

CROATIAN ECONOMY IN TRANSITION¹

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(1) Some characteristics of transitional crisis

The first point that I would like to discuss in my paper refers to some characteristics of transitional crisis. The Croatian economy, like all the other countries in transition, passes through a very difficult transitional crisis. That transitional crisis has been manifested in drastic decrease of gross domestic product, employment, productivity, all categories of consumption, salaries and wages, and standard of living in general. This sharp fall in production and consumption took place simultaneously with high rates of escalating inflation. That can be illustrated by the data from table 1.

Such a drastic fall in the gross domestic product that no other country in transition has suffered can be noticed at first glance, when compared with those countries in transition with which Croatia can be objectively compared.

The fall in gross domestic product in 1993 to the half of the prewar (1990 level is very rare in the recent history of our civilization). That is by far a more difficult situation than that prevailing in the world up the end of the twenties and the beginning of the thirties, a period of the big world crisis. Although a decrease in industrial production was somewhat milder attaining somewhat less than three fifths of the prewar level, the economic policy was confronted with hardly solvable

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Table 1.

SOME INDICATORS OF ECONOMIC TRENDS IN CROATIA

	- Indices (real)			
	1991/1990	1992/1991	1-9 93/1992	1-9 93/1990
Gross domestic product (est.)	71.3	76.4	90.4	49.2
Industrial production	71.5	85.4	93.6	56.2
Employment (total)	88.4	88.8	96.4	75.7
Unemployment	157.9	105.1	94.8	157.3
Productivity	83.5	88.7	97.3	72.1
Average wage per worker	83.4	54.1	83.7	37.8
Personal expenditures on goods and services	76.8	70.5	82.6	44.7
Investment	60.0	40.9	71.7	17.6
	1990	1991	1992	I-IX 1993
Unemployment rate	9.3	15.5	17.8	17.6
Average monthly inflation rate	7.4	11.0	21.5	27.5

Source: *National Statistics. Center for Economic Informatics and Statistics, Institute of Economics Zagreb 1993.*

tasks and problems. The employment decreased to about three quarters of the prewar level, while unemployment increased by almost three fifths. Labour productivity decreased below three quarters of the prewar level, and the average wage of the employee below two fifths. Population expenditures on goods and services decreased to 44,7 %, and investments to 17,6 % in relation to the last prewar year (1990). During the first nine months of 1993, unemployment rate amounted to 17,6 % . At the same time monthly inflation was 27,5 %.

Although the other countries in transition are also confronted with a difficult transitional crisis, the intensiveness of this crisis is markedly less than in Croatia.

A spontaneous question arises here, as to why the manifestations of the transitional crisis in Croatia are far more expressed than in other

countries in transition. In the answer to this question, some peculiarities specific for Croatia should be underlined. The first such peculiarity refers to the war, war damages (which amounted nearly 20 bil. USA \$, (Table 2), war devastation and war expenditures. Over one quarter of the whole state territory was occupied. During 1992 and 1993, there was a huge number of refugees and displaced persons in Croatia. Their number has been between 300 and 600 thousand. They are displaced persons from the occupied territories of Croatia or refugees from various parts of Bosnia and Herzegovina and Serbia. According to the data from The Office for Refugees and Displaced Persons of The Republic of Croatia of August 25, 1993, there were 239.785 refugees and 249.199 displaced persons registered in Croatia, which along with the estimated 37.050 unregistered displaced persons amounts to 526.034. Besides, 77.500 refugees from Croatia are in other European countries.¹ Average costs for one displaced person and refugee are in the fast approximation about 3 US \$ daily. In spite of the big humanitarian help, the budget of the Republic of Croatia suffers a huge burden of support expenses for this huge number of refugees and displaced persons.

The second peculiarity refers to the fact that the Republic of Croatia became independent, sovereign and internationally recognized state not before 1992. A group of researchers from The Institute of Economics Zagreb, evaluating by the help of the simulation model the causes of such a drastic fall in production and consumption in Croatia, have come to the approximate conclusion that one half of this decrease in all relevant macroeconomic aggregates can be ascribed to the war and all its consequences. The second half is caused by the loss of the market. This loss of the market refers to the former Yugoslav market as well as to the market of the other ex-socialist countries (Marendic-1992).² Recession in developed economies of the western world, surely influenced also directly or indirectly economic development in Croatia. However, that influence, had only a marginal significance.

All in all, transitional crisis in Croatia, along with the general causes present in all countries in transition, has some special causes depending on the war, and the recently achieved state independence.

Table 2.

AN ESTIMATION OF THE WAR DAMAGES IN CROATIA

- mid 1992 in mil USD

	Direct	Indirect	Total	Structure in %	
				Economy	Total
INDUSTRY	1600	900	2500	18.0	12.6
AGRICULTURE AND FOOD INDUSTRY	780	520	1300	9.3	6.5
FORESTRY AND WOOD INDUSTRY	787	396	1183	8.5	6.0
WATER UTILITIES	150	140	290	2.1	1.5
TRANSPORT AND COMMUNICATIONS	1426	798	2224	16.0	11.2
- road communication	90	90	180	-	0.9
- road infrastructure	261	215	476	-	1.4
- railways	353	249	602	-	3.0
- river transport and ports	90	10	100	-	0.5
- maritime transport and maritime ports	38	67	105	-	0.5
- air transport	94	30	124	-	0.6
- post communication and radio and television	500	137	637	-	3.2
TRADE	20	900	920	6.6	4.6
TOURISM AND CATERING	230	1480	1710	12.3	8.6
COMMUNAL UTILITIES AND HOUSING	3800	...	3800	27.2	19.2
ECONOMY	8793	5134	13927	100.0	70.1
Social welfare	100	1000	1100		5.6
Education, culture and sport	2500	...	2500		12.6
Public Health	2300	...	2300		11.6
SOCIAL ACTIVITIES	4900	1000	5900		29.8
TOTAL	13693	6134	19827		100.0

Source: Report on Estimation of the War Damages in Croatia, Državni zavod za makroekonomske analize i prognoze Republike Hrvatske (The State Bureau for Macroeconomic Analysis and Forecasting of Republic Croatia), Zagreb, September 1992.

(2) Property and market transition

The second point that I would like to discuss in my paper is that transition of the ownership in Croatia has begun like in the most ex-socialist countries with many dilemmas and hesitations. Those dilemmas and hesitations were similar and different in some aspects, relative to other countries in transition. Similarities refer to the choice of the method for the ownership pluralization in the direction of privatization. The basic question was whether to apply as a starting method of privatization the selling (with greater or smaller benefits) or some other method, including the distribution of the capital. The difference lies in the fact that in Croatia unlike in other countries in transition, the social instead of the state ownership was predominant. Property rights derived from the social ownership are closer to the property rights derived from the private ownership than from the state ownership. The reason is that the macroeconomic environment based on social ownership presumes the function of the market for goods and services, independence of the economic subjects, and the decentralization of economic decisions.

On the occasion of the preparation of The Law on Privatization of Social Firms, a group of authors of The Institute of Economics Zagreb prepared a study "Privatization in the Policy of Economic Development"(Zdunić 1991).³ A starting basis of this study was that in Croatia a transition of social into this private property was necessary. That means that the transition should not be achieved by returning to the state ownership, but by direct transformation into private ownership. This study suggested the application of the model of the open strategy, according to which privatization would be carried out on the basis of different methods. As the basic methods the following have been suggested:

- a method of privatization of various subjects in property by means of a free distribution of primary issue of shares;
- a method of participation in ownership by means of internal and external shares;

- a method of coexistence (competition) of social and private ownership.

On the basis of these three basic groups of methods, all possible combinations should be permitted depending on a concrete situation and various characteristics (sectoral, regional, market, etc.) Although the Law on Privatization of Social Firms was based on the model of the open strategy which includes the application of various methods, there were some essential deviations from the study mentioned above. Basic deviations consist in the determination of the strict timing and deadlines for the process of privatization itself. All enterprises which do not undergo privatization in a given time limit are transferred to the ownership of the Fund for Privatization which has to continue with the process of transition (i.e., privatization). Deviations from the proposals of the study consist also in the marginalization of the application of the methods of distribution of one part of the social capital.

The following basic methods have been foreseen: a) selling, b) debt equity conversion, c) privatization through additional capital. The selling includes the purchase of shares by those employed in the firm within a limit of DM 20.000 with a discount of 20% plus 1 % for each year in service (of the employee). They were given also a beneficial payment possibility of 5 years having to pay in the first year only 5% of the total amount foreseen.

Those employed in the firm can buy only up to 50% of the total share capital. The law enables also the funds for Health, Pension and Disability insurance to participate in the purchase of the social capital up to the amount of 30% though the Law on denationalization has not yet been passed, the sources for the compensation of the further owners have been also foreseen.

June 30, 1992 was determined as a deadline for the ownership transformation into private or state ownership. By this date, The Agency for Restructuring and Development and The Croatian Fund for Development, received requests for the so called autonomous

transformation from 2422 firms, which represents about two thirds of the total number of 3600 social firms to which The Law of Privatization of Social Firms refers.⁴

The process of transformation of social firms has been continued in such a way that by the end of September 1993, 2818 firms, submitted their programs to The Croatian Fund for Privatization. The distribution of these firms by sectors has been shown in Table 3. 2082 firms received approval for the transformation, and most of the others had to receive decisions by the end of 1993. Up to now, transformation has been carried out in 1759 firms. From the total number of firms where the transformation has been carried out, 845 (48 %) have been completely privatized, in 263 (15 %) the funds have become the predominant owners, while in 651 (37 %) the funds have minority shares. About 350.000 contracts were made with the buyers of the shares. The greatest number of buyers (80 %) negotiated a progress payment during the period of five years but most of them paid only 5 % in the first year. Therefore, the figure of 845 wholly privatized firms must be taken with a great caution. The final payment was achieved in only 13.620 cases, which represent only 4 % of the total number of the contracts signed. The total amounts from the sale of firms were about DM 476 million by the end of September, out of which DM 176 million (37 %) was in cash and about DM 300 million (63 %) represented "old foreign currency savings", which had been transformed into public debt⁵ That means that only DM 176 million represent additional financial resources, while DM 300 million is a decrease in public debt. Having in mind that total social capital of Croatia has been estimated at about DM 40 billion, these resources represent less than 1,5 % . All these resources are remitted to the budget of The Republic of Croatia.⁶

Table 3.**ENTERPRISES IN TRANSITION**

SECTOR	NUMBER OF THE REQUESTS FOR THE TRANSITIONS	%
INDUSTRY	782	27.8
AGRICULTURE AND FISHERIES	231	8.2
CONSTRUCTION	273	9.7
TRANSPORT AND COMMUNICATIONS	88	3.1
TRADE	406	14.4
CATERING INDUSTRY AND TOURISM	216	7.7
SMALL BUSINESS AND SERVICES	186	6.6
HOUSING	34	1.2
FINANCIAL, TECHNICAL AND BUSINESS SERVICES	360	12.8
EDUCATION, SCIENCE, INFORMATION AND CULTURE	92	3.3
HEALTH AND SOCIAL SECURITY	15	0.5
MISCELLANEOUS	135	4.8
TOTAL	2818	100.0

SOURCE: Croatian Fund for Privatization: September's Report to Croatian Parliament, Zagreb 1993 p 11-16.

Why are the effects of transformation so modest? There are two main reasons. The first is a very limited purchasing power of domestic buyers. The second refers to the very big restraint of foreign buyers, because Croatia is a country of high risk.

An especially important question at this moment is state ownership which is dominant in Croatia. From the aspect of a desirable macroeconomic environment characterizing the market economy, it does not represent a step forward, but just the opposite. Whether such ownership structure will represent a greater or smaller problem for the total transition of the Croatian economy will depend upon the faster or

slower transformation (not of social but of state) into the private ownership. The Croatian fund for privatization is obliged to put all the shares obtained in the transformation on sale through the Zagreb stock exchange, as a rule. Up to now, the shares of 188 firms have been offered for sale through the stock exchange. The total value of the shares sold amounts to DM 22,8 million, which is more than modest.

In an effort to intensify the sale of shares, the Fund will also along with the stock exchange, sell the shares in its property through the public offers and public bidding. Some firms in the infrastructure and power supply would however remain as public and state property.

Having in mind a high level of interdependence between the transition of ownership, in the direction of predominant role of private property, and the transition of market institutions, especially institutions of capital and labour market, the present structure of property in Croatia is very unsatisfactory. During four decades of reforms in Croatia, the institutions of the goods and services market were developed. However, the institutions, mechanisms and instruments of labour and capital market are at the very beginning.

Privatization in Croatia has been also carried out through a big number of new small firms. A total number of firms increased from 17.350 in December 1990 to 66.091 in April 1993. The biggest increase is in trade, industry, building, hotel and catering trade and in financial facilities. These small firms are very significant for the development of the entrepreneurship and employment, but their role is still marginal in the structure of capital.⁷

The continuation of the process of property transition at this rate would last not only for many years but for several decades. Considering all these reasons, discussions about the necessity of accelerating transformation in direction of privatization, have intensified in professional and political circles. There is some evidence that the economic policy will very probably by the end of 1993 or beginning of

1994 start applying also the method of distribution of one part of social, respectively state capital (by means of shares and vouchers) to the workers and citizens. During September of this year the distribution of the shares to the disabled persons of the homeland war and to the families of the fallen soldiers amounted to about DM 9.6 million.

At the end of all these considerations it is not necessary to underline, that the faster privatization (including also a method of the distribution of vouchers) represents an essential condition for a more efficient transition of the market, as well as for the total market character of the Croatian economy. That is at the same time the essential condition for the implementation of the macroeconomic stabilization policy, for more efficient reconstruction and development, and for easing the existing big social tensions.⁸

(3) Transition of macroeconomic environment

The third point that I would like to underline refers to the transition of the macroeconomic environment. One of the main tasks of that transition is the creation of the macroeconomic frameworks for an efficient transformation (to paraphrase Janos Kornai) from "Soft Budget Constraints" to "Hard Budget Constraints".⁹ In Croatia (which has, as it is known, a long reformatory tradition), the radical reforms in that direction began at the end of 1989 and at the beginning of 1990. These radical changes continued more intensively at the beginning of 1992 when The Republic of Croatia became an independent and internationally recognized state, and when Croatian dinar was introduced as national currency. Legal bases concerning the total monetary and fiscal spheres, the function of the Central bank and commercial banks, the function of firms and the labour and property relations, including also external direct investments and joint ventures, as well as the complex of foreign trade and foreign exchange system, created such institutional frames which are very similar to those in the countries with market economies.

Some other relevant laws will be adopted soon, such as The Corporation Law (which presents a basis of the economic legislation in market economies), The Securities Law and some others, what will make the macroeconomic environment even more similar to that of the countries of the developed market economy. Adequate changes will be introduced in the tax system and policy. The intention is to make the complex of taxation more transparent, convenient and attractive to all domestic as well as to the foreign investors. It is probable that the preparations for the introduction of VAT would continue when the circumstances permit.

Excluding for the moment this period in Croatia, which is characterized by the war, war damages (Table 2) and war expenditures, it can be said that the basic barriers which should be overcome to achieve transformation to "The Hard Budget Constraints" refer to the ownership and market transition. I especially think here of the accelerated privatization which is an essential precondition for both development and the function of institutions of the labour and capital markets and in general for the market allocation of investments. This refers also to the whole financial complex which must transit in the direction of the privatization of commercial banks, which still represent a prolonged arm of the state. It should be mentioned in this connection that the role of the state in this phase of the transition of the Croatian economy is very evident. That could be partly explained by the war and partly by the domination of the state ownership. Direct interference of the state in the monetary sphere in searching for those solutions which should be found by the fiscal sphere (such as selective loans for agriculture, export of ships and equipment etc.) represented during the last years a factor of slowing down the transformation to "The Hard Budget Constraints" (Hunke 1991).¹⁰ The stabilization program which has been recently adopted by the Government of the Republic of Croatia will represent, it seems, a good basis for a further transition of the macroeconomic environment and for a more stable economic development in 1994.

(4) Macroeconomic stabilization program¹¹

The fourth point I would like to talk about refers to the Macroeconomic stabilization program. During 1993, negative tendencies in the economic development continued.

In September, monthly inflation rate escalated over the psychological barrier of 30 % (retail price 30,6 %, living expenses 32,4 %, producer prices of industrial products 37,8 %). All this movement took place in the conditions of the indexation used by the economic policy during the last and this year. The effect known from the theory and practice (which is usually connected with the experience of Israel and Mihael Bruno), that the application of the indexation method can neither slow down inflation nor protect the standard of living of the employed, has been confirmed once again (Bruno 1993).¹² On the contrary, the case of Croatia showed that the application of the indexation method, because of inflationary taxation, decreased continuously the real demand and consequently restricted the scope for production and consumption. Besides, hyperinflation, leading to the redistribution on the account of the poor, constantly worsened the already difficult social situation in Croatia. In connection with the social situation in Croatia, one should have in mind (in Table 1), that gross domestic product of this year is being achieved at the level of 50 % in relation to the prewar 1990 and that at the same time the average salary per employee is at the level of 37 %. The growing number of retirement benefit users in the conditions of the declining employment leads to a more and more unfavorable proportion between the active and supported population. 0,75 of the retired persons come on every employee in the Croatian economy. If we add a number of over half a million of refugees and disabled persons, then to every employee in the Croatian economy corresponds 1,3 supported persons. All this is connected with a very low level of the average and especially minimum wages. The minimum wage which makes the basis for the social help, was 124.318. HRD (about 60 DEM)(Laski 1992)¹³ in July. The total number of the owners of social cards amounted at the end of August to 84.238 persons, including 188.326 household members.¹⁴ All together, the social

picture shows a big impoverishment and disintegration of the population with deep and increasing social differences. Many deviations connected with the ownership transition and privatization, and with the war profiteering, contribute very much to the quick disintegration of the population and to the increase in social differences in Croatia. In such a situation, the task of simultaneous renewal, reconstruction, restructuring and development, is imposed upon the economic policy as a crucial necessity, in the sense of the *conditio sine qua non* (Zdunić 1993).¹⁵ However, in order to start the reconstruction and development, the escalating inflation must be stopped. Taking into account the urgent necessity of breaking inflation, at the beginning of October 1993, the Government of the Republic of Croatia decided in coordination with the National Bank of Croatia to "carry out the final part of the stabilization program". It can be already seen from such formulation that the Government intends to radicalize the implementation of the stabilization program, which in conceptual sense was already accepted before as the basis of the economic policy. Analyzing the causes and character of the escalating inflation in Croatia, the economists in numerous articles and studies prepared in 1992 and 1993 pointed out, that the macroeconomic policy stabilization should be implemented in two phases. In the first phase it should break the expected "psychological" inflation, and in the second phase, the so-called, real, structural or chronic inflation. Simulation studies have shown that about two thirds of the inflation rate have been under the influence of the expected inflation, and about one third under the influence of real factors (Rohatinski 1993).¹⁶ A contraction of the market belongs to these factors, which was reflected in a big decline in the use of capacity and in labour productivity in the growth of expenditures, deficit of the public sector caused by noneconomic reasons, in the monopolistic behavior of domestic producers along with a high tax pressure, as well as in the problems in the transport and energy sectors.

With a view to intensify the first phase and to break the expected inflation, the classical approach which relies on four anchors was adopted. The first anchor refers to the intervention exchange rate (fixed

at the level of 20 % of devaluation), the second to the primary money, the third to the discount rate and the fourth to the salaries. These four anchors have been introduced in combination with the decrease in tax rates, and the introduction of the internal convertibility of the national currency.

In view of the general economic, political, social and defense circumstances in Croatia, a crucial question of implementation of such a program was a political consensus, which it seems, the Government successfully assumed. The political consensus is especially important in the context of the budget deficit in broader sense. Cumulated amount of the monetarized internal budget deficit (measured by the growth of money supply) reached in the period January - August, a figure of DM 777 million, which is over 13 % of the estimated gross domestic product (Anušić 1993).¹⁷

This level of deficit, autonomously generated into average rate of the price growth of about 16 %, in the above period. It can be estimated, that about one half of this rate is a result of the increase in primary money quantity intended for the purchase of foreign currency or for foreign exchange transactions in a broader sense. The second part of the above inflation rate is in the conditions (of at least formally balanced budget amounting 32 % of the gross domestic product) due to some soft budget constraints, in enterprises and funds of public sectors. That refers especially to the sectors in infrastructure and energy such as electric power, postal, telegraph and telephone services, railways, as well as to the funds of health, retirement and disability insurance. Currency reserves cumulated and financed on the basis of money emission represented a crucial element of the accepted stabilization program. The achieved level of currency reserves (of 1222 million dollars) enabled at the same time the essential reduction in their growth on the basis of the money emission, and their use as the source for the potential financing of non-economic state expenditures. The program includes also a stabilization of material expenditures of the state budget and of various funds. It requires also an improvement in the financial discipline in public

enterprises and in those that are predominantly in the state ownership, especially after the harmonization of relative prices.

However, as I have already mentioned, the central place in the realization of the Program belongs to foreign currency reserves. But it should be pointed out that they are not in the classical sense the result of the trends and relations in the balance of payments and trade. They developed as a result of the specific internal foreign currency transactions, especially with the population sector. That can be also illustrated by the fact that commodity exports is in the eight month period January - August of 1993, in relation to the same period of 1992, lower by 13,7 %. As a consequence, coverage of imports by exports declined in the same period from 108,4 % to 88,4 %. The last year's surplus of 240 million dollars was transformed in the same period of this year into a deficit of 352 million dollars.

However, thanks to those peculiarities, foreign exchange reserves increased during the first nine months of this year by 555 million dollars at the simultaneous decrease in the external debt. From total reserves of 1222 million dollars, the Central bank controls 473 million dollars. It will probably suffice for the realization of the initial phase of the stabilization program even without an usual support of the corresponding international financial organizations. The realization of the second phase probably supposes the support of these organizations, especially of the IMF. As a proof of such evaluation, it should be mentioned that the above foreign exchange reserves could cover three month commodity imports or two month total transactions from abroad. Even more important point is that foreign exchange reserves have become an essential component in the structure of total money resources. The dinar counter value of foreign exchange reserves was at the end of September of this year four times bigger from the total quantity of local money (M1).

At the same time, the dinar counter value of foreign exchange reserves of the Central bank was 4,8 times bigger than the cash money circulation. Net foreign currency assets of the Central bank amount to

62 % of its total assets. Such a structure of the total money resources makes it possible that foreign exchange reserves, although not formally, have the function of a parallel currency. The role of this parallel (informal) currency could alleviate negative effects of monetary restrictions without strengthening inflationary pressures. This "substitute of the local currency" may help especially well the financing of the production for export. Such approach to the concept of the Program of economic stabilization is based on the assumption that some expenditures, especially government expenditures, whose financing should rely upon the existing foreign currency reserves, will not essentially increase (Rohatinski 1993).¹⁸

It can be concluded from all what was said that the Government of the Republic of Croatia has adopted the stabilization program in very difficult circumstances, both economic and social. However, the urgency of creating conditions for the beginning of the reconstruction and development could not tolerate any delay, from the economic, social and political aspects.

Although the stabilization program was adopted a few weeks ago, some positive moments can be already seen. That especially refers to the political consensus attained and to the creation of the social psychology that the stabilization is a common interest. The first concrete market and financial reactions are as it was expected. The Croatian dinar became overnight not only internally (constrained) convertible, but also the most demanded commodity. On the basis of supply and demand, it came to the lower rate of exchange in the market in relation to German mark, i.e. in relation to the 20 % devaluated level of 4444 HRD for one German mark. The first problems of the dinar liquidity have been solved at this moment. However, we are going to face more serious problems. They will especially appear, along with the problems of dinar liquidity, in the sphere of production and personal income. Big social problems, which are partly covered by the existing social program, will during the realization of the program become even bigger. Therefore, not only the social and economic policy, but the policy in general, must pay a special attention to them.

Although we are able to forecast with a big certainty only big uncertainties, it must be underlined again that the stabilization program could not have been delayed anymore. It does not exclude the question of why it was not adopted already earlier. However, the answer to this question is beyond the scope of these considerations.

(5) The problems and perspectives of transition

The fifth point I would like to tell something about refers to the problems and perspectives of transition. The short experience in the realization of the economies and policies of transition in ex - socialist countries show that the problems are far bigger, more complicated, conflicting, and controversial, than anyone of those who during the passed years worked on the preparation and realization of the transition could expect. Confronted with so big and unexpected problems, the experts and politicians started hesitating about some strategic questions of the realization of transition. One of the most important strategic question relates probably to the time dimension, i.e. to the speed with which the transition can be achieved. Many experts who deal with the problems of transition gave numerous arguments in favor of the transition by "shock" methods. Other experts presented arguments in favor of a gradual "step by step" transition. However, if the main tasks of transition are analyzed detached, it is easily seen that these are actually quasi-dilemmas. Such conclusion is based on a well-known fact that the basic task of transition in the economic sphere consists in developing institutions, legal bases, and mechanisms, especially in the sphere of the ownership, of the market, and the entrepreneurship and of the macroeconomic environment, which will help improving the management and decision making quality, and on that basis a more efficient development (Somogyi 1993).¹⁹

Everybody also agrees that the basic task of transition in the political sphere is the development of the multiparty parliamentary democracy, of the function of the law state and the protection of human rights and

freedoms, and in the final analysis the development of a modern society. From what was said, it follows that the transition is such a social process that penetrates into all economic and political contents of life of each country in transition. By its nature, these processes are loaded by numerous deviations and dangers. Two groups of deviations are common. The first group appears under the common denominator "neobolshevism", in the sense of the over-accentuation of the role of the state in the realization of transition. The second group of transitional deviations appears under the common denominator "Latin American syndrome" in the sense of the negation of any function of state, legal or social.

In some countries in transition the deviations from both groups appear simultaneously. They take the shape of the disintegration of the society and of the unjustified increase in social differences on the basis of different forms of maffia's activity, organized crime, black - marketing, war profiteering etc.

In connection with these very trivial manifestations of transition in some countries, it is important to have in mind the well-known political and economic interdependence between the ownership pluralism (in the sense of the dominant role of the private ownership), market pluralism (in the sense of the function of the integral market, especially labour and capital markets) and political structure pluralism (in the sense of the legal state function and the protection of human rights and freedoms).

The crucial question here is the ownership pluralization in the sense of a predominant privatization. The abolition of all monopolies in the market, and in the political power, cannot be even theoretically imagined without private ownership. Privatization is consequently the condition for the increase in economic efficiency and in political democracy. However, all countries in transition have still a predominant role of the state ownership. Even Croatia, with a predominant social property until the middle of last year is now in a phase of its transformation when the state ownership predominates.

Due to the war, Croatia is perhaps not the best example for generalizations. Yet it should be said that both kinds of deviations mentioned above are very noticeable. That includes also an uncontrolled disintegration of the population, big social differences, economically unjustified enrichment, war profiteering, weakening of the social function of the state, etc. On the other hand, in the conditions of the transformation of the social into the state ownership even those mechanisms of control, which had existed in the self - management system, disappeared. Such circumstances increase as a rule the role and influence of state in all spheres of social life. On the example of Croatia that is felt not only in the economy, but in all other social activities. A series of laws recently adopted by the Croatian Parliament which relate to the science, universities, government administration etc., overemphasize the role of the state. And although some definitive generalizations cannot be made in regard of the short time and insufficient experience, it should be reminded in one popular slogan which says, that by too much insisting on the best solutions the chances can be lost to accept at least those solutions which are good.

The best method of privatization is undoubtedly the selling of the shares. In this way, the problems of additional accumulation for development and the problems of management quality are simultaneously solved, which is directly connected with the improved efficiency and profitability.

However, the experience in most countries in transition has shown that the domestic purchasing power was very limited. Very limited are also net financial surpluses in the international market. If the privatization in the countries in transition proceeded at such speed, the process would take not several years, but several decades. It has been also shown by the example of Croatia, although, because of the war, it cannot be generalized.

If the transition were not a social process with its inherent deviations discussed above, the question of the time dimension in the privatization of the ownership would not necessarily have an important

significance. However, taking into account all the concrete problems involved, it is urgently needed in the process of the transition of ownership to sell as soon as possible everything what under normal conditions can be sold. As for the rest of the state capital the methods should be applied that would accelerate the privatization. This relates in particular to the application of the method of the distribution of the shares and vouchers to the workers and to all citizens. It seems that the government of the Republic of Croatia is going to apply this approach at the end of 1993 or at the beginning of 1994.

There should be, however, no illusion that the accelerated privatization will bring an end to all deviations and problems discussed above. On the contrary, some of them may become even sharper. But in overcoming them we will at least know that we are on the right track and that, with all difficult problems and contradictions, we move towards the exit from the deep crisis.

Today unfortunately we must conclude that a much higher price must be paid for creating the macroeconomic environment conducive to the transition, that any one of us, working in the past years on the problems of transition and reforms, had anticipated. These conditions relate in the first place to the integral market, in particular the labour and capital markets that would make possible a market allocation of investments and a more efficient development.

In this phase of transition the role of the state must be large, recognizable and qualified, but to a greatest extent must be limited to the creation of a necessary macroeconomic environment. Very pronounced must be also the function of the law state and the social state. All countries in transition are also still facing important questions of a strategic character.

It is also important to keep in mind that in different countries the problems of priorities and of graduality in the transition process may be different because individual countries are not equally prepared for such processes.

Croatia and Slovenia have a long reform tradition and belong therefore to those countries that are better prepared for transition. It may be illustrated by the fact that despite the war and war devastations the war economy has not been introduced in Croatia. In this connection I would like to quote my book "Economics and Politics of Transition" (Vojnić 1993),²⁰ which has been recently promoted in Zagreb, where I, paraphrasing the Bible, some strategic questions of transition put under a common denominator "Quo vadis domine?" The search for the answer to this question in the case of Croatia relates to the contents and character of the social function of the state in the Croatian version of the state and economy of welfare. This question relates also owing particularly to the transition in Croatia, to the role and place of the selfmanagement in the sense of the participation of the workers in the management and profit, in the entire process of transition and further development of the overall economic and social system. Equally important is also the role and place of the self-government in the development of the government administration and of the total political structure.

Finally, at the same level of importance, this question refers to the whole complex of protection of the human environment and the problems of pollution. When Croatia is in question, this complex especially refers to the protection of the sea, rivers, lakes and forests. Big damages have been already done, worse must be prevented.

These are only some of the questions to which the strategists of the economy and policy of transition must find answers (Puhovski 1993).²¹ Deeper treatment of these problems is beyond the scope of these considerations.

(6) Instead of concluding considerations

Finally, instead of the concluding considerations I would like to underline only several points.

(1) The problems of the realization of transition are far more difficult, complex and controversial than it was earlier presumed.

(2) The fundamental question (especially in Croatia) of the exit from the hard transitional crisis refers to the renewal, restructuring, reconstruction and development.

(3) The stable development presumes such a macroeconomic environment where all economic and other subjects must behave according to the criteria of "The Hard Budget Constraint".

(4) The precondition for such macroeconomic environment is the ownership transition in the direction of privatization, including also the privatization of banks, along with the function of integral market, especially of the labour and capital markets.

(5) The dilemma of "shock therapy" or of gradual movements is in the final analysis a quasi-dilemma. Transition, especially privatization, must be carried out in different steps. It is a question of social processes which are prone to various deviations. That part of the state capital which in the last few years could not be sold, should be privatized by the application of various stimulative methods, including the distribution (through shares and vouchers) of one part of the state capital.

(6) Privatization, development of institutions and instruments of labour and capital market, as well as market allocation of investment and capital, cannot be accomplished without great social spasms and tensions. It is important that these social processes of transition are realized on the proper track which leads to a gradual exit from the difficult crisis.

(7) The strategy of transition, especially in the case of Croatia, must emphasize in the first place the role of the legal and social state. It has also to take clear attitudes concerning the character of the "State and Economics of Welfare" including the questions of the self management, self - government and the protection of human environment.

(8) The realization of the economy and policy of transition in all countries in transition, including Croatia and Slovenia, must always take into account the well-known political and economic interdependence between the ownership transition, market transition and the transition of political structure. Only in the context of the realization of that interdependence economic efficiency and political democracy can be increased. And this is the only possible way of the exit from the hard transitional crisis.

(9) It goes without saying that the efficient realization of transition in all the countries of the post - socialist world will be decisively determined by the willingness of the countries of the developed market economy, to support the processes of transition financially and through the help of the corresponding international financial institutions, where a special role must belong to the International Monetary Fund and the World Bank for Reconstruction and Development. That especially refers to those countries which, as is the case with Croatia, have found themselves in an extraordinary difficult situation caused by the imposed war, war damages, thousands and thousands of refugees and displaced persons.

(10) With regard to the globalization and internationalization of all relations (economic, political, military, defensive, ecological and etc.) in the contemporary world, the efficient realization of Economics and Politics of Transition in all countries in transition, is of the common interest for all countries in the world, especially for those which are the most developed.

(11) Considering the fact that in the years to come, the complex of the economy and policy of transition will be a very important sphere of research in social (and not only social) sciences, it is indispensable that the international institutions which are interested in it, systematically assure financial resources for the realization of such projects. This relates especially to the World and the European Bank. International Monetary Fund the corresponding funds of the European Community, as well as to the other large funds, well known in the world, such as Ford's etc. As for the research institutions, the priority in financing should be given to those institutes which have been already distinguished in this research, such as Vienna Institute for Comparative Economic Studies; Institute for International Economic and Political Research; Academy of Science of the Russian Federation, Moscow; Institute for Comparative Policy Studies, Florida State University, Tallahassee; and the others similar to them.

(12) In view of the importance and of many peculiarities which should be overcome by all countries in transition it would be very useful that a special international institution deals with the financing of reconstruction, restructuring and development of the countries in transition. That can be a new specialized for those purposes, or a specialized sector of the already existing international financial institutions. There are many principles for the assumptions that such specialized institutions could be most easily and suitably organized within the framework of the already existing European Bank

Footnotes and References

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3. Stjepan Zdunić et al.: Privatization in the Policy of Economic Development, The Institute of Economics Zagreb, March 1991, pp.91-96.
4. Regarding special and war circumstances, as well as the occupied parts of Croatia, the number of firms is very approximative.
5. Old foreign exchange savings represent foreign exchange savings of the population on the bank accounts of ex-Yugoslavia, which were transformed in the Republic of Croatia into public debt which has been regularly serviced with the interest of 5%.
6. All data related to the ownership transition and privatization have been cited from; Croatian Fund for Privatization: September's Report to Croatian Parliament, Zagreb, 1993, pp. 11-16.
7. Economic Development in Croatia, No. 3-4, Vol.III, March-April 1993, State Bureau for Macroeconomic Analyses and Forecasting of the Republic of Croatia, Zagreb. 1993, pp.76
8. The size of the social tensions, along with already mentioned facts (unemployment rate of 17.6%, monthly inflation rate of 27.2%, average salary per employee of 37.2% of the prewar level, over one half million of refugees and displaced persons), is influenced by the increase in the number of insolvencies in the case of 400 legal persons with about 65 thousand of workers in September. The more detailed information in: Economic Development in Croatia, No. 5-7, Vol.III, May-July 1993, State Bureau for Macroeconomic Analysis and Forecasting of the Republic of Croatia, 1993, pp.58
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11. This chapter is written in collaboration with Željko Rohatinski, a senior research fellow of the Institute of Economics Zagreb.

12. For a broader investigation of some relevant issues see, Michael Bruno: Stabilization and the Macroeconomics of Transition - How Different is Eastern Europe? Economics of Transition, Vol.I(1); 5-19, 1993.

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16. Željko Rohatinski and Guste Santini: Economic Policy for 1993, RIFIN, Zagreb, 1993, pp. 1-49.

17. Zoran Anušić: Budget Deficit and Inflation: Croatia in the years 1991 and 1992. Ekonomski pregled, Zagreb, No. 7-8/1993.

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20. Dragomir Vojnić "Ekonomija i politika tranzicije", Informator, Zagreb and the Institute of Economics Zagreb, 1993. pp. 107-112.

21. Somewhat broader analyses of these and related questions were given in the book by Žarko Puhovski (et al.), "Politics and Economics of Transition", Centre for the Study of Transformation of Central and Eastern Europe, Informator, Zagreb, 1993, pp.203.