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Political Economy of the Croatian De-Evolution

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1. PROVISION AND PRODUCTION OF LOCAL PUBLIC GOODS: POLITICAL ECONOMY APPROACH

In the many studies dealing with the political economy of Croatia, gradual establishing of one type of mono-centric system is depicted as the main problem of the whole political system. From that reason it is also depicted as a basic obstacle for further development of the local governance in Croatia. But how it is possible to understand such a problem from a theoretical point of view? What is the most appropriate basis to cope with a predominant centralization in the governing system. Some scholars have proclivity to propose quick solution in the form of radical decentralization. But what might it means they have not been answering. There are many notions that may be usable in answering to the question how it is possible to transmit power from central government to local government level. Scholars use terms as administrative decentralization, fiscal decentralization, spatial decentralization, deconcentration, devolution.

I choose the notion devolution, particularly has been used in British social science literature¹. I do not think that by using such a notion one scholar is choosing his own methodological position. The notion of decentralization might be equally applied in the analysis. Nevertheless, the concept has chosen due to its broadness and flexibility. Using that category it is possible to stressing out that the whole process of transmission of power in provision of public goods is actually multidimensional phenomena, not a simple dichotomy between national - local. "Because governments had captured the term 'decentralization' to describe what were in many cases administrative reorganizations, the term *devolution* was coined by academic observers sensitive to the need to differentiate among radically different types of institutional changes" (Ostrom E., Schroeder and Wynne, 1990: 33). In that sense it is necessary to evolve the complexity and multiple meaning of the above mentioned phenomena. As it is indicated in the above mentioned study, the authority that is just devolved from the central level to the regional or local level, can easily be revoked by the same central government authority (idem, 1990: 31).

The methodological approach that has been following in the paper stemming from political economy of governmental areas, developed particularly by authors connected with the IAD framework developed within the Workshop in Political Theory and Policy Analysis in Bloomington. Starting with famous papers by Vincent Ostrom, Charles M. Tiebout and Robert Warren (Tiebout, 1956; Ostrom V., Tiebout

¹ As a good example of the approach from the positions of political economy of devolution it might be quoted the title *Scotland: the challenge of devolution* (Wright 2000).

and Warren, 1961) appeared a vast series of literature in which has been trying to prove the efficiency of polycentric order. By enabling to citizens to choose among different public goods at different scales of organization it is possible to achieve efficient system of local self-governance. Following that conclusion, appropriate devolution policy should be designed in such manner to be capable to envisage institutional arrangements that could match free citizens choice in the provision of public goods.

The crucial point developed in such an approach is distinction between provision and production of local public goods. Provision means the process by which various services are made available to consumers, while production means real physical process by which those services are coming into real existence. Why such type of distinction is the crucial problem? Let us lend one idea developed by Ronald Oakerson (Oakerson, 1999). In answering to some American social science scholars which thought that emergence of metropolitan areas demands the creation of metropolitan government he pointed out that any kind of metropolitan consolidation is actually unnecessary. Instead of consolidation it is quite sufficiently to apply some sort of contracting out. Moreover, he is very convincingly showing that it happened in the majority of local governance situations in the United States. Although some social scientist and public officials considered massive consolidation as a wave of the future, it was never happened. The reason for that came from voters rejections of various kinds of consolidation proposals. The number of local government in the United States continued to grow, with just one exception related to school districts.

By such arguing we are coming to the central point. Namely, the clear distinction between the provision and production of local public goods is the basic analytical tool the political economy of the metropolitan areas (Bish, 1971; Bish and V. Ostrom 1973; McGinnis, 1999; Oakerson 1999). This approach brings forward completely new vision on local governance. The key word in the whole approach is contracting. It simply means that it is possible to distinguish provision from production, so that the local self-government units need not to produce the whole range of services they provide. The possibility for separating provision and production enables various organization of these activities in the sense that they can be organized in a different ways, responsive to distinctive criteria of economics of scale, externalities and various kinds of spillovers.²

The above mentioned statement lays together with those studies from the political science and public administration field showing that for pure decentralization or devolution it is not enough to simply deconcentrate power from the central to local level. Equally or even more important is the necessity to secure institutional changes that will basically affect incentives and behavior of local official, citizens and organizations. The former objective is particularly highly valued in the literature of social capital theory. Some analyses from this field showed that fiscal decentralization can contribute to the increase of social capital (de Mello 2000) but it decisively depends on the quality of participation of citizens in the devolution policies. This is natural, because, as Oakerson pointing out, in local public economies the basic institutions are public households, not markets or hierarchies. Public households can be established at various scales of organization and for more and less purposes.

² Classic review of such kind of literature, containing the works of Albert Breton, James Buchanan, John Head, Richard Musgrave, Gordon Tullock and others is provided in the collection of articles under the title *Economics of Federalism* (Grewal, Brennan and Mathews, 1980).

Exchanges in local public economy setting have been occurring in a political, not a market-exchange context, even in the cases when some services are going to be privatized. Inclusion of the people in the process of political decision-making that make provision arrangements is from that reason the crucial point for such an approach.

2. POLITICAL ECONOMY BACKGROUND OF CROATIA

In the 1990s all countries of Central and Eastern Europe started to democratize political structures that previously were under complete control of communist party, organized on the principle of a so called "democratic centralism". Decentralization was just one aspect of the democratic movement that has been starting to develop since 1989. Local government decentralization and development reforms in Croatia lagged far behind other Central and Eastern European countries. Late inauguration of reforms was particularly caused by destructive and damaged war occurring from the mid 1991, followed by the establishment of semi-authoritarian regime under the last president Tudjman and his HDZ as an absolutely ruling political party at the national level until the end of 1990s. In addition to the general problems facing all transition countries Croatia was confronted with special circumstances related to the dissolution of Yugoslavia and the struggle for the independence. By the early begin of war all institutions of the previous self-management semi-market socialist system were swept away.³

By the end of the severest phase of the war in the early 1992, roughly one third of the territory was under military occupation, while the bulk of rest territory was highly destructed. These circumstances lead to the extreme centralization in the system of governing. That might be called as a cost of independency, rationalized by the political leaders of that time as a "necessary costs" in establishing all forms of governance appropriate for an independent state. It is extremely important to point out that such mono-centric system of governance did not represent good institutional environment for developing local self-governance. The existing legal system of local government units started to develop directly from these centralistic circumstances.

Due to war circumstances Croatia, as well some other ex-Yugoslav republics⁴, paradoxically, passed a full circle from a relatively decentralized, a market-type socialist system established in mid 1960s, to a highly centralized system in 1990s. In the same time other Central European ex-socialist countries, previously highly centralized, paved the way for more decentralized system of governance. The careful analysis of the costs and benefits of the whole process is not the topic of this paper. Instead of this my analytic attention will be cast on the prospects for devolution of governance in Croatia. Coming from such type of normative perspective I would like to consider in what degree the institutional arrangements developing since 1999

In the former Yugoslavia has been developed relatively decentralized system of governance, with relatively high responsibilities of local government units (*communes*) in financing various social type of services, police, fire-fighting, communal facilities and urban planning. Besides local government bodies existed actually special districts (*self-managed interest communities*) devoted particularly to finance various forms of education. In one way they were actually a form of polycentric type governance, involving in the decision-making process many actors out of classical political structures: representatives of business companies, scholars, citizens, representatives of trade-unions.

⁴ Bosnia and Herzegovina faced opposite outcome. That country was almost completely destructed and disintegrated in the brutal war from 1992 to 1995.

matching a more decentralized system of governance. Pointing out that question we are in the same stressing the importance for the careful analysis of the existing mono-centric system of governance, with the predominant role of national government in providing public goods. Are there factors in the Croatian political life that could be able to aim the political system towards a more polycentric system of governance?

Dramatic change in the national political arena, caused by death of president Tudjman, slightly opened the door for more decentralized type of governance. Electoral win of the coalition of six centrist and center-left political parties in January 2000 as a direct aftermath, brought again the values connected with the system of local self-governance in centre of public attention. Various actors in political arena - national politicians, local politicians, entrepreneurs, trade unionists, representatives of NGOs, journalists, have been starting to advocate the necessity for radical devolution of political and economic power in Croatia. The facts were inexorable. In past decade in Croatia was built highly centralized system of governing, with the smaller influence of private sector than in other transition countries. Let us corroborate such hypothesis with two type of indicators.

According to data provided in annual reports of the European Bank for Reconstruction and Development (EBRD) the share of public sector and the public consumption in GDP is higher than in other countries. Croatia started with transition process as a country with the lowest public consumption and average share of the private sector in GDP in comparison to some others ex-socialist countries. By the end of the first decade of transition both figures the worst position of Croatia among comparable countries, having the highest degree of public consumption and the lowest share of public sector in GDP. Such data just confirms the hypothesis of strong growth of central government authority in Croatia and establishing of kind of mono-centric system of governance.

Table 1 – Selected economic indicators (in percentage)				
	Private sector share in GDP		Total public consumption in GDP	
	1991	1999	1991	1999
BULGARIA	20	70	43.6	40.7
CROATIA	20	60	36.1	49.0
HUNGARY	30	80	59.6	44.8
LATVIA	10	65	40.5	46.8
POLAND	40	65	50.0	44.7
SLOVAKIA	15	75	58.0	43.3

Source: Transition report 2000, EBRD.

The real meaning of such data is clearly shown in the table 2. The percentage of public employees in the number of totally employed is a very appropriate statistical measure that can indicate the real proliferation of government spending in the whole system. Data show that the number of such type of employees is considerably higher than in other transition countries. Figures shown in the second column are direct consequence of such situation, showing the cost-side of such a policy. In mid 1990s Croatia spent over 11 per cent of their GDP on public employee salaries, substantially higher figure than in other transition countries. Knowing the fact that an overwhelming portion of such consumption was allocated from the central government level the establishment of the mono-centric system with the immense

political power concentrated in the hands of central government was logical consequence.

Table 2 – The Structural importance of public sector (in percentage)		
	Public employees in the total number of employed persons	Expenses on salaries in public sector as per cent of GDP
CROATIA	34.1	11.2
CZECH REPUBLIC	14.1	4.6
HUNGARY	24.1	7.7
POLAND	15.2	8.5
SLOVAKI	17.8	3.6
SLOVENIA	24.6	6.4

Source: World Bank Report, 1995.

3. THE STRUCTURE OF LOCAL GOVERNMENT IN CROATIA

The basic principles of local self-government in the independent Croatia were established by the Constitution of 1990. But the implementation of the coherent system of local self-government did not appear until the finish of the severest phase of the war. By the end of 1992 the conditions of relatively peaceful situation were finally secured and the new legal framework for the local government system was passed in the national parliament. A system of local self-government was enacted in 1992 through the *Act on Local self-government and Administration*. Croatia was divided into 20 counties, and several dozens of cities⁵ and over 400 communes. First free local elections for such type of political structure were held in February of 1993. However, taking into account all of the above, this local self-government system was fundamentally shaped to provide for, and secure, a centralized management of public affairs.

Local government in Croatia is organized at three levels: the counties (*zupanije*), the municipalities, and the territorial entities (*mjesni odbori*). The territorial entities are organizations of local citizens responsible for the management of every day local affairs and from that reason don't play a leading role in the system. The system of local governance is basically built on counties and municipalities. They are the starting points for local public goods delivery. Additionally, municipalities are divided in urban (*cities*) units and rural (*communes*) units. Although legal system makes distinctions between two kinds municipalities, their organization and the scope of activities is very similar. All municipalities have elected councils, but mayors or head of communes are elected indirectly by these bodies. Both urban and rural municipalities are constituent parts of counties. Counties also have elected bodies - county assemblies, and their chief executives (*county governors*) elected by these assemblies, not directly by citizens. The territory of Croatia is divided into twenty counties of very different size, ranging from roughly 70,000 inhabitants in mountain region of Lika to over 350,000 in the region of Split-Dalmatia. The capital of Croatia, Zagreb (over 750,000 of inhabitants) has a special dual legal status - as a city and county in the same time.

⁵ After just two years a number of communes got the status of cities, accounting now 123 municipalities with such legal status.

Data provide in table 3 show that local governments units in Croatia are relatively small. The highest number of local government units count between 2,500 and 5,000 of inhabitants. The biggest portion of population, as data clearly show, is concentrated in 16 largest cities.

Municipalities by population group	Total population in respective group		Number of municipalities in respective group	
	Number	Percent	Number	Percent
Greater than 35,499	1,842,615	42.1	16	2.9
24,500 – 35,499	223,265	5.1	8	1.5
14,500 – 24,999	327,205	7.5	19	3.5
8,500 – 14,499	484,155	11.1	43	7.9
6,500 – 8,499	274,370	6.3	37	6.8
4,500 – 6,499	370,480	8.5	69	12.6
2,500 – 4,499	539,668	12.3	161	29.4
1,500 – 2,499	245,532	5.6	123	22.5
Less than 1,500	74,062	1.7	71	13.0
TOTAL	4,381,352	100.0		100.0

Source: Central Bureau of Statistics, 2001

At the beginning of 2000 the local self-government system comprised 421 communes, 122 cities, 20 counties and the City of Zagreb with a special and unified territorial unit with the status of a county. Local government affairs included various social services, like pre-school education, culture, sport and social welfare, as well as typical responsibilities of local governments, like environmental protection, urban planning, and communal facilities. Counties jurisdictions involve mostly the affairs of harmonizing the interests and securing the common development of municipalities.

Responsibility for the provision of public services were delegated to the authorities closest to the citizens, the higher level being considered only when the coordination or discharge of duties was impossible or less efficient at the level immediately below. But the government failed to bring local government legislation up to standards with the European charter. For example, the Law on the Determination of Affairs of the Self-government Scope of Local Self-government Units prescribes that all affairs not determined by law as local affairs are to be carried out by the ministries and other central administration bodies. This does not correspond with the European Charter of Local Self-government, which in paragraph 2, article 4 states that "local authorities shall have full discretion within the limits of the law to exercise initiatives with regard to any matter that is neither excluded from their competence nor assigned to any other authority".

For the whole period of seven years, from 1993 to 2000, just two new responsibilities have been transferred to local government units. By the end of described period, in 1999, they took responsibilities for running fire departments and cable registries from the central-government administration. Clear picture of local governments responsibilities in the provision of public goods is depicted in the appendix to the paper, but figures in table 4 clearly indicate the role of public spending in Croatia in comparative perspective. Under the data provided by IMF

(nevertheless of their well-known shortcomings) the importance of local government structures in provision of typical local public goods is among the lowest between comparable countries. This is particularly the case with education, health and social security and welfare, which are yet providing at the local governance level in many transition countries. Except recreation and culture all other public services provided at the local level are substantially below the average level for transition countries.

Table 4 – Sub-national Shares of Total Government Spending by Functional Classification (percent)						
	Public Order and Safety	Education	Health	Social Security and Welfare	Housing and Communal Amenities	Recreation and Culture
ALBANIA	-	80.19	29.91	19.08	31.77	34.03
BULGARIA	2.17	59.53	44.11	8.30	68.95	26.69
CROATIA	2.29	16.70	0.95	0.95	49.57	58.38
CZECH	17.20	17.22	5.98	8.03	68.47	61.89
HUNGARY	6.86	46.99	44.83	11.99	74.10	43.97
POLAND	34.30	72.47	87.36	17.49	86.92	76.13
ROMANIA	4.80	9.23	0.36	2.97	83.01	34.74
SLOVAKIA	5.69	2.40	0.26	0.49	56.74	27.00
SLOVENIA	5.88	23.92	1.61	1.14	77.64	45.33

Source: *Government Finance Statistics Yearbook*. Washington: IMF, 2001.

4. ACTORS IN THE PROCESS OF DEVOLUTION

Probably the most intriguing moment in the new devolution policy in Croatia is the fact that the leading actor is actually central government. The national government immediately after last parliamentary elections held on 3 January 2000 announced the reform of public administration, with the decentralization as the objective of highest order. Elements in reform proposal that might be counted as a part of "devolution package" included: horizontal decentralization, offering broader responsibilities for local government units through a general clause, bolstering the principle of subsidiary, increasing of the fiscal capacity of regional and local units and gradual territorial transformation in order to establish less number of regional (county) and municipal units. Public administration project was just one chain of the general government program of national development. In mid 2000 central government announced preparation of the Project on the Development Strategy 'Croatia in the 21st Century.'

In November 2000 appeared the new actor. National government and one of the leading NGOs - the Open Society Institute in Croatia (OSI) concluded an agreement on the implementation of the project 'Decentralization of Public Administration'. The

implementation of the project was devoted to the Croatian Law Center (CLC), as a most sub-branch of OSI. For each field was created special expert team, consisting of various social scientists, lawyers and experts in relevant areas of public services. The program of the proposed project included 9 specific fields: electoral system for local elections, territorial organization of local and regional self-government, legal status and competence's of local self-government, status of local officials, decentralization of primary and secondary education, decentralization of health care, decentralization of social services, decentralization in the field of culture, and financing of local and regional self-government.

Additionally to the above mentioned programs of decentralization from the beginning of 2000, a number foreign organizations and independent domestic consultant institutions were included in discovering of optimal paths for Croatian devolution. These programs have been supporting by central government departments in some cases, or by particular local government units or out by different domestic and foreign entities, receiving various levels of support and co-operation from state bodies, or they have been performing completely independently. The examples of these projects are as follows:

1. Project on the Reform of Social Security (*Ministry of Labor and Social Welfare, World Bank and DFID, United Kingdom*);
2. Fiscal Decentralization Project (*Ministry of Finance, USAID and Barents Group, United States*);
3. Project of Technical Assistance in Formulating Frameworks for the Conceptualization of the Regional Policy of the Republic of Croatia (*Ministry of Public Works, Reconstruction and Building and European Union*);
4. Public Expenditures Analysis (*Ministry of Finance and World Bank*);
5. Local Financing and Local Budgets in the Republic of Croatia (*Institute for Public Finance, Croatia*);
6. Project on the Reform of Local Self-government in Croatia (*Urban Institute, USA*).

The list of main participants in the process of devolution show the absence of grass-root organizations, associations of municipalities, local voluntary organizations, local chamber organizations, shortly speaking, all of those actors that can substantially contribute to the devolution of governance in the Croatian case. What might it mean for the prospects of devolution policy is the matter that will be discussed in the following parts of the paper.

5. DEVOLUTION FROM THE ABOVE

Devolution process was accelerated by July 2001 after the Croatian Parliament passed the new Act on Local and Regional self-government and enacted amendments to several laws regulating local financing, and separate fields of social services as education, health insurance and social protection. Government actually transferred to the counties, and in the case of primary education to cities with higher fiscal capacity, responsibilities to finance certain parts of primary and secondary education, social protection and health insurance. In other words, in all three spheres where the share of Croatian local government units were substantially lesser than in other transition countries (see table 4).

Except this, it is very important to point out that by amendments on the laws on primary and secondary education was returned the right of establishing schools and halls of residence to municipalities and counties. It was extremely important moment, because that right was taken away from then existing communes in the early 1990s and transferred exclusively to the central government. By returning the rights to establishing primary and secondary schools to local governance units the process of devolution is opening chances for the creation of first embryos of really polycentric order. That might open the possibilities for co-production and contracting out. There are lot of proofs that in such institutional environment the foundation of various types of schools will be more easier and that the proliferation of various types of privatized schools might be expected. Also, specialists for education policy thought that it will increase the role of co-production in education services.⁶

The very beginning process of devolution in the sphere of education, health insurance and social protection is just the first sign that the process of dismantling the mono-centric type of governance in Croatia has been starting. For the whole period of seven years, from 1993 to 2000, just the jurisdictions for fire-fighting and cable registries has belonged to the self-government units (Antic 2002: 124). Specialists for fire-fighting showed that the contribution of voluntary fire-fighting organizations substantially decreased after radical centralization that happened even to fire-fighters by the early 1990s.

In the course of the first stage of decentralization, the central government conceded its portion of income tax in order as the functions transferred to the local level will be more easily provided. It was very important policy measure because the importance of income tax and surtax on income tax in financing local self-government units in Croatia is very high, as we will see in the next part of the paper.

The reform approach in the case of Croatian devolution is basically built on functional reviews (Peteri and Zentai 2002: 16). Ministries and other state agencies have to go through functional review of all kinds of existing government activities, separating the core state functions from the series of social service functions. In such circumstances, the devolution is regularly followed by reforms of the civil service. Such an approach has been dominated in devolution policies running in Bulgaria, Croatia and Latvia.

Such an approach to devolution is not rare in transition countries. But the lack of participation of grass-roots actors in the devolution process might be a limited factor in the while process. The fact that just a couple incentives for decentralization came from bellow could limit devolution process, confining it to the simple transmission of power from central to local governments. It is probably the biggest challenge for the devolution in Croatia. Nothing will be achieved if overwhelming political power of central government will be replaced by mono-centric type of governance of local government units. They will continue with in-house production of all public services, imposing to citizens highly cost services and excluding them from the ability to match their public goods preferences. The possibility to organize the provision and production of local public goods due to their economies of scale and the logic of

⁶ See separate study of the CLC's expert team dedicated for decentralization of education. The importance of co-production in educational services is stressed in many studies run in social sciences. The mono-centric type of governance in the provision of education services which prevailed in Croatia in past twelve years completely refuted such way public goods production.

externalities and spillovers is the crucial prerequisite for an efficient system of self-governance. (Grewall, Brennan and Newman, 1980)

6. ANALYSIS OF LOCAL GOVERNMENT BUDGETS

A standard indicator of the size and significance of local governments in fiscal studies is the relationship of its revenues to total state GDP and its share in the total revenues of a consolidated general government. But such measure has a limited usage. The high share of local government units in GDP and total public spending does not directly mean the higher degree in local government development. For example, a lot of countries evolved from the Soviet Union have substantially higher shares of local government spending in total public consumption than Central European countries (see table 5). Nevertheless, no one will conclude that the importance of local governance is higher in those countries than in Central Europe. The higher shares that belong to local governments show, for example, the basic weakness of the central state.

ALBANIA	18.76
AZERBAIJAN	24.57
BELARUS	43.50
BULGARIA	18.72
CROATIA	13.47
CZECH REPUBLIC	21.69
ESTONIA	21.12
GEORGIA	28.80
HUNGARY	20.66
KAZAKHSTAN	45.45
KYRGYZ REPUBLIC	23.35
LATVIA	29.65
LITHUANIA	22.24
MOLDOVA	23.64
POLAND	38.87
ROMANIA	11.37
RUSSIAN FEDERATION	40.91
SLOVAKIA	7.35

SLOVENIA	11.46
TAJKISTAN	31.33
UKRAINE	29.57

Source: *Government Finance Statistics Yearbook*.

Washington: IMF, 2001.

Having in mind the above mentioned limitation of the standard fiscal approaches it is evident the Croatian share of local governments in total public consumption is lesser than in majority of transition countries. The only examples with lesser shares are Slovak Republic and Slovenia. The share of local governments revenues shows a slow tendency of increase in terms of both GDP and consolidated general state revenues. In 1999 the proportion of local budget revenues within the consolidated budget revenues of the state was 10.32% and the local component of GDP was 5.79%. In 2000 their proportion of consolidated budget revenues was 11.07% and of GDP, 5.25%.

Taken as a whole, the major portion of the total revenues of municipalities and counties are current revenues (tax and non-tax revenues) which, in 2000 accounted for 87%. Capital revenues was 7%, while the share from transfers was 6%. Tax revenues accounted for roughly 55 per cent (table 6) of total revenues. The major part of the tax revenues comes from shared taxes (income tax and profit tax) which together make up around 47 per cent of all revenues. Tax revenues prevail in urban areas, namely in the city budgets where they make up more than half (60 per cent) of total revenues, and also at the county level (62 percent). In communes, however, such fiscal source provide just a third of their revenues, while the largest source for local government finance are non-tax revenues as various types of fees, user-chargers and rents. The importance of such fiscal source for city and county budgets is also high but not as much as for budgets in communes. Transfers or grants-in-aid as a proportion of total local government revenues amounted to 6 per cent. But these revenues are a more significant portion of county budgets it represent roughly 12 per cent of all revenues.

TYPE OF REVENUE	Total	Communes	Cities	Counties
Total revenues	100.00	100.00	100.00	100.00
Tax revenues	55.69	34.09	59.50	55.13
Non-tax revenues	31.48	41.00	31.37	32.24
Capital revenues	6.68	10.34	6.57	0.64
Transfers	6.15	14.57	2.55	11.99

Source: Ministry of Finance of the Republic of Croatia

If we try to separate between various types of taxes (table 7) the predominance of shared taxes is evident (90 per cent). All kinds of local taxes, like taxes on consumption, local business activities and real estate, represent just 10 per of all taxes.

The list of these taxes is very long - tax on company names, tax on holiday homes, tax on the use of public areas, tax on advertisements, expenditure tax, motor-vehicle tax, tax on boats, and the like - but their importance is very small.

Table 7 – Distribution of tax revenues (in per cent)				
	1999		2000	
	Cities/Communes	Counties	Cities/Communes	Counties
Shared-tax revenues	90.01	79.43	90.60	85.73
Own Tax revenues	9.99	21.57	9.40	14.27

Source: Ministry of Finance of the Republic of Croatia

Generally, the system of financing local governments in Croatia strongly rely on shared taxes, as actually one form of transfers, because the local governing units have little power to choose the tax rate or the tax base (Bahl, 2000). In the situation when the bulk of tax revenues are shared taxes the real maneuver space for local government policies is limited in a certain degree. These kind of taxes are shared with the national level and actually represent one form of transfers. Out of any discussion is the fact that local taxes do not have any significant impact in the budget at any level of local self-government.

Analysis of the fiscal capacity of the local government units shows very interesting data. When we take into account municipalities the largest revenues per capita are finding in the coastal area, particularly in the middle-size cities or communes. The richest municipalities earn roughly 3 times more than it is the national average. If we take average total revenue per capita in 2000, which amounted 1,467 kunas (out of transfers) we receive very interesting data. Overwhelming majority of communes (87 percent) and cities (74 per cent) are located bellow national average.⁷ Similar situation is founded when we take into account counties. The highest revenues were earned in the county of Istria, close to the border with Slovenia and Italy, where the revenues were twice as bigger as the national average, and 4.5 times bigger than the revenues of the poorest county of Vukovar-Srijem, highly devastated in the war in the early 1990s. Out of total 20 counties, 7 counties earned below the national average in 1999.

A major handicap in monitoring the fiscal capacity of local and regional self-government units is inefficiency in supervising the execution of the budget. While formally the supervising bodies for the execution of the budget are in place, the supervision is reduced primarily to the control of the accuracy of entering individual items in the books and does not control the budget contents. That leaves the space for the growth of unofficial or grey economy that destroys the public finance system. It is evident that unequal economic development of various Croatian regions is the key factors for unequal growth of revenues per capita and for the creation of ever growing differences among counties.

⁷ The ratio between the richest city of Rovinj located in the tourist area of Istria and poorest city of Pletemica, located in the rural area of central Slavonia, is 12:1.

CONCLUSION

Since begin of 1990s across the world countries have been faced with the challenges of simultaneous globalization and decentralization. The requirements towards more decentralized forms of governing have their point of departure in the necessity for more efficient delivery of various public services. In order to accept these requirements many countries had started with decentralization of their governing structures. That process became particularly strengthened in ex-socialist countries of Central and Eastern Europe, as one of the prerequisites for approaching their economies to standards of market economy. From that reason the elaborations of possible trends in the process of decentralization became the flourishing topic of research for many domestic and foreign social science scholars and experts.

Several countries made significant progress towards more decentralized forms of governing among foreign among former socialist states, but generally, that process is uneven among those states (Dunn and Wetzel, 2000). Using two criteria - institutional development (derived from two elements - government credibility and cumulative liberalization) and general physical and demographic characteristics, Dunn and Wetzel constructed one kind of matrix that explain whether one country has proclivity to more decentralized forms of governing or not. Comparative analysis shows that Croatia does not belong to those countries which more need for decentralization. The group of countries evaluated as pro-decentralized include Poland, Czech Republic, Hungary, Romania and Bulgaria. Croatia was located in the group with Macedonia, Slovenia, Slovak Republic, which was labeled with a less need for decentralization.

Quit opposite to the finding in the previously mentioned study, the research of expert teams within the Croatian Law Center showed that in many distinct social services there are high potential for devolution. Particularly in the health services, educational services, social protection services and services in the sphere of culture. Twelve years of mono-centric type of governance in the social services area showed very bad performances. Devolution of governance in the above mentioned spheres might be a good policy of increasing efficiency in public services delivery. The provision for such type of services can be optimally organized at the local governance level.

The second important thing that should be stressed is the problem of uniformity of local governments units. The proposals of both type of actors, central governments bodies and various types of domestic and foreign NGOs, are mainly directed to abolishment of the number of local governance units. The basic idea they provide is very simple: municipalities must fulfill certain set of conditions, in order to be able to provide the exact list of local public goods. I think that such an approach, based on one type of consolidation as a optimal policy, does not take into account the difference between provision and production. It does not matter when additionally has been indicated that various types of local government units will be faced with different types of requirements (Koprivic, 2002) with small communes in more rural areas at the one side of the continuum and large cities in urban area at the other of continuum. Nevertheless, the crucial distinction between provision and production

It must be noted that several very influential public finance theorists did not accept such decentralization enthusiasm, pointing out many difficulties that might be brought by decentralization policy (Prud'homme 1994; Breton 2000, Tanzi 2000).

was not taken into account. What is the real consequence of the requirement for strict list of services that must be provided to citizens? Mono-centric type of governance continues to exist as a dominant way of governance. State legislators continue to decide upon package of services that would be provided to citizens, instead of they own decide upon such thing.

From that reason the critical point for the further development of devolution in Croatia is escape from the trap of consolidation as a panacea for the problems which local government units have been facing. In that sense, findings of the political economy of metropolitan areas might be very conducive in evaluating Croatian devolution policies.

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APPENDIX

Jurisdictions in providing services, by June 30, 2001				
	All municipalities	Regional or urban city	Central government	Other government
I. EDUCATION				
1. Pre-school	X*	X*	X	
2. Primary	X	X*	X*	
3. Secondary	X	X	X*	
4. Technical	X	X	X*	
5. Open universities	X			
II. SOCIAL WELFARE				
1. Nurseries	X	X	X	
2. Kindergartens	X*	X*	X	
3. Welfare homes	X	X	X	
4. Personal services for elderly	X	X	X	
5. Special services (families in	X	X	X	
6. Social housing	X	X	X	
III. HEALTH SERVICES				
1. Primary health care		X		X (CIHI)
2. Health protection		X	X	X (CIHI)
3. Hospitals		X	X	X (CIHI)
4. Public health		X	X	X (CIHI)
IV. CULTURE, LEISURE,				
1. Theaters	X	X	X	
2. Museums	X	X	X	
3. Libraries	X	X	X	
4. Parks	X			
5. Sports, leisure	X	X	X	X (COC)
6. Technical culture	X	X	X	

7. Archives	X	X	X	X (CNA)
V. EOCONOMIC SERVICES				
1. Water supply	X			
2. Sewage	X			
3. Electricity				X (CEPI)
4. Gas	X			
5. District heatin	X			
VI. ENVIRONMENT, PUBLIC				
1. Refuse collection	X			
2. Refuse disposal	X	X	X	
3. Street cleansing	X			
4. Cemeteries	X			
5. Environmental protection	X	X	X	
VII. TRAFFIC, TRANSPORT				
1. Roads		X	X	X (CRA)
2. Public lighting	X			
3. Public transport	X	X	X	
VIII. URBAN DEVELOPMENT				
1. Town planning	X*	X		
2. Regional urban planning	X	X*	X*	
3. Local economic development	X	X		
4. Tourism	X	X		X (CTA)
IX. GENERAL				
1. Authoritative functions	X	X*	X*	
2. State admin. matters (electoral		X	X	
3. Police			X	
4. Fire brigades			X	X (CFPA)
5. Civil defense			X	
6. Consumer protection	X	X	X*	

* Marks dominant role of respective level of governance

CEPI Croatian Electric Power Industry
CFPA Croatian Fire Protection Association
CIHI Croatian institute for Health Insurance
CNA Croatian National Archives
COC Croatian Olympic Committee
CRA Croatian Road Administration
CTA Croatian Tourist Association

