New Croatian government to implement big business measures

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13 December 2011

On December 4, the ruling right-wing Croatian Democratic Union (HDZ) suffered a major defeat in the country's general election. The opposition Kukuriku coalition led by the Social Democratic Party (SDP) won a majority in the parliament and the right to form a government. While hailed as a "centre-left" or "leftish" alternative to the HDZ by the domestic, regional and international media, the new government will undoubtedly step up the austerity measures demanded by the financial markets.

The Kukuriku coalition is made up of four parties: the SDP, the Pensioners Party, the Croatian Peoples Party (HNS), and a regional party, the Istrian Democratic Assembly (IDS). The SDP has its roots in the former Yugoslav Stalinist League of Communists, while the last two parties of the quartet are neo-liberal parties and members of the European Liberal, Democrat and Reform Alliance. The coalition won 80 of 151 parliament seats, and SDP head Zoran Milanovic will be the next prime minister. The HDZ lost 19 seats, and retained just 47. Out of those 47 seats, 3 were determined by émigré votes—i.e., Croatian citizens living abroad, where only 5 percent voted.

The new government was elected by the votes of just over one quarter of eligible voters, on a turnout of around 60 percent, and lacks any meaningful popular support. In fact, the four parties that make up the coalition failed to garner more votes than in 2007, when they lost to the HDZ. The only difference this time is that they formed an official coalition deal in advance, thus securing more representation for the same vote count, plus the fact that the HDZ vote collapsed by some 300,000.

The HDZ has ruled Croatia consecutively for the last 8 years, and for 17 out of the 20 years of the state's independence. The party is rife with corruption, with the *Guardian* describing it as "the wellspring of state-organised corruption and embezzlement on a massive scale." Illustrating the scope of the corruption, the article continues: "Its former leader and prime minister, Ivo Sanader, is on trial on two sets of corruption charges after being arrested while trying to flee the country. Another former deputy prime minister and other senior party figures have also been charged, while the party itself is at the centre of a slush-fund scandal."

The ultra-nationalist HDZ was justly punished at the ballot, but the Kukuriku coalition is an undeserving beneficiary of widespread hostility to the outgoing regime.

Both sides tried hard to avoid crucial social issues during the election campaign. Instead, the HDZ tried to pander to the far right with communist scaremongering. "Slowly but surely the 'Red' Croatia project is underway and that's something we cannot accept," Prime Minister Jadranka Kosor declared in September, taking aim at the SDP. For its part, the SDP sought to exploit the political scandals of the HDZ and posed as defenders of morality in politics, and an opponent of corruption.

However, the lack of any fundamental difference between the two "alternatives" was so obvious it was even the subject of commentaries in the mainstream media. Zdravko Petek, a political science professor in Zagreb, described the campaign as "horribly boring" and said that "political parties in Croatia do not differ by policy, only by ideology. For example, the difference is whether a party is closer to the Catholic Church or not. Nobody mentions how to fix the health system, education and other social issues far more important than ideology," Petek told the *SETimes* of December 2.

Zarko Puhovski, a professor at the Faculty of Philosophy in Zagreb, opined to *H-alter* that his "expectations of the new government are undefined, because they won the elections on moral, and not political promises" and that it "remains to be seen what their programme really is."

More-astute bourgeois observers are afraid that the failure of the coalition to spell out in advance the measures it plans to take could undermine the legitimacy of the new government when it comes to implementing its policies.

The political analyst Damir Grubisa fears that "for populist reasons, nobody wants to trigger negative reactions and emotions, so politicians choose not to say much [about the economy]. It's questionable if that is the right choice," he told *Balkan Insight*. "The public knows that many things have been kept secret and that the real problems haven't been discussed, or necessary painful cuts mentioned."

Analyst Davor Gjenero also warns *Balkan Insight* that various "veto-wielding groups" could undermine the new government's efforts to cut spending, because the coalition hasn't made the case for such changes during the campaign. "Veto-groups like public sector trade unions and war veterans depend on state money.... So if the [former] opposition behave as if everything is normal, and as if they don't have to dramatically cut spending, they are diminishing their own legitimacy to do what they will have to do", Gjenero predicts.

During the campaign, Milanovic was trying to balance between opposing opinions within his coalition and broader divisions within the ruling class by issuing equivocal, uncommitted statements. Especially on the question of whether or not the new government will have to turn to the widely despised IMF for loans in the next period, he variously claimed that “it would not rule it out as a last resort” and that “the IMF is not a witch”, implying it could be approached when needed.

At the same time, he sent signals to the financial capital that his government could be entrusted to pass and implement the types of austerity measures advocated by the markets. *Slobodna Dalmacija* reports him saying that the new government will have only 50 days to prevent the downgrade of Croatia’s credit rating and that continuing to borrow at interest rates of over 7 percent, as is now the case, would be “tantamount to suicide”. Milanovic frequently called for “belt tightening” and “living within our means”, without ever specifying what this meant in practice.

Others in his party, however, spoke out more candidly in support of big business. Slavko Linic, who served as vice-premier in the SDP-led centre-left government of 2000 to 2003, and will almost certainly be the new finance minister, is on record saying that the country will inevitably call the IMF in 2012 to “help balance the budget” and find those areas where savings and “painful cuts” could be implemented. He is quoted in the business magazine *Poslovni Puls* saying: “The IMF has interest rates far lower than Croatia could ever get in the outside market. We need to be clear about what our economic interests are, and we shouldn’t be afraid of the IMF.”

At a recent expert roundtable on the insolvency problem in the Croatian economy, Linic said the problem could be solved in six months, but only if 20,000 to 30,000 firms went bankrupt first. “It will be a cleaning, quick and efficient,” he said.

Every objective indicator points to Linic speaking for the real intentions of the Kukuriku coalition and the SDP, leaving no room for the vacillations and compromises made up to now by Milanovic. The new government will have to contend with a disastrous economic legacy, with national debt soaring to Italian or Belgian levels, and unemployment of almost 20 percent.

Croatia’s economy has stagnated since the global crisis first made itself felt in 2008. Back in July, Zagreb’s Privredna Banka stated that Croatia was “the only ‘new European’ country that hasn’t yet started economic recovery”. GDP growth this year was at this point estimated at a sluggish 1.0 to 1.5 percent, but Zagrebacka Banka has since calculated the growth of the last two quarters to be only 0.2 to 0.5 percent.

The National Bank closed a small bank last month (Credo banka), and is keeping another four smaller banks “under surveillance”. Apparently, Credo banka was closed not because it was insolvent, but because it was suspected of criminal practices. But the closure fuelled public fears that the whole banking system is in trouble. On November 29, the public broadcaster published unverified but disturbing speculation that savers had shifted “tens of millions of euros” from their bank accounts.

At the same time, a public opinion survey by the Ipsos Puls agency shows that majority of people will have no patience with Kukuriku government, with most expecting “significant changes” within a year, or even six months, and over 60 percent opposing cuts in social spending.

On the other hand, the pressure from capitalist financial circles is relentless. Speaking on behalf of the markets, Goran Saravanja, the main economist from Zagrebacka Banka, said that the “next government will have to present a credible plan for budget deficit reduction, in accordance with the Law of Fiscal Responsibility” and “implement structural reforms...to raise the GDP...if we are to save our credit rating.”

However, *Jutarnji List* calculated that, even if all public sector wages were frozen, the next budget’s expenditures will increase by 1.1 billion kuna. According to the banker Zeljko Rohatinski, the country’s debt servicing costs will rise by 2 billion kuna next year, which means the budget is burdened from the outset with an additional 3.1 billion kuna, or some €400 million—1.2 percent of GDP.

It is clear that the new government will have to start a wholesale attack on the living standards of the majority of the population with its first budget, just as other Social Democratic parties around Europe are doing, and in line with the austerity policies implemented by the Croatian SDP during its last period in power (2000-2003).

In addition to pressure from the banks, Croatia is also confronted with a host of demands from the European Union to radically revamp its economy. On December 9, Croatian government representatives signed a treaty to join the European Union in 2013. Just two days earlier, the European Bank for Reconstruction and Development’s (EBRD) issued its Transition Report 2011 for Croatia in Zagreb. The main demands raised in the report were the necessity for the intensification of the process of privatising state-run companies and the opening up of the country’s infrastructure to private investors.

At the same time, the EBRD report noted that there had been a marked decline in support for the free-market economy and capitalist democracy in those transition economies (former Stalinist countries that adopted the free-market system two decades ago) that had experienced a deep decline in the latest crisis (e.g., Croatia).

It is this erosion of support for the market economy and parliamentary democracy that lies behind the decision of the Croatian government to beef up its state apparatus. A report in the *Jutarnji List* on December 2 detailed how the Interior Ministry had ordered €320,000 worth of anti-riot and civil unrest equipment, including batons, shields and tear gas, last year. This is how the incoming government is preparing to deal with a new wave of popular social protest.