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# From political capitalism to clientelist capitalism? The case of Croatia\*<sup>1</sup>

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## Abstract

*The paper analyses the typology of capitalism in Croatia. The Croatian form of capitalism is specific, in form and origin, with links between the pre-independence and post-independence periods, implying that capitalism has gradually evolved – from the political during the eighties towards current clientelistic capitalism. The manufacturing focus aims to facilitate the analysis of institutional, political and economic changes over the past forty years, emphasising the implications of institutional changes which have to a great extent, apart from the war of course, influenced the evolution of capitalism. The paper finds that the transition generated a number of costs, mainly generated by the state (fall in employment, manufacturing and social capital). The claim that the manufacturing industry has inherited low competitiveness neglects the necessary discussion on the role of the state in the formation of industrial policy and market actions. It is also an ex post argument for the claim that restructuring should have been implemented prior to privatisation as this would reduce negative impacts. Institutional changes led to a drastic reduction of the role of the manufacturing sector in the economy. The main finding in this paper is that the change in the interaction between the financial and the real sectors of the economy, the educational system and industrial relations system exposed the vulnerability of the current institutional environment. Despite similarities, institutional advantages of political capitalism are lost in the new type of Croatian capitalism, due to the complexity of the double transition process and the institutional or socio-economic particularities.*

**Key words:** manufacturing sector, Croatia, types of capitalism, institutions

**JEL classification:** E020, L600, P160, P260, P310

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## 1. Introduction

The aim of our research is to more closely determine the Croatian variety of capitalism by analysing the manufacturing industry and its position within the institutional structure of the Croatian economy. The importance of the manufacturing industry in generating employment is well known, direct as well as indirect, through the connected industries<sup>4</sup>. Moreover, as we shall show below, for decades the manufacturing industry has been one of the most important industries in Croatia.

In the paper we present the thesis that the Croatian variety of capitalism is specific in its form and development. Its links to the preceding period enable us to deal with a process of gradual evolution from political capitalism to a clientelist one. We attempt to answer the question of the degree of change the industrial structure went through and if after the "transition" the inefficiencies of the former system (technological underdevelopment and excessive employment) were replaced by new costs stemming from monopolistic and oligopolistic behaviour. We also attempt to identify potential institutional complementarities, i.e. the deficiencies which are affecting the competitiveness of the manufacturing industry as well as its ability to create new workplaces within the current economic, technological and institutional surrounding.

The termination of the inefficient self-management model, marked by monopolistic activities, was played out via a neoliberal model of cutting links between the state, the real and the financial sector, with a widespread clientelism substituting for the former political connections. It was expected that the massive and inefficient industrial systems of the former state would be replaced by entrepreneurial activity, generating an economic recovery based on market principles and competitiveness, but this has never occurred.

The transformation of the manufacturing industry based itself on ownership transformation and privatization. The political rhetoric put emphasis on restructuring the ownership of the Croatian economy in the conditions of transition to market mechanisms of doing business, never assessing the (potential) costs of such attempts but simply stating their inevitability. Spevec (2005: 161) underlines the fact that in Croatia privatization was for the most part completed before the Croatian Competition Agency became functional, and set as a priority while all other reforms with the potential to contribute to the system coherence were neglected. Since a precisely formulated and systematic industrial policy did not exist, (Spevec, 2005: 161) the (potentially) competitive but un-restructured segments of the industry (e.g. shipbuilding) were left unattended and forced to cope on their own.

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<sup>4</sup> Industrial policy is among the key goals of the EU development strategy (EU 2020), see EC (2010).

As a result of the mentioned economic processes in the country, as well as those globally, the manufacturing industry was, within the economic and institutional milieu, reduced to only a portion of its former results in production, employment and competitiveness. In spite of the numerous similarities between the former socialist socio-economic system (termed by Županov (2002) as the political capitalism) and the current capitalist one, the manufacturing industry lost its institutional support in the current system, which also meant losing its role in the economy.

The paper is based on the concepts of the institutionalist analysis which takes into account the national specificities of the country as well as the global socio-economic determinants which affect the national socio-economic system.

In describing the socio-economic system of the Socialist Republic of Croatia and the Republic of the Croatia we use the concept of institutional complementarity (see Amable, 2000). This starting point should provide analytical precision and enable us to develop detailed depictions of institutions in these two systems. Since the paper aims to explain the position and role of manufacturing industry in the socialist and capitalist periods, it will best fit in the approach used by the varieties of capitalism literature which puts the individual firm in the centre of analysis (see Hall and Soskice, 2004), at the same time following Amable (2003) in considering the wider institutional structure of the economy. However, as Hall and Soskice (2004) characterisation of capitalist economies is dualistic, focusing on either predominant market-based relations (in what they term liberal market economies) or predominant non-market relations (in so called coordinated market economies) we shall stick to Amable's (2003) concept, which we find somewhat richer – see table 1, which summarizes the description of the South European type of capitalism as used by this author.

Table 1: South European type of capitalism by institutional areas

<i>Product market competition</i>	<i>Wage-labour nexus</i>	<i>Financial sector</i>	<i>Social protection</i>	<i>Education</i>
Price- rather than quality-based competition, involvement of the State, little 'non-price' coordination, moderate protection against foreign trade or investment, importance of small firms	High employment protection (large firms) but dualism: a 'flexible' fringe of employment in temporary and part-time work, possible conflicts in industrial relations, no active employment policy, centralization of wage bargaining	Low protection of external shareholders, high ownership concentration, bank-based corporate governance, no active market for corporate control (takeovers, mergers and acquisitions), low sophistication of financial markets, limited development of venture capital, high banking concentration	Moderate level of social protection, expenditures structure oriented towards poverty alleviation and pensions, high involvement of the State	Low public expenditures, low enrolment rates in tertiary education, weak higher-education system, weak vocational training, no lifelong learning, emphasis on general skills

Source: Amable (2003: 104-106)

The regulation theory approach<sup>5</sup>, in addition, explains the developments within the capitalist systems of the leading Western economies from the end of the Second World War until the 1970s, and from the 1970s till today. While the former period is termed "Fordism" in the literature, the latter is usually called "Post-Fordism" or cognitive capitalism (Vercellone, 2007). Fordism was characterised by constant economic growth, a result of a rise in wages connected with a rise in productivity, relatively low internationalisation of business (which enabled a rise in spending), "stable" technologies of massive material production (which enabled better business organization) and the Bretton Woods international monetary regime (which lessened the business uncertainties by lowering the exchange rate risks). The state fit in with its redistributive policies. Fordism was replaced by cognitive capitalism after a change in its fundamental relations. This regime is characterised by a high degree of uncertainty and a much more flexible organization of production, increasingly based on services instead of material production. On top of this, the growing financialization<sup>6</sup> increases the uncertainty, that is, the volatility of economic developments (cf. Stockhammer, 2009; Cvijanović, Fumagalli and Vercellone, 2010). Croatia was not left out from this change in the institutional relations, as further explained below.

The paper consists of four parts. The introduction summarises the reasons for and aims of conducting this type of research, as well as the concepts used in the analysis. The second part briefly presents the methodology used, as well as the reasons to focus on the manufacturing industry. The third part presents the research results as well as their theoretical implications, while the conclusions are presented in the fourth and final part.

## 2. Methodology

The analysis of changes in the manufacturing sector in the Republic of Croatia, as envisaged by this paper, does not present an assessment of its relative performance or effect in the usual sense. The emphasis here is rather on changes, trends and dynamics of the key indicators in the manufacturing sector. Such a relatively rudimentary research goal within a specific institutional surrounding as in Croatia generates a number of methodological challenges. Namely, since the system analysis and trend dynamics are hardly visible within a year, a representative set of data should encompass a statistically significant analytical period. Aiming to

<sup>5</sup> French: *théorie de la régulation*.

<sup>6</sup> The term can on a basic level be understood as the increase in the portion of financial assets in the GDP.

comprise statistically relevant data, the paper analyses the period between 1970 and 2005<sup>7</sup>.

Within this period the manufacturing sector in the Republic of Croatia underwent a number of fundamental socio-economic and institutional changes – the end of the Socialist Federal Republic of Yugoslavia as well as the newly gained independence of the Republic of Croatia marked a turning point in the operations of businesses in the manufacturing sector. In the context of our research, it presents a political formalization of the new institutional conditions in the economy – the assumption being that the independence of the Republic of Croatia and the severing of legal, economic and political ties with the former state were actually a culmination of the processes which started earlier. From the economic point of view, this process presented a culmination of the process of economic reform started by the so-called Marković's reforms which introduced a number of novelties to the economic system and generated expectations, or, as some authors call it, path dependency (Meštrović, Cvijanović, 2007, Mencinger, 2006). These expectations partly affected the ensuing economic developments. The reforms implemented at the end of the eighties institutionally marked a move towards the principles of private ownership in a broader sense, and elements of market liberalization and privatization as the model of improving efficiency. Thus, in the moment of formally achieving independence the businesses were already functioning in the conditions of economic and political uncertainty, because the change was inevitable, and it was only its scope that was uncertain.

Methodologically, the data on the manufacturing industry changed vastly and required a normalization of the empirical basis in order to ensure comparability during the whole analytic period.

The data collected was then structurally, analytically and synthetically divided into two periods. The first period is 1970-1991, while the second one is 1996-2006. Namely, the initial assessment of the data showed that for the period 1992-1995, the data was not available in an analytically acceptable form<sup>8</sup>. The initial, nominal data was taken from the publications of the Yugoslav Social Accounting Service for the period before 1991 and the original data by FINA for the 1996 – 2006 period. A separate methodological issue were the changes in the accounting system on the one hand and, on the other, the changes in the national classification of economic

<sup>7</sup> We used the data from the research done within a doctoral dissertation by Denis Redžepagić's, "The Impact of Ownership Structure on the Company Success in the Conditions of Transition – Transformation of Ownership and Privatisation in the case of the Republic of Croatia", University of Split Faculty of Economics, ongoing.

<sup>8</sup> This was due to a number of reasons. The period was marked by the Homeland War, economic uncertainty and changes in the institutions tasked with collecting statistical data, which all jeopardized the reliability and usability of the data from the period.

activities. The key methodological problem was to classify and match values of individual, historical pieces of data to standardized, substantial attributes of each variable in the present. This was especially pertinent for temporal differences in the classification of economic activities, which is why the data was collected for a pre-selected set of activities, specifically: agriculture, hunting and forestry; fishing industry; manufacturing industry; construction; trade; hotels and restaurants and transport, storage and communications.

The nominal data collected were then normalized by correcting for the value of the Special Drawing Rights (SDR) coefficient. This provided the financial value of the variables which were then corrected by constant price indices, thus normalizing the time series of nominal values of financial variables into a time series of financial variables in constant prices. A separate problem was the change in value of the Yugoslav dinar during the period analysed. In order to make the data on businesses in the time series comparable to the post-independence period, and normalize massive changes caused by periods of inflation and hyperinflation, all values were expressed in the SDR currency equivalent<sup>9</sup>. The use of SDR values does not aim to accurately state the values for each year of the period analysed, but it is assumed to be one of the acceptable methods of assessing trends changes. The deflator calculation was based on the World Bank data. It used the data<sup>10</sup> on the inflation in the eurozone as the main trade partner, and calculated the constant price values in relation to the year 1970. The hyperinflation periods in 1989, 1990 and 1991 render it a period of limited use which is why the data produced for those years were not used.

<sup>9</sup> SDR, *Special Drawing Rights*, were introduced into the international monetary system by the International Monetary Fund (IMF) in 1969 with the aim to "support the Bretton Woods system of fixed exchange rates" (IMF, 2009, p. 40). Today they are used by the IMF as a unit of account, while it is necessary to add that the SDR is not a currency, but a "potential claim on IMF member countries' foreign exchange assets" – the currency equivalent of the exchange rate changes within the "currency basket" containing euro, Japanese yen, UK pound and US dollar. The relative standing of the currencies in the basket is changed every five years, depending on the assessment of each currency by the degree to which it is used as a foreign exchange reserve asset by the IMF members and the amount of exports sold in that currency. For example, in the 2011-2015 period the relative value of the US dollar is 41.9% of the SDR value, euro holds 37.4%, yen 9.4% and the UK pound 11.3% (Source: IMF). The IMF publishes data on the historic values of the SDR and Croatian kuna exchange rate (the IMF archives are available on the Internet: [http://www.imf.org/external/np/fin/data/param\\_rms\\_mth.aspx](http://www.imf.org/external/np/fin/data/param_rms_mth.aspx)), while the comparative exchange rate of the Yugoslav dinar was taken from the archival data of the Bank of Slovenia (Bank of Slovenia: "Obračunski tečajji 1954-1965", Internet: <http://www.bsi.si/financni-podatki.asp?MapaId=429>. The former SFRY was a member of the IMF from 1945, so the values of the exchange rate are available for the whole period.).

<sup>10</sup> The global development indicators database can be found on the Internet: <http://data.un.org/>.

### 3. Analysis and discussion

Political capitalism of the late socialist period in Croatia, as Županov (2002)<sup>11</sup> calls it, developed into a system that Amable (2003) "today" calls the South-European capitalism, the characteristics of which are described in table 1 – with some additional qualifications we list below. It is possible to say that neither of the two systems can be considered strictly market-based, that is, they have not developed the institutions nor achieved top economic performance (i.e., for example, GDP per capita and competitiveness) of the type that is (or was) present in other socio-economic systems. Although it is not strictly possible to compare these two classifications – not solely because Županov's classification is primarily sociological, while Amable's one is primarily economic – they will serve to describe these two systems.

The emphasis on the production and the manufacturing sector was the backbone of the reconstruction program in former Yugoslavia after World War II. The economic logic for the reindustrialisation of the country was the logical result of economic lagging behind the surroundings (Harrison, 1994). However, the emphasis was not so much on production as on labour, so the constant level of employment became the absolute political priority, while competitiveness became a secondary goal which was largely to be taken care of by the enterprises. The key characteristic of the former system was a high level of workers' rights protection, brought about by the large influence of workers on the decision-making process within the self-management system. The economic composition was based on sectoral concentration in large individual companies with a parallel existence of smaller and even private companies. In the course of institutional changes and after the Republic of Croatia gained independence, the company structure was changed and large companies were restructured by separate privatization of their parts.

Inflexibility, mentioned by the critics of the system (Šonje, 1993) as the key problem of self-management, was especially prominent in the labour market, which is why the institutional surrounding was not able to implement the reform measures which, paradoxically, were ideologically opposed to the economic policy goals, but necessary for achieving efficiency. Namely, the liberalisation of the labour market would require

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<sup>11</sup> Županov (2002: 64) lists the following features of the political capitalism in the Socialist Federal Republic of Yugoslavia (SFRY): "Social (state) ownership, 2) Fragmented market (for the greatest part, there are only products on the market), 3) Politically orchestrated market (monopolies), 4) The lead actors are political, instead of professional managers. In a broader sense, political management also includes political officials in firms and local communities, and the management is directly connected to the higher levels of the political hierarchy, 5) The state has two fundamental functions: a) it is a "protector" (it protects firms from external competition and ultimately covers for losses); b) it is the "nanny" of the employed staff (it provides employees with "ownership" over their workplace and vast social rights). 6) A large portion of the GDP is redistributed through state channels (the budget, extra-budgetary balance, para-governmental funds etc.)"



labour mobility, which was not compatible with the political principles of the system. In spite of this, significant rates of economic growth were achieved (Družić, 2005). However, the system was inherently instable – the necessary rise in exports was not easy to achieve without political reforms. The escalation of the problems during the eighties, "the lost decade" (Nikić, 1997) only aggravated the already damaged economic relations within the system, which ultimately led to far-reaching economic reforms and Croatian independence, which is also partly confirmed by Horvat (2001), particularly in relation to the political crisis of the system not prepared to deal with structural problems (Prasnikar and Pregl, 1991).

The data on the average number of enterprises and employment are shown in the picture 1. It is visible that the number of the employed decreased during the period analysed, while the number of enterprises increased drastically during the restructuring of large enterprises before conversion. In other words, the size of the average enterprise in the system on average decreased. In the pre-1990 period there was a significant rise in the number of enterprises compared to 1974, which was also a consequence of institutional changes, i.e. the privatisation of enterprises which included restructuring and "breaking down" of enterprises into smaller pieces. The economy contracted after 1990, and a period of significant employment growth during the eighties. Estimates show that in the period of ownership transformation only, 329,426 workplaces were lost (DUR, 2004), as shown in the picture 1.

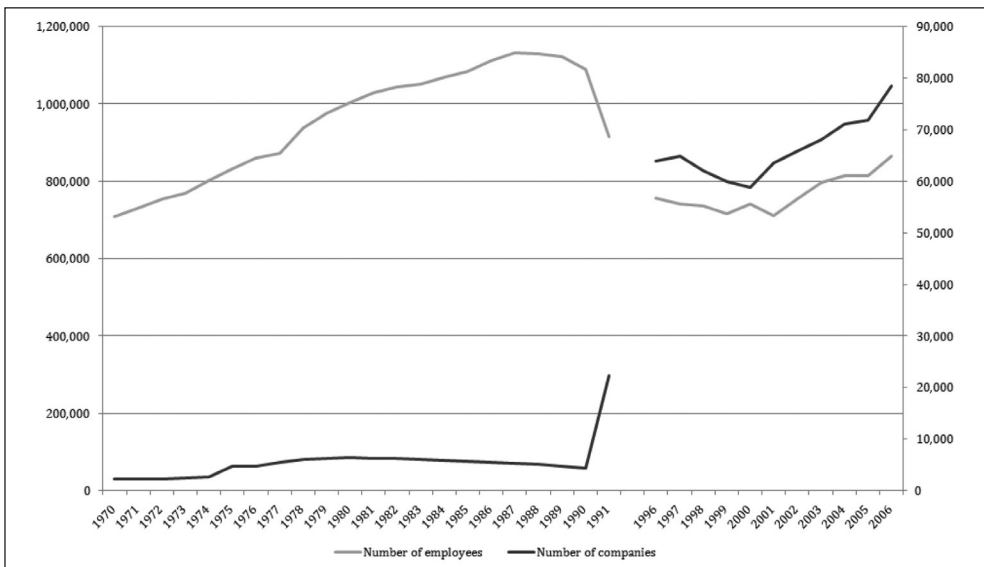
The increase in the number of enterprises was particularly acute after 1990. Interestingly, sector employment varied greatly, as shown in picture 2.

The decline of employment can only partly be explained by the restructuring of enterprises, since this variable is affected by a number of factors. On the other hand, the analysis of the employment structure shows that decline was the highest in the manufacturing industry. The opposite happened in the trade sector, with a significant rise in the number of employees between the two periods. An average decline of employment is also visible in the hospitality sector, agriculture and construction.

Two simultaneous effects were present in the period analysed. On the one hand, the expected technical redundancy of workers, appearing in concentrated sectors, has decreased due to the dispersion of companies. On the other hand, unjustified cuts in the number of employees occurred at the same time. For example, in 1996 there were 888,738 people in Croatia receiving pensions, and 1,200,386 in 2010 (Croatian Pension Insurance Institute, 2011:10). According to the 1985 data, there were 543,654 people receiving pensions in Croatia that year (Bureau of Statistics, 1986: 296). In terms of the employment structure in selected sectors, two significant changes can be identified. Firstly, during the eighties a crisis occurred in the manufacturing and other sectors. However, it is clear that the manufacturing industry and trade were most affected by privatisation, and this is where the biggest changes occurred.

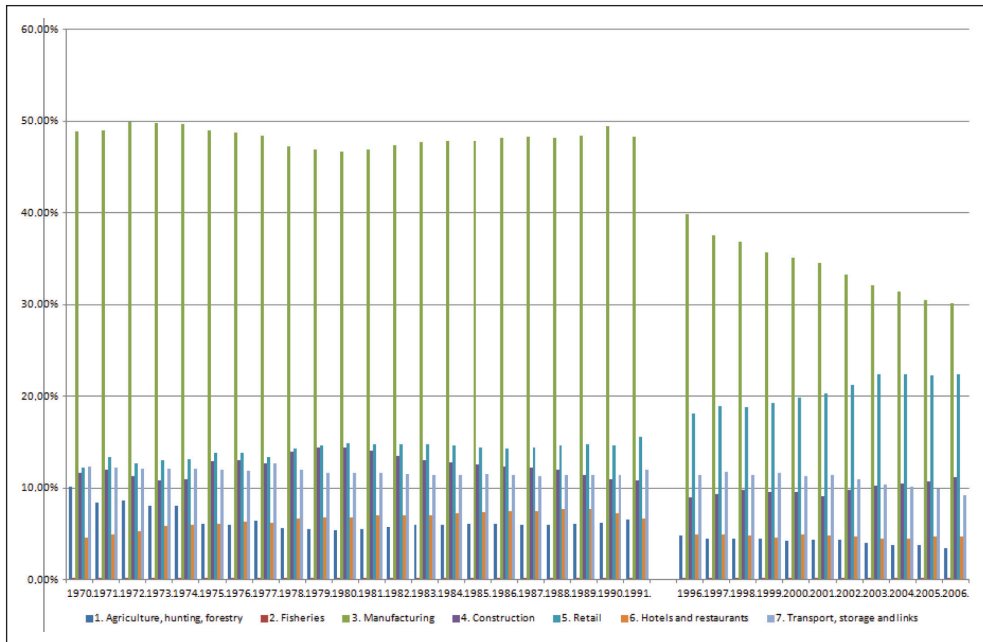
In other sectors there was a visible correction of employment which can be assumed to be caused by technical redundancies. The decrease is balanced and can thus be interpreted as a correction. Secondly, the manufacturing sector saw a fall in all economic indicators as well as employment, thus generating a decrease in the activity of the whole sector. This is an argument in favour of the claim that the manufacturing sector should have first been restructured and then privatised, which would lessen the negative impact on the whole economy as well as the employment structure. Additionally, this demonstrates that the restructuring costs were taken over by the state, primarily by accommodating the unemployed workers.

Picture 1: Number of enterprises and employed in Croatian economy in chosen industries in the period from 1970-2006



Source: Research done by Denis Redžepagić for his doctoral dissertation

Picture 2: Structure of the number of employed in several chosen industries



Source: Research done by Denis Redžepagić for his doctoral dissertation

Table 2 shows the average growth rates in the manufacturing industry.

Table 2: Growth rates in the manufacturing industry

Income and expenditure / growth rates	Growth rates 1970-1980	Growth rates 1981-1989	Growth rates 1996-2006	Growth rates 1970-2006
1. Total income	0.033	0.787	0.093	-0.022
2. Total expenditure	0.033	0.785	0.085	-0.013

Source: Research done by Denis Redžepagić for his doctoral dissertation

It can be concluded from the data presented in the table 2 that the growth rates were relatively moderate during the whole period. Although the post-2000 period has been perceived as a period of economic growth, this was not sufficient to achieve a significant growth during the whole period. Of course, it has to be added that growth rates do not indicate the quality, i.e. the degree in which growth is connected to a growth in productivity and investment in new technologies – it can thus be concluded that the sluggish growth during the nineties was partly a consequence of inefficient investment in the manufacturing industry during the preceding period. Although these indicators are relatively basic, they indicate that the manufacturing

sector development has been almost negligible during a longer period – for the past twenty years. In spite of the fact that the post-independence loss of traditional markets strongly affected the total income of the Croatian manufacturing industry, the long-term decrease of income is an indicator of competitiveness rather than an indicator of losing markets. It is rational to assume that a set of enterprises is capable to adapt their offer to new markets in a mid-term period. Their failure to do so indicates a structural problem of a lack of competitiveness and a rational industrial policy.

When compared to the total revenue of all activities selected, two activities stand out at the beginning of the period analysed – trade and manufacturing industry, as presented in the table 3. When looking at the shares, the two industries combined made up for 74% of the total aggregated revenue of all the activities in 1970. At the end of the period analysed, in 2006, their share dropped to 62%. However, the portion of trade dropped by 0.3%, while the fall was much more pronounced in the manufacturing industry share in the total income, which fell to 26%.

Table 3. Structure of the total revenue of the selected activities in Croatia

– in %

Sectors / year	1970	1975	1980	1985	1990	1996	2000	2006
1. Agriculture, hunting and forestry	9.12	4.90	5.09	5.73	0.00	4.26	3.38	2.25
2. Fishing	0.14	0.07	0.08	0.09	0.20	0.13	0.17	0.14
3. Manufacturing industry	37.12	41.18	39.79	44.18	42.86	33.31	32.09	26.25
4. Construction	7.39	6.86	9.28	7.09	6.39	7.42	5.98	9.13
5. Trade	36.67	37.16	36.89	34.33	30.46	33.98	35.84	36.34
6. Hospitality	2.85	2.90	2.95	2.93	4.96	2.29	2.14	1.95
7. Transport, storage and communications	6.71	6.93	5.91	5.65	7.41	8.25	8.70	8.19
8. TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Research done by Denis Redžepagić for his doctoral dissertation

Finally, it is somewhat justified to consider the trend identified during the past 40 years as cyclical. Namely, the rudimentary indicator of the average enterprise size per total income indicates a trend of repeated enterprise amalgamation and market concentration. The trend has been identified in distinct sectors and confirms the results (Tipurić, Pejić-Bach, 2009) of previous research which identified the "pronounced concentration in a small number of industries as a consequence of globalisation which enabled multinational companies to enter the Croatian market" (Ibid., p. 23). This is particularly true for the sectors of trade, tobacco industry, sale

of computers and connected services. In other words, there was a tendency towards exploiting high profits but the end-users were individualised. Of course, this was far outweighed by the benefits in competitiveness of national enterprises and technology transfers, due to the economic structure of the enterprises at the beginning of the analytic period, which was primarily oriented towards the domestic market. In spite of this, the example of concentration in the trade sector demonstrates that concentration is an especially delicate area. For example, research done by the Croatian Competition Agency (2011, p. 12) indicates that in the Croatian retail sector the aggregate share of five biggest entrepreneurs rose from 52.4% in 2008 to 58.4% in 2010.

Following the Amable's classification (2003), we can describe the Croatian variety of capitalism as follows. The product market competition is primarily guided by international agreements adopted by the Republic of Croatia. Namely, the Stabilisation and Association Agreement signed in 2001 between the European Union and the Republic of Croatia (in force since 2005) requires the movement of goods between the two parties to be gradually liberalized. Croatian enterprises are generally not very innovative, while innovation strategies have been neglected (Račić, Cvijanović and Aralica, 2008). This also suggests that non-price elements of competition will be marginalised. Market relations are not competitive. Namely, the Croatian labour market is segmented, with more generous rights of employees in the public sector and some large enterprises (Račić, Babić and Podrug, 2005). Active labour market measures turned out to be inadequate (Babić, 2003). The financial sector fits this picture since it fails to promote the economic dynamics. The protection of minor stakeholders' interests is extremely low, as indicated by the latest *Global Competitiveness Report* which ranked Croatia 126<sup>th</sup> out of 142 countries according to this criterion. The level of financial market development is also very low, with Croatia ranked 87<sup>th</sup> on a list with 142 places (Schwab, 2011). The financial system is bank-oriented (with high banking concentration of top 4 banks, which amounted to 66% in the first quarter of 2011, calculated on the basis of their assets (Croatian National Bank, 2011), which causes it to be loan-oriented, with a minor venture capital market.

State involvement in the next two institutional areas is not developmentally beneficial. As for the social protection, it can be said that Croatia spends a relatively large amount of money on the system. However, it is unequally distributed among different social groups, which is a consequence of the specific experience of transition caused by the 1991-1995 war and clientelist connections which were regularly used to distribute privileges. State involvement in such a system is significant (Stubbs and Zrinščak, 2011). Total public expenditure on education in Croatia, as a percentage of GDP, is significantly lower than the EU-27 average (total Croatian expenditure on education amounted to 4.33% in 2008, with EU-27 average at 5.07% (Eurostat, 2011). However, the percentage of people with higher education qualifications is low (32.3 in EU and only 20.5 in Croatia according to InnoMetrics, 2011: 62).

To this, one should add low levels of social capital (Štulhofer, 2003), low levels of cooperation among different enterprises (Račić, 2005), and the under-developed institutions tasked with supporting market activity (Croatian competition policy received grade 3 from EBRD in 2011 on a scale from 1 to 4+. World Bank (2011) ranked Croatia 84<sup>th</sup> out of 183 countries by the overall score in the 2011 *Doing Business*). Also, as mentioned above, there is a high degree of industrial concentration in some sectors.

In Croatia, transition coincided with deindustrialisation and financialization. However, while in the developed Western countries deindustrialisation represented a process of moving production to other countries with cheaper workforce and transition from material production to services, only the latter was the case in Croatia. While the global division of labour is in the current framework determined according to the knowledge criteria instead of physical resources (cf. Mouhoud, 2007), in Croatia, however, the orientation is towards lower or intermediate levels of technology (see Aralica, 2007 according to Račić, Cvijanović and Aralica, 2008: 106), at which knowledge does not present a deciding factor. The manufacturing industry failed to transfer a significant portion of its activities to other countries, as indicated by a low level of direct investments abroad<sup>12</sup>.

The change in the relation between the financial and the real sector of the economy, the educational sector and the system of industrial relations exposes the vulnerability of the current institutional surrounding, in which the manufacturing industry is incorporated. But, while political capitalism had some institutional advantages (such as the stable system of industrial relations and a long-term funding of enterprises through the banking system), these were lost in the new variety of Croatian capitalism, in spite of the similarities. The reasons were, on the one hand, the problems connected to the double "transition" (from Fordism to cognitive capitalism or the flexible accumulation regime and from socialist socio-economic order to a mixed economy), which increased the complexity of the whole process. On the other hand, the reasons can be found in the institutional and socio-economic specificities of Croatia. Namely, as discussed above, it did not develop an institutional surrounding which would be beneficial to the manufacturing industry dynamics. Despite institutional transformation of the economic system brought by the privatisation process which sought to allocate ownership into the private sector has not produced undisputable positive effects expected. From the firm viewpoint, ownership was not the crucial performance factor. Rather, it was the institutional changes, and factors from the economic environment such as the corporate decision making structure and income distribution (especially the workforce) which had a more profound impact on overall performance.

<sup>12</sup> Direct investment abroad for all activities amounted to somewhat less than 4 billion euro between 1993 and 2010 (Croatian National Bank, 2011a).

Bićanić (no date) talks about crony capitalism in Croatia as a constant from the 1990s to the 2000s. Stubbs and Zrinščak (2011) describe clientelist relationships<sup>13</sup> as the basis of a complete social policy. Directors of socialist enterprises, whom Županov (2002: 62) denounces as the autocratic proto-capitalist connected with the Communist Party and "regional and local oligarchies" have now been, as suggested by Stubbs and Zrinščak (2011: 11), partly replaced by "tycoons" who made their fortunes from privatization. Ivanković and Šonje (2011) deal with un-democratic capitalism in Croatia and a few political parties deemed to be highly clientelist. All of this suggests that the Croatian variety of capitalism cannot be considered to present a "pure" formal model which perfectly functions in practice, but a model ridden by clientelist connections which have the capability to direct the economic relations towards socially suboptimal outcomes. The evolution of the economic development model has to account for path dependencies and the institutional environment in order to resolve the inefficiencies inherent to the current system. Arguably, the emphasis on ownership is threatening to drive the debate away from the other factors, which could conceivably have a more profound impact, namely the institutional setting and related complex network of relationships.

#### 4. Conclusions

A perception remains that the Croatian independence marked the beginning of "modern capitalism". This paper, however, aims to confirm the hypothesis that the Croatian form of capitalism is specific, both in form and development, and linked to the previous period, implying a gradual evolution of capitalism. This follows from, qualitative and quantitative analysis, with a particular focus on the manufacturing industry as a useful framework for the evaluation of the institutional, economic and political changes over the past 40 years. The research shows that the key difference over that period is almost exclusively institutional in nature, as the changes were ideologically geared towards increasing living standards from entirely different viewpoints. What is more, the institutional deficiencies caused a competitiveness decrease of the manufacturing industry and consequently a fall in employment. The only constant characteristic in the evolution of Croatian "capitalism" is that it is not relying on markets to any significant extent. However, the "institutional fit" of the system nowadays is far less adjusted internally and externally than it used to be in the late phases of the socialist market economy (or political capitalism).

The state carried the burden of main activities and public costs during the transition, due to a significant increase in unemployment. Despite employment decreases in all analysed activities, the reduction in the manufacturing sector is particularly stark.

<sup>13</sup> The Croatian Language Portal (2011) defines clientelism as "a form of political corruption by non-monetary bribes".

This is partially an ex post argument for the claim that restructuring of the manufacturing sector was required before the privatisation, as this would reduce the negative impact on the economy and the labour market. However, the institutional changes led to a drastic reduction of the role of the manufacturing sector in the economy. The analysis of the manufacturing sector in comparison with the institutional environment enabled the identification of the continuity between the two systems as the performance data is comparable between the two periods, which is not the case for other sectors, namely the financial sector. This allows for comparison of physical outputs and related performance data. Furthermore, key factors for the industrial decline were identified namely the institutional changes, and implicitly the industrial policy as well as the environment, covering a broad and complex spectrum of inherited and evolving social and economic relationships.

The research contributes to the relatively scant literature on the Croatian types of capitalism, and enrich the insights into the economic and institutional aspects of transition. What is more, it is a good basis for further research to explain a feasible and desirable transformation of the manufacturing sector. The limitations of this research are mainly quantitative, as not all data are available, particularly for the period from 1992-1995. Further research should determine the Croatian type of capitalism in more detail, considering its trajectory and development potential in the relative near future. The results of the research in this paper could assist further research based on more developed economical and political guidelines.

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## Od političkog kapitalizma do klijentelističkog kapitalizma? Slučaj Hrvatske<sup>1</sup>

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### Sažetak

Cilj je istraživanja analiza tipologije kapitalizma u Republici Hrvatskoj. Hrvatski je oblik kapitalizma specifičan, u formi i nastajanju, te postoje poveznice između perioda bivše države i Republike Hrvatske zbog kojih možemo govoriti o postupnom procesu evolucije kapitalizma, iz političkog tijekom osamdesetih godina prema kapitalizmu s klijentelističkim karakteristikama – kakvog uočavamo danas. Izdvojena je prerađivačka industrija kao ogledan primjer kroz kojeg se mogu bolje sagledati institucionalne, političke i ekonomske promjene tijekom posljednjih 40-ak godina. Pritom je naglasak na implikacijama institucionalnih promjena koje su, osim dakako učinka Domovinskog rata, u velikoj mjeri utjecale na proces evolucije kapitalizma u Republici Hrvatskoj. Glavni rezultat istraživanja je kako je tranzicija generirala niz troškova, najveći dio kojih je snosila upravo država, kroz povećanje broja nezaposlenih te smanjenja industrijske proizvodnje i razine socijalnog kapitala. Tvrdnja da prerađivačka industrija nosi breme nekonkurentnosti iz prošlih razdoblja zapravo zanemaruje nužnu raspravu o ulozi države u formiranju industrijske politike i djelovanju na tržištu. Također, to je post festum argument za tvrdnju da je restrukturiranje prerađivačkog sektora trebalo provesti prije privatizacije, jer bi se tako smanjio njezin negativni učinak. Međutim institucionalne su promjene dovele do drastičnog smanjenja uloge prerađivačke industrije u ekonomiji. Temeljni je zaključak rada kako je promjena međuodnosa finansijskog i realnog sektora ekonomije, obrazovnog sustava te sustava industrijskih odnosa razotkrila ranjivost sadašnjeg institucionalnog okružja, u koji je uklopljena prerađivačka industrija. Određene institucionalne prednosti političkog kapitalizma gube se u novom tipu hrvatskog kapitalizma, unatoč svim sličnostima. Razlozi leže u složenosti procesa dvostruke »tranzicije« i institucionalnim odnosno socio-ekonomskim specifičnostima.

**Ključne riječi:** prerađivačka industrija, Hrvatska, tipovi kapitalizma, institucije

**JEL klasifikacija:** E020, L600, P160, P260, P310

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