
Budgetary Policy in Croatia: An Attempt of Evaluation

ZDRAVKO PETAK

Faculty of Political Science, University of Zagreb

Summary

The main topic elaborated in the paper is the future role of the Croatian government in running Croatian national economy. Also, the role of government budgetary policy in achieving that task will be investigated in order to answer the fundamental question: do the trends in the public consumption in Croatia differ from those in developed countries.

To answer this question, the paper is divided into four chapters. The first deals with the analysis of public money politics, by contrasting two opposite approaches: the incremental and the one which is labelled “unrestrained swelling”. The second chapter is devoted to the structure of public consumption in Croatia. The following chapter looks into the government expenditures in Croatia compared with the trends in public consumption in developed countries. The last chapter of the article deals with the role that the Croatian political parties play in the budgetary process.

1. The Politics of Public Money: Incrementalism vs. Unrestrained Swelling

Political scientists in developed world often use the incremental approach as an appropriate theoretical framework for explaining budgetary processes. The term incrementalism applies to a model of decision-making process in government where decisions are made on the basis of little adjustments in comparison with the situation prior to the decisions. An American political scientist Charles Lindblom first used this term in the article published in 1959 (Lindblom, 1988). Lindblom’s thesis was based on the fact that decision-makers start the process of making decisions having in mind the current situation rather than the idealistic one. According to Lindblom, decision-makers in the policy process will always will only a limited number of policy options with the possibility of proposing limited or marginal changes which will build up the existing regulations. Despite the fact that incrementalism has been severely criticized, we are nevertheless witnessing its plausible application within the stable political framework. This fact is very often used by the political scientists who study the process of adopting budgets. Therefore, for example, we start to believe that “incrementalism does seem to describe most budgetary decision-making in Western democracies. It is a less useful model when there is some considerable shock to the decision-making process such as

that provided by a war or a grave economic crisis.” (McLean, 1996, 239) Using the above mentioned approach the authors in political science would like to point out that the main characteristic of the budgetary process in these countries is the continuous and moderate increase in volume of the total budgetary items. Simply, this means that budgets experience a moderate increase from year to year but without the motion to expand beyond the borders that cannot be controlled.

Can that approach explain in a satisfactory way the budgetary process in the Republic of Croatia? The answer is negative. It will be more appropriate to explain the logic of the budgetary policy in Croatia by the approach which points out the role of “unrestrained political power”. The result of the budgetary process in Croatia is an “unrestrained swelling” of public money taken from the households and private sector in comparison with the previous fiscal year, rather than a slight increase of total budgetary items.

In order to illustrate the real trends we have to compare the data about the increase of the consolidated public consumption in several developed countries (Table 1) with those in Croatia (Table 2). On the basis of available evidence it has been showed that the public consumption in the last six years increased from 17.8 per cent in Germany up to 45 per cent in the United States. If we exclude the data for the United States, the highest increase of public consumption in European countries has been recorded in Italy (33.3 per cent).

*Table 1: Increase in public consumption of consolidated central state in developed countries, 1992-1997 (in per cent)**

	Austria	France	Germany	Italy	United Kingdom	USA
1992	750.8	2892.7	989.7	672206	220.5	1155.7
1993	781.3	2921.5	1022.6	675048	219.6	1237.9
1994	819.1	3032.3	1104.6	668350	237.8	1330.6
1995	862.3	3169.5	1130.7	748856	255.1	1442.6
1996	916.0	3317.8	1139.7	811148	272.7	1530.6
1997	950.8	3490.1	1166.6	896536	289.9	1676.7
Increase	26.6	20.6	17.8	33.3	31.4	45.0

Source: *Government Finance Statistics Yearbook*, International Monetary Fund, Washington, 1999

* Year amounts are indicated in billions of the national currencies.

If we try to compare the data from the above mentioned countries with the situation in Croatia we will notice a marked difference. By way of comparison we will include the increase of the total consolidated budget from 1994 to 1999.¹ The data attached in

¹ We have chosen the period from 1994 to 1999, because in this span of time the Croatian economy was stabilized, due to the introduction of the new currency “kuna” (HRK).

Table 2 show practically a hundred per cent increase of the public consumption in Croatia (98.9 per cent). It is very difficult to explain such an increase by the incremental approach. It is necessary to explain the process of budgetary decision-making with a different approach, which would be refer to the category of political arbitrariness. The main characteristic of such a type of collective decision-making is that the process of making basic political decisions does not include institutions of civil society (various interest groups, trade unions, boards of trade, etc.). In addition, the controlling role of the opposition parties is practically nonexistent because the opposition parties have the same attitudes as the ruling party towards the budgetary policy. The unrestrained swelling of the governmental budget and other forms of public expenditure in these circumstances can only be prevented by the international actors, not by the interim logic of political process.² The result of such a budgetary policy is excessive public expenditure and inappropriate structure of public consumption.

Table 2: Increase of expenditures of consolidated central state in Croatia, 1994-1999

Fiscal Year	Magnitude of consumption (in billions of HRK)
1994	35.35
1995	44.00
1996	48.66
1997	54.64
1998	63.70
1999	70.34
Increase (in per cent)	98.90

Source: Monthly Statistical Reviews of the Ministry of Finance

2. The Structure of Government Spending in Croatia

The result of the previously described processes was a big increase in the role that public consumption plays in the whole economic process. Currently, Croatia has the highest level of public consumption of all Central European countries (Table 3).

² The good example which can prove this theory is the adoption of the central government budget for the year 2001. The first budget proposal was HRK 53 billion, but after the intervention from the International Monetary Fund, the budget was decreased to HRK 49.7 billion.

Table 3: The Role of the Public Sector: The Comparison of Croatia and Central European Countries, 1995

	Per cent of public employees in the number of employed persons	Expenses on salaries in public sector as per cent of total GDP
Croatia	34.1	11.2
Czech Republic	14.1	4.6
Hungary	24.1	7.7
Poland	15.2	8.5
Slovakia	17.8	3.6
Slovenia	24.6	6.4

Source: World Bank Report

The amount of total public spending (Table 4), which includes central government budget, national social funds and national water-company, and all local government budgets (counties, cities and municipalities) exceeds 50 per cent of GDP. In that respect, the public consumption in Croatia is higher than it is in many developed European countries. The exceptions are countries like Sweden, the Netherlands and Denmark, that traditionally have high levels of total governmental spending.

Table 4: Public expenditures in Croatia, 1994-2001 (in billions of HRK)

	1994	1995	1996	1997	1998	1999	2000	2001
Total expenditures and lending of the general state	38.5	48.1	54.7	61.6	72.5	79.1	83.5	-
I. Total expenditures of the central state	35.3	44.0	48.6	54.6	63.7	70.3	73.8	74.7
A. Central government budget	20.6	26.0	27.3	29.1	33.6	35.9	37.1	34.2
B. Extrabudgetary funds	14.7	17.9	21.2	25.5	30.1	34.3	36.7	40.5
1. Pension Fund	6.6	8.8	10.4	13.8	16.1	19.0	20.7	23.8
2. Health Insurance Fund	5.2	7.0	8.3	8.7	10.7	11.9	12.3	12.7
3. Employment Fund	0.4	0.4	0.6	0.7	0.5	0.8	0.9	1.1
4. Child Benefit Fund	0.6	0.8	0.8	1.0	1.0	1.1	1.2	1.4
5. Public Water Management Fund	0.5	0.7	0.9	1.2	1.5	1.4	1.4	1.3
6. Road Management Fund	1.2							
II. Total expenditures of the local self-government	3.2	4.1	6.1	7.0	8.3	8.8	9.7	-

Source: Monthly Statistical Reviews of the Ministry of Finance

* The amounts presented in the table refer to the consolidated data of all levels of government, except for the 1999-2001 period that does not include the consolidated data, because the consolidated data for that period which would include local self-government budgetary figures are not available.

What are the political and economic consequences of a such a type of state Leviathan? The political consequence is immense political power concentrated in the hands of the central government. Previously, it meant that the power was in the hands of President Tuđman, and now it means that the power is located in the central Croatian government. The new Croatian government has tried to diminish the economic power of the central government established in the Tuđman era, but it is not an easy task. My argument here is that the overwhelming role which the central government plays in the Croatian political system is a part of the negative legacy of the previous Tuđman's authoritarian governance.

The economic consequences are also connected with bad performances. The first consequence is a pervasive type of economic behaviour which is known in the economic literature as the "crowding-out effect". Namely, the too big public spending crowds out, or squeezes out the investments indispensable for boosting economic growth, in order to solve the high unemployment rate (approximately about 23 per cent). At this point I would like to return to the objection made by several Central-European scholars. In the last three years (1999-2000) all central-European countries succeeded in crossing the level of real GDP they had had before the process of transition started. Unlike them, Croatia is now at least 20-22 per cent below its pre-transitional level. Additionally, in 1999 its GNP dropped in comparison with the 1998 figures.

3. Trends in Public Consumption in Developed Countries

After World War II government consumption has more than doubled in its size and in its role as an agency that provides for citizens various sorts of goods and services (Table 5). It is important here to mention that there are various kinds of goods with which various levels of government have to cope with. It does not cater only for typical markets or private goods. It has to be stressed that various levels of government are dealing with at least four kinds of goods (Ostrom, Vincent and Elinor, 1977, 9-18):

1. *Pure public goods* – which are non-rival and non-excludable;
2. *Club goods* – which are non-rival, but excludable (toll roads, electricity, satellite communications);
3. *Common pool goods* – which are rival, but non-excludable (groundwater, mineral deposits);
4. *Private goods* – which are both rival and excludable.

But if we look back to the early 1980s, the continuing growth of a state was lagging. The concept of big government and mechanisms of welfare state were gradually abolished in favour of one type of "market revival". In terms of policy issues, this process was related to the challenging proposals by the right-wing parties, which can be summarized in the following question: how to cut public spending in order to dismantle the welfare state and to support the market forces?

Table 5: The share of public consumption in GDP, 1960-1995

	1960	1974	1995	Change
Austria	35.7	41.9	52.8	17,1
Belgium	34.6	45.6	54.9	20.3
Denmark	24.8	45.9	62.4	37.6
Finland	26.6	32.0	57.6	31.0
France	34.6	39.3	53.7	19.1
Germany	32,4	44,6	49,5	17,1
Greece	17.4	25.0	46.0	28.6
Ireland	28.0	43.0	42.0	14.0
Italy	30.1	37.9	51.9	21.8
Netherlands	33.7	47.9	50.9	17.2
Portugal	17.0	24.7	43.1	26.1
Spain	-	23.1	44.3	-
Sweden	31.0	48.1	66.2	35.2
United Kingdom	32.2	44.8	43.4	11.2

Source: Francis G. Castles, *Comparative Public Policy*, Edward Elgar, Cheltenham, 1999, p. 101

Such a type of policies is additionally supported by the tendencies evolving from globalisation. Namely, a very dangerous threat to the “big government” will occur if the predictions regarding the future trends of globalisation prove accurate. We do not have yet clear findings about this assumption, and it is not possible to conclude so easily that the process of globalisation and the necessity to raise national competitiveness in international trade will decrease the role of the state. We can only accept the possibility that the globalisation effects may become more apparent with the passing of time, that the expansion of international trade, as the expansion of international financial flows which markedly influences the position of national government, will additionally restrict the role of the state.

On the other hand, the argument against the view that the role of the state is about to weaken can be bolstered by three counter-points. We can take over the argumentation presented by the Australian social scholar Francis G. Castles (Castles, 1999). The first argument refers to the fact that the post-war public policy has been underpinned by economic and political modernity. The threshold level in the provision of social services once achieved will probably continue to exist and any radical drop of that level will be met with hard resistance. Many analyses from the fields of public policy and political economy have showed that the big attack on government, as for example in Great Britain and USA, failed to dismantle the welfare system as proposed by the attackers. Secondly, many socially provided programs, particularly those in health, education and in the sphere of income transfers, can be seen now as having achieved maturity in the sense of offering complete cost coverage. The reason that cost-cutting in some programs

did not reduce the overall size of government brings us to our third point. There remain some factors which continue to provide the dynamics for a further expenditure growth. For example, there are the problems of the ageing population. According to all demographic expectations, the ageing population is not a problem that will go away in the next 50 years. In the end, Castles concludes:

“Assuming no providential quantum increase in the rate of economic growth, the most probable overall outcome of the tendencies rehearsed here will be a long period of continued attempts at program containment in the face of population pressures for greater spending, which seem likely to escalate in coming years. The modern state, characterized by big government and extensive welfare provision, has been the product of post-war transformation and probably will not disappear in the near future. What will change, however, is which countries pursue what policy goals and to what extent.” (Castles, 1999, 323).

If we turn to such a type of conclusion again, we can see that around the world governments are dealing with the challenges raised by globalisation and the movement towards a bigger decentralization. In an effort to make the delivery of services more efficient and to bring it closer to people, many countries have devolved a range of activities. In the past decade, a wave of decentralization has occurred in Latin America, and similar changes are occurring in China and South Africa. The former socialist states have not been immune to these global tendencies. This is a particularly strong trend in Central European countries, because the transition to a market economy implies an array of decentralization forms. Many tasks have been completely removed from the domain of the public sector. Others have been handed from the central government down to the lower levels.

At this point I will try to relate the findings from the theoretical part of the paper with the empirical findings showed in several last chapters.

The main thesis is that government spending is a product of the modern era and will not disappear in the coming years. It is very hard to defend this thesis. The average rate of government spending has decreased in practically all Western and transitional countries. But in Croatia, there is a completely opposite tendency. The public consumption, measured as the percentage of the GDP, is too high for the actual level of economic development. As economics teaches us, there is a desirable level of government spending at every stage of economic development. Generally speaking, that level can be raised when the level of economic growth also raises. It simply means that, for example in the EU, the countries like Portugal, Ireland or Greece can have a lower public consumption than, for example, Sweden or the Netherlands.

4. Budgetary Policy and Political Parties in Croatia

A review of the decision-making process about the public money at the national government but also at the local level, does not give enough evidence for the conclusion that the differentiation between the “budgetary packages” of the political parties is at work in Croatia’s political life.

The budgetary policy is mainly an expression of the structure of the society without the social differentiation as in other developed western societies. Hence parties are not recognized on the basis of a “budgetary package” which they offer to the voters. As an American political scientist Patrick Fisher notes, “democrats tend to be more inclined towards keeping as much social spending as possible in today’s budgetary environment, even if that means higher taxes. Republicans, on the other hand, want lower taxes rather than social expenditure (though they do tend to be pro-spending when it comes to defense). Thus, the Democrats favor relatively high expenditures and high revenues, while the Republicans favor relatively low expenditures and low revenues” (Fisher, 1999, 226). A similar differentiation can be made for example between the conservatives and the social democrats, the rightist liberals and the socialist in almost all European political systems.

The second reason why the parties in Croatia have not yet developed a clear budgetary policy is the wartime period in the 1990s when, due to the war and the high expenditure on defense, the budgetary policy was untypical in comparison with stable democratic societies. The share of expenditure for defense in the mid-nineties was more than 30% of total budget, so that practically there was no opportunity of a budgetary choice.

As recent researchers of comparative public politics show, the structure of public expenditure in democratic societies is that the first place is occupied by the funds for social security, education and health. In the US, for example, military spending is high, but there are equivalent high amounts for the mentioned sectors.

Because of all this, the Croatian political parties have not yet formulated their opinion on the “budgetary package”. That is the reason why in their political discussions they use colloquial phrases, and not the budgetary-analytic approach when, for example they try to evaluate the budgetary policy of a certain party or a coalition. The best example is the usage of the words – “social” and “developing”. The parties of the ruling coalition very often criticized the HDZ budget as “unsocial” and “not supporting development”. When these parties came to power and now had the right to create the budget, the former ruling party during the government discussions stated that they were not ready to support the proposed budget because it was not enough “social and did not support development”. Croatia will remain the country with the highest rate of public expenditure without decreasing logic of political thoughts and party coalition, hence the pressure from international actors and institutions, such as the International Monetary Fund. We can only hope that the policy of the Croatian budgetary process will soon be outlined anew, in the manner which is going to be more in line with the budgets of developed countries.

References

- Alesina, Alberto and Perotti, Roberto, 1999: Budget Deficits and Budget Institutions, in: James M. Poterba and Jürgen von Hagen (eds.), *Fiscal Institutions and Fiscal Performance*, The University of Chicago Press, Chicago
- Bajo, Anto, 2000: Proračunske institucije i proračunski proces, *Financijska praksa*, Vol. 24, no. 1
- Castles, Francis, 1998: *Comparative Public Policy: Patterns of Post-war Transformation*, Edward Elgar, Cheltenham
- Fisher, Patrick, 1999: The Prominence of Partisanship in the Congressional Budget Process, *Party Politics*, Vol. 5, no. 2, 225-226
- Lindblom, Charles E., 1959: The Science of "Muddling Through", *Public Administration Review*, Vol. 19, 79-88. Cited according to C. E. Lindblom, 1988: *Democracy and Market System*, Oxford University Press, Oxford, 171-190
- McLean, Iain (ed.), 1996: *Concise Dictionary of Politics*, Oxford University Press, Oxford
- Ott, Katarina, The Budgetary Process in Croatia, or how and why an independent institute tried to influence parliamentary debates, paper presented at the meeting
- Petak, Zdravko. 1992: Fiskalna decentralizacija i regionalni razvoj Hrvatske, *Društvena istraživanja*, Vol. 1, no. 1, 55-65
- Petak, Zdravko, 2001: Proračunska politika Sabora, in: Mirjana Kasapović (ed.), *Hrvatska politika 1990.-2000.*, Fakultet političkih znanosti, Zagreb, 149-177
- Rubin, Irene S., 1993: *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing*, Chatham House Publishers, Chatham, NJ