Growing poverty in the Balkans

The Croatian experience belies Western promises of prosperity for Yugoslavia

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Europe and America's promises to lift economic sanctions if the electorate voted Slobodan Milosevic out of office was an influential factor in gaining popular support for his removal at the beginning of this month.

After NATO first subjected the country to a 78-day bombardment last year, the world's major financial and trading powers then held it in an economic stranglehold. The war-torn country's economic isolation was further compounded by its exclusion from the Stability Pact for South-Eastern Europe. Established in the aftermath of NATO's military assault, the Pact is ostensibly dedicated to the reconstruction of a region beset by ethnic conflict and economic collapse.

The military destruction wrought by NATO and the shortages brought about by economic sanctions have combined to exact a heavy toll on the Serbian population. Earlier in the year the United Nations estimated that the numbers living below the poverty line had doubled since July 1998—from 33 percent to 63 percent. The Federal Republic of Yugoslavia (FRY) has the highest number of refugees in Europe: 800,000 in Serbia and another 70,000 in Montenegro, or nearly 10 percent of the total population. Those Serbs and Roma forced to flee Kosovo joined previous victims of ethnic cleansing from Croatia and Bosnia-Herzegovina. Yet according to research conducted by the Catholic Aid agency it has the lowest level of humanitarian aid to meet these contingencies. The vulnerable are most likely to suffer from the near collapse of the health care system. Hospitals lack basic equipment ranging from drugs used in chemotherapy to such items as scalpel blades.

With the election of Vojislav Kostunica as FRY President, the Western powers have begun to lift the sanctions—claiming that the social distress associated with them will recede and a new period of social stability and economic prosperity will begin.

Such assertions are refuted by a concrete assessment of those Balkan countries whose governments have not been the targets of Western anger, and who have adopted the pro-market policies Kostunica embraces.

It would be illustrative to look at the fate of Croatia in this context. The secessionist movements that broke apart the old Yugoslavia have not given rise to true independence, a flowering of democracy and economic prosperity. Rather they set into motion a cycle of economic and social decline. Politics based upon ethnicity has led to the drastic lowering of the social position of the working class. The nationalist cliques that preside over these unviable mini-states have enriched themselves at the expense of the general population by functioning as faithful retainers for Western financial institutions and the transnational companies.

Unlike the FRY, which has been subject to a series of sanctions over the last six years, Croatia is considered a valuable Western ally and is a member of the Stability Pact. It has been reliant on Western support ever since it declared its independence along with Slovenia in 1991.

The ultra-nationalist HDZ party has dominated the political life of the country. During the last decade the HDZ enjoyed uninterrupted parliamentary rule while its leader (now deceased) Franjo Tudjman occupied the presidency.

During the 1991-1995 war between Croatia and the FRY, Tudjman was built up by the Western powers, particularly the US and Germany, as a military ally in the region. After the Bosnian settlement in 1995, however, the relationship became less amicable. The West became frustrated with the rate at which the domestic economy was being opened up to the transnational corporations. This was compounded by the aim of the HDZ to annex part of Bosnia-Herzegovina to a Greater Croatia, thus challenging the pre-eminence of NATO in the region and its control over the newly created protectorate.

Earlier this year the HDZ were defeated in the presidential and parliamentary elections. Held in the immediate aftermath of Tudjman's death, the HDZ had hoped to capitalise on the pomp and ceremony surrounding the burial of modern Croatia's founding father. But the defeat of the HDZ signified the fact that social issues were once more coming to the fore, after a decade in which political life was dominated by virulent nationalism.

The two main components of the coalition that won the election are the Croatian Social Liberals and the Social Democratic Party, whose leader Ivica Racan is Prime Minister. Their victory owed much to the growing discontent over social inequality. They promised to end corruption at the top and alleviate social hardship, while taking Croatia out of its isolated position in the world.

It is only in recent years that attempts have been made to collect data on the issue of poverty and even now there exists no official poverty line. Last summer the Association of the Independent Workers Unions of Croatia estimated that 40 percent of the population were poor. This figure was reached by setting the base

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line at a monthly per capita income of 841 kuna (around $113).

In June this year, the World Bank and the Croatian Bureau of Statistics published a joint report *Croatia: Economic Vulnerability and Welfare Study*, using data from 1998. The criteria used to establish the poverty line was the income required by a family of four to satisfy their minimal nutritional needs after meeting other essential non-food household expenditure. This gave a figure of a yearly income of 41,500 kuna ($4,800). Based upon the research approximately 10 percent of the population fell below this amount.

Those living in poverty comprise two main groups—the poorly educated and the elderly. Three-quarters of the poor are from families where the head of household has only received education to primary level or less, and thus have restricted employment opportunities. The elderly on low pensions or none at all is the second contributor. In 1998, 25 percent of retirees received no pension benefits and around half received one at less than the poverty line.

Poverty is no doubt far more widespread than the indices adopted by the World Bank would suggest. In 1999, local media estimated that 80 percent of individuals and households thought of themselves as poor and worse off than before 1991.

The previous government curbed opposition to job losses by using early retirement. This has led to a position were the falling number of contributors to the state pensions fund cannot sustain the increasing number of recipients. According to recently released figures by the national Employment Office there were 359,921 jobless persons registered at the end of September. The number could reach a record 380,000 by the end of the year—an unemployment rate of 22.5 percent. When added to the number of pensioners—over 966,000—the total is virtually identical to the 1,335,000 in work.

The loss of industry cannot be attributed solely to the destruction of four years of war. While Croatia lost one of its main export markets, one of the country's main industries, tourism, has revived. Between 1995-1998 there has been economic growth, but the net change in employment has been consistently negative.

While in terms of absolute poverty Croatia may compare favourably with other Eastern European countries it does not do so on the level of inequality. The gap between rich and poor in Croatia has risen to levels far exceeding those generally observed in the other so-called “transitional regimes”. The unemployed tend to remain permanently unemployed, while education for Croatia's poor lags behind all of the transitional economies.

While the new Racan government has promised to alleviate social hardship, it only received Western backing on the proviso that it would remove any impediments to the exploitation of the country's human and national resources by the transnationals. The European Union and the World Bank are tasked with coordinating bilateral and multilateral aid to the Balkans. Under Article 41 of the Stability Pact they set the conditions for external financing and integration into the EU, which Croatia is committed to. The World Bank calls for deregulating the labour market, the cutting of business taxes, the speeding up of privatisation to allow more foreign direct investment, ending subsidies to state industries and reducing public sector spending.

In April the IMF instructed the government to delay paying around 30 billion kuna ($3.3bn) owed to the country's pensioners, cut the salaries of public sector employees by five percent and refuse to carry out the recommendation of the Economic-Social Council to raise the minimum salary from 1,500 to 1,700 kuna (just under $200).

According to the Croatian weekly *Nacional:* “IMF representative Gary O'Callaghan warned the experts of the European Commission of an entire series of serious problems that the Croatian economy is facing. First and foremost, that the problem is overspending in the public sector which, unlike other countries in transition, is also not declining. He also emphasised the overly broad social rights Croatian citizens enjoy by law and oversized rights ensured in the health insurance and pensions plans.

"The report of the World Bank was no less pessimistic. Their representative Sandor Sipos also warned that the national budget has doubled in the last six years, although productivity and economic effectiveness have grown incomparably slower. He estimated that the former government made large mistakes in not restructuring the health care and pension systems years ago."

The Croatian government has been informed that it does not merit priority status for financial assistance under the Stability Pact, as it is adjudged to be one of the most prosperous economies in the region when compared to Albania and the former Yugoslav Republic of Macedonia. With discussions now being held over incorporating the FRY into the Stability Pact, there is little likelihood that it will be treated more favourably that its Croatian neighbour.

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