

SCIENTIFIC SOCIETY OF ECONOMISTS ZAGREB
ANNUAL ASSEMBLY

Conclusions of the present Croatian economic policy goals and results*

ON THE BASIS OF THE SCIENTIFIC STUDY *THE STARTING POINTS OF NEW ECONOMIC POLICY IN THE CONDITIONS OF RECESSION*, SSE, 2009, www.zde.hr

This text presents the results of discussion of Scientific Society of Economists Zagreb at the Annual assembly, held in Zagreb on 10th of March 2012. The subject of conclusions are two themes, namely: (1) Which government and public property we should privatize and how should we do it; and (2) The opinion on the practical credibility of the main thesis presented in before mentioned study, along with the results and goals of present Croatian economic policy¹.

I. WHICH GOVERNMENT AND PUBLIC PROPERTY SHOULD WE PRIVATISE AND HOW SHOULD WE DO IT?

Within the debate we stand at unique position that the issue of continuing the process of privatization is of extreme importance for the Republic of Croatia. The complete and efficient political platform on the manner and choices of privatisation of remaining government and public property has not been accepted yet. In order to improve the efficiency of businesses, develop the national economy, and raise the general welfare of the entire Croatian population by promoting the Croatian economy and setting more equitable social relations, the Scientific Society of Economists has pointed out the following topical issues:

1. Even the previously set hypothesis proclaimed that the whole scale of privatisation as a universal model should significantly increase both the efficiency of economic agents and social welfare. This model was first applied in the countries featured by prevailing capitalist socio-economic system, and was highly recommended to the countries in transition from state and social ownership towards the capitalism in the

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¹ Ivo Sever and associates (2009) *The Starting points of new economic policy in the conditions of recession*, ZBORNIK RADOVA EKONOMSKOG FAKULTETA U RIJECI/PROCEEDINGS OF RIJEKA FACULTY OF ECONOMICS, Časopis za ekonomsku teoriju i praksu/Journal of Economics and Business, Volume 27, No. 2, pp. 217-62.

late eighties of the last century. However, the implementation of the privatisation model neither met expectations in capitalist countries nor in the transition countries. Moreover, there were withdrawals of political-economic decisions on privatisation and restoration of state ownership with elements of public ownership. This particularly refers to economic subjects of public infrastructure (electricity, water management, natural forests, railways, etc.). Therefore, there is still an ongoing pursuit for the optimal relation of state or public property and private property. Since the financial crisis in 2008, the state has taken over the ownership of vulnerable financial institutions (banks, mutual funds, mortgage institutions, etc.).

2. The results of the contemporary scientific research on the processes of privatisation have proved that there was an increase in individual economic efficiency of individual enterprises concurrently with a substantial decline in social efficiency, especially due to the large increase in unemployment and increase of the inflow to pension funds. The increase of economic efficiency has been found in enterprises that operate in conditions of competition in domestic and foreign markets. However, in terms of social monopolies, many countries have not yet embarked on privatisation of such entities. Moreover, those that pursued with privatisation of certain monopolies withdrew their decisions as being faced with serious problems.

3. We have to bear in mind that the situation in Croatia was specific in many segments for two main reasons: firstly, there was a self-management system based on workers' ownership in most of the companies. Thus, the transition from the workers' ownership to state ownership was a must. Secondly, the privatization process, however, was not performed by "vouchers" for all citizens, as it was done in some other transition societies. The workers had to pay for the shares, even though they previously invested in the assets of these companies and were managing them. This model, after full or partial privatisation, led to two opposing consequences: the economic efficiency of enterprises that were not liquidated has been increased, but the social economic efficiency has generally been decreased. These consequences caused a large number of social and economic problems, which Croatian government have unsuccessfully been copying with since then.

4. As the method of privatization in Croatia has not been changed, we have taken the position that the present method of privatization must not be further implemented, because it will cause even deeper socio-economic crisis. It is therefore necessary to develop a complete and comprehensive strategy for proceeding with further development of certain types of enterprises on the scientific basis. Such a strategy should be created by a multidisciplinary group of the most appreciated scientists and experts, particularly, economists, lawyers, sociologists and demographers.

5. It was particularly emphasized that the control over acquired natural monopolies should be maintained (water management, forest, road networks, railway

infrastructure, gas pipelines, oil pipelines, etc.) on behalf of the entire Croatian society. Those natural and created goods should not be privatized, but organized under more effective management. Domestic and foreign experience based on scientific studies have shown that the transition to private ownership is not that relevant for the achievement of higher level of efficiency of former social, governmental or public enterprises as the professional and competent leadership and management. Croatian experience, in particular, has shown that the political appointments of board members have led to degradation of business efficiency and de-materialisation of enterprises. Therefore, the practice of appointing members of the board without a public tender with objective predefined professional and other criteria has to be abandoned.

6. It was also noted that considering, in principle, a positive experience from the period of workers' ownership, it would be necessary to scientifically develop a comprehensive project of restructuring ownership. After its adoption the legislative basis should be standardized for the purposes of transition of ownership to employees of the company. The workers are objectively interested in the survival and development of their businesses, and this presents a permanent base for increasing the economic efficiency of enterprises. At the same time this would positively affect the process of permanent reduction of increased and unsustainable social problems.

II. OPINION ON THE MAIN THESIS OF THE STUDY ALONG WITH THE RESULTS AND GOALS OF PRESENT ECONOMIC POLICY IN CONDITIONS OF RECESSION

1. During the recession period, as in previous months of this year, the Croatian government has largely implemented the measures in line with suggestions of the IMF. These measures were mainly aimed at integration of public spending into framework of recessionary conditions in the fixed exchange rate regime and the free operation of capital markets without effects towards overcoming the recession. The aim of the discussion is, therefore, a comparative evaluation of conception and measures proposed by the SSE from the year 2009 with the suggested opinions and measures of the IMF, which the government largely accepted, implemented, but autonomously created as well. The discussion shows that the expected results of the monetary, fiscal and structural policies implemented on the basis of the Government and the IMF's recommendations have not been realized. The reasons are, in the view of the discussion, as follows:

- Administrative measures of spatial and urban planning and management with aim to improve the investment climate have not yielded expected results, either. This particularly refers to local government level, with a few successful exceptions. Local contributions and surcharges with tax features, and then local administration are found to be one of the most common reasons for such a state of affairs.

- The progress in the field of structural reforms in the aspect of homogenization of regulatory measures with measures ensuing from the accession adaptations to the EU institutions has been highlighted. Particularly emphasized has been the application of the criteria of competitiveness that support equal opportunities for all the market actors as it is well known that the measures of the so called internal devaluation may indicate the measures of support to the supply agents in a competitive market, but a good part of the failure of the whole reform, measured in terms of employment growth and GDP, has been attributed to the incomplete implementation of these measures both by the Croatian authorities and the IMF.
 - The general conclusion is that the poor results, in fact, present the failure of these measures, which are marked as anti-recessionary. In fact, their character is pro-recessionary. At a general level, Croatian antirecessionary policy does not have pro-development feature, but only presents adjustment to the conditions of recession.
2. The discussion also highlighted the fiscal and budgetary policy which, associated with the monetary policy, are one of the main factors that characterize the antirecessionary program of the Government. The most important factors of such a policy, from the standpoint of scientific judgment, are as follows:
- Restrictive fiscal policy, which should have a *supply side character*, has failed, due to the lack of appropriate expansion of demand, as the main anti-recession measure; because of the control of the current balance of payments deficit and the growth of gross external debt and public spending in terms of the current budget deficit, it was not possible to apply an expansionary fiscal policy.
 - The exchange rate policy could not support the expansion of demand, which could support external and internal demand by depreciating the currency; external demand could be increased by reducing the export prices, and internal demand increases according to Marshall-Lerner theorem by mechanism of import substitution by domestic supply;
 - Although the extent of credit policy of banks in foreign ownership can not be stated as being too restrictive, as evidenced by the so called *Vienna Initiative*, to which formally our monetary authorities have not acceded to, the structure of loans together with the risk premium, has acted pro-recessionary. Moreover, the measures taken by the monetary authorities aimed to restrict the growth of external debt were completely inefficient. This is a consequence of fixed exchange rate which stimulates imports and de-stimulates exports. In addition, a stable exchange rate plays a role in growth of domestic prices in terms of euro, which is the main reason for the lack of competitiveness of Croatian exports to the European market in the conditions of recession. This was even noticed by the

IMF which proposes that government should hold inflation on the lower level from the inflation in the euro zone, in order to maintain minimal competitiveness of the economy. The main instrument of the monetary policy, which applies in recession based on the monetary sovereignty has, thus, been completely absent. The main limitation of application of this instrument is “debt crisis” with the system of foreign currency clauses stated by our monetary authorities as well. In spite of that, the monetary and government authorities have not identified or implemented policy of “de-euroisation” and re-nationalisation of monetary-banking system which is a fundamental prerequisite for an effective anti-recessionary policy. This produced the specific conditions of monetary and fiscal system, which can be labelled as “monetary-fiscal trap”.

3. The discussion also considered the problem of emission of the money. Its exogenous character for Croatian banks has been evaluated. While “mother” banks enjoy and use the money emission mechanism associated with the ECB, which, in the times of crisis, conducts the so called “quantitative easing” policy, Croatian monetary system is dependent on these banks in a way that the emission of money has a very exogenous character. The National bank system of reserves does not have a function of creating liquidity, but serves as a means of monetary authorities to maintain a stable exchange rate, which is actually a quasi -national currency, affixed to the euro. In such a way, our monetary system has been denied the possibility of the additional money supply emission, which is necessary in conditions of recession and lack of liquidity. That has been presented by the practice of the ECB. As banks in times of crisis prefer generation of liquid reserves to loans, a noticeable decline of credit growth can be observed in Croatian banking system. At the level of the monetary aggregates M1 and M0 in the last eight quarters we can notice a very noticeable reduction in the multiplier $M1/M0$, which is now less than unity. The central bank, in order to achieve the objective of maintaining a stable exchange rate, and then, the policy of “mother” banks to reduce the flow of liquidity by usual credit channels as well as the preference for liquidity reserves of the banks themselves (subsidiaries), support the reduced liquidity of the entire economic system, thus prolonging and deepening the recession.

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