality factors like labor productivity and capital efficiency growth. The reform demise was closely associated with its unfinished quality. Contrary to the previously mentioned opinion it was strongly stated here that the main reform failure reason was too slow liberalization and too little market freedom allowed to the (self managing) companies and other business entities (Sirotković, 1989:14).

It seems that the empirical findings were favoring more the views claiming that reform hardships originated from its incompleteness than the views linking not-so-insignificant economic reform problems with the overly fast market liberalization and insufficient government control over income distribution.

2.2.4. Instability instilled

The 1971-75 plan was also the time of tumultuous political and social events so strong that economic processes were forced to take back burner.

On a first glance 5.2% average annual growth attained in this five year span could be judged as sufficient. Still, more detailed analysis of each year separately was pointing to the high instability. Growth rates were fluctuating in a manner that high growth rates of 8,11% in 1971 and 8,74% in 1974 were combined by low growth rates of 2,76% in 1972 and 2,91% in 1975. Market disequilibrium magnitude, or to be more precise, absence of proper market criteria in business activity conduct was confirmed by employment data. In that period employment growth rate was disassociated with the GDP growth rate. The economy experienced the highest employment growth rates of 4,39% in 1972 and 5,18% in 1975 exactly the years marked by lowest GDP growth rates, with direct impact on labor productivity fall down of 1,5% and 2,15% respectively. Maintaining the relatively high growth rates in the environment of worsening efficiency and loosing competitiveness had resulted in continually growing inflation from 17% in the first, to 25% in the last year of the planning period. Instability and falling competitiveness were especially mirrored in decreasing export to import ratio from 81% in 1972 to 55% in 1975.

This was also the period of high political instability in the beginning years and the democratic action suppression like student revolts in 1968. Even harsher regime reaction was imposed on “Croatian Spring” attempts to reform Yugoslav federation in 1971 and on Serbian leadership “Liberalization” intentions. Yet all these oppressively interrupted processes influenced that time Yugoslav authorities behavior to surprisingly large extent, that was confirmed in the Constitutional reform of 1974.

The reform impact had a peculiar outcome in the economy. Instead of standard market reform package the accent was on self management stressing the legal enterprises’ right to conduct business activity on their own accord with minimal government interference and to freely distribute their revenues. However, enterprises, companies etc. were not free to sell assets or equities but were legally enabled to replace old or acquire new equipment or assets.

Political system reforms were concentrated on Constitutional reform securing the full equality of all republics and autonomous provinces in federal bodies. New Constitution precisely recognized authentic sovereignty of republics and their voluntarily association in Yugoslav Federation, implicitly including the secession right. That was legal ground for the later Declaration of Independency proclaimed by Croatia and other republics of former Yugoslavia in 1990s.

Still, the Constitution reforms were of limited scope. Instead human rights promotion, full democracy and political pluralism allowed, the so called delegated system founded on “pluralism of selfmanaging interests” was inaugurated. In reality it was shown to be nothing more than the political façade for the elongated one party rule.

The 1976-80 plan was known as attempt to achieve “intensive” growth in the face of the ragging oil crisis and changing technological framework of modern economies. Microelectronic and its application in computer sciences and telecommunication was paralleled with Microbiology and its application in genetics, food processing industry and pharmaceuticals. Unfortunately Croatia continued to follow the old path of speeded up industrialization heavily investing in aluminum combines, oil refineries, and chemical industry with addition of road network construction.

However, high investment rate resulted in high growth rates and attained average growth rate of 5.6% which was among the highest in the previous century. This was one of the most successful periods employment wise. Employment rate was 4,4% on average and labor productivity was growing by the rate of 1,2%. High investment rate, on the other hand produced heavy external borrowing and the beginning of relatively high indebttness of the Croatian economy. These trends were accompanied with expanding inflation. Inflation jumped to over 20% annual rate towards the end of 70s.

At the economy analytical evaluations level there was continuous dissenting debate going on concerning the scope and direction of economic activity.

In the one camp there were simplifying notions with no real data support that the market was introduced where it was not supposed to exist (intra-company or between different parts/factories within the same company) and that there was no market where it was supposed to be (between different business entities). Therefore market relations were substituted with “self managing settlements and social contracts” deserving the economy nick name “(pre)arranged economy”. (Horvat, 2001b: 123).

In the other camp voices were rising claiming that good enough GDP growth rates need to be confronted with slowed down wage increase accompanied by investments eruption construction industry overheated growth and speeded up foreign indebttness. That means that investments increase decisions were made at the expense of wages and living standards outside the economy and business community in political/government bodies. Hence, the selfmanagement is not to be blamed for the existing and emerging problems (Sirotković, 1989:15).

2.2.5. Downhill Path of the 1980s

In general recession of the 80s two time lags should be distinct. From today's perspective it is clearly obvious that in the first lag (first half of period) there was evident tremendous effort and high expectations that economic problems could be solved by programmed reforms. In second time lag piling up of noneconomic constraints strongly influenced self confidence loosing ground, general apathy and progressive vanquish of economic chaos and final system collapse.

In the first half of this period encompassing plan from 1981-85 identifiable trends of slowing down business activity, growth rate fluctuating around 0 together with balance of payments improvements and inflation gradually getting into full swing, could be clearly observed. This was also a period of intensive stabilization program working out and its implementation trying out. There was even attempt of installing so called permanent revalorization of the assets trying to curb down spending of fictive/virtual income that was "pumped up" by the high inflation (Hanžeković, 1987:300). Reform attempts were especially focused on capital market constitution and balance of payments stabilization.

In second leg of this period from i.e. plan from 1986 to 89/90 enough elements of economic and overall crash down could have been discerned. Growth rates between -0,5-1% were increasingly negative and hyperinflation was getting out of control. One of the explanation was that the inflation cause and the consequence was "liquidity paradox" in the balance sheets of the firms allowing the simultaneous existence of the financial surpluses and deficits (Ribnikar, 1989: 192).

At the end of 80s major contribution to the economic system decay and hyperinflation over 1000% annually, was administered by so called "breaking and entering" the monetary system. Simply it was the illegal money printing activity performed in the National Bank of Yugoslavia under the auspices of Serbian authorities without the knowledge and/or consent of other republics of former Yugoslavia. "Self defending" mechanism adopted by the other republics consisted of overdue nominal payments into federal budget, avoidance of mandatory foreign currency depositing to the National Bank of Yugoslavia accounts etc.

2.3. Transition performance of the 1990s

In the period between 1990 and 2000 the average annual growth rate was negative and stood at about -1%.

Particularly disturbing is negative population growth rate, that after slowed down growth during the whole century, registered negative average annual growth rate of approximately -1%.

This decade was also marked by negative average annual employment growth rate of -2.76%. Employment rate behavior was radically atypical for the economy that spent more than half of the period in war environment. As a rule war economy is conditioned by full employment of its resources especially of labor force. Even more, armed forces conscription of able bodied men required retirees, women and other groups already out of active labor force to re-enter the labor market. It seems that the Croatian war economy unemployment was very rare if not unique experience.

Although, inflation was curbed by implementation of the stabilization program in the second part of 90s, inflation rate at the beginning of 90s was so high that average annual inflation rate for the whole decade amounted to 93%.

Export to import ratio was steadily decreasing with average annual value round about 50%. At the same time foreign debt was tripled.

Inherited problems of the 80s clearly visible in stagnation and recession by all means influenced the performance of the Croatian economy of the 90s. That impact was augmented by disappearance of significant export markets of former Yugoslavia and former Soviet bloc in the 90s. Tremendous human and physical capital losses definitely should be included in the objective analysis. These numbered and other unnumbered considerations were prescribing great cautiousness when judging Croatian economy performance.

Highly unfavorable macroeconomic trends were concentrated in the 1991-1995 period that was dominated by Homeland war major operations.

Negative annual average growth rate in this period was exceeding -6%

War economy employment, had been also decreasing at the somewhat lower annual rates without reasonable theoretical explanation.

Registered average annual inflation rate climbed over 500% annually.

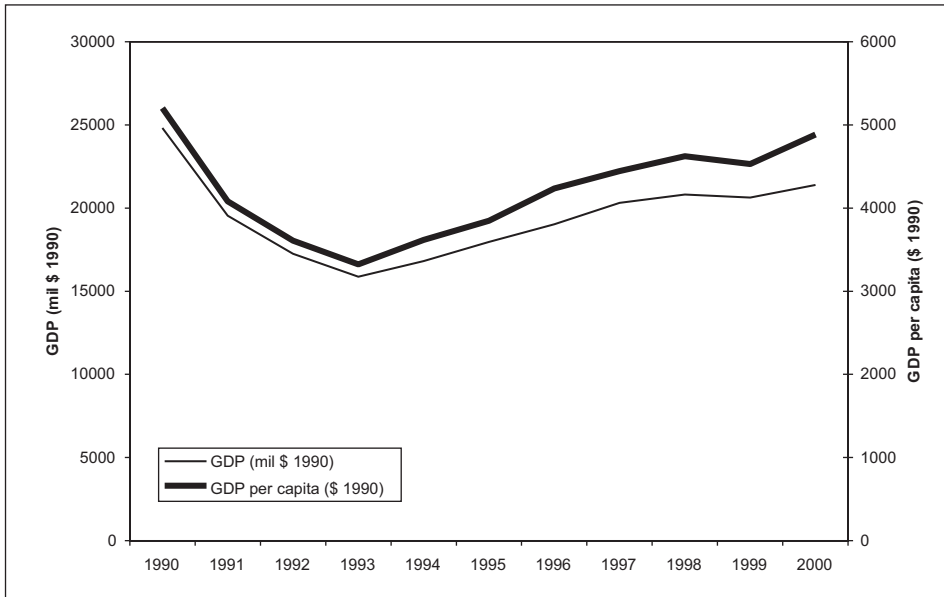
In these circumstances external trade relations could have been graded as relatively auspicious. Import to export ratio had sustained average 90% level.

Yet, it should be taken into account that Croatia was practically under “unannounced” international trade sanctions that were artificially decreasing import. Moreover, resource allocation focus on war machine winning efforts has diminished peacetime goods and services import capacity. As the military equipment procurement data were not part of official national statistic publications that had additionally curtailed “visible” imports data.

The second phase, took place from 1996 to 2000 when significantly different trends could be observed. The growth rates show notable recovery. With exception of 1999 all other years annotated positive GDP trends, so the average annual growth rate has been around 3.5% (see Figure 5).

Figure 5

GDP AND GDP PER CAPITA IN CROATIA 1990-2000



Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

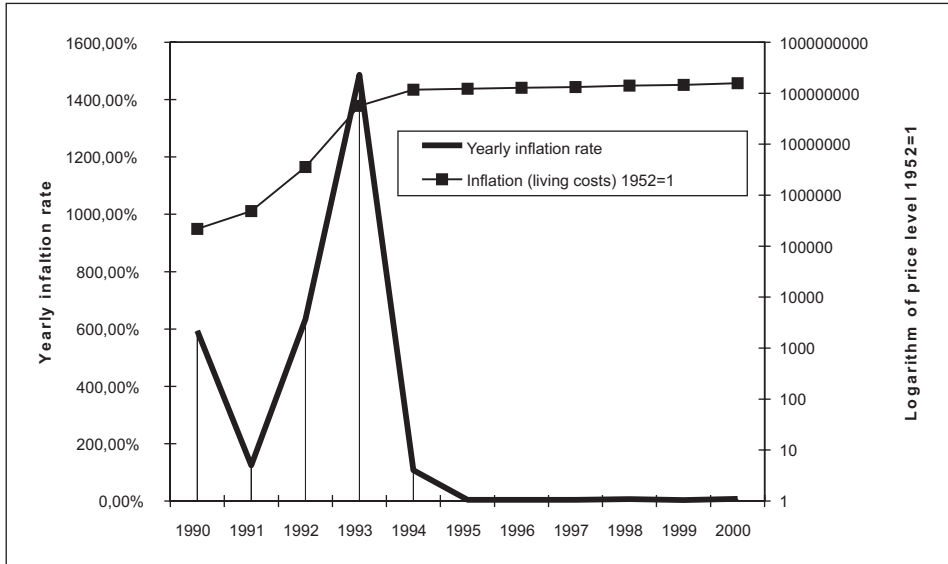
The most substantial positive shift was evident in monetary consolidation of the economy. The effects of the stabilization program were noted first through disinflation. In a short time span Croatia had undergone metamorphosis from hyperinflationary to low inflation economy. The inflation rate, in 1994, came almost instantly at zero point, and during this period (1996-2000), was annually around 5% (see Figure 6.).

The success of anti-inflation program has its source primarily in the "hard budget constraints" policy that has limited and reduced budget expenditure.

The reduction of fiscal and para fiscal expenditure has been achieved by reforming education, health insurance and pension system, by restructuring defense and security forces and other parts of state mechanism.

Figure 6

ANNUAL INFLATION RATE AND LIVING COSTS 1990-2000



Source: Družić, I. (2005) “A Journey Through Transition Time – With Special Reference to Croatia” Political Culture, Zagreb pp. 285-296.

At the same time, fiscal revenues were restructured by reforms of fiscal system dominated by VAT introduction as the major “jewel in the fiscal crown”

Positive reform trends in this period should be confronted with employment and foreign trade indicators as the remaining macro variables.

Employment/unemployment negative trends continued to be persistently unfavorable in the second half of 90s. The average annual employment rate remained negative at the -0.65% . Although the situation is possible when decreasing number of employed has been not automatically followed by increased number of unemployed, because some lay off employees might leave the active job search for good that was not case here.

Croatian experience has been simultaneous decrease of employment and increase of unemployment.

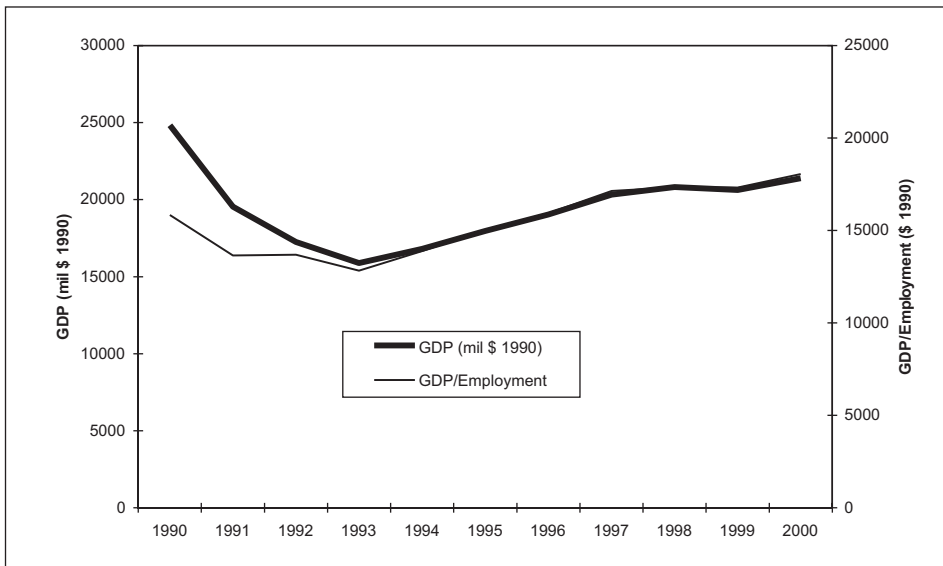
The complexity of the problem of employment /unemployment was emphasized earlier. But, it's trends in the other half of the 1990s, when despite of nomi-

nally notable relevant GDP growth rates, employment and unemployment showed to be negative, should be put in context of change in GDP composition. Nonfinancial/real sector share, which generates more labor demand has been permanently decreasing, while financial sector share, which in Croatian case generates lower labor demand had been constantly increasing in GDP composition.

The other unusual occurrence employment wise had been that mass layoffs in the first part of 90s were not materialized in proper increased labor productivity in the following period (see Figure 7).

Figure 7

GDP AND GDP PER PERSON EMPLOYED IN CROATIA 1990-2000

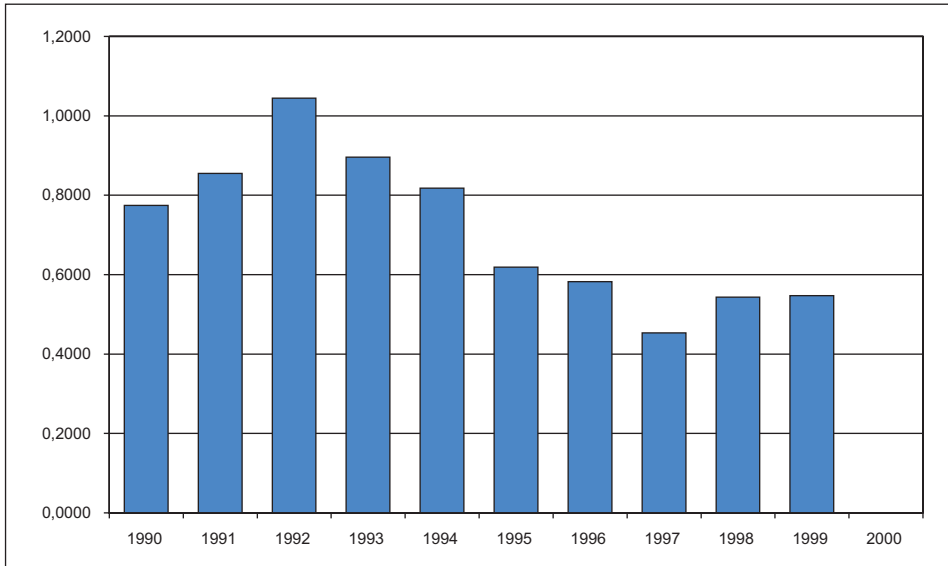


Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

Export to import ratio drop in the second part of 90s had additionally affected employment indicators. Fall down of export to import ratio to an average of approximately 50% in this period excluded the possibility of employment rise by mean of export expansion (see Figure 8.).

Figure 8

EXPORT/IMPORT RATIO IN CROATIA 1990-2000



Source: Družić, I. (2005) "A Journey Through Transition Time – With Special Reference to Croatia" Political Culture, Zagreb pp. 285-296.

There has been no doubt that the overall fundamental reforms objective was exactly the break up with the unacceptable practice of the pre-transition period. At the same time deep structural changes have been expected to emancipate creative potentials swollen by national liberation and attainment of sovereign independent state. However, considering marked highly unfavorable conditions and some aforementioned accommodating ones, it could be stated that the Croatian economy performance has been not only below expectations but was well below attainable level as well in this period.

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SIMETRIJA NAPREDOVANJA I NAZADOVANJA HRVATSKE EKONOMIJE

Sažetak

Uopćeno govoreći hrvatski gospodarski razvitak tijekom 20. stoljeća može se ocijeniti turbulentnim, osobito u poredbi s razvijenim ekonomijama. Suvremene visoko razvijene zemlje postigle su višestruko uvećanje nacionalnog proizvoda tijekom proteklog stoljeća. Njima nasuprot, ostatak svijeta kojeg nastanjuje dominantna većina ukupnog svjetskog pučanstva i kojemu pripada pretežiti dio zemalja, još uvijek vodi neizvjesnu bitku na krivudavoj uzbrdici ekonomskog razvoja obilježenog brojnim stranputicama i slijepim ulicama. Kada se u nekoj od ovih zemalja i otvori razdoblje rasta, njega vrlo brzo naslijedi stagnacija i/ili svekoliki regres s dugoročno nepovoljnim razvojnim performansama. Izravna je posljedica takvih gibanja tijekom proteklog stoljeća, širenje razvojnog jaza između ogromne većine svjetskog pučanstva i manjine “sretnika” koji žive u razvijenim gospodarstvima. U tom je kontekstu hrvatsko ekonomsko iskustvo ne samo intrigantno nego i analitički vrlo upečatljivo.

Ključne riječi: ekonomski napredak, ekonomsko nazadovanje, rast, zaposlenost, inflacija, odnos izvoz/uvoz, fluktuacije, tranzicija, privatizacija, stabilizacija.