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## Political Corruption in Transitional Croatia: The Peculiarities of a Model

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### Summary

The article addresses the specific characteristics of political corruption in Croatia, from the time on when the country gained its independence in 1991 after the collapse of the Yugoslav Federation and the “Yugoslav self-managing socialist model”. Political corruption in Croatia shares common traits with the phenomenon as it appears in other transitional countries, but it also shows unique characteristics that derive from a privatization model that was implemented during unsettled political and social conditions, i.e., the war in former Yugoslavia and the appearance of a new political class legitimized by the war and the struggle for independence. The authoritarian political regime established during and immediately after the war relied, mostly, on the new political elite that gained enormous wealth owing to a privatization process that favored the political nomenclature and nationalist elite and distributed the formerly socially owned capital into targeted private hands. In the years following the demise of the Croatian Democratic Union, the nationalist party led by President Tudman, political corruption has not been eradicated and it still remains a serious problem that affects the performance of Croatian democracy and its readiness for EU accession. The author tries to identify the causes, the forms and the consequences of political corruption in Croatia, as well as the instruments of combating this phenomenon. He also aims to specify ways to accommodate to EU conditionality, and methods of raising awareness to the dangers of political corruption in the political discourse of the country.

*Kew words:* political corruption, privatization process, political elites, clientelism, transparency, anti-corruption measures



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## *1. Political corruption and political science: the quest for definition*

Political corruption is, without doubt, a global phenomenon that fully emerged in the Post-Cold War period. It has drawn increasing attention from policy-makers as well as from scholars. Corruption is, however, a well known phenomenon to political theorists and thinkers. The problem of corruption in politics has been a recurrent topic in political philosophy since Plato and Aristotle, but was better known and explored by modern political theorists such as Machiavelli and Montesquieu. Modern political science, discovered the problem relatively late. Political corruption expanded after the Cold War in the political milieu of economic, social and political transformation and transition of Communist states into democratic polities. Yet the first warnings of political corruption as a global phenomenon emerged in post-colonial societies during the late sixties and the seventies, when it appeared that the political system in countries liberated from colonial oppression quickly degenerated into corrupt government and corrupted political processes. One of the first analyses in the field was done by Joseph Nye, who linked corruption and political development, exploring the cost-benefit outcomes of this interaction. James S. Scott, Arnold Heidenhammer, Gunnar Myrdal, Samuel Huntington and others introduced political corruption in comparative politics at the end of the sixth decade of the last century. Since then, comparative political corruption studies have flourished, alongside with the flourishing of political corruption itself (Scott, 1972; Heidenhammer, 1970).

Since the sixties political corruption has been treated in all its aspects: as the legitimate concern of political theory, and an issue pertaining to comparative politics. Works on political corruption have proliferated, just like courses on political corruption offered by prestigious political science schools. It is enough to explore the syllabuses of these courses offered around the world, from the Columbia University to Oslo University, from Tokyo University to the University of Mexico City. One of the latest initiatives, the Central European University annual conference offering “education for the educators”, i.e. propagating the teaching and introducing of formal university courses on political corruption in the political science curricula – both as a theoretical issue and as an issue of comparative politics – has already given a result and newly opened courses in political corruption are now offered throughout Eastern Europe, in former Communist countries (Croatia excluded, so far).

Yet the quest for a definition is still ongoing: as Max Weber argued, one should not begin with a definition, but should derive it by looking at specific examples. This, however, would never yield a final definition, but one tailored to the purposes at hand. Therefore, a definition must be gradually put

together from the individual parts, which are taken from historical reality. Thus, the final and definitive concept cannot stand at the beginning of the investigation, but must come at the end. We must – argues Weber – work out the best conceptual formulation in the course of the discussion, as its most important result. Thus, if we try to determine the object of analysis and historical explanation, it cannot be in the form of a conceptual definition, but, at least in the beginning only a provisional definition, argues Weber.

Yet it is necessary to begin with dissipating the dilemmas and ambiguities that surround the concept of political corruption. There are many misconceptions that obfuscate the theoretical discourse and the political research in the field. Political corruption is often misunderstood and simplified to bribery, embezzlement, graft, as in the classical concept of the Chinese *Yang-lien*, the principle of “nourishing incorruptness” (as it is described in the *Book of the Rulers of the Shan District*) or in the old Indian political textbook *Artashastra*, where Kautyilia (known also as Chanakya) identified none less than forty ways of embezzling money from the government 2300 years ago. The modern parallels of these simplifications can be recognized in the reduction of combatting political corruption to fighting against bribery, and corruption is frequently equated with the corruptness of political officials, linking politicians with organized crime, money laundering, drug trafficking, etc. Thus we have to differentiate corruption in general from political corruption, albeit the two processes are intertwined. While corruption in business can be easily reduced to bribery and improper proprietary advantages, political corruption is more elusive and implies the general decay of politics, namely, that of political institutions, processes, values and the behavior of political actors. While corruption means deviation from the formal duties of a public role for private, pecuniary gains, political corruption is the pathology of politics: its main object is not necessarily pecuniary advantage, but bypassing the whole political system that would serve anything else than pecuniary advantages. It includes peddling of influence, misuse of public office, gains in status, non-material advantages, manipulation of public power and authority, abuse of power. Eventually it undermines the confidence of citizens in democracy, erodes the rule of law and leads to a denial of human rights, while hindering the social and economic development of the country. It is the cancer of most political system, but first and foremost of democracy.

Two basic approaches can be used to study political corruption: that of the legal theoreticians and practitioners, who tend to reduce corruption to unlawful behavior that culminates in a criminal act; or the approach of political theorists and political scientists, who tend to treat political corruption as the invisible distortion of public power and the abuse of political power in order to achieve not necessarily private interests, but political interests that distort the wholesomeness of the Common Good. While the outcome of corruption in business and, more generally, corruption is the triumph of the pri-

vate over the public, the outcome of political corruption is not the triumph of the private but of the particular interest over the public interest, where this particular interest can be identified with the interest of a political group, class, party, caste, interest group, political elite, ethnic group, etc. The individual is the agent and beneficiary of corruption in general (it may be also his close family, private clique, etc.), while the agent of political corruption is a political actor (instead of close family we find here political clients and cronies). For instance, business and small-scale corruption may exist and persist in a politically relatively corruption-free society, as an exception, depending of the tradition of the society. But when business corruption invades politics, it may infect the whole political system and bring it to a faster degeneration. Obviously, we have to make the precise distinction among various kinds of corruption: such as business, administrative and political corruption. In the early stages of corruption research a somewhat naïve approach tended to link corruption to modernization. Huntington in his *Modernization and Corruption* (1968) even asserted that corruption in business plays a stimulating role in fighting bureaucratic stagnation and immobility. Nathaniel Left tried to push economic development through bureaucratic corruption, while Veloso Abueva dealt with the contribution of nepotism, spoils, and graft to political development. Four basic approaches crystallized in the debate in the sixties and the seventies: that of the moralists, such as Myrdal and Andreski; that of the “integrationists”, such as Merton, Bayley, Left, Leys, etc.; that of the “economists”, such as Nye and Pinto-Duchinsky, and that of the “institutionalists” such as Huntington, Heidenheimer and Scott. However, I shall not dwell on the history of the corruption debate here, instead I would like to focus on political corruption. This is the kind of corruption that does not involve money changing hands: it takes the form of trading in influence or granting favors that poison politics and threaten democracy. We need to speak about that form of corruption that erode the state, threaten the very viability of democracy and makes democracy vulnerable and compromised to the extent of destroying it.

In 1994 the OECD defined corruption as the activity that involves the performance of non-pertinent advantages, pecuniary or of other nature, to a foreign public official, thus violating his official duties, with the aim to obtain or continue to maintain an affair. This is quite clear, having in mind that this is exactly the purpose of the OECD *Convention on Combating Bribery of Foreign Public Officials in International Business Transaction*, signed by OECD countries in November 1997. The same year the Council of Europe adopted a working definition more appropriate to the notion of political corruption: political corruption is a serious threat to the basic principles of the Council of Europe, undermines the public in the functioning of democratic institutions and processes, erodes the rule of law and, *via facti*, constitutes a sheer denial of human rights. There are two other officially approved defini-

tions that may help us: one is the European Union's *Convention on the Fight Against Corruption Involving Officials of the European Communities or Officials of Member-States of the European Union*, from 1997, that reads as follows: "corruption relates to any abuse of power or impropriety in the decision-making process brought about by some undue inducement or benefit" (Grubiša, 2004). The other is Transparency International's working definition. The latter seems the most comprehensive and suitable for the purposes of this article: political corruption is, defined simply, the abuse of political power for private or political party gain by public officials, politicians, and civil servants. Political corruption, thus, involves behavior on the part of officials in the public sector, through which they improperly and unlawfully enrich themselves or those close to them, by the use of public power entrusted to them. We might object to the nature of this enrichment: it is not to be understood always in terms of material goods, but in values in general, more akin to Lasswell's definition of politics, where politics is precisely who gets what, when and how. According to Lasswell and his definition of politics, political corruption cannot be perceived even as the pathology of politics and of the political process, but rather normal politics taken to excess.

Political corruption, therefore, could be better understood not as a criminal offense or a discrete, fluid phenomenon, but the extension of normal political behavior. Essentially, one type of corruption is a question of quantity where political behavior is taken to excess; the other type is characterized by quality, where it involves activities deemed unacceptable in the eye of the law, or according to significant opinion formers (Harris, 2003). In this sense, political corruption is the natural extension of politics, as war is the continuation of politics by using other means, as Clausewitz put it. However, one must add that political corruption is not the continuation of politics by other means, but on the contrary: by the same means. This helps us understand Aristotle's taxonomy of the forms of government: each legitimate form of government has its corrupt variant, where an excess or abuse of power occurs. Monarchy's corrupt form is tyranny, aristocracy's is oligarchy, and democracy's is anarchy, which ends in ochlocracy or kakistocracy – the rule of the bad, and even the rule of the worst. For Machiavelli, the thin line that separates the "correct" forms from the "corrupt" forms is only the excess of power, the exaggeration in the quantity of power used, the thin line that separates the use of power from the abuse of power. And, if politics is really who gets what, when and how, then politics itself is equated with corruption, depending on the quantity of power, or as noted in Plato's *Dialogue*, on the amount of the gifts the Statesman gets and gives.

Definitions of corruption are not static. Society's understanding of what counts as corrupt evolves constantly, as Klitgaard (1988) states. Over time societies have been able to make a distinction between bribe and allowable reciprocity or transaction. In all societies we are likely to find at least four

definitions of corruption: that of the moralists, that of the written law, that of the law enforced, and that of common practice. I should add a fifth: that of the political scientist, who does not perceive political corruption as a deviation in political behavior but more as an inherent ingredient of the political process, and for that reason even more dangerous and insidious. As Machiavelli put it, in politics we have to go beyond the surface, and explore the effectual truth of things.

## 2. *Political corruption in transitional societies*

The appearance and spread of political corruption in the transitional countries of Eastern Europe triggered a massive response from political scientists and from policymakers: the most proficient years were the late 90's. Not only did major works appear analyzing the substance and extent of political corruption (Rose-Ackerman, Heywood, Della Porta, Meny et al.), but also all the major documents for the fight against political corruption were written during those years. The World Bank launched its warning at the beginning of the decade; the UN launched its campaign under the title "Action against corruption" in 1991 and again in 1997; The Council of Europe produced a set of initiatives, including Civil and Criminal Law Conventions on Corruption, alongside with the *Model Code of Conduct for Public Officials* and the famous *Twenty Recommendations Against Corruption*, in the time span from 1995 to 1999. The European Parliament adopted a *Report on Civil Liberties and Internal Affairs on Combatting Corruption in Europe* in 1995; the OECD formulated its *Convention on Combatting Bribery of Foreign Public Officials in International Public Transactions* in 1997; the European Union circulated among member-states its *Convention on the Fight Against Corruption involving Officials of the European Communities or Officials of Member States of the European Union* in 1997, and the same year the EU adopted its *Communication from the Commission to the Council and the European Parliament on a Union Policy against Corruption* (for a complete list of international documents and instruments concerning political corruption and corruption in general cf. Grubiša, 2004). The proliferation of such documents is clearly coincidental: the main reasons are the outcome of the reforms adopted in transitional, former Communist countries, and the conditionality request set forth by the European Union as part of the Copenhagen and Madrid criteria for the accession of candidate countries to EU membership (Trang, 1994; *Monitoring the EU Accession Process*, 2002).

Political corruption captured the attention of the emerging civil society, both in transitional countries and in old democracies. The explosion of political corruption in the East suddenly activated the political sensors of political scientists and policy makers in the West as well. Suddenly, political corruption was discovered as a rampant phenomenon in everyday politics

and politicking within old democracies. In 1992, the government of Italy, one of the founding states of the European Union, collapsed in a maxi-scandal, when the, so called, “Clean-Hand” corruption bomb disclosed the ubiquity of corruption within the political system. The British Parliament, one of the oldest in the World, had to adopt principles applying to “all aspect of public life”, known as the famous *Nolan’s Commission Relevant Principles Concerning the Integrity of Public Life*, in 1995. Santer’s European Commission had to resign due to political corruption scandal(s) in 1999.

It seemed that after the disappearance of democracy’s major enemy, communism, democracy itself started to erode quickly. It may be understandable why political corruption was not exposed before, in the years preceding the collapse of communism: as Churchill said, democracy is the worst form of government except all the others that have been tried. When it can be compared, of course. But when the measure of comparison disappears, than all its contradictions resurface. While communism was THE Enemy, the dark side of democracy was not as visible as it became when communism fell. Political corruption in Western democracies was almost insignificant in comparison to the quantity of political corruption in the Third World or in communist totalitarian societies. By extending Lord Acton’s famous maxim, that if power corrupts, then absolute power corrupts absolutely, to this problem, one can say that the most corrupt societies are, by definition, totalitarian societies.

Political science itself and the emergent civil society, which developed a network of issue-oriented non-governmental organizations combating political corruption and corruption in general, were the ones who profited from this course of events, whereas this “profit” is to be considered as a sad achievement. As corruption became rampant, political science developed new theories – the theory of corruption, e.g. and new modes and taxonomies; the civil society saw the flourishing of anti-corruption and whistleblowing NGO’s and networks. The prototype of such networks is Prof. Eigen’s Transparency International, an initiative launched by German political scientists, economists and lawyers, which grew into a powerful world-wide think-tank and a global political actor in the anti-corruption network. Other initiatives flourished, too: Centers for Corruption Research world-wide, the Global Trade-Union Anti-corruption Network (UNICORN), the Anti-Corruption Network for Transition Economies, the Anti-Corruption Network (ACN), the World Anti-Corruption Knowledge Center, the Center for Study of Transnational Corruption and Crime, The Global Forum on Fighting Corruption, the Internet Center for Corruption Research, UK’s Corner House Anti-Corruption Initiatives, the Open Society Institute (OSI) Corruption monitoring, the Freedom-House Nations in Transit Political Corruption Review, etc.

Yet political corruption disclosed in transitional countries was only the tip of the iceberg: corruption in these countries was a comprehensive “culture of corruption”, argued Miller, Groedeland and Koshechkina (2001), that permeates the whole fabric of the society. Obviously, the main process around which the interest of the political scientists studying corruption concentrates is the social and political reform that represents the very essence of the transition process. Privatization was achieved without a clear understanding of the dangers of corruption. Aggressive and hasty privatization opened space not only for the import of corruption, but also for the development of autochthonous and original forms of corruption that pervaded the fragile societies of Eastern Europe. In many cases, reforms that were introduced favored the quick spread of a predatory capitalism (Kregar, 1999), Darwinian in its crudity and rudeness, without any safeguards against abuse. Such reforms were generated by the new political and business elites who imitated what they perceived as the genuine capitalist values of a predatory capitalist model that existed only during the initial accumulation of capital, as Marx called it, and does not exist any more in the contemporary world, except in the most backwards regions of the Third World. These new elites tried to imitate and emulate the processes that could be found in the industrial societies of the West during the early years of the 19<sup>th</sup> century, namely, the unscrupulous accumulation of wealth, accompanied by the impoverishment of the population, as it was envisaged and predicted in the first book of More’s *Utopia* three hundred years before it happened.

Was this only a misperception of the outer world by local, new, emergent elites, or was it also the product of incapability and ineptitude of the new political protagonists that emerged after the old nomenclature crumbled down? There is no clear answer to this question: reforms were made, mostly, in an uncoordinated manner, so that at the end, no one was personally committed to them and was driven to see them implemented effectively and kept up-to-date. The new class thought they would be the best students, by imitating the birth of capitalism from its first stage: but the import of capitalism was not followed by the import of moral standards and ethical codes of business conduct. The lack of ethical standards, professional deontology and social restraints exacerbated the cleavages and made the divisions inside the transitional countries deeper. The misperception, lack of knowledge and lack of moral standards brought about the legalization of improper behavior such as ambition, greed, aggressiveness, careerism. Such values as listed above became seen as acceptable and even desirable in the new capitalism that emerged from the ruins of communism. Those who opposed and fought communism, at the end of the day, adopted a primitive spoils system that meant support for all those allies who helped them destroy communism. This brought about clientelism, nepotism and political cronyism, in which a conflict of interest is not perceived as a threat to society, but as a vehicle of get-



ting rich, as the main slogan of Lenin's NEP – New Economic Policy in the early 1920s: "Get rich and don't ask how!" (as interpreted in Ilf's and Petrov's satirical novels about the epoch). The new political leaders accumulated various powers and mixed them with their private interests: the legitimacy of fighting against communism automatically excused the sins of the fighters. The conflict of interests was not an issue in the first years of post-communist transition. The new democracies instantly became more corrupt than the older ones. Political arbitrariness and partitocracy became the main features of such transitional societies.

On the other hand, reforms undertaken often missed the point: most of them did not have a specific and achievable focus and failed to deliver any real change to the wider public. Reforms of the political system tended to overlook those on the top and focused only on the lower echalons of society. These reforms, in many cases, relied too much on the law, which is an uncertain instrument in trying to change the way people behave. Too much enforcement leads to repression, apparent abuse of power and the emergence, ultimately, of another corrupt regime. The rule of law was interpreted as the domination of the law over society, irrespectively of the nature of the law that can be unjust and unfair, thus turning against itself, discrediting the very essence of law.

Failures in the reform were also matched by unrealistic and unachievable expectations. Those who promised what they were not able to deliver lost the confidence of the wider society. The first years of reform gave a discouraging result throughout Eastern Europe. Only after 1995, after the EU set forth clear standards of behavior in business and politics and guidelines for reform in the post-communist countries of Eastern Europe did the situation start gradually changing for the better (*Monitoring the EU Accession Process*, 2002). The European Union intensified its efforts to convince the new business and political elite of Eastern Europe that they cannot import capitalism from the West without importing all policies and measures that impede the degeneration of modern, post-industrial capitalism into the predatory capitalism of the 19<sup>th</sup> century. The appeal was caught by the emergent civil society, that played a decisive role in guarding the guards, i.e., in raising awareness to misconducts and abuses of power that create a corrupt society. The remedies were tailored to the needs of each individual society and they gave a good result in the Czech Republic, a relatively good result in Hungary, and a modest result in Poland, not to mention other transitional countries that lagged far behind (Trang, 1994). A clear failure in the reform was detected in Romania and Bulgaria, countries that did not succeed to join other transitional countries in the 2004 "Big Bang", the fifth round of enlargement of the European Union, mostly due to the failure of fighting corruption (*Monitoring the EU Accession Process*, 2002).

Political theory unveiled the areas of government activities most vulnerable to political corruption during this difficult transitional phase. Of course, since political change is intrinsically bound to economic change, political corruption grew out of the first steps undertaken to change the whole socio-economic system, i.e., from the privatization process. However, differences in approaches brought various outcomes: in the Czech Republic, where the model of a coupon-based privatization was applied, less space was left to political manipulation, political pressures and abuses of political power. In those countries where state owned companies were sold, more space was left for illicit transactions, as Petričević found in his comparative analysis of the privatization process in Croatia, and other transitional countries, except Poland (Petričević, 2000). In these countries the companies went either to former managers, who did the job during communism, or to new buyers who: either offered the highest price, or who were privileged by political power-holders – not to mention those who were underprivileged, in fact, discriminated against for being close to the former communist nomenclature, as it happened in Croatia. The first type of takeover was characteristic of Russia and of the countries of the former Soviet Union, the second type occurred in Poland, the Baltic countries and Bulgaria (Kotkin and Sajo, 2002).

The extent of how much corruption was imported cannot be estimated. The liberalization of the markets in Eastern Europe stimulated companies from the West to penetrate these markets and, facing initial bureaucratic ineffectiveness and resistance, tried to force the hand by adapting to the former communist “bakshish” mentality: to make things easier, to try to mollify the bureaucrat in charge, was the slogan. Thus Western companies (the majority of them, to be fair) deliberately used the business-corruption model they previously experienced and practiced in the Third World, a method that was tolerated as a form of doing business with the “corrupt part of the world”. However, when back in their countries of origin, these companies were strictly law-abiding, well aware that the use of corruption is tolerated only in dealing with Third World countries in Africa, Asia and Latin America. Some countries, like Japan, even introduced a tax-reducing law and bribes were included in the costs of production. When the World Bank blew the whistle, about 10 % of the world GDP went to corruption purposes. Such enormous costs prompted the World Bank to raise the alarm and open an anti-corruption web-wide campaign, alongside with a massive campaign against business corruption, as a first step to corruption in politics and in society in general. This subsequently prompted the OECD to launch its *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, in November 1997.

Corruption took various forms and peculiar methods: transition officials – i.e. those who stayed in power initially after the changes started, or those who were installed during and after the political takeover – quickly adapted

to the new situation: officials started to take percentage on government contracts, which were often paid into foreign bank accounts. These officials started to receive, what could be called, excessive hospitality from government contractors and benefits in kind, such as scholarships for the education of their children at foreign schools, or trips abroad, with daily allowances that were set at almost extravagant levels.

Bureaucrats and political parties that emerged from the single-party system used the prospect of power to levy large fees on international businesses in return for government contracts, which were usually disguised as donations to a designated party. Revenue officials used their official prerogatives and practiced extortion by threatening to surcharge importers unless bribes were paid. The import activity represented a vast area exposed to corruption: lower assessments were made on imported goods, and in numerous cases goods were brought into the country without payment of any duty at all. The officials after having been bribed, did their jobs promptly, eliminated delays and shortened the bureaucratic procedures. Providers of public services insisted on payments for services they were supposed to provide as their regular job, after receiving the bribe they paid “special attention” to the business in question, or speeded up the process of issuing the requested permit or paper, or simply prevented delays. Thus the offer that came from foreign investors and businesses matched the quickly developed capitalist mentality: if you want a service, pay for it. Business corruption matched street-level corruption and “bakshish” mentality, rooted deeply in the communist economy, where the bureaucratic machinery had to be greased from time to time if the subject – citizen only formally – wanted to survive. The corrupt practices of petty-bribery of communist times – when law enforcement officials extorted money for their own benefit by threatening to impose penalties, such as traffic penalties unless bribes were paid (somewhat less than the penalty the offense would attract if it went to court), and extra fees were charged to issue market stall permits and licenses, passports and documents– survived the transition and adapted well to the new social, economic and political circumstances, even prospering in new forms and practices.

As the adaptation of corruption went relatively smoothly, tolerated by the new power-holders who rushed to get rich themselves, eventually officials started to contract government business to themselves, either through friendly companies, concealed partners or even openly to themselves as consultants, disregarding any possible allegation of outrageous conflicts of interests. In fact, as the dating of most anti-corruption documents clearly shows, the conflicts of interests became an issue, political as well as moral, only in the second half of the nineties, bringing about a general awakening of conscience that provoked a massive international response. From the area of business corruption quickly infiltrated the political sphere: party revenues and party income were not regulated until recently: in some cases, as in

Croatia, there is no law yet on party financing, and campaigns are permeated with private influence-buying contributions, unlimited in form and substance.

Thus the areas of governmental activities most vulnerable to corruption in transition countries include government permits, import duties, building licenses, land-registry inscriptions, public procurements, rezoning of lands and urban planning in general, revenue collection, kickbacks on government contracts, subcontracting and consulting and fraud of all kinds. These paved the way for political corruption, that manifested itself in corrupt party financing and campaigning, arbitrary government appointments, cronyism, clientelism, nepotism, influence transactions, and blatant conflict of interests at the end of the line (*Global Corruption Report, 2005*).

### *3. Political Corruption during the Croatian Transformation and Privatization: a Brief Overview*

The “original sin” of political corruption in Croatia is, beyond doubt, the process of privatization, i.e., the transformation of the so called, socially-owned enterprises into private companies, owned by private individuals. This process started in 1991, immediately after Croatia gained its independence, by the adoption of the Law on Ownership Transformation of Socially-Owned Property. The landslide electoral victory of the right-wing nationalist party, the Croatian Democratic Union, led by President Franjo Tuđman, paved the way for a complete take-over of all commanding positions in Croatian society. One of the first goals declared by Tuđman was the de-nationalization of properties expropriated by the communist regime, as disclosed to the author by a close associate of Tuđman. This goal much debated in the press of the era. At the same time, Tuđman set forth to create a unique type of system, capitalism with a Croatian face. This system was supposed to rely on 200 Croatian families that would take over the economy and begin the initial accumulation of capital, thus creating a new entrepreneurial class that would lead the country towards a profound transformation. This transformation could occur only by using political power and by eliminating all competitors – i.e. the old managerial stratum that in the previous twenty years led the economy, and by discouraging foreign investors that could appear and pretend to buy already well established economic ventures. In the first phase, that lasted until the end of nineties foreign investors were limited, to greenfield investments and new ventures.

Unlike other Eastern European countries, where managers of state-owned companies turned to become the new capitalist (Russia and Ukraine), the Croatian nationalist forces lead by Tuđman sought to remove professional business managers who were educated in the Yugoslav socialist/market

economy and to replace them with a completely new generation of entrepreneurs. As the majority of the well-trained, young Croatian entrepreneurs and managers who worked in the West or were educated in Western business schools did not come back to the country because of the war, the new people in power resorted to the oldest stratagem in “cadre-policy”: in recruitment of human resources they turned to confidence-men in their immediate surroundings: their comrades-in-arms with whom they fought against the communist nomenclature, their kin, and relatives, people from their villages and, finally, their political allies – clients and cronies. Thus the seizure of power and privatization brought a new group of people to the surface, that took the helm of the society and filled all commanding posts in politics, administration, and state owned enterprises. As a matter of fact, at the very beginning the HDZ counted on emigrants who would come back and plunge into the economic life of the country, bringing back their know-how learned in the West, but only a relatively few of them did so.

This new class led an all-out robbery of state-owned capital and transformed it into privately-owned capital (Dragičević, 2005) in the hands of the most promising 200 Croatian families. At the end, the “notable families” turned to be only 117, and the new aristocracy developed a twisted interpretation of meritocracy: the participation in the Homeland war and in the wars in former Yugoslavia (Bosnia and Herzegovina) was considered to be the measure of a person’s merits. Veterans were chosen, together with relatives and the ideological like-minded, to be the new propulsive social group that will drive Croatia into capitalism.

Croatian privatization started in 1991, by passing the first law on privatization. The thesis that excessive regulation by law and law enforcement usually leads to non-transparency that favors political manipulation (stated in paragraph 2), is confirmed by evidence of the legal privatization procedure. From 1991 to 1996 the Law on Privatization was amended and changed twelve times, making it completely non-transparent and confused, as Petričević argues in the most comprehensive account of “the great Croatian privatization robbery”. This confusion enabled the Croatian Privatization Fund, the almighty state agency created in 1991, to interpret the law and its multiple, contradictory changes arbitrarily. Petričević counted ten ways and modes of company takeovers under the explicit cooperation and control of the Croatian Privatization Fund. The Fund quickly became the most prestigious (and powerful) institution in Croatia, more important than the Government itself.

As the first step was to establish state ownership over the banking system, banks played a decisive role in enabling a corrupt privatization. Bankers, under political influence and guidance, granted, so called, managerial loans to those suggested by the political leaders. And since banks accepted

mortgages and guarantees, on the very same companies that were bought, it is quite clear that a great number of companies were bought on the buyer's word of honor. In cases where employees succeeded in buying shares of companies in which they worked, the state intervened by annulling such transactions, or by limiting the amount of shares offered to employees (Bejaković, 2002). This is what happened in the case of the publishing house "Slobodna Dalmacija", as documented by Polović (1995) and Petričević (2001).

I will present a case study of the company "Rukotvorine", privatized in 1994 to clarify the above. "Rukotvorine" was a prosperous producer of women's leather accessories, woven handicrafts and embroideries. It employed less than 200 employees in two small factories and run 17 shops throughout Croatia. When the war broke out, the company lost the Yugoslav market, and the worsening of economic situation, the, so called, non-liquidity of the economy (bills not paid by customers and consignees) forced the company to ask for loans to bridge the non-liquidity gaps and to pay the salaries, which were already reduced to a war minimum. Croatian banks conceded the loans, but when indebtedness reached 40% of the capital assets, banks claimed a control packet of up to then non-existent shares. The Croatian Privatization Fund quickly decided to transform the assets of the company into shares, and generously ceded their packet of shares to the creditors, and a Croatian bank became the owner of the company.

In 1994 the bank decided to sell the company. Three offers were made by potentially buyers: the first came from the then current managerial team. They offered 5 million German marks, which they intended to borrow from a bank, with their private assets and mortgaged private properties as a guarantee for the loan. The second offer came from an Italian businessman of Croatian descent, who offered 8 million Marks in form of a loan granted by an Italian bank, which would have been fresh money poured into the Croatian economy. The third offer came from two inexperienced businessmen, both members of the HDZ: one a former football player, the other a veteran. They offered 3,5 million Marks, in form of a loan granted by the same bank that was selling the company. The company was sold to them. The conditions of the loan were extremely good for the buyers: the interest rate fixed by the bank was only 3%, while the usual interest rate granted for bank loans of this type was from 8 to 11%. Additionally, a moratorium of three years was applied for the return of the loan. The two new businessmen took over the company, sold the office building in the first six months for 3 million in cash, laid off most of the workers, and rented the 17 shops the company owned. In practice, they sold the company and turned it to a rent-producing enterprise, which made them rich overnight. The only collateral damage were the circa 200 workers who lost their jobs (case study "Rukotvorine", interview released to the author by the members of the managerial team in 1994).

Finally, the state-owned bank that sold such companies as “Rukotvorine” was itself sold to an Italian banking concern, and the banking secret was buried with the foreign owner that had no interest whatsoever to unearth scandals and misdoings of the former era. To be precise, the bank was sold under the condition of “*rebus sic stantibus*”, promising not to dig in the past. A circumstance that aggravated the situation is that the decision to sell the company was not a publicly announced competition. The information was passed on only in a restricted circle of the better informed: government officials, leading party members, loyal businessmen, and, generally speaking, a privileged audience. The transfer was completely non-transparent, and since the Law on Privatization was confused enough with its numerous amendments, no legal recourse could be taken. This is only one of the 2650 companies that underwent privatization during Tuđman’s time. In 908 of the cases legal proceeding were initiated against the Croatian Privatization Fund for abuses but with no practical result.

After the end of the stormy nineties, political change in Croatia brought an end to Tuđman’s authoritarian political regime. A real transformation of Croatian society and polity could start only then. One of the first moves of the new coalition government led by the social-democratic leader Račan was to start a revision of the privatization process that transferred an enormous wealth into private profiteering hands, instead giving them to those who would generate economic development and well-being in the country, as seen in the “Rukotvorine” case-study.

As result of a general public demand the *Law on the Revision of the Transformation and Privatization* was passed in 2001, at the very beginning of the new government’s mandate. The State Office for Revision (State Audit Office), a book-keeping state office that used to control the expenditure of state finances, got the job to undertake a comprehensive investigation of the Croatian privatization misdoings. Račan’s government, which stepped down in November 2003, did not see the completion of the work. It was finally completed during the first year of the center-right government led by Ivo Sanader. It took more than three years to end the revision of the privatization in Croatia. The results were made public in a 48-page report, a summary of the thorough inquiry. Out of the investigated 1006 cases of privatization of state-owned companies, only in 75 companies did the committee not find any abuses and wrongdoings, which means that abuses and unlawful activities were detected in 931 companies. In the final conclusion, the State Office for Revision (State Audit Office) clearly and unconditionally states that the goals of the privatization were not achieved: the value of capital drastically diminished, the number of employees dramatically decreased, 23% of the privatized companies underwent a bankruptcy procedure, and no development whatsoever was reported in 64% of the privatized companies. The only goal that was achieved was the transfer of propriety from state to

the privates hands, with the result of the creation of a new class, the *nouveaux riches* – this in Croatian colloquial jargon are often derisively called, , “the nouveaux niches”, which means the new nothing.

No need to say that nothing was done to start lawsuits against the perpetrators of the “great robbery of the century”. No political implications were drawn, owing to the fact that the new government is ideologically very close to those who ran “great robbery of the century”. The Croatian Democratic Union was reformed by its leader Sanader, who aspired to create a modern conservative, populist party leaving behind political authoritarianism and nationalism from the Tuđman era. In such historical circumstances, the history of privatization is a source of embarrassment for Sanader and his strong pro-European and pro-NATO politics. Although, the Report caused a heated debate in the Croatian parliament, no concrete operative conclusions and implications resulted.

Yet the privatization was closely followed by the World Bank and other international governmental and non-governmental bodies. The World Bank was very clear and straightforward: the slow and messy privatization process favored the “insiders”, the political elite, or those well connected with them. The employees and managers and their access in purchasing a company as laid down in the first original Law, was restricted even on paper (but especially in practice), but “insiders” were meant to be people inside the palace, the political power, those well connected to the political elite or the elite itself. The lack of transparency and the privileged treatment of the local political mafia led to a growing number of reports of corruption and raised the concern of potential investors (World Bank, 2000). This led to a general conclusion about Croatia’s economic vulnerability by the World Bank one year later.

Yet dramatic conclusions were not drawn by the scientific community: even Bejaković in his well argued study (2002) draws the conclusion that such process had a negative result, namely the strengthening of the informal economy, the gray-zone of business, and raising the barriers to business, and hindering economic development and growth. Bejaković reacts as an economist, while Petričević is mostly interested in the narrative of the scandals surrounding Croatian privatization. He excellently exposes it with an unusual meticulousness. Another critic of Croatian privatization, Derenčinović (2001), reduces corruption to the problem of the law and law enforcement. The only one who seems to understand the final implications of such corruptive transformation and privatization in Croatia seems to be Kregar, his analysis transcends the legal profession to whom he belongs and reaches the subtleness of a sociological analysis.

The conclusion that political scientists – whether or not they share the orthodox Marxist interpretation that the economic base of the society deter-



mines its political, social and legal infrastructure – can easily draw is that no long lasting state can build its foundation on the infirm ground of such massive corruption, as occurred in Croatia during the last decade. A castle built on sand, whatever the good material it is constructed of and well projected by the architects, is, sooner or later, inevitably going to fall down, to use Machiavelli's analogy.

How was the importance of this corruption at the origin of the Croatian modern state and society perceived? In the post-Tudman era Croatian governments, Račan's as well as Sanader's, adopted, declaratively, a clear commitment to fight corruption. The result materialized in the *Anti-Corruption Action Program* adopted by Račan's government in 2002, and the *National Program for Countering Corruption 2006-2008* adopted by Sanader's government in 2006. However, both programs are lacking in substance and in form. Račan's *Anti-Corruption Action Program* has never been applied fully and thoroughly: a law on the conflict of interests was passed, as envisaged by the Action Program, as well as a law establishing the Office for Fighting Corruption and Organized Crime. Only in 2006, four years after the passing of the law, did the Croatian Parliament establish a parliamentary commission dealing with the application of this law, controlling and investigating possible conflicts of interests.

The Office for Fighting Corruption and Organized Crime (as part of the State Attorney's Office) has worked well since its inception in 2001, but on the basis of legal reductionist interpretations, where corruption is treated as a criminal felony or misdemeanor, as classical embezzlement and graft, this meaning petty corruption. For this reason the Croatian Criminal law was amended by including several provisions on graft, embezzlement of money, money laundering, illegal fund transfers, trafficking, etc. Except for this, the *Anti-Corruption Program* remained ineffective, a "dead letter on paper", as the Croatian saying goes.

Sanader's government took two years and a half to pass its *National Anti-Corruption Program*, and it did only after strong pressure from the European Union, that dealt with the issue of corruption in various reports submitted by the European Commission to the Council, as part of Croatia's request for accession to the EU. Only EU conditionality prompted Sanader's government to adopt such a plan after long delays. However, neither Račan's nor Sanader's plan refer to the causes of corruption in Croatia. As political scientists using the research methods appropriate to political science (i.e. description, classification, comparative analysis et al.), we cannot but emphasize that in politics one should look for the causes of a political phenomenon, and try to get as far as one can in finding the first determinant cause. The corruption of privatization is the first cause of political corruption in Croatia. All other forms of political corruption in Croatia are a derivation of corrupt

privatization: the corruption of the judiciary, the corruption of the public administration, the conflict of interests, party corruption, political clientelism and non-transparency of party funding, secretiveness and non-transparency in the Government, excessive bureaucratic regulations and exaggerated registration requirements, arbitrary government appointments, non-prosecution of corrupt government officials, lack of protection for whistle-blowers and those who expose political corruption in the public. Of course, “street-level” or petty-corruption existed before, alongside with the corruption of the whole system: such forms of corruption survived the changes, but the stress here is on political corruption, i.e. the corruption of the political system.

The Račan government’s Anti-Corruption Plan did not even mention privatization and corruption during its implementation. The Sanader Government’s *National Program for Suppressing (curbing) Corruption 2001-2008* mentions privatization in paragraph 5.2., but formulates the problem in the framework of a necessity to analyze the status of privatization of the state portfolio and the plan for the continuation of privatization. It has to be stated clearly, says the *National program*, what should not be, and what could be done up to what level of shares, and what is the deadline for the continuation of the privatization process, and moreover, to ensure the efficient and accelerated implementation of the plan and program of privatization. As part of this task, the Plan stresses the need to analyze the role of the state in the “operative guidance of commercial societies owned by the state”, and to propose measures and ways, as well as modes of the state’s gradual withdrawal and the transfer of the operative guidance to the management and boards of the commercial societies. The third task, as it is formulated under the heading “Privatization”, is that the State, as an owner of public companies, should make sure, that it will be represented in the control boards in an adequate number, for the sake of the defending the public interest. As privatization continues, the number of state representatives will decrease.

A corrupt system that is built on corrupt privatization can only be repaired, but cannot be reformed drastically: a corruption-free society cannot be laid on corrupted foundations. We do not deal with corruption *in* the system: here we deal with the corruption *of* the system, and therefore it is difficult to repair it if one does not detect the primary cause that created such a corrupt system in the first place.

Political science and political analysis has to approach the problem of political corruption in Croatia properly. Political science, however, also has to be defined, and this definition has to start from common premises, but has to be refined with the knowledge of the concrete society and its politics. Here Max Weber’s statement about the definition of the problem is especially appropriate. The problem cannot be defined in advance, but only at the end of

the exposition of all relevant elements of the political phenomenon we observe and discuss. The role of political science is not only to define the problem, compare it, analyze its causes and categorize it within our system of values and discover its hidden aspects in order to disclose the Machiavelian “effectual truth of the things”. The role of political science is also to try to give prescriptions, predictions and to trace the contours for the improvement of the human polity. This is what political science is about, not merely the finding of who gets what, when and how. In order to pursue its true goal, political science has to disclose the causes of political processes as well as the motives for the behavior of the actors in a political system.

Therefore, political corruption in Croatia is a valid challenge for building and developing political science in this field. The first stage should, undoubtedly, be to include political corruption in the political science curricula. The second phase should be to establish political corruption as a permanent research topic within the Croatian national research program. The third phase is one proposed by Amy Goodman: education about political corruption, which should be part of the citizens’ education. This way political corruption will not be restricted only to political pathology, but combating political corruption will be experienced as part of a daily struggle to achieve democracy and a better world to live in.

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