ROSA LUXEMBURG STIFTUNG
BRUSSELS OFFICE

# SHAPING INDUSTRY FROM THE LEFT IN EUROPE

## COUNTRY REPORT CROATIA

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# Chapter 1: Introduction – the Context of Deindustrialisation in Croatia

In order to open up a space for the topic of a left development model in Croatia's industrial policy, first of all, one must provide a macroeconomic framework of the deindustrialisation process that started in the 1980s in Yugoslavia. The process was further sharpened with the breakup of Yugoslavia, i.e., with the transition into the capitalist mode of production. This chapter will describe the key decisions in the field of macroeconomic policies, the way in which they moulded the flow of the Croatian economy and how they influenced the deindustrialisation process during the transition. A macroeconomic introduction is necessary in order to gain insight into the context and limitations of any future industrial policy in Croatia.

The start of the deindustrialisation process in Croatia can be pinpointed to the 1980s, when the consequences of an intensive integration of Yugoslavia into the global capitalist flows of the 1970s had already manifested itself. The beginning of stagnation in industrial production during that decade was a consequence of the economic crisis, cemented by international financial institutions pressuring Yugoslavia to return its debts. In order to maintain its economic growth and the living standard of its population, Yugoslavia had considerably indebted itself internationally during the economic crisis of the 1970s. The crisis trigger in Yugoslavia, similar to countries of the so-called Third World, was the growth of the US Dollar caused by the Volcker Shock, i.e. the brutal showdown of the US FED with inflation through an enormous increase of interest rates. Given the fact that the Yugoslav debt was denominated in US Dollars, the considerable growth of that currency made the servicing of these debts almost impossible. In 1983, Yugoslavia signed an agreement with the IMF and agreed to the implementation of a structural adjustment program that led to a further lagging behind of Yugoslavia's industry with the industries of developed countries. Industrial stagnation was also furthered by the disintegration of export orientated economies within the socialist bloc (Mihaljević, 2014).

Even though the beginning of deindustrialisation can be traced to these processes in the 1980s, the most important period for understanding deindustrialisation in Croatia is the breakup of Yugoslavia and the transition to a market economy in the early 1990s. Besides the immediate damage to industrial complexes caused by the war,[1] this period is defined by the key political decisions that will determine the trajectories of Croatian industry in the next period. With the introduction of the Law on the Transformation of Socially Owned Assets in 1991, the privatization process started, which shortly resulted in the destruction of a considerable part of the industry.

1. The World Bank (2001) estimates total material damage caused in the war to 27.5 billion US Dollars whereas Lučev and Babić (2012) talk about 30% of destroyed industrial capacity, n.a.

Companies were often seized in a legally dubious or non-transparent manner. These seizures were conducted through the Croatian Privatization Fund and banks, which provided unsecured credit and favourable loans (so-called managerial loans) to the new owners who did not invest in production. They were rather interested in the possibility of making profit through stock broking and/or real estate speculation. It is estimated that the state-led transformation and privatization of socially owned assets has probably caused the Croatian economy more direct and indirect material damage than the war (Družić, 2004).

Another major harmful impact on industry was the adoption of the stabilisation program under the supervision of the IMF in 1993, which has defined Croatian economic policy until today. In the early 1990s, Croatia had been experiencing very high inflation. The government introduced an anti-inflationary stabilisation programme and started the economic restructuring process in 1993 by introducing an overvalued exchange rate fixed to the Deutsche Mark (later to the Euro). Since industry was dependent upon export markets and the overvalued exchange rate regime has favoured imports, this had a devastating effect on industrial production, which could no longer be either internally or externally competitive. Alongside the privatization and monetary policies, the gradual withdrawal of state subsidies and incentives to industry also had a significant detrimental impact on industry, with the consequences of the manufacturing industry's destruction and development of an import-dependent economy (Družić, 2004, Mihaljević, 2014). As a result of these policies, the period of high inflation ended and the currency was stabilised, but at significant social costs – Croatia, as almost all of the Central and Eastern European post-socialist states, has experienced a severe transition crisis that resulted in high unemployment, a low level of employment and rising poverty, which will be discussed in detail in the next chapters.

The index of industrial production volume fell by almost 50% between 1990 and 1995. It then slightly improved by 2000, but it did not reach the 1990 level. There has been a steep plummet in the share of industry in the GDP, as well as in the number of employed persons in industry (Tab. 1).

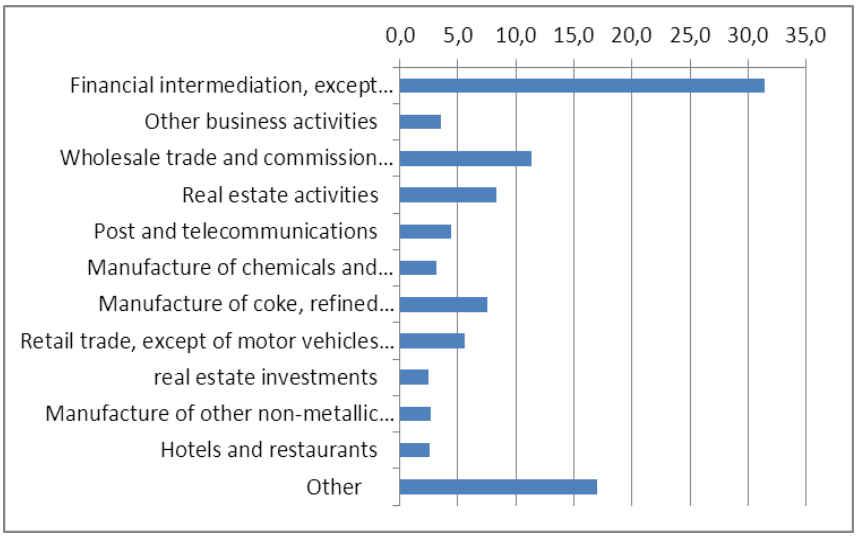
| Year | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP, current prices, billions USD | 24.8 | 18.02 | 10.2 | 10.9 | 14.6 | 22 | 23.3 | 23.5 | 25.1 | 23 | 21.5 |
| Growth rates (% p.a.), constant prices | - | -21.1 | -11.7 | -8 | 5.9 | 6.8 | 5.9 | 6.5 | 2 | -1 | 3.7 |
| Indices of industrial production volume (1990: 100) | 100 | 72 | 61 | 57 | 56 | 56 | 58 | 62 | 64 | 63 | 64 |
| Industry, % of GDP | - | - | 43.9 | 47.2 | 42.4 | 31.9 | 30.8 | 31.6 | 29.9 | 28.6 | 29.2 |
| Coverage of imports by exports (%) | 77.5 | 86 | 103 | 83.7 | 81.5 | 61.7 | 57.9 | 45.8 | 54.2 | 55.2 | 55.7 |
| Indices of employed persons in industry (1990: 100) | 100 | 82 | 70 | 68 | 65 | 62 | 56 | 57 | 55 | 53 | 51 |
| Gross external debt, billions USD | | 2.7 | 2.6 | 2.6 | 3 | 3.8 | 5.3 | 7.5 | 9.7 | 10 | 11 |
| Deficit/Surplus of general government budget, (% of GDP) | | -4.8 | -4.0 | -0.8 | 1.8 | -0.7 | -0.4 | -1.2 | 0.5 | -2.2 | -5.0 |

**Table 1** – Key Indicators of the Croatian Economy, 1990-2000 — Source: Mihaljević (2014) and UNCTADstat.

Croatia, after the initial period in the early 1990s that was characterized with the illusionary attempt to create an autonomous national bourgeoisie in a small peripheral country, relied on inflows of foreign capital and started the process of rapid financial liberalisation and integration into international markets. Since the late 1990s, as Joachim Becker argues, the already dramatically reduced manufacturing sector was sacrificed to financialized accumulation. The so-called 'dependent financialization' model, a predominant type of accumulation in South-Eastern Europe, implied adopting policies that facilitated huge inflows of capital in the pre-crisis years. In contrast to the Visegrád countries' model of 'dependent industrialisation', which channelled capital to production activities, in the countries of South-Eastern Europe this capital was predominantly not used for production purposes, but channelled primarily to activities linked to financialization, such as financial intermediation, real estate and related business (Becker, 2015). When it comes to the structure of foreign direct investment (FDI), the Croatian example confirms the model of dependent financialization. In the period 2000-2011, FDI in manufacturing in Croatia was not significant, but the majority of FDI was channelled to financial intermediation (31.4%), wholesale and commission trade (11.3%) and real estate activities (8.3%) (Graph 1). Croatian economists generally agree that until now foreign direct investments in Croatia have not been adequately channelled, since the bulk of FDI has been invested in the acquisition of ownership stakes, with a lack of greenfield investments in manufacturing and export-oriented industries (Sisek, 2005; Buterin & Blečić, 2013). Although it is common to blame factors like corruption or the lack of predictable "investment climate" for the lack of greenfield investments in Croatia, it needs to be stressed that what makes these kinds of investments unprofitable and therefore unlikely to happen, is the global division of labour[2], appreciated currency and unsatisfactory levels of predicted aggregate demand.

It is also important to highlight that FDI's do not dominate the structure of total foreign investments in Croatia. In the period 2000-2008, of the total foreign investments, the largest share relates to other investments, where most of the influx was achieved through loans (Marić et al., 2011; Prohaska & Oglić Draženović, 2003). The spending debt influxes, which came as a result of interest rate differentials between countries of the European centre and periphery, are characteristic for the countries of South-Eastern Europe who followed the model of dependent financialization.

2. While the Visegrád countries are integrated into German industrial model, the countries of South-Eastern Europe are integrated through creating demand for the industrial products from the north, n.a.



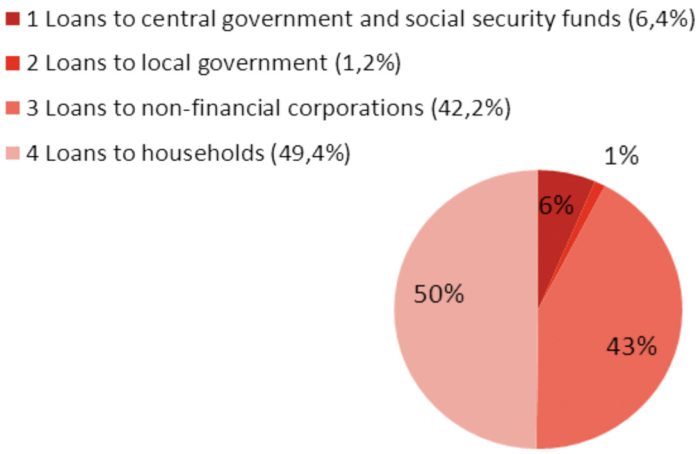

**Graph 1** – Structure of inward FDI in Croatia, 2000-2011 average, Direct Investments, Net incurrence of liabilities, (by resident activity), in %[3] — Source: HNB, http://www.hnb.hr/statistika/h-statistika_inozemnih_izravnih_ul.htm

In the late 1990s, Croatia suffered from a banking crisis, which was solved with a sanitisation of the banking system by public money, the amount of which was much larger than that received by selling the banks to foreign capital. While in 1996 only 1% of bank assets were owned by foreign capital, in 2000 84% of the banking sector in Croatia was already foreign-owned. Foreign banks expanded their ownership further to almost 91% by the end of 2009 (Ćetković, 2011), which resulted in privileged access to international financial markets. The result was a huge loan expansion: after the entry of foreign banks, Croatia experienced a lending boom from 2002 to 2006, which fuelled economic growth mainly based on a rising indebtedness of the private sector. Loans were mostly directed to financing private consumption (Graph 2), of which housing loans had a significant share (around 35%).

While the average annual growth rate of loans to enterprises during that period was at 14%, the growth rate of loans to households was at 26%. Although this period has seen an increase in industrial production, it was in a large extent associated with the growth of the construction sector, which between 2001 and 2008 had the largest real growth of investments and employment (Marić et al., 2011). As households were taking out loans for house purchases, there was a pressure on real estate prices, in turn increasing the demand for credit. Due to the price growth of real estate, investors were motivated to purchase land and turn it into construction sites for residential areas. However, this further contributed to the trend of deindustrialisation, as it was more lucrative for owners of companies at attractive locations to close them down than to

3. The category 'other' counts those activities whose share does not exceed 1%.

maintain production with lower profits and uncertain outcomes. Also, the loan expansion triggered the increase in imports even further. The number of persons employed in industry rose during this period of credit-based growth, while industrial production reached 90% of the volume it had in 1990 (Table 2). But as Mihaljević (2014) notes, not all industrial branches recorded an increase in employment despite this short-term economic expansion: the number of jobs in the textile industry continued declining, while employment was stagnant in most branches of manufacturing, meaning that economic growth only stopped layoffs. During the period of apparent prosperity in the 2000s, Croatia was increasingly exposed to international financial markets and high debt influxes, resulting in an increase of international debt that currently exceeds 100% of the GDP. The benefits of access to international financial markets in the pre-crisis period created the background for the current financial crisis, with further deindustrialisation and rise of unemployment and poverty as some of its consequences.




**Graph 2** - Distribution of credit institutions' loans by domestic institutional sectors from 2002 until 2006 in averages + numbers, in mil. Croatian kunas (loans in domestic and foreign currency) — Source: HNB, http://www.hnb.hr/statistika/hstatistika.htm

| Year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP, current prices, billions USD | 23.1 | 26.5 | 34.1 | 41 | 44.8 | 49.8 | 59.3 | 69.5 | 62.2 | 58.9 | 61.8 | 56.4 |
| Growth rates (% p.a.), constant prices | 3.7 | 4.9 | 5.4 | 4.1 | 4.3 | 4.9 | 5.1 | 2.1 | -6.9 | -2.3 | 0 | -2 |
| Indices of industrial production volume (1990: 100) | 68 | 72 | 75 | 78 | 81 | 84 | 88 | 90 | 81 | 80 | 79 | 75 |
| Industry, % of GDP | 28.7 | 28.1 | 28.7 | 29.7 | 29.1 | 28.7 | 28 | 27.7 | 27.5 | 27 | 26.7 | 26.3 |
| Coverage of imports by exports (%) | 51 | 45.1 | 44 | 48.1 | 47.3 | 48 | 47.9 | 45.7 | 49.3 | 58.9 | 58.9 | 59.3 |
| Indices of employed persons in industry (1990: 100) | 51 | 50 | 50 | 50 | 50 | 50 | 52 | 52 | 50 | 47 | 46 | 43 |
| Deficit/Surplus of general government budget, (% of GDP) | -2.4 | -5.0 | -6.3 | -3.3 | -2.7 | -1.7 | -1.2 | -0.9 | -3.2 | -4.6 | -4.5 | -3.4 |

**Table 2** - Key Indicators of the Croatian Economy, 2001-2012 — Source: Mihaljević (2014), UNCTADstat.

As the recent financial crisis broke out, the extremely vulnerable growth model based on rising indebtedness of the household sector came to an end. As the crisis was mainly triggered by the slowing down of capital inflows and by capital outflows (Becker, 2015), enterprises were faced with the impossibility of further funding due to banking decisions to avoid risky lending, which lead to a sharp increase in bankruptcies of enterprises and consequently rising unemployment. After the rise in the early 2000s, the index of industrial production started to fall as a consequence of the crisis, and in 2012 was at 75% of the 1990 level, with the index number of employed in industry in 2012 dropping to 43% of the total number of persons employed in industry in 1990 (Table 2).

The resilience of the crisis is best reflected in the fact that there was no growth in GDP in Croatia continuously for 12 quarters, until minimal growth was recorded in the last quarter of 2014. This resilience cannot simply be attributed to the (in)competence or (in)efficiency of any specific government. Rather, it is predominately a result of the dependency path illustrated in this chapter, resulting in deindustrialisation. This path of proverbial austerity measures and decrease in labour cost, otherwise known as structural reforms, has gradually stripped Croatian governing structures of any leverage necessary for exiting the crisis and stimulating economic growth and development. Let us recap only a few of the conditions, which through process of the restoration of capitalism and European integration, made any autonomous development policies in Croatia impossible.

The first example, which illustrates the material and ideological obstacles in creating such policies, is the petrochemical industry,[4] the majority of which is state-owned and has a significant strategic importance for Croatia. The lack of any sort of coordinated industrial policy on the one hand and the external structural pressure on the other hand has determined the role of the state in dealing with this industry. The state has been systematically pushing petrochemical industry out of the domestic market by suspension of gas supplies as the main material for production and relinquishing its price control. In addition, the state has brought agriculture to the brink of collapse. Since agriculture was the main pillar of the petrochemical industry, this inevitably led the industry to place the majority of its products on foreign markets, where it is not competitive due to high production costs.

The second example is policy related to loan arrangements in foreign ownership, which is closely related to the interests of industrial capital in foreign countries. As we have already shown, the structures of loans, household credit and the retreat from taxing domestic production created a privileged position of foreign capital. This position has been facilitated by suspension of credit lines, which contributed to suppression of domestic production, and, on the other hand, by

4. These will be described in more detail in Chapter 5.

providing loans for households which created a demand for import products. These were the mechanisms banks used to co-create the global division of labour and embed the Croatian economy in it.

After the devastating effects of privatization, by means of the European Union, the liberalised flows of goods and capital left domestic industry, leaving it unprepared for the pressure of the stronger and more competitive western capital. The aforementioned appreciation of the Croatian kuna is one more aspect of the paralysis of possible industrial development policies, together with fiscal regulations and the supervision of the European Commission, which in essence prevent an active role for the state in creating industrial policy. We can find a more recent example in the attempt of the current government to take a more active role in the implementation of projects envisioned by Junker's investment plan, which was supposed to ensure 315 billion Euros. However, the optimism that Junker's fund could finance state projects directed towards industrial production faded quickly after European Commissioner Neven Mimica emphasised that these projects are "exclusively for the private sector and projects, which in themselves carry slightly greater risks, and that they would not be in the focus of private investors."[5]

Public funds are thus only to be used for creating demand and reducing the risk of investment. Given that there are almost no left-oriented parties in the parliament, whereas the rest of the political parties have solely contributed to the further deindustrialisation of this country, in the next chapters we will analyse the consequences of deindustrialisation in terms of poverty, unemployment and the position of trade unions. Moreover, we will identify and describe the social actors who actively engage to fill in the void the state left in creating an active industrial policy. We perceive the examples of such engagements, primarily the struggles for industrial workplaces and endeavours for saving industrial production capacities from further deterioration, as a pledge for capacity development and the strengthening of wider alliances and partnerships between social actors who work towards alternative models of industrial development.

5. http://hr.n1info.com/a31391/Vijesti/Mimica-za-N1-Junckerov-fond-ne-financira-drzavne-projekte.html

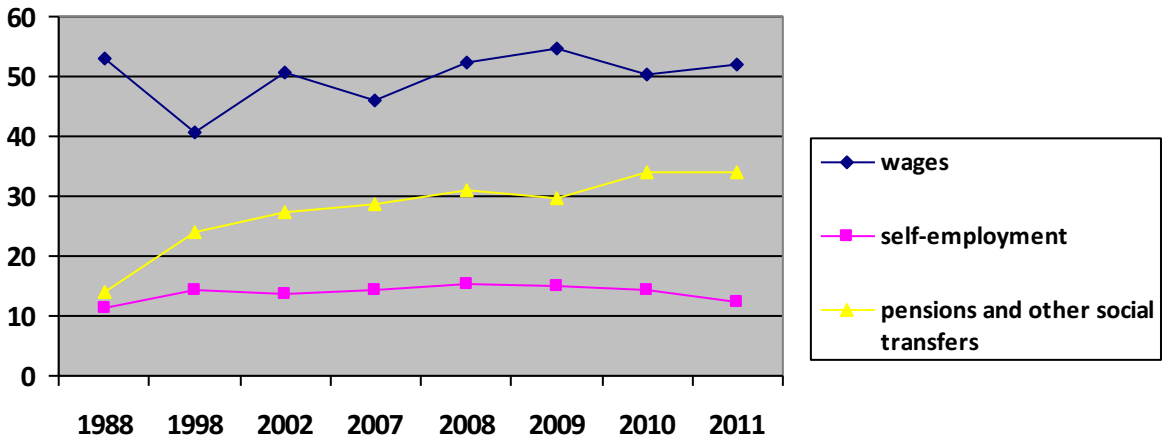
# Chapter 2: Social Implications of Deindustrialisation in Croatia

## 2.1. Income Inequalities

One of the most distinguished social features of deindustrialisation in a once highly industrialised country like Croatia ought to be growing impoverishment triggered by severe job losses and increasing income inequalities on the national scale. However, in order to establish the link between deindustrialisation, poverty rates and income inequalities, one needs to evaluate the long-term impact job losses in the manufacturing sector had on the structure of income of households and the unemployed. In an attempt to trace, extract and analyse such data, we came across to a number of obstacles. Primarily, the Household Budget Surveys (HBS) as a main source by which national income inequalities and poverty rates are calculated, practically, did not exist from 1991 until 1998. Since then, the source of data on income inequalities and poverty rates has been changed and these methodological inconsistencies are also considered to be one of the obstacles for any meaningful analyses. Consequently, there are almost no empirical studies on the relationship between poverty and deindustrialisation in Croatia and few researches argue that changes in the structure of household incomes are likely to be triggered by changes on a macroeconomic level. These show that inequalities in distribution of incomes decreased between 1973 and 1983, whereas in 1983 they started rising. Again, it is worth noticing that the 1980s in Yugoslavia were marked by the implementation of IMF's structural adjustment programmes, thus the rise in income inequalities were likely triggered by them. Hence, one might expect that inequalities would further increase as the transitional process to a capitalist economy accelerates. Nevertheless, as argued by one author, inequalities during the "period of transition to capitalism" (1988-1998) did not significantly increase.[6] However, the wage income shares in the total income have been significantly decreasing since 1978, particularly between 1988 and 1998, whereas pensions, other social transfers and self-employment income shares have been increasing (Nestić, 2002). These changes in the structure of disposable housing income are similar to those in other post-socialist countries. In Croatia, such decomposition of income may be explained by the reduction of the employment rate, deindustrialisation, and the rise in pensions and social transfers that occurred after the war in Yugoslavia (1991-1995).

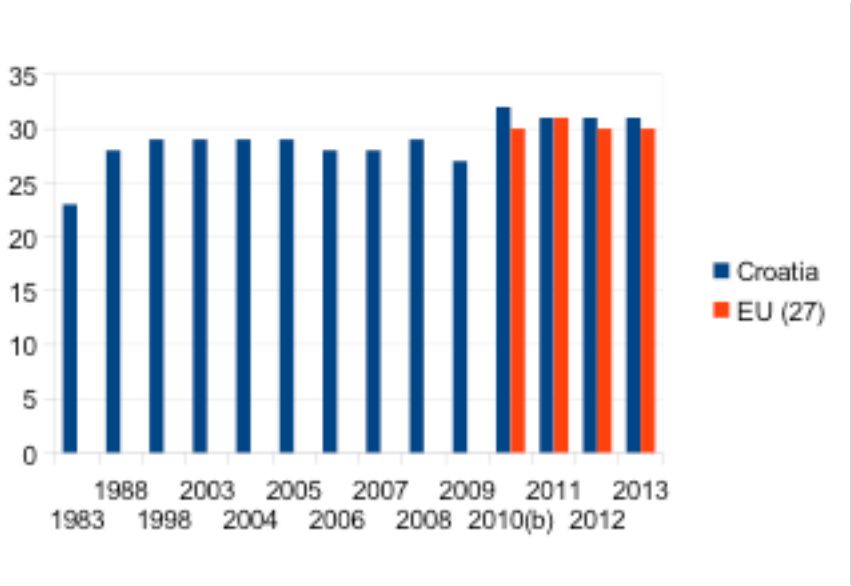
6. One has to be careful not to fully rely on this assessment for at least two reasons. Primarily, the HBS data for 1998 encompass only the territory which was not directly affected by the war (i.e. 1/3 of the territory was affected by the war and suffered from severe depopulation and deindustrialization). Thus, the rate of inequalities on the national level as Nestić suggests may be underestimated. Based on data provided by the office of refugees and consistent with information from UNHCR about provision of assistance to vulnerable returnees, the poverty rate is about three times as high as the national average (World Bank Report No. 22079-HR). On the other hand, the comparison of the data on income inequalities (1988-1998) may suffer from shortcomings originating from different design of the surveys in 1988 and 1998. n.a.

To rephrase, the socialist state maintained high rates of employment as a means to amortise income inequalities, whereas the post-socialist state decided to mitigate impact of transition to a market economy by increasing the number of people whose income largely depends on social transfers and pensions (Nestić, 2005). The aforementioned currents can be seen in Graph 3.




**Graph 3** - Available income by source, average per household — Source: HBS (2008; 2009; 2010; 2011) and Nestić (2002; 2005)

A more detailed overview on Nestić's studies (1988, 1998, 2002) and the data from HBS (2008, 2009, 2010 and 2011) show that social transfers and pensions are dominantly concentrated in poor households whereas wages are dominantly concentrated in the wealthier households. A sharp decline in wages from 1988 until 1998 may be attributed to decline in industrial production and stabilisation programmes as noted in Chapter 1. The liberalisation of the economy also affected the increase in the Gini coefficient, particularly in the period from 1983-1998, as can be seen in Graph 4. However, no significant changes appeared until 2010, when the new methodology was introduced, so it is hard to discern to what extent the crises influenced the rise in Gini coefficient after 2010.




**Graph 4** - Gini coefficient distribution — Source: Danijel Nestić (2002, 2005), CBS, Eurostat (b) break in time series, data compatible with Eurostat

## 2.2. Poverty Rate Indicators

Regarding the poverty rate indicators, the state of affairs is very much similar to indicators related to income inequalities. With the late implementation of national statistical data tracking, Croatia is even lagging behind some post-socialist countries. The official poverty line has been introduced in the last few years; it is defined as 60% of the median of the national income distribution.

The first comprehensive study on poverty in post-socialist Croatia was conducted by the World Bank in 2001; it is based on a calculation from HBS 1998 and its own estimation. The study argues that about half of the poor depend on the state of the labour market (employment opportunities and earnings) and another half on social transfers (World Bank, Report. No 22079-HR: 23). It recognizes the rise of the "newly poor" (i.e. impoverished working class and pensioners) who used to be able to share in the leisure and luxuries of the middle class in Yugoslav times, small farmers, retired manufacturing workers, and those employed in the agro-processing industry. The changes in the labour market as it will be discussed in detail in Chapter 3, affected the poor; 65% of the poor had no regular employment status in 1998. We might guess that a certain proportion of them belong to the group of workers affected by the loss of old jobs in industry and who failed to be compensated for by jobs in the service sector. Half of the unemployed were reported as jobless for more than a year and even 33% for more than two years.

| | E-E | E-U | E-N | U-E | U-N | U-U | N-E | N-U | N-N |
|---|---|---|---|---|---|---|---|---|---|
| Croatia 1998 | 0.914 | 0.033 | 0.053 | 0.335 | 0.037 | 0.628 | 0.035 | 0.021 | 0.942 |
| Croatia 1996 | 0.904 | 0.038 | 0.058 | 0.162 | 0.025 | 0.812 | 0.037 | 0.020 | 0.928 |
| Czech Republic 1997 | 0.953 | 0.019 | 0.024 | 0.429 | 0.124 | 0.435 | 0.041 | 0.016 | 0.938 |
| Poland 1995 | 0.910 | 0.035 | 0.055 | 0.380 | 0.156 | 0.564 | 0.060 | 0.032 | 0.908 |

**Table 3** - Job turnover in selected transition economies in proportions — Source: World Bank Report No. 22079-HR

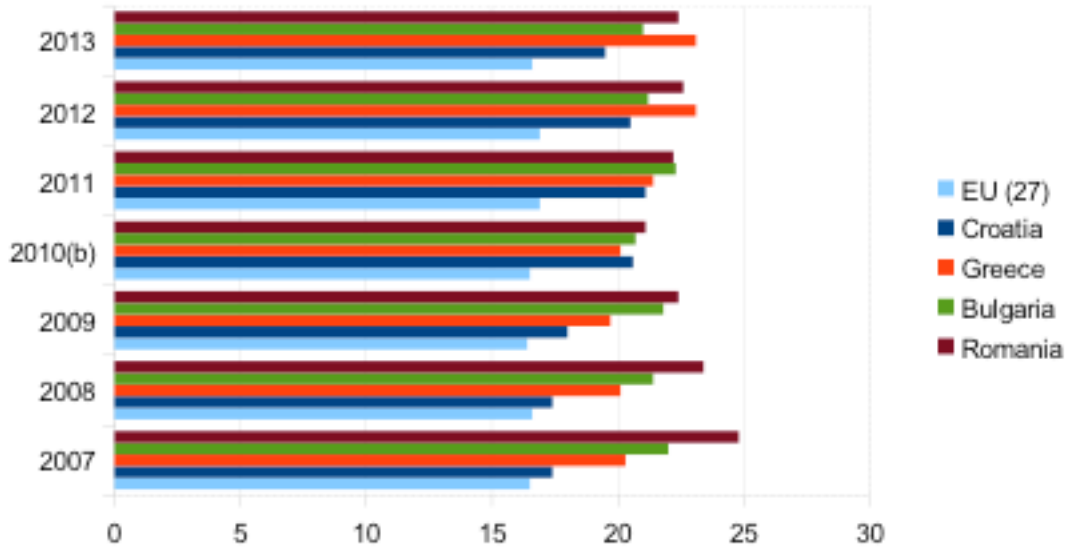
Table 3 shows movement from employment (E), unemployment (U) and inactivity (N) in three respective countries. As it can be seen, the rate of people who remained unemployed over a year was the highest in Croatia (81% in 1996; 62% in 1998) and the rate of unemployed who managed to find a job was the lowest (16% in 1996; 33% in 1998).

Unfortunately, for the early 2000's we have no studies that would provide further figures on the economic causes of poverty. As noted before, the increase in poverty rates and economic inequalities coincides with the continuing deindustrialisation, but there is serious lack of scholarly attention or trade unions' research that could connect these two trends. The WB research (2013) on poverty based on consumption, the absolute poverty line and consistent methodology confirms the growing problem of poverty in Croatia, especially since the beginning of the recession up to date (Nestić, 2014).

Since the WB research is not published, we can only rely on official statistics from the CBS. According to it, children, youth and unemployed are the most vulnerable to poverty. In average, 43.5% of the unemployed were poor in the period between 2009 and 2013. Some authors believe these indicators can be considered as "new poverty" i.e. poverty caused by the economic crisis; however, due to the lack of studies on poverty, it is hard to tell where the line between structural and new poverty lies. According to other indicators, in the period between 2009 and 2013, in average 15% of the population were subject to severe material deprivation. The number of people living in households with very low work intensity increased (in 2010. it was 13. 9% and in 2012. it raised to 16. 8% - the highest rate in Europe).[7] Some experts assume that this increase is due to job loss in traditional, manufacturing industries and construction, in which the majority of employees were men. Also, the rise in number of households with low work intensity has been accompanied by the rise of poor people living in them. For example, in 2010, 44.7% of the poor lived in households with very low work intensity whereas their number increased to 57.3% in

7. Data available at: http://www.dzs.hr/Hrv_Eng/publication/2014/14-01-02_01_2014.htm

2013. Apparently, social transfers and pensions are still used as a main source to amortise poverty. If we exclude social transfers, the poverty rate in 2013 would be at 29.7%, and even at 44.6% if pensions were excluded.




**Graph 5** - People at risk of poverty by age and sex — Source: Eurostat b) break in time series

Graph 5 shows the at-risk-of-poverty-rate by country. In 2013 Croatia had 6th highest at-risk-of poverty-rate in the EU (27). From 2010, onwards, Croatia's at-risk-of-poverty rate was significantly higher than in the EU (27) and coming very close to Greece's, Romania's or Bulgaria's. It had increased in 2011 and decreased in 2012 and 2013 (from 20.5 to 19.5). The explanation is to be found in the statistical reduction of the national poverty threshold, thus at-risk-of-poverty rates are lower, giving the false impression that situation of poor people in Croatia is improving.

Statistical data may gloss over some other dimensions of poverty. According to the data of social care centres in Croatia, the number of people receiving social assistance significantly increased in recent years (in 2014, the number exceeded 130,000 people). The available data on the structure of social assistance beneficiaries shows that in the period from 2001-2013, on average 44% of the total beneficiaries were unemployed working population and their number is increasing as the recession lingers.[8] The number of homeless people using shelters and the number of users of soup kitchens has also increased recently (Malenica, 2014). Thus, we may conclude that poverty in

8. Data collected from the Ministry of Social Policy and Youth.

Croatia and an impoverished working population is a growing social problem, but what is the position of the current political elite on that?

A glimpse at the *National Strategy against the Poverty and Social Exclusion 2014-2020* gives an impression that political elites and experts correctly detect the social groups most vulnerable to poverty, whereas they fail to propose systematic solutions to fight the problem. The strategy sets education and lifelong learning as a priority tool for fighting poverty, while unemployment is treated as only a secondary problem. Overall, the strategy provides no adequate analysis that would shed light on the relationship between poverty and social groups according to age, current employment status and the level of education, thus the measures proposed to fight against poverty seem to be based on a far-fetched argument. On the other hand, it relies on already implemented palliative mechanisms to reduce unemployment such as vocational education for unemployed youth. Such measures do not have long-term beneficial effects on the structural reduction of youth unemployment. Furthermore it is proved to be socially insensitive for the most vulnerable youth groups (Levačić and Ostojić, 2014). Moreover, they treat unemployment as a problem whose solutions ought to be found in prudent planning of the current fiscal year, while its beneficiaries (by doing unpaid internships) become "qualified" as workers conditioned to accept an additional reduction in labour costs.

The lack of an adequate and structural political response to unemployment and long-term unemployment as a result of deindustrialisation is an issue, which will be addressed in the following chapter. Similar to this chapter, which provided and analysed the data in relations to poverty and income inequalities while framing them in a broader context of deindustrialisation, the following chapter discusses relationship between unemployment and deindustrialisation while trying to answer the question of whether the job loss in manufacturing was compensated for by jobs in service sector.

# Chapter 3: Unemployment and deindustrialisation

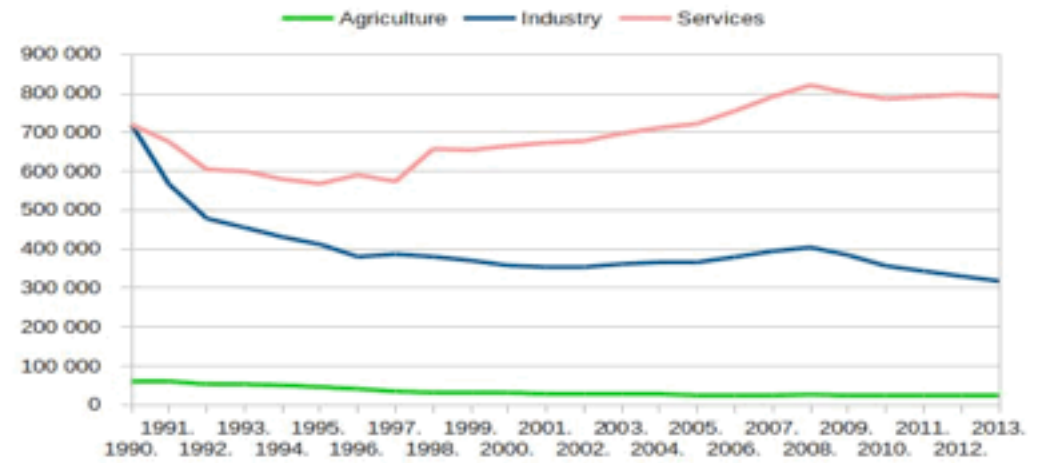
Given that deindustrialisation is considered one of the positive aspects of the contemporary labour market, as it represents an aspect of coming closer to the characteristics of developed Western countries, most analyses fail to see deindustrialisation as one of the potential causes of high unemployment, growing inequalities and poverty that shape Croatia since 1990. In this chapter, we will provide insight into the relationship between deindustrialisation and growing unemployment. Penava (2014) notes that after the mid-1990s, the decrease in employment in industry was followed by the increase of the unemployment rate despite the simultaneous growth of employees in the service sector. A considerable number of workers fired from industry remained unemployed, i.e. they did not manage to find employment in the service sector, which entails that the high unemployment rate is a direct consequence of deindustrialisation. Even though, as mentioned earlier, deindustrialisation in Croatia had already started in the 1980s, this analysis will solely focus on the 1990s and 2000s. The analysis will roughly divide activities into three different sectors- agriculture, industry and services. The fundamental category – industry – according to the NKD[9] of 2007 contains the following sub-sectors: B) Mining and quarrying, C) Manufacturing, D) Electricity, gas and water supply, E) Water supply, sewerage, waste management and remediation activities and G – Construction.[10] Agriculture relates to activities: A) Agriculture, forestry and fishing, and Services, relates to G – U activities. It is also necessary to highlight the methodological limitations originating in the nature of the data. In Croatia, since 1990 and until today, three different classifications of activities were used, meaning that the categorisation and classification of activities has changed to a certain degree. The changes in classifications limit a precise conclusion, which should be considered while interpreting the data.

## 3.1. Deindustrialisation

Deindustrialisation is most commonly defined as reducing the share of industry in the GDP, as well as employment in the industrial sector. Croatia in 1990 had 720,000 employees in the industrial sector, which made up 48% of the total employment rate. In 2003, however, this number was only 318,000, which amounts to only 28% of the total employment rate (see: Graph 6) and marks a decrease of employed in this sector of 58%.

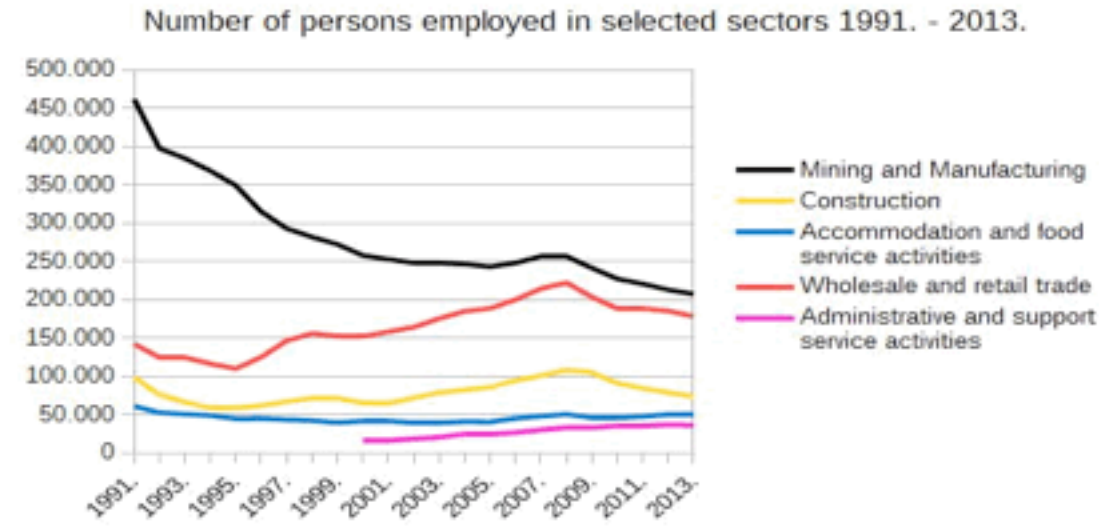
9. National Classification of Economic Activities (NCEA), n.a.

10. According to the NCEA these are the following sub-sectors: Manufacturing and mining; Water menangment; Construction; Crafts and trades, and according to the NKD from 2002: C – Mining and quarrying; D – Manufacturing; E – Electicity, gas and water supply and F – Construction.




**Graph 6** – Number of employed persons by sectors 1990 - 2013 — Source: Statistical Yearbook 1991-2014 and Statistical database available on http://www.dzs.hr (own calculation).

Graph 6 clearly shows the continuous decline in the number of employees in the industrial sector, with the exception of a slight increase in the pre-crisis period between 2003 and 2008, which is followed by an even steeper decline and the lowest rate of employed, in 2013. This growth can mainly be ascribed to the growth in the number of employed in the construction sector that followed the construction boom in the 2000s, as the number of employed in this sector grew to almost 30,000 while it amounted to 8,500 in the manufacturing industry (see Graph 7).




**Graph 7** - Number of persons employed in selected[11] sectors 1991 - 2013 — Source: Statistical Yearbook 1992-2014. and Statistical database available on http://www.dzs.hr (own calculation).

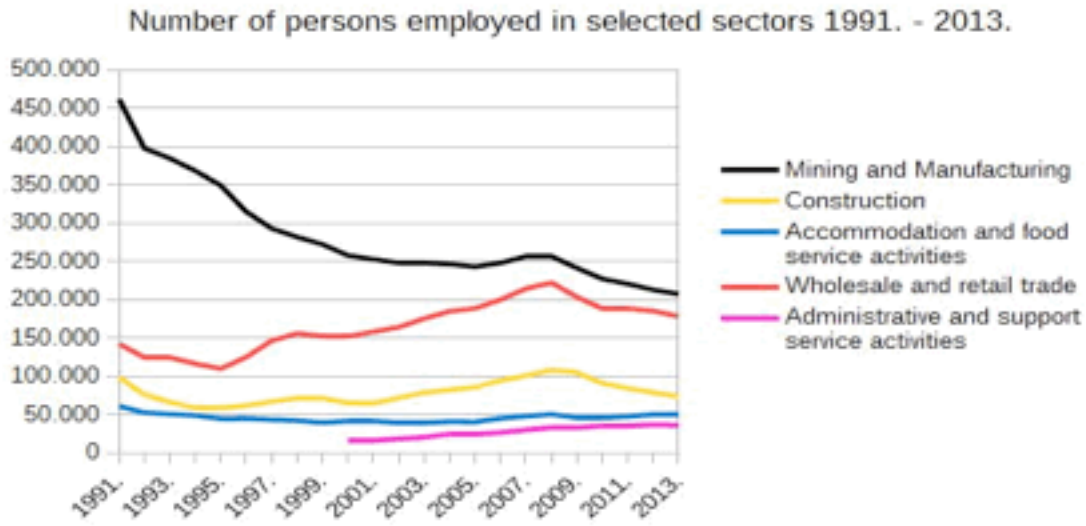
11. Sectors were selected on grounds of a fairly stable classification of activities in different NCEA – which enables us to follow the flow of employment since 1991. However, this data should only be viewed as a framework, as there were changes that could not be controled completely, n.a.

The deindustrialisation process is followed by the tertiarisation process, i.e. the growth of the number of employed in the tertiary sector (service sector), and in absolute relative number. Employment in the service sector amounted to 48% of the employment total in 1990, equal to the industrial sector, whereas in 2013 this sector encompassed even 70% of the total employment. The service sector saw its peak in employment in 2008, just before the crisis. Unlike the industrial sector, after a slight decrease caused by the crisis, it managed to recuperate and almost achieve the same number of employed as in 2008 (see Graph 6).

The service sub-sectors with the largest growth in employment are:

Real estate activities (225% since 2000), Administrative and support service activities (129% since 2000), Arts, entertainment and recreation (87% since 2000), Professional, scientific and technical activities (49% since 2000.) and Wholesale and retail trade; repair of motor vehicles and motorcycles (39% from 1991 since 2008). (see Graph 8).

The deindustrialisation process can also be observed in the change of the occupational structure. According to Peračković's analysis, in Croatia the number of jobs in the service sector doubled, from 28.8% in 1971 to 50.6% in 2001.




**Graph 8** - Number of persons employed in service sectors 2000- 2013 — Source: Statistical database available on http://www.dzs.hr

Despite the growth of employment in the service sector, total employment could not reach the number in 1990 and not even in 2008, when the largest number of employed was recorded. The total number of employed for the year 1990 amounted to 1,509,488, in 2008 this number was 1,252,089, whereas, according to later data, in 2013, this number was 1,132,246.[12] The real

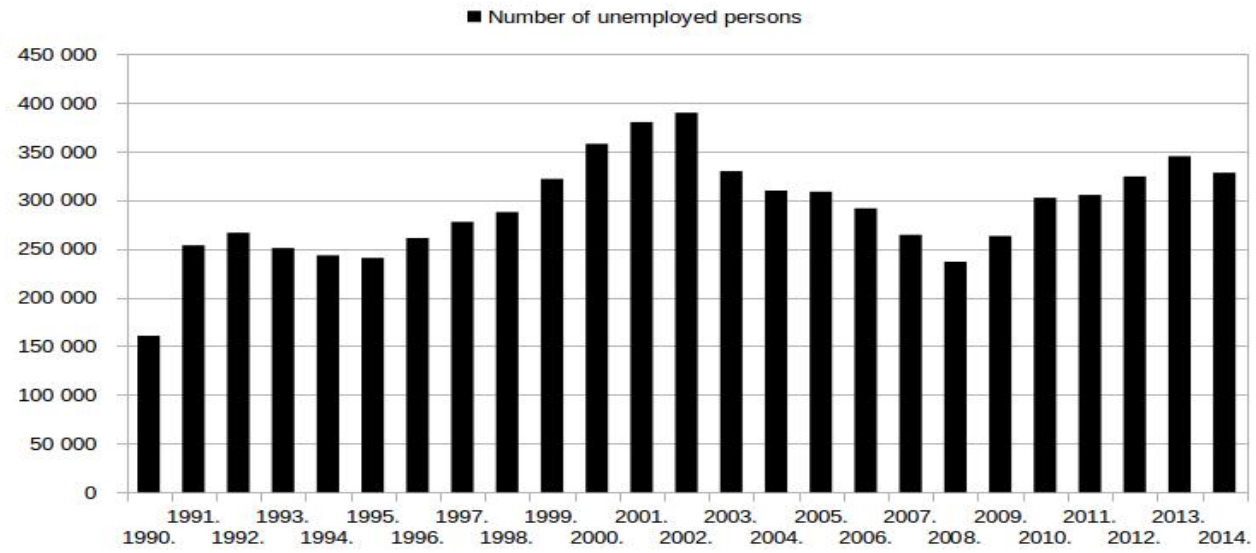
12. This is regarding the annual averages, which are a result of monthly research on employed from the State Institute for Statistics.

discrepancy between these numbers could be even larger, as the data on employment include those employed in the army and police only after 1998, when it is based on estimates, and since 2004 on reports provided by the respective ministries (Statistički ljetopis, 2014: 138).

According to this data, one may conclude that the growth in the service sector did not manage to absorb and restore the number of jobs lost due to deindustrialisation. During the mentioned period, 58% of jobs were lost in the industry. Regardless of the enormous growth of certain sub-sectors, with regard to sector in total and the given period, the number of employed in the service sector grew only for 10%. This entails that there is another simultaneous trend to deindustrialisation, that being the growth of unemployment. However, before we turn to the analysis of unemployment in Croatia, it is important to note the slight yet continuous decline of the number of employed in the sector of agriculture, more precisely a loss of almost 40,000 jobs during that period (see Graph 6).

## 3.2. Unemployment

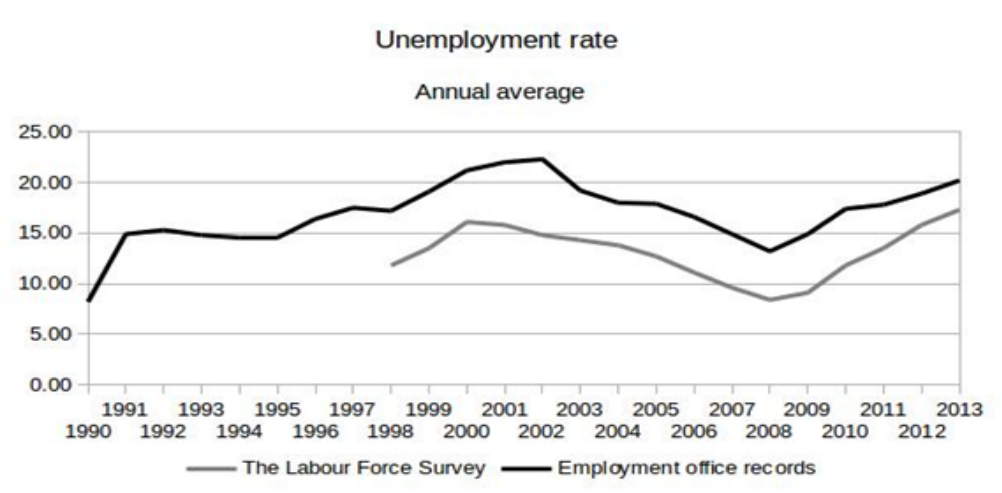
The growth in unemployment is a logical consequence of lost jobs in the industrial sector and newly created ones in the service sector. Graph 9 shows the growth in unemployment [13] from 1990 to 2014.




**Graph 9** - Number of unemployed persons (annual average) 1990- 2014 — Source: http://statistika.hzz.hr

13. We are dealing with official unemployment numbers based on the registries by the Croatian Employment Bureau (CEB). According to this, an unemployed person is the one registered at the CEB. Data show the annual averages calculated as the arithmetical middle of monthly states in the given year (Statistički ljetopis, 2014: 189).

It is notable that, even in periods of the lowest unemployment (in 2008), unemployment is double that of 1990. For the sake of illustration, the number of unemployed in 2013 amounted to 328,000[14], whereas in 1990 it was 160,000. However, 1990 marks neither the start of the growth in unemployment nor deindustrialisation. The number of unemployed is continuously growing since the 1970s[15] (except for a short-term decrease between 1978 and 1980), which can be observed in the context of economic stagnation during the 1970s in Yugoslavia, followed by the start of deindustrialisation in Croatia. The number differs from the number based on the on the Labour Force Survey (A).[16] Graph 10 shows the relation between these two measures, i.e. the registered unemployment rates and the rates according to the ARS.




**Graph 10** - Unemployment rates 1990- 2013 calculated from Employment office records and The Labour force survey (LFS)

Given that the Survey on Labour Force (SLF) defines unemployed persons, unrelated to their status at the Croatian Employment Bureau (CEB), these numbers considerably differ. [17] Croatia holds third place in unemployment within the EU, right after Greece and Spain. The unemployment rate for 2013 was at 17%, whereas the EU-28 average lies at 11%. Croatia also holds the third

14. A representation of unemployment numbers using annual averages is problematic due to a large fluctuation of this number caused mostly by seasonal work in tourism. E.g. the number of unemployed in February 2014 amounts to 384,000, after which this number decreases as the season approaches and is lowest in August when it amounts to 290,000. After that unemployment numbers grow again in January in 2015 to 329,230. Source: http://statistika.hzz.hr .

15. Data available at: http://statistika.hzz.hr.

16. The Survey on the Labour Force in Croatia was conducted for the first time in 1996 as an annual research. From 1998 till 2006, surveys of households are conducted every month, and since 2007, the Survey is conducted continously, i.e. households are surveyed during the entire year., n.a.

17. According to the Labour force study, unemployed persons are those who meet the following criteria: a) in the reference period did not work for payment in cash or kind; b) were actively seeking work during four weeks prior to the Survey, and c) were currently available for work within the next two weeks. Those who have found a job to start in the future are also included. (Statistički ljetopis RH, 2014: 142).

place in the share of long-term unemployed, more precisely 11%, while the EU average is at 5%.[18] This data puts Croatia in the group of member states with the highest unemployment rates.

Even though these two measures encompass different measures of unemployment, both fail to see "hidden unemployment". Thus, according to Tomić-Koludrović and Petrić (2007), the unemployment numbers in Croatia during the transition were also affected by the war: people capable of performing work who would normally be considered unemployed were not unemployed as they were in military service, while a certain number of them became retired war veterans (not even then were they considered unemployed). The importance of active military service in lowering unemployment is visible in the sudden increase of unemployed people after war operations in the mid-1990s (see Graph 9).

The issue of retirement is not only related to military retirement, but also represented a means of solving unemployment. Obadić notes that the decrease of unemployment during the 2000s was not mainly achieved with the creation of new jobs, but exactly through the exits of a substantial number of workers from the labour force and those, in most instances, involuntary (2005).

Also, the literature often mentions so-called "discouraged workers" who do not classify as unemployed in the definition of the CEB, nor according to the SLF. Discouraged workers are those who are not looking for a job because they believe there are no adequate jobs in their surroundings. These workers are to be found in former industrial regions, i.e. areas with a great decline of industrial production caused by the lack of demand for labour (Webster, 2012; Sissons, 2009). All of the aforementioned brings us to the conclusion that real unemployment numbers are much higher.

## 3.3. Unemployment and Deindustrialisation

In an attempt to relate unemployment data with deindustrialisation, it is important to mention the context of deindustrialisation in Croatia, which coincides with the transformation of socially owned assets into state-owned ones, as well as the subsequent privatizations of state-owned assets marked by the transitional period in Croatia. The *Report on the Revision of the Transformation and Privatization* provides data on employment in 1,556 companies[19] during the transformation period (the end of 1991), as well as the revision period (the end of 2002). One should bear in mind that this is not representable data and we are not dealing with companies in industrial manufacturing sectors. This data only serves to illustrate effects transformation and privatization had on industrial

18. Data available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics.

19. Companies included in the revision were selected on grounds of the request for the revision of the transformation and privatization, n.a.

production, thus also on employment within that sector.

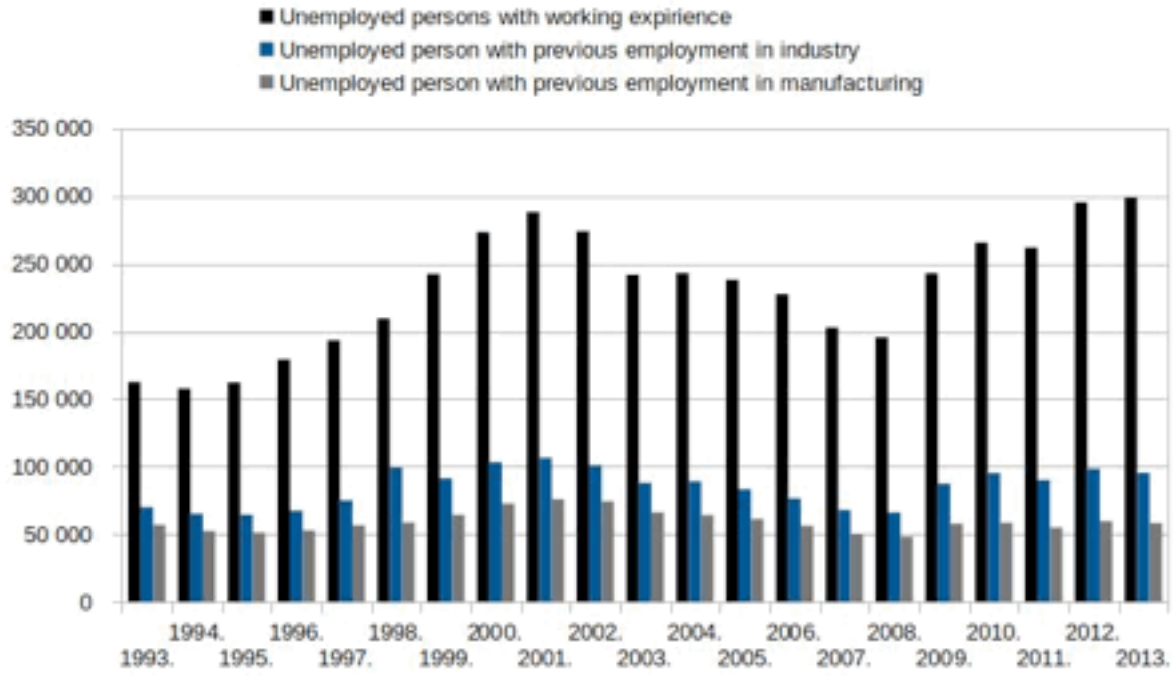
| No. | Reported surplus of employees and technological obsolescence | Socially-owned companies according to the reported surplus of employees | % | Socially-owned companies according to technological obsolescence | % |
|---|---|---|---|---|---|
| 1. | YES | 106 | 6.81 | 374 | 24.04 |
| 2. | NO | 1 450 | 93.19 | 1 182 | 75.96 |
| TOTAL | | 1 556 | 100.00 | 1 556 | 100.00 |

**Table 4** – Socially owned companies according to reported surplus of employees and technological obsolescence — Source: Report on the Revision of the Transformation and Privatization (Izvješće o radu na provedbi revizije pretvorbe i privatizacije) (2004)

| No. | Change in employment | Companies | % |
|---|---|---|---|
| 1. | Growth up to 25.00% | 45 | 2.89 |
| 2. | Growth btw. 25.01% and 50.00% | 24 | 1.54 |
| 3. | Growth above 50.01% | 35 | 2.25 |
| 4. | Decline up to 25.00% | 107 | 6.88 |
| 5. | Decline of 25.01% to 50.00% | 174 | 11.18 |
| 6. | Decline over 50.00% | 1 171 | 75.26 |
| Total | | 1 556 | 100.00 |

**Table 5** – Change in employment in companies — Report on the Revision of the Transformation and Privatization (2004)

During the transformation, the number of employees amounted to 635,373, whereas during the revision it was at 248,698, which is 386,675 employees less in comparison to the number during the transformation period. The results of the transformation and privatization that can be found in the *Report* are: since the transformation until the revision, capital has decreased by 16%, the number of employees has been decreased by more than half (reduced by 61%), more than half of the companies have not implemented their development programmes, and more than a fifth, or 22% of them, have declared bankruptcy. These data are even more devastating if we take into account data from Table 4, i.e. that 93% of socially owned companies reported no surplus of employees and 76% reported their companies are technologically obsolete.




**Graph 11** - Number of unemployed by selected sectors[20] and working experience, from 31 December 1993 - 2013 — Source: Statistical Yearbook 1994- 2014. (Author's own calculation)

One of the rare data that give more insight into the relation between deindustrialisation and unemployment is the number of unemployed with former work experience in industry.[21] Graph 11 shows the number of unemployed with former work experience in the entire industrial sector as well as in manufacturing. Regardless of larger or smaller fluctuations on the labour market (the graph does not show people looking for their first job), the number of unemployed from manufacturing is quite stable, with around 50,000 – 60,000, which lies between 19% and 35% of unemployment. During periods of lesser unemployment, this share increases, thus decreasing unemployment. The largest industrial unemployment share can be observed in 1993, when unemployed with former work experience in the sector of the manufacturing amounted to 35% of the total number of unemployed, whereas the entire industrial sector amounted to 43%. As we have seen in Graph 6, during the period between 1990 and 1993, the sharpest decline in employed occurred in the industrial sector. In the final numbers, the peak of unemployment came in 2001, with 75,717 unemployed with former work experience in the sector of manufacturing, amounting to 26% of the total number of unemployed.

20. Only in 1997, Mining and Manufacturing are divided, which in the earlier classification comprised one category. Therefore, data until 1997 in the category "Unemployed persons with former work experience in manufacturing" include those employed in the mining sector.

21. These unemployed are registered in the Croatian Employment Bureau. Thus this data is incomplete. n.a

Apart from a large share in the total unemployment number, unemployed with former work experience in the industrial sector often remain unemployed in the long-term. In 2014, the largest number of long-term unemployed were formerly employed in manufacturing (27,537). Since data on former employment and reasons for dropping out from the registry of the Croatian Employment Bureau is not available, we cannot gain insight about potential outflow in inactivity as a reason for long-term unemployment. In 2014, in Croatia, only 48% of long-term unemployed managed to find a new job, while 12% left the labour force.[22]

Even though this data does not indicate a direct relationship between deindustrialisation and unemployment, and given the fact that it is impossible to trace the exact number of people who lost their jobs in industry, or their status afterwards, it still hints at the fact that these processes are related. However, this relationship will become more visible in the comparison of the industrial and service sector.

## 3.4. Industry vs. Services

The argument that the outflow of workers from the industry to the service sector will resolve the problem of deindustrialisation is problematic from two aspects. First, the growth of employment in the service sector has been insufficient to absorb the former industrial workers, and second, industrial and service sectors have some inherent features, which make them differ from each other.

The first difference is so called qualification mismatch. Since the service sector is comprised of qualitatively different activities it demands completely different structure of the labour force, i.e. people with different types of qualifications. Sectors that experience the largest growth in employment usually offer unskilled and low-paid jobs, which are vastly directed at the female population (Wholesale and retail trade, Administrative and support service activities, Accommodation and food service activities). This means that one part of the demand remains unsatisfied due to a lack of supply while a significant portion of the labour force remains unemployed, as there is no demand for the qualifications offered.

The industrial and service sectors also differ according to the level of (in)security of the work relation. For example, fixed-term contracts and part-time jobs are more frequent in the service sector, primarily in the sub-sectors with the largest growth in employment. In 2013, the sector with the most fixed-term contracts was Administrative and support service activities (27%) along with Accommodation and food service activities (23%), while the average of fixed-term contracts

22. The other categories are: signing out of the registry, failure to report and non-complience to legal regulations, n.a.

in the total structure of contracts is 13% (in Manufacturing it is 16%).

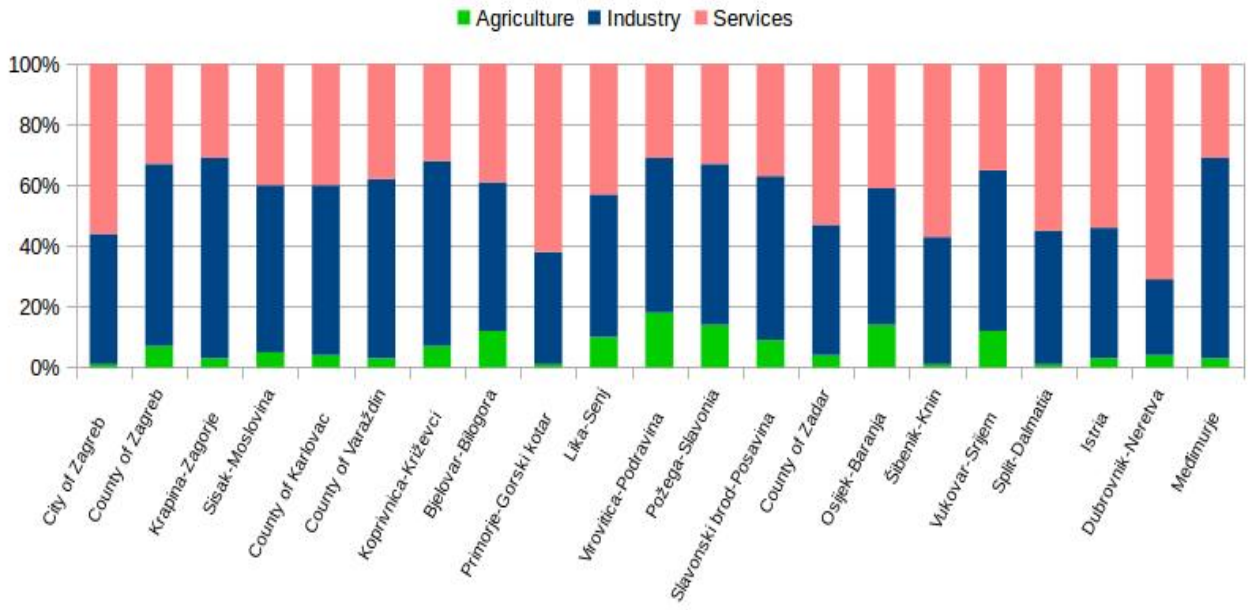
Administrative and support service activities have the largest number of part-time contracts, up to 14.5%, while the average is 3%. Fixed-term contracts and part-time employment often present obstacles for workers' organising and the struggle for workers' rights, which will be described in more detail in the Chapter 5. The third difference between the service and industrial sector is the issue of regional differences. Obadić highlights that the largest part of new jobs in the service sector was created in the fields of finance, state administration, retail, tourism and other consumer services – activities that are frequently concentrated in urban areas, thus creating great regional differences in unemployment (2005:41).

This can be confirmed by the data from 2008, which show that in the Accommodation and food service activities sector, almost all employment is concentrated in coastal counties (County of Primorje-Gorski Kotar, County of Split-Dalmatia and County of Istria). In the sector of Wholesale and retail trade, 38% of all employed are in the city of Zagreb, and together with Zagreb County it totals 42%. Only the County of Primorje-Gorski Kotar and the county of Split-Dalmatia still keep a certain percentage of employment (8%-10%), which can be attributed to the development of tourism. Of all employed in Community, social and personal activities and other sectors, 42% are located in Zagreb, as are 50% of all employed in the Financial, intermediation, real estate, renting and business sectors. The industrial sector, however, was concentrated in certain areas, in large factories employing entire regions. Even today, the industrial sector is the most "evenly" spread in the counties, even though 21% of all employed are in the city of Zagreb.[23]

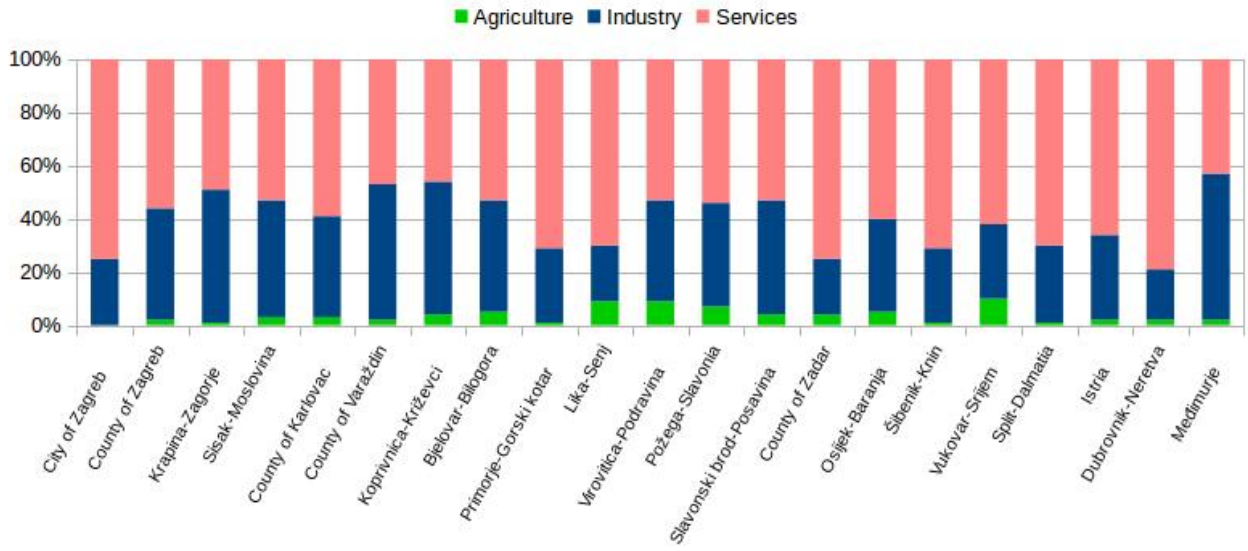
Graphs 12 and 13 show the share of employed according to sector in different counties in 1990 and in 2008,[24] i.e. a significant change in employment structure during these 18 years.

23. Author's own calculation using data from the Statistical Yearbook 2009.

24. Given that 2008 is the final year when such data was available in the Statical Yearbook, n.a.




**Graph 12** – Employment rate in different sectors, by county in 1990 — Source: Statistical yearbook of counties 1993. (Author's own calculation)




**Graph 13** – Employment rate in different sectors, by county in 2008 — Source: Statistical Yearbook 2009. (Author's own calculation)

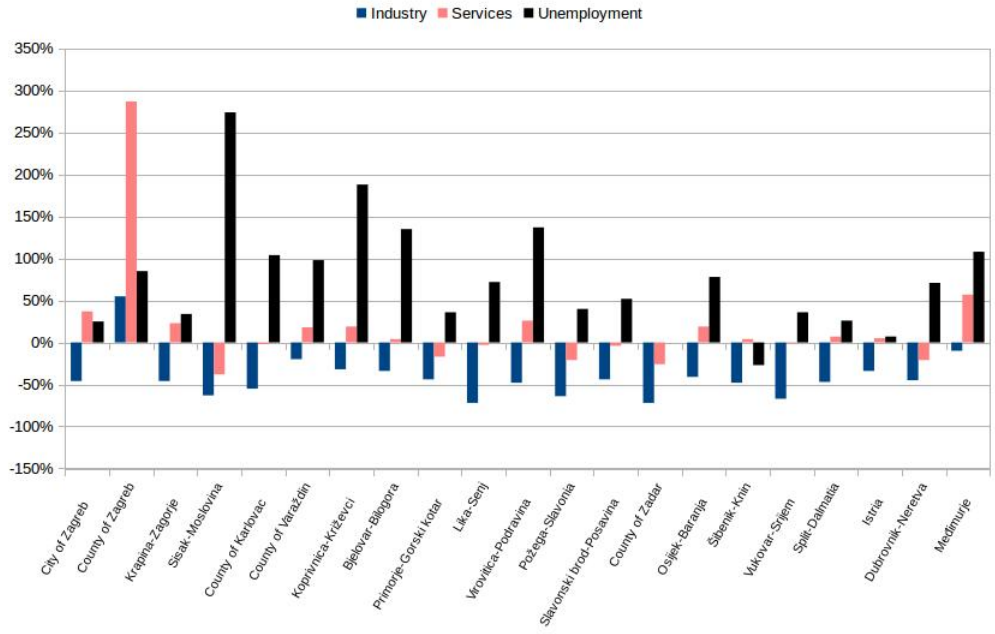
Even though the share of employed in the service sector is dominating in most of the counties (except the Counties of Međimurje and Varaždin), the Graph 7 shows there was no significant growth in employment in the service sector, except for the County of Zagreb (287%),[25] the County

25. The county of Zagreb is highlighted as the only county with an above-average growth of employed in the service sector as well as the industrial sector. Such trends, unique in Croatia, one can partly explain through the relocation of industry from Zagreb to the County

of Međimurje (57%) and the City of Zagreb (35%). On the contrary, 8 counties even had a negative balance in the number of employed in the service sector in comparison to 1990, especially the County of Sisak-Moslavina (-38%), the County of Zadar (-26%) and the County of Dubrovnik-Neretva (-21%).

Growth at the national level during that period was carried by 26% of some of the counties, which gives a distorted image and is in accordance with Obadić's (2005) argument on a centralist development of the service sector. It is also necessary to highlight again that we are dealing with the year 2008, which has the highest employment rate after 1990. If we were to compare new data, the results would certainly be even more devastating.

On Graph 14, one can see the relation of deindustrialisation and tertiarisation, as well as the growth in unemployment rates across the counties in more detail.




**Graph 14** - Difference in number of employed in service and industry and number of unemployed by county 1990-2008 — Source: Statistical yearbook of counties 1993, and Statistical yearbook 2008. (Author's own calculation)

Between 1990 and 2008, the official unemployment rate increase grew to 47% on the national level. Counties that are specific for the decrease in employment in the industrial sector i.e. deindustrialised counties are the County of Lika-Senj (72% of unemployed in the industrial sector),

of Zagreb. Namely, the County of Zagreb surrounds the city, which makes it the perfect location for the development of wholesale trade as well as warehousing, and due to proximity of the capital of Zagreb which still functions as the main market. The Zagreb Department of the Croatian Chamber of Commerce says this trend may be explained by cheap land plots and smaller communal compensations and surtaxes the County of Zagreb offers. An additional explanation is to be found in locational benefits, meaning that the land plots' market value exceeds the value of the industrial plants, which is becoming more and more frequent in Zagreb.

the County of Zadar (-72%), the County of Vukovar-Srijem (-67%), the County of Požega-Slavonia (-64%) and the County of Sisak-Moslavina (-63%) also stand out in terms of an increase of unemployment rates. In the County of Sisak-Moslavina, the official unemployment rate increase has been 274%! In only two counties was there no increase in unemployment. The official unemployment rate in the County of Zadar remained the same as in 1990, whereas in the County of Šibenik-Knin, it decreased by 28% along with a decrease of employment in the industrial sector of 48% and an increase of 4% in the service sector.

An explanation for this data can be found in the low activity rat, which is peculiar to all deindustrialised counties,[26] (In County of Zadar is at 45% and in the County of Šibenik-Knin is 42%). The lowest activity rate is in the County of Lika-Senj (40%),[27] which has the highest rate of lost jobs. The relation between the trends in the decrease of industrial workers, the growth of unemployment and the high rates of inactivity is evident in this data. The data presented above clearly show the relation between the decrease in employment in industry, the growth of unemployment and low activity rates.

Let us return to the argument from the beginning of this chapter, which states that deindustrialisation is the cause of high unemployment in Croatia. We believe it is obvious that the question of deindustrialisation cannot be avoided when discussing high unemployment rates in Croatia, regardless of the data's incompleteness. The data also suggest that there are structural limitations in moving the labour force from one sector to the other due to differences in qualifications and the spatial arrangement of activities. Finally, growth in the employment in the service sector is not a solution in itself for high unemployment. Furthermore, research by economist Botrić (2007), based on data from the Survey on the Labour Force between 2001 and 2005, indicates how the share of the employed in the service sector is positively associated with the unemployment rate in the county. This implies that the regions where service sector employment was important did not have a lower unemployment rate. This confirms the previous results presented in Botrić, Rašić and Šišinački (2004) who, supplementing the Croatian regional unemployment rates data with those from other Central and Eastern European countries (CEEC), found that higher regional employment in the service sector implies a higher relative unemployment in the region compared to the average CEEC level (Botrić, 2007).

26. The rates are based on authors' own calculation gathered from Census data (2011). Given that there is no data on the counties in the Statistical Yearbooks, we used the only available data in order to illustrate the phenomenon, even though it should be emphasised that the time of data does not coincide with the rest of the analysis. n.a.

27. The author includes activities in construction (which here falls under the industrial sector) in the definition of the service sector, n.a.

# Chapter 4: Trade Unions in Post-Socialist Croatia

As noted in Chapter 1, Croatia's full transition to a market economy can be traced to the early 1990's alongside with its break from Yugoslavia, which triggered the civil war in 1991. This break-up had a large impact on trade unions as well.

Before the war, the trade unions of Yugoslavia were affiliated with federations of unions of federal socialist republics and integrated in the Confederation of Trade Unions of Yugoslavia (CTUY). At that time, large industrial unions dominated the trade union landscape and membership reached more than 90% among the workers. Membership had a wide range of benefits, as unions had an important role in distribution of public utilities and goods such as housing, food or vacation resorts and summer camps (Bagić, 2010). The unions' disintegration from the CTUY started in 1989, when the first independent trade unions in Croatia were established in the sector of education, rail and air transport (Petrović, 2013). The democratisation of trade unions coincided with the fall of the single-party system. The hegemony of political pluralism needed to be legitimized by integrating social institutions such as unions. In turn, unions had to confirm consent to the new political setting via ideological, organisational and structural transformations.

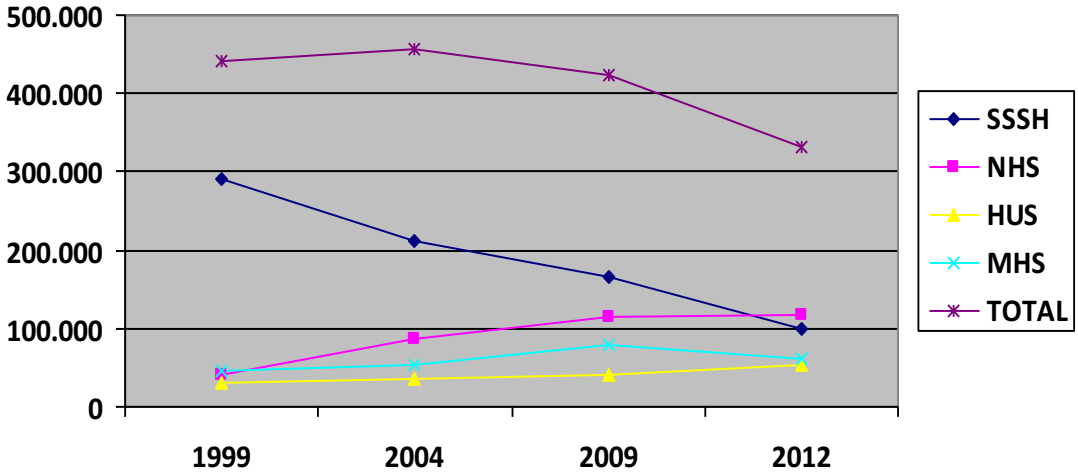
The *ideological transformation* purported alignment with the policies of market reforms with a possible lack of understanding their aim being to weaken the position of unions in the labour market. Thus, unions embraced the anti-communist rhetoric. The latter, coupled with a belief that market reforms were necessary, was the consensual stance of all political elites regardless of their ideological auspices. However, inclination towards anti-communist rhetoric has to be distinguished from consent to nationalism, political authoritarianism and cultural conservatism fuelled by the Croatian Democratic Union (HDZ), which was in power between 1990 and 1999. The majority of the unions opposed HDZ's policies. The war and spread of nationalism thwarted their proactive involvement in labour disputes and prompted them to engage more in anti-war campaigns. That provided wider support by international communities, which hoped that the unions, together with political opposition parties, would eventually become their uncompromised allies in promoting an "entrepreneur-friendly environment" by spreading an uncritical eulogy of liberal capitalism and foreign investments as opposed to crony capitalism, which the HDZ was supposedly more inclined to.

The *organisational transformation* is linked to the aforementioned establishment of new unions, which led to union fragmentation. In such a constellation, unions started to compete for their members. That consequently led to decline in membership and unions' material and social resources. Conversely, it weakened their organisational capacities – to unionise and to undertake large drives. Certainly, the decline of union membership is not the only reflection of organisational

change. It is also an outcome of profound *structural transformations*, primarily in the sphere of industrial production we elaborated on in Chapter 1. Thus, the key feature of rapid integration to capitalism was the state implementation of the stabilisation, liberalisation and privatization programme.

The first two resulted in sharp decline in wages,[28] whereas the last one entailed the loss of jobs in industry (Bagić, 2010). All together with high unemployment, changes in the structure of the labour force and the rise of small and medium size enterprises influenced the decline in union membership.

The decline in membership in the period of transition to capitalism is not only peculiar to Croatia. In the period from the mid-1980s until 2000s union density in the countries of Eastern Europe dropped by 51% (Bohle and Greskovits, 2004). In relation to the pre-war period, union density in Croatia fell by two-thirds but is still above the average of the EU and many other post-socialist countries. Despite that, union membership has been continuously dropping since 2004, amounting to 35%, according to the data from 2010 (Bagić, 2010).



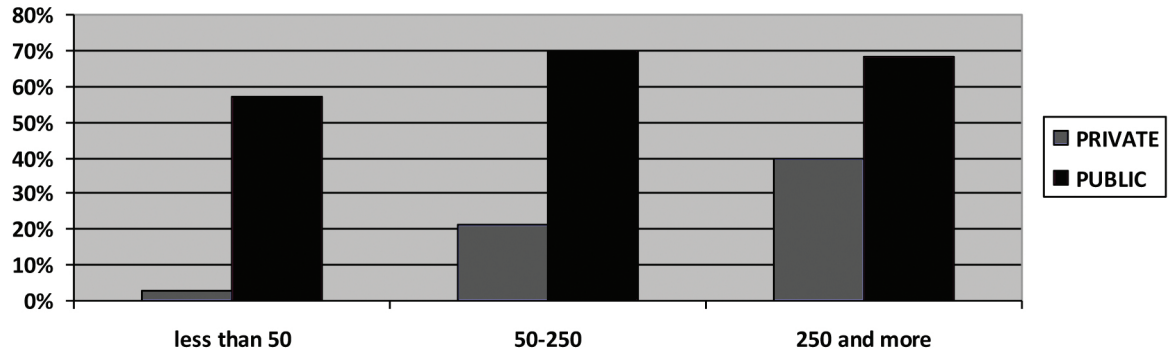

**Graph 15** - Decline in union membership by union confederations — Source: Bagić (2010), Novi list (26.3.2013)

Graph 15 shows data regarding decline in membership in four union confederations in Croatia. The Union of Autonomous Trade Unions of Croatia (SSSH) was the biggest confederation in Croatia until recently, but its membership has been in sharp decline since 1999, which affected the decline in total. According to the latest indicators of representativeness of trade union confederations, in the period between 2009 and 2012, confederations lost more than 92,000 of their members. This

28. As we have shown in the Chapter 2, p. 2.

number only reflects the loss in confederations providing no data on the loss in unions not affiliated with any confederation. It is worth notice that the confederations in Croatia are not divided on ideological/political lines, which might be the case with unions from other European countries. On the other hand, the disputes and disagreements between them appear to be a more frequent case than mutual cooperation.

According to the latest official data from the Ministry of Labour and Pension System, there were 313 registered unions[29] in Croatia alongside four confederations, which implies the high level of fragmentation. However, the relatively high level of union density that is significantly above the EU average (35 percent in Croatia and 23 percent in EU)[30] provides a rather blurred image of organisational capacities of unions. To put it bluntly, the high density does not imply a high level of active and motivated membership. As Bagić noticed in his study, 60% of the unionised workers in Croatia did not participate in any activities of their respective union from autumn 2008 to autumn 2009 (Bagić, 2010). Likewise, the density in numbers may disguise the depth of the problem in manufacturing, reflecting a labour movement dominated by public sector employees and a precipitous drop in unionism in the private industrial sector (Ost, 2009). By 2002, 70% of Hungary's trade union members, 71% of Slovakia's, and nearly 77% of Poland's union members worked in the public sector, with most of the rest working in privatized (as opposed to new private) companies (Ost, 2009). It appears that Croatia is not an exemption to that.




**Graph 16** - Union density in public and private sector by size of enterprise (in numbers of employees) — Source: Bagić (2010)

Graph 16 clearly shows significant disproportion between the number of unionised workers in the private and public sector according to small, medium sized and big companies. Only the numbers in private companies with over 250 employees reach the national average, but they are still significantly lower than those in the public sector. Union density ratio between the public and

29. The majority of them operates on the company level, n.a.
30. http://www.worker-participation.eu/National-Industrial-Relations/Countries/Croatia/Trade-Unions#note1

private sector as suggested by data from 2010 was 4,1:1 and it is supposed to be one of the highest ratio recorded (Bagić, 2010).

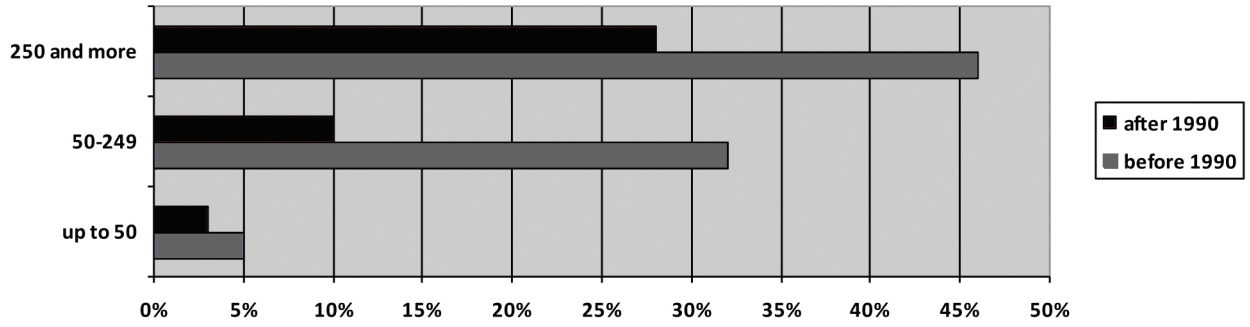
If we take a look at available data regarding union density in the private sector, according to the type of industry and services we can see the following:

| | | |
|---|---|---|
| **Industry** | Manufacturing | 35% |
| | Construction | 7% |
| **Services** | Trade | 12% |
| | Other commercial activities | 15% |

**Table 6**: Union density in private sector: shown as sectors in industry and services

As the Table 6 shows, within the private sector only in manufacturing, union density amounts to 35%, which is equals the national average. The answer to why manufacturing has a significantly higher rate of union density might be found in the explanation we offered for the disproportion between the public and private sector presented in Table 2. In other words, manufacturing is predominately located in big companies, whereas construction, trade and other commercial services are mostly to be found in small enterprises. The same, however, cannot be implied for the different sectors (companies, administration etc.) in state ownership since there are no significant differences in union density between them (Bagić, 2010).

There are several reasons why the unions are so inefficient at unionizing workers in the private sector. From 2001, employment has been continuously decreasing in the middle-size and big private companies, whereas it has been increasing in small-sized private companies (Ivandić, 2015). Interestingly enough, trends in employment in total were much more in favour of the private sector, whereas union density was much more in favour of the public sector. In the period between 2004 and 2012, in state-owned companies, employment dropped more than 5%, while at the same time the number of employees in the private sector rose by 6% (Ivandić, 2015). Still, union density in the private sector amounts to barely 17% of the total, as opposed to 68% in the public sector. Apart from the size of companies, other variables such as year of founding influence the level of unionisation in the private sector.




**Graph 17** - Trade union density in private companies in relation to company size and year of founding — Source: Bagić (2010)

Graph 17 shows that companies founded in socialism (before 1990) and later privatized have a significantly higher rate of unionisation than the companies established after 1990 and which were private from the start. Apparently, the old union structures managed to keep their members once the companies were privatized, whereas in the originally private enterprises unions face many obstacles to unionise workers. The experiences of other post-socialist countries show similar trends (Ost, 2009). The union density in the private sector and in total would be higher if the unions would recruit more workers in medium-sized and large companies.[31] On the other hand, the unionisation of workers in small companies should not be regarded as less important, since the bulk of the new jobs in the private sector in Croatia have gone to small-sized companies. The share of these companies in the private sector is still growing and the workers in them are among the most vulnerable when it comes to unionisation. A joint effort of the fragmented union scene is necessary in order to bridge the hostility of the employers against the unions, which is additionally reinforced by the new Labour Code.

A short glance at union membership according to age and sex shows that the share of unionised women has been increasing. Rather than being a result of the policies aimed at improving the position of female workers, this increase is due to the changes in the structure of labour market. The majority of the woman labour force is to be found in public sector, where union density is already high. Furthermore, half of the unionised workers in Croatia have more than 20 years of work experience. This figure shows the devastating circumstances for young workers. One of the greatest obstacles for their unionisation is that they predominately are employed on fixed-term contracts.

Regarding collective agreements (CA) in Croatia, one needs to stress that official statistics in relation to CA's are very scarce. According to the latest data, in Croatia there were 570 registered

31. The scarcity of the unions' representation in the SME is common feature among other countries with union density higher than EU average. See the survey made in the UK (Forth et al., 2006).

CA's, which amounts to 15% less than in 2009 (Bagić, 2014). This reduction might have been the result of the consolidation of particular sectors of economy and/or liquidation of particular companies (Bagić, 2014).

Around 53% of the workers in Croatia are currently covered by some type of CA and their number has been reduced from 61% in 2009, when the economic crises began. As argued by Bagić, a particularly negative effect on the overall level of bargaining coverage exerted effects of the economic crisis on employment in civil construction, tourism and hospitality[32] (Bagić, 2014). In the wider public sector (state companies and public services), CA coverage is estimated to be at 75%. In the private sector where the number of renegotiated CA's is in decline, the number of CA's is at 35%. However, most workers (67%) are covered by CA's agreed upon on a sectoral level.

This short analysis of the position of trade unions in Croatia in the period of transition to capitalism serves as a prelude to the next chapter. The organizational, ideological and structural reconfiguration of the trade union scene as of the beginning of transition to capitalism and the obstacles in unionisation especially in the private sector entailing a whole set of changes in the matter of engaging in and coordinating different types of industrial disputes. The next chapter will show how these changes were reflected in the labour movement. Additionally, it will determine subjects involved in labour disputes during the transition and reconsider struggles for preserving the remnants of the industrial production and jobs.

32. The trends in employment in the respective sectors are available in Ch. 3, Graph 7, n.a.

# Chapter 5: Struggles for Protection of the Industrial Production and the Position of the Left

While considering possible interventions in the realm of industrial policy, it is worthwhile to take a look at two additional moments, alongside with macroeconomic framework, and the social consequences of deindustrialisation in terms of structural changes in the labour market or poverty rates. These two moments are the current political position of the power of left political groups, as well as the actors emerging from struggles to keep industrial workplaces and protect industrial production from further deterioration. While reflecting previous struggles and sketching possible entries into the analysis of the structure of the political field, we will try to establish a model for detecting potential partners in designing and implementing industrial policy. One has to keep in mind the limitations of this policy, since it is hard to expect it will be implemented through the state apparatus. The limitation on the Left is currently conditioned by the dominant non-partisan organisational form.

In the previous chapters, we concluded that the process of deindustrialisation already started during the Socialist Federative Republic Yugoslavia. Independent of the changes in political regime, we can observe continuity in the realm of resistance against the reduction of industrial production capacities. If we take a look at the actions of industrial workers[33] in the period between the ends of the 1980s up to 2014, we see an entire array of attempts at defending industrial sector jobs. Already in 1988, when the workers of the Yugoslav Conglomerate for Rubber and Footwear Borovo organised a big strike during which even the Federal Assembly building in Belgrade was shortly occupied, one of the demands was to ensure the continuation of production (Ivčić, Nekić i Račić, 2014). Massive lay-offs in 1996 incited the protest gathering at the shoe factory Montor, as well as being the reason the workers of Krapinska Textile Industry kept its owner locked in the company premises (Rašeta, 1996). In the same year, a one-day strike of metal workers was organised in the city of Karlovac.[34] This was a reaction to the Government's decision to lay off 10,000 workers in the metal industry – and at that moment, about 80% of the metal industry was state-owned. The workers also put forward a demand for the return of resources this industrial sector allocated for defence during the war (1991-1995). A statement by a union secretary for one of the companies

33. Resistance towards deindustrialisation also appears within other social groups. However for the purposes of this text we will focus on workers from the industrial sector. For example, in the mid-1990s, the Association of Employers of the Textile and Leather Industry organised an action titled "we are closing down the factories" in order to warn about the inadequate and de-stimulating macroeconomic policies. One hundred sixteen employers from the textile and leather industry sector participated in the action (Đilas, 1997).

34. Based on the collected materials, it is difficult to determine the type of workers' actions. However, we believe it is probably one of the same type of actions organised in several cities (Karlovac, Sisal, Slavonski Brod, Rijeka, Split). At the same time there is contradictory data on the type of action. According to one source, in Karlovac a strike was organised, whilst not mentioning the other strike, but only mentioned protests in said cities. (Gabrić, 1996; Đilas, 1997).

that participated gives us partial insight in what workers' activists perceived to be reasons for deterioration of industry:

"In Kordun (a metal company) we are faced with huge difficulties. Production fell to 20% in comparison to the pre-war period, primarily due to the inadequate economic policy created in Zagreb. We are hit by a social plague, insolvency and unpaid receivables, and besides that, a catastrophic tax policy" (Gabrić, 1996).

In 1999, the mentioned unpaid receivables had driven the workers of Kraš[35] to lock in the members of the administration of the retail chain Diona for five hours, in order to obtain the payment of debts (Gavrović, 1999). It is also worthy to mention perennial struggles of workers in Petrokemija (Kutina), ITAS (Ivanec) and Jedinstvo (Zagreb) as examples of strategic and organisationally well-developed activities.[36]

By applying different methods – from occupation of factories and industrial plants to protests and legal procedures – the workers of Petrokemija and Jedinstvo since 1998, i.e. the workers of ITAS, from 2003 through 2013 have been resisting various attempts to shut down their factories. In all three cases, the survival of the companies is related to the question of ownership structures.

Jedinstvo entered the privatization and transformation process in the early 1990s with almost 1700 workers (300 of whom were engineers) and a total company worth estimated to 306.788 million Deutsche Mark. Through a combination of private interests and manipulations by various state-lobbies, Jedinstvo was left without its production halls, and almost all of the workers. The remaining fifty workers founded their own company Jedinstvo Novo in 2005, maintaining production in one of the remaining manufacturing plants. Although the unsolved property rights made the position of Jedinstvo Novo precarious, preventing it from contracting long-term projects, it continues operating today.

As for ITAS, it became a workers' owned company during its bankruptcy proceedings in 2004. The workers utilized their position as the largest creditor (52.6% of total receivables) and turned their receivables into shares of the newly founded company ITAS-Prvomajska. In accordance with the bankruptcy plan, all company assets were transferred to ITAS-Prvomajska. However, the transaction was legalised only in 2013, once the last of the total thirteen litigations was complete, in which ITAS attempted to return its seized assets. ITAS-Prvomajska is the only remaining part of the world-renowned machining tools company Prvomajska. A the beginning of the transition period, following the logic of the dominant principle of unsustainability of "socialist mastodonts companies", Prvomajska was fragmented into many smaller companies, which soon started

35. Kraš is one of the largest regional producers of confectionary products, n.a.

36. Petrokemija is a producer of mineral fertilisers. Until 1997 it was part of the INA- petrol industry, which is the largest industrial company in the Republic of Croatia. ITAS is a producer of machining tools, whereas Jedinstvo produces processing equipment. n.a.

closing down, one after the other.

Stopping privatization of the state-owned company has been one of the strategic goals of workers' actions in Petrokemija. According to Željko Klaus, the union secretary in Petrokemija, the workers had taken a clear anti-privatization stance from the first day the rumours about privatizing Petrokemija started:

> "Voucher privatization and privatization as a concept in general is definitely one of the worst social maladies we are facing with in Croatia after the war. Privatization has severely damaged this country and I claim that it is at least equal to the damage sustained in the war, if not even larger. When we read in the newspapers that Petrokemija would be privatized through vouchers, we decided we will not allow this. Because two scenarios are likely to happen after this privatization: first, Petrokemija will sooner or later disappear and shut down, and second, workers will be left without jobs." (Klaus, 2009)[37]

Already after the first workers' protests in 1998, the government signed an agreement binding it to keep Petrokemija in majority state-ownership. On the insistence of the workers of Petrokemija, the agreement was widened to include INA-Polimeri,[38] which during that time had 1,400 workers and was estimated to be worth 569.3 million Deutsche Mark. However, the lack of more serious workers' organisation and resistance enabled the government not to respect the signed agreement and by 1998, the majority of ownership has been taken over by three privatization funds, whereas the privatization was completed in 2004. The company was taken over by DIOKI Holding AG. In August 2011, in DIOKI (former INA-Polimeri) production stopped and two years later, bankruptcy proceedings were initiated. On the other hand, thanks to organisational know-how and the workers' resilience, Petrokemija, despite various pressures (e.g. high prices of gas and suspension of lines of credit), still continues producing and employs 1,600 workers at the moment. Multiple attempts to sell the company to private investors were halted, whereas state ownership remained dominant throughout the entire period. Except for shorter periods of regression, in general the state maintains the majority owner of Petrokemija.[39]

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37. From Željko Klaus' lecture during the student strike (blockade of the faculty) November 30, 2009, at the Faculty of Philosophy in Zagreb, titled: *Kako je stožer obranio Petrokemiju (Eng. transl. How Headquarters Defended Petrokemija).* Transcript available at: http://www.slobodnifilozofski.com/2010/01/transkript-predavanja-zeljko-klaus-kako.html .

38. INA-Polimeri: factory for the production and processing of plastic masses and chemicals. INA-Polimeri, until 1997, were part of INA - industrija nafte, n.a.

39. Of the numerous materials on the struggles of the workers of Petrokemija, Jedinstvo and Itas, we can point out Jovica Lončar's article *Petnaest godina borbe* (Eng. transl. Fifteen Years of Struggle) (Le Monde Diplomatique - Croatian Edition, no. 2, 2013), Srđan Kovačević's film *Jedinstvo* (available at http://radnickaprava.org/video/dokumentarci/jedinstvo) as well as *Razgovor s radnicima ITAS-a: Tvornica se brani iznutra* (Eng. transl. Talks with ITAS' Workers: The Company is Defended from Within) (available at: http://www.slobodnifilozofski.com/2012/08/razgovor-s-radnicima-itas-tvornica-se.html)

# Appendix 1

"Struggles for Protection of the Industrial Production in the Deindustrialisation Period (1988-2014)" shows examples of workers' actions examined in the last three years by the authors of this case study.[40] Given the significant amount of materials still being processed, the collected data should be approached with caution. That predominately means that the total number of organised actions and the temporal and spatial dynamics of the struggles are merely estimated. As we have shown in the previous chapter, the beginning of deindustrialisation is followed by all-encompassing shifts in the trade unions' organisational structure. In only a few years, the model of a unified union organisation paved the way for the rise of the so-called independent trade unions, branch associations and newly-founded union confederations. The scope of organisational disintegration in the industrial sector, the consequences it had on infrastructural capacities, as well as the interrelations of shifts in the economic and union structure still need further research. However, one result of the reconfiguration of unions certainly presents an important change in the conditions of connecting and coordination of actions by different workers' collectives. If we look at past practices, we can observe three different approaches to this problem. The typology is done with regard to the frequency of the demand for protection of industrial capacities for production:

1) Workers are associating at the company level. As a rule, such association finds its institutional and organisational expression in the headquarters for defence of the company. In terms of association of different organisations, headquarters appeared to be one of the most successful types of association. They overcome divisions within the union structure, and at the same time bring together other workers' organisations who then engage in the struggle (e.g. associations of small shareholders and war veterans' associations). The headquarters as a concept was conceived and implemented by workers' field activists and some examples were mentioned before in the context of the struggles for Petrokemija, ITAS and Jedinstvo.[41]

2) Workers are associating concerning membership in certain branches, e.g. through branch union organisations. The only recorded example thus far is the protest of metal workers, organised during 1996 in several industrial centres.

3) Workers are associating according to the region their union confederation covers, regardless of which sector of economy the company belongs to. Thus far, two examples of such model have

40. These are mostly materials collected from the media. Texts from the weekly Feral Tribune (1993-2008) and texts from various Internet portals were examined. The sources available on the Internet mostly cover the period after 1999. n.a.

41. The previous research shows that 54 headquarters for company defenses were founded, 44 of which are in the industrial sector. However, only one part - the available materials do not allow a more precise evaluation - organised concrete actions with the goal of protecting the capacities for industrial production. For a more detailed illustration on this matter see: Grdešić, 2007; Ivandić and Livada, 2014.

been recorded. During 1999, the secretary of the Union of Autonomous Trade Unions of Croatia (UATUC) for the city of Zagreb started gathering secretaries and workers from several of companies in Zagreb in order to coordinate a joint action. By March of the same year, 200 workers from Zagrepčanka (food industry) participated in actions against the seizure of trucks and the eviction of workers from Zagrebački transporti (transport company). However, since the secretary of the UATUC was relieved of his duties, all further attempts to establish a solidarity network came to a quick halt. The other example is the organisation of a joint protest by the workers of Zagrepčanka and Dekor (manufacturer for traffic signalisation) on behalf of the secretary of the Croatian Association of Trade Unions for the city of Zagreb in 2000.

In the overview of past struggles, we listed some aspects of its manifestation. Many examples point to a basic motivation by industrial workers to protect their workplace. At the same time, lack of a more active engagement by a wider union structure is visible in the impossibility of organising workers' actions outside the company level. A fragmented insight into the workers' perception of macroeconomic policy and the relation towards different forms of ownership, illustrates a possible path for further research.

Now, we will propose the possible approach that should tackle the problem of the Left positioning itself within the current constellation of political power. The estimation of the operationalisational capacity of the Left is one of the prerequisites in formulating possible guidelines for industrial policy. The Left may position itself in relation to the full scale political agenda, i.e. specific areas. The scope of potential for interventions into certain realms of the social structure largely depends on the approach to the political characterisation of different individuals and organisations. Namely, if we accept that the starting criterion for detection of left social actors ought to correspond to the left spectrum of ideas in approaching the number of political issues, then we might certainly expect that the organisational base for conceptualising and implementing the industrial policy will reduce in its scope.

On the other hand, a focus on compatibility of attitudes and actions of different social actors with the left spectrum of ideas with specific areas (e.g., media and industrial policy), opens up the space for a larger inclusion and widening of the organisational base. However, the mentioned analytical concepts are not mutually exclusive. Rather, they offer complementary insights into the possibilities of a more precise positioning of the Left within the social structure.

In the context of considering possible industrial policies, it is important to detect actors whose attitudes and engagement are primarily related to the issues of industrial production and might be characterised as leftist. On that note, research of workers' struggles for the protection of existing industrial production capacities, as well as practices in building new ones (e.g. founding of industrial cooperatives), gives us information crucial for the evaluation of the organisational

potential and functionality of certain tactical solutions.

It would be good to apply an equal approach to other realms of social struggles. If we consider the existing organisational and material infrastructure of left organisations – in terms of full scale political agenda - we can rule out possibilities of forthcoming, potentially more serious influence on the making of macroeconomic policies. Even though overcoming this problem requires a more complex approach, part of the solution can be found in specific areas. Building networks with organisations and individuals engaged in struggles for industrial workplace and maintenance of industrial production represents one of the steps towards creating a socio-economic base, thus the opening of a manoeuvring space.

# Chapter 6: Final remarks

If we accept the premise that the left political organisations are currently lacking capacity to deliver a serious blow to the hegemony of existing party structures, and are limited in possibility for implementing macroeconomic components of industrial policy, we may only delve into the question of mid- and long-term perspectives and potential problems and tactics in approaching them. The relation of the dominant political parties to the existing industry and industrial development, provided earlier in the analysis of the macroeconomic framework of deindustrialisation, may be further illustrated by development strategies passed by the governing institutions in the last 25 years. In the period between 1990 and 2011, a total of 87 development documents were adopted. From all them, only 11 met the technical requirements for feasibility, yet none addressed the issue of industrial development (Mirošević, 2012). The first document that focuses on the issue of industrial development is the Industrial Strategy of the Republic of Croatia 2014-2020 (henceforth Strategy). It was passed in the Croatian Parliament on October 17, 2014. However, to what extent the Strategy met necessary technical requirements for implementation is still an open question.

Yet, if we follow the basic concept the Strategy has been built on, we can see several issues that question the functionality of the envisioned industrial policy. The first objection, mainly of a formalist nature, but no less important, is regarding the selection of economic activities included in the development program. The Strategy includes manufacturing, construction and information and communication as the targeted activities. But, according to the NCEA, information and communication belong to the tertiary sector (services). On the other hand, industrial activities, such as energy or water resources, are not included in the targeted activities by the Strategy. A much bigger problem is that analysis of causes for the deterioration of the industrial sector in the past period is neglected. Given the fact that macroeconomic policies and international economic relations that conditioned the rapid decline in industrial capacities are not mentioned in the Strategy, the theoretical background of its planned development, is based on unsteady grounds at best. It is hard to determine if the Strategy brought certain results so far. As we cannot determine if and to what extent the policies envisioned by the Strategy really started to be effectively implemented, and if this possible implementation started even before the passing in Parliament, it remains unclear whether the current state of affairs in the economy reflects the results in a planned industrial policy or it is primarily determined by other factors. However, if we take a look at employment numbers in the targeted activities during 2014, we can notice further decline in employment as one of the indicators of (de)industrialisation. Most jobs were lost in construction (5,261) and manufacturing (3,908), while the information and communication sector had

considerably smaller losses (332).[42]

In light of the illustrated constellation, it appears justified to assume that pressures toward further deindustrialisation will continue and therewith, it seems to be necessary to include the struggles for industrial workplaces on the list of priorities for left political organisations.

In order to illustrate a mid-term approach to the topic of industrial development, its strategic frame and tactical-operational solutions, as well as its defensive and offensive components, we will approach the topic with a separate assessment of the economic, i.e. political, aspects. Taking action towards changing economic parameters such as the number of employed in the industrial sector, the scope of production or investments in industrial production on the national level will be of a mostly defensive character, having in mind the current position and impossibility of using the state apparatus.

Thus, the basic task on this level appears to be the prevention of the further decline in industrial capacities – keeping the remaining industrial production and eventually establishing new forms through smaller production units in workers' ownership. One of the tactics of previous workers' struggles for protecting industrial production capacities was ownership transformation in the direction of establishing of some sort of model of a workers-owned company. Launching new production plants or overtaking existing ones and the continuation of production brings the question of financial infrastructure on the agenda, which would stimulate and support the establishment and development of such projects.

In this context, it is worth mentioning the recently formed Cooperative for Ethical Finance. The Cooperative for Ethical Finance (henceforth Cooperative) was founded in 2014 with the idea of establishing and owning the first ethical bank in Croatia, which should receive its operating licence in mid-2015. The founding was preceded by two years of fieldwork, during which the concept of the bank was presented to hundreds of individuals, organisations and companies. The goal of the bank is a development of business policy in terms of providing financial aid to the sector of organic agriculture, renewable energy sources, manufacturing, technological innovations and IT, sustainable tourism, as well as stimulating social entrepreneurship. Besides that, the bank will offer financial aid to workers when buying shares and under favourable financing conditions. It will also stimulate the creation of clusters, i.e. alliances among workers' owned companies to enable cooperation and strengthen companies' practice of solidarity economics.

The diversity of founders of this Cooperative reflects wide social interest for such a bank. Among the 101 founders, there are private persons, trade unions, civic associations, cooperatives and cooperative alliances, developmental agencies and local governments. Given that the interest for

42. Available at: http://www.dzs.hr/Hrv_Eng/msi/2014/msi-2014_12.pdf

joining is constantly growing, the founders of the Cooperative are widening its infrastructure across the whole country, in order to enable further growth of membership, so that all interested, except for political parties, may join.[43] The establishment of this financial institution, if we take into account the described business agenda and its political connotations, could represent one of the key pillars for the implementation of industrial policy in the upcoming period. A short glance at the current ownership structure of the banking sector in Croatia makes the entire project of Cooperative even more significant. According to data from 2013, the state owns two commercial banks (Croatian Postal Bank and Croatia Bank) with a total share in the banks' assets amounting to 5.3% and a development and export bank (Croatian Bank for the Reconstruction and Development) that is also state-owned (Bilten o bankama, 2014).

Therefore, it is worth mentioning that the Plan for the Management of Assets Owned by the Republic of Croatia in 2015 was proposed by the Office for State Asset Management, which intends to sell a certain (the exact amount is not specified) share of Croatian Postal Bank, as well as Croatia bank (Narodne novine, 2014). The possible sale of the mentioned financial institutions will further narrow the already modest space for the direct intervention of the state in loan policy, and its capacity to implement a more autonomous industrial policy. The problem becomes more significant if the possibilities of forming a left government, as well as the change in macroeconomic conditions through the state apparatus, are included into the long term political calculation. The unenviable position any future left government would find itself in while attempting to implement industrial development policies, (e.g. ensuring required loan lines), might be, to a certain extent, amortized by the founding and development of the Ethical Bank and strengthening its financial capacities.

Business priorities and a clear development orientation of the Ethical Bank present distinctive guidelines in contrast to other banks, which are dominantly directed towards crediting consumption. An ethical bank would also be a specific guarantor of wider social alliances, which would attempt to implement programs for the country's reindustrialisation.

The process of founding the Cooperative for Ethical Financing (future bank) presents a representative example of building networks between different social actors and of a tactical-operative approach to them, based on long-term fieldwork that addressed concrete issues. Such social networks, which aim to protect and develop industrial capacities, can be marked as one of the main guidelines in the mid-term industrial policy proposal.

The second guideline that is partly mentioned in the Chapter "Struggles for Protection of the Industrial Production and the Position of the Left" when detecting the aforementioned actors,

43. Taken from an unpublished interview with Goran Jeras, the administrator of the Cooperative for Ethical Financing, n.a.

consists of further research, i.e. knowledge production. That refers to the analysis of macroeconomic conditions, the legislative framework, previous experiences from workers' organising, or specific problems of certain models of ownership. The gained insight would facilitate design and implementation of specific solutions, as well as provide information necessary for possible corrections of the tactical-strategic framework and the conceptualisation of long-term policies we offered. At the same time, research and activities oriented toward building networks of different social actors, can be seen as a peculiar platform for creating cadres' capacities.

Participation in the mentioned activities would open up a possibility for gaining practical experience and knowledge of crucial importance for further political action. Building of cadres, material infrastructure, and the establishment of firm relationships between individuals and organisations based on concrete problems represent the political aspects of proposals for a mid-term industrial policy. With regard to the current level of organisational development of left political formations, we can ascribe an offensive character to the political aspect of the proposal. The space for future intervention in macroeconomic parameters will largely depend on the success of building an organisational infrastructure.

In the end, we should mention an issue we did not fully cover in the case study, but which nonetheless is one of the fundamental guidelines for the politico-economic framework for conceptualising industrial policy. We are talking about the international aspect and contradictions that can be anticipated. While we will not elaborate this in more detail, we will try to outline some of the basic problems of the international perspective – primarily by posing questions that should be considered. We want to focus on the position in which the Left could find itself upon the opening up of a possibility to create state economic policies. While considering this problem, we would suggest the following line of questions:

How can we conceptualise a progressive international economic (industrial) policy in conditions of competitive relations between national economies?

To what degree and in which segments does the existing institutional arrangement of the European Union present a limiting factor, and what prerequisites would need to be fulfilled in order to change the arrangement?

To what degree does the existing institutional arrangement of the European Union and the obligations entailed by international agreements represent limiting factors in conceptualising and implementing industrial policy within the frame of the national economy?

How far does the national sovereignty reach? How much manoeuvring space is left for building relatively autonomous state industrial policy in light of the current context of international relations? In that context, what is the position of the countries on the European periphery, like Croatia?

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# Appendix 2

| | City of Zagreb | County of Zagreb | Krapina-Zagroje | Sisak-Moslovina | Karlovac | Varaždin | Koprivnica-Križevci | Bjelovar-Bilogora | Primorje-Gorski kotar | Virovitica-Podravina | Požega-Slavonija | Slavonski Brod-Posavina | Zadar | Osijek-Baranja | Vukovar-Srijem | Split-Dalmatia | Istria | Međimurje |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1988 | | | | | | | | | | | | | | | C15 - BOROVO (Vukovar) | | | |
| 1995 | | | | | | | C10 - KRIŽEVČANKA (Križevci) | | | | | | | | | | | |
| 1996 | | | C13 - KTI (Krapina)<br>C15 - MONTOR (Oroslavje) | C24 – Metal industry (Sisak) | C24 - Metal industry (Karlovac) | | | | C24 - Metal industry (Rijeka) | | | C24 - Metal industry (Slavonski Brod) | | | | C24 - Metal industry (Split) | C28 - PRVOMAJSKA (Raša) | |
| 1998 | C10 - ZAGREBČANKA<br>C28 - JEDINSTVO →* | | | C20 - PETROKEMIJA (Kutina) →* | | | | | | | | | | | | | | |
| 1999 | C10 - KRAŠ<br>C31 - ŠAVRIĆ<br>C11 - BADEL<br>C10 - ZAGREBČANKA<br>F - GEOTEHNIKA | C31 - ŠAVRIĆ (Bregana)<br>C31 - ŠAVRIĆ (Vrbovec) | C31 - ŠAVRIĆ (Krapina)<br>C31 - ŠAVRIĆ (Đurmanec) | C11 - MOSLOVAČKO VINOGORJE (Voloder) | | | | | | C12 - DUHAN (Slatina) | | C28 - ĐURO ĐAKOVIĆ (Slavonski Brod) | C30; C33 - BRODOMONT (Kali) | | C10 - VUPIK (Vukovar) | C20 - ADRIAVINIL (Kaštel Sućurac)<br>C30 - INKOBROD (Korčula)<br>C - DIOKOM (Split) | | |

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2000 | C28 - INAS -TAS<br>C25 - RAPID<br>C10 - ZAGREBČANKA<br>C25 - DEKOR<br>**C11** - BADEL | | | | | | | | | | | | | | | C - DIOKOM (Split) | C13 - PAZINKA (Pazin) | |
| **2001** | | | | | | | | | | | | | | | | **C24** - DALMACIJA (Dugi Rat) | | |
| **2003** | | | | **C13** - SPORTSKA ODJEĆA (Kutina) | | **C28** - ITAS (Ivanec)→2013.* | | | | | | | | **C10** - PPK VALPOVO (Valpovo) | | | | |
| **2004** | | | | | | | | | | | | | | | | **C22** - CETINKA (Trilj) | | |
| **2005** | **C10** - SLJEME<br>**C12** - TDZ | | | | | | | | | | | | | | | | | |
| **2006** | **C12** - TDZ<br>**C26** - RIZ →* | | | | | | | | | | | | | | **C10** - VUPIK (Vukovar) | **C23** - SALONIT (Vranjic) | | |
| **2008** | **F** - INDUSTRO GRADNJA | | | | | | | | | | | | | | | | | |
| **2009** | | | | | | | | | | | | | | | | **C24** - ŽELJEZARA SPLIT (Split)<br>**C11** - JADRANSKA PIVOVARA (Vranjic) | | |
| **2010** | **C10** - POLJOPRERADA | | | | | | | | | **C23** - KIO KERAMIKA (Orahovica) | | | | | | **C14** - TRIMOT (Imotski)<br>**C24** - ŽELJEZARA SPLIT (Split)<br>**C11** - JADRANSKA PIVOVARA (Vranjic) | **C27** - TESU (Pula) | |

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | **C31 -** MUNDUS (Varaždin) | | | | | | | | | | **C14 -** UZOR (Split) | | |
| **2012** | **C30 -** GREDELJ | | | | | | **C16 -** BILOKALNIK DRVO (Koprivnica) | | | | | | | | | **C23 -** JADRANKAMEN (Pučišća) | | **C14 -** MTČ (Čakovec) |
| **2013** | | | | | | | | **C16 -** ČESMA (Bjelovar) | **C20 -** DINA – PETROKEMIJA (Omišalj) | | **C11 -** KUTJEVO (Kutjevo) | | **C30; C33 -** NAUTA LAMJANA (Kali) | | | | | |
| **2014** | | | | **C19 -** RAFINERIJA NAFTE SISAK – INA (Sisak) | | | | | | | | | **C30; C33 -** NAUTA LAMJANA (Kali) | | **C16 -** FURNIR (Otok) | | | |

* ″---->″ Indicates the starts of the long-term struggle. All examples of workers' actions in this category are actual even today except the company ITAS whose workers determined their struggle for the company in 2013.

## Key Explanations

C10 - Manufacture of food products

C11 - Manufacture of beverages

C12 tobacco products

C13 textiles

C14 wearing apparel

C15 leather and related products

C16 wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials

C19 coke and refined petroleum products

C20 chemicals and chemical products

C22 rubber and plastic products

C23 other non-metallic mineral products

C24 basic metals

C25 fabricated metal products, except machinery and equipment

C26 computer, electronic and optical products

C27 electrical equipment

C28 machinery and equipment n.e.c.

C30 other transport equipment

C31 furniture

C33 repair and installation of machinery and equipment

F construction

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