

## Orbits of the Economy

**Heavy:** Well, I have to admit this sheds a completely different light on those production and productivity statistics, I was showing you. You turned everything on its head.

**Johannes:** As I told you, the numbers mean nothing by themselves. You have to know what geometry you are in; and here we have a *changing* geometry. For example, the U.S. economy before the mid-1960s, and the U.S. economy afterwards, embody different, axiomatically incommensurable geometrical types. These, however, cannot be deduced from the data per se, any more than astronomers could *deduce* the true orbits of the planets, and the organization of the solar system, from the apparent motions as seen from the Earth. Because in and of themselves, the apparent motions were compatible with several, mutually inconsistent interpretations—just as I have shown you for your productivity data.

Just as the planets sometimes appear to be moving in one direction, when in reality they are moving in the opposite direction, but appear to do so only because we observe them from a moving Earth; so your data give a distorted picture of reality, like all mere sense perceptions, because of the changing geometry of the whole. To discover the real ordering of changes in the economy, you need a physical hypothesis, as Kepler did for the planetary orbits; an hypothesis which cannot be deduced from perception or data more generally, but belongs to a realm beyond the discrete manifold of perception.

**Nerd:** You mean, we have to do, for economics, what Johannes Kepler did for astronomy?

**Johannes:** Exactly. It's very simple. I'll show you next time.



*Part 2 to come next week.*

## Croatian Highway Is A Key European Project

by Our Special Correspondent

Connecting continental Croatia to its Dalmatian coast, especially the important port cities of Rijeka and Split, by modern four-lane highways, was first outlined back in 1961 by the mayor of Split. The idea was accepted by then-mayor of Zagreb Veceslav Holjevac, and the proposal was made to the Croatian communist authorities for consideration. At that time, Yugoslavia had a large, so-called Central Investment Fund. Money from that fund was mainly directed to finance development of industrial facilities, while transportation infrastructure investments were mainly directed to railroads. However, the problem was the lack of vision for the whole country, and protection of some political clientele interests in Serbia, because the Fund was controlled by the powerful Interior Minister, Aleksandar Rankovic. Therefore, authorities of the Croatian federal republic were forced to find another source to finance this large project, which was not one of Yugoslavia's development priorities.

After President Josip Broz Tito removed Rankovic and his police apparatus in 1966, some winds of freedom began to blow, and expanding space for the federal republics was created. This was the beginning of the "Croatian Spring." Already in 1968, Croatia began issuing public bonds to finance the highway project. The amount of bonds issued up till 1972 never amounted to the full investment needed, but served as an impetus to commence construction. It was hoped, that under new Constitutional amendments, the republics would gain more influence on the distribution of federal revenue, which was directed to and distributed by Belgrade.

By 1972, the first section, from the Croatian capital Zagreb, to the western city Karlovac (39 kilometers), was completed, together with 10 km of the Rijeka-Karlovac section (Rijeka is the northern-most port city of Croatia). Tito himself opened the Zagreb-Karlovac section, and allegedly asked Croatian communist leaders when they planned to complete the whole highway. But in 1972, the "Croatian Spring" was over. Its leaders, including some Croatian communists, were ousted, some of them were imprisoned, and the project was halted. However, during all of the following years, the project was always identified with the aspirations for Croatian independence.

Even though the desired Constitutional amendments were accepted in 1974 and the republics began to control most of their Gross Domestic Product, the new Croatian leadership

agreed not to resume this project, but rather to take part in constructing the Zagreb-Belgrade-Skopje highway. During the 1980s, Croatia completed around 200 km of European network highways, mainly financed by foreign loans. The only initiative to revive construction of the Zagreb-Split project was publicized in 1982, when additional bonds were is-

sued. However, the project was never resumed, and the money evaporated in other funds or was devalued by inflation.

## The War Intervenes

After Yugoslavia signed its first standby arrangement with the International Monetary Fund (IMF) in 1981, its pace

## Is the IMF Blocking Croatia Reconstruction?

Following strong opposition in Croatia to the diktat of Hans Flickenschildt, International Monetary Fund Executive Director for Croatia, who visited the country in mid-February to block development of an important road corridor, the IMF representative stated on Feb. 18 that he does not want to interfere in Croatia's priorities for the project. Flickenschildt had also been criticized by *Neue Solidarität*, the newspaper of the LaRouche movement in Germany, for stopping Croatia's reconstruction. Whether the IMF has actually decided not to oppose this key project, remains to be seen.

True to its record, the IMF is again doing what it is best at: destroying the economy of nations. This time, the only real, major infrastructure project these days in Croatia, the construction of the Zagreb-Split highway, is under IMF attack. The project would create 10,000 jobs directly, revitalize the dying Croatian construction industry, and give new impetus for the development of the underdeveloped regions along the route. Above all, the project, which dates back to the 1960s, has rekindled a spark of optimism in the population, with many hoping that the project would be the beginning of an economic change.

But then, the IMF intervened: In January, Flickenschildt, in a public statement, bluntly forbade the go-ahead for the project. According to the IMF, debt service for the project constitutes "too high a burden" for the already-strained state budget. This is ridiculous, because the repayment of debt has already been secured outside of the normal budget. The Croatian government, led by Prime Minister Ivica Racan of the Social Democratic Party (SDP), who heads a fragile five-party coalition, was caught by surprise by this announcement. Should the government give in to this pressure, it could fall. The social and economic situation in the country is a disaster, due to IMF-enforced austerity policies. Right now, a new IMF standby agreement is being negotiated in Zagreb, with the highway an explicit issue in the meetings.

Many Croatians consider the fate of their country as quite similar to Argentina. Unemployment has reached 25%. Due to continuous IMF shock therapy programs, the



*Croatian Prime Minister Ivica Racan (right), shown here with NATO Secretary General Lord George Robertson. If he gives in to the IMF's pressure, his fragile coalition government could fall.*

state sector has been systematically decimated, and living standards have declined. Trade unions have been forced by the IMF to accept deep wage cuts and to give up their right to strike. One union which did not capitulate, the Independent Trade Unions of Croatia (NHS), the second-largest in the nation, now finds itself under a lot of pressure. In protests in December, the union asked the government to fulfill its election campaign promises, and demanded "a program of economic and social development of the Republic of Croatia, with concrete activities and time limits." It spoke out against "contracts and arrangements with the IMF, World Bank, and other international financial institutions, that would obligate the country to curtail the labor and social rights of its citizens."

If the right to development is not upheld by Europe and the United States, which, since 1991, have put themselves forward as self-appointed "trustees" of the countries of former Yugoslavia, there is going to be a dramatic economic, social, and political deterioration of the region. This arrogant and incompetent policy is going to have far more dangerous consequences for international security, than all the supposed al-Qaeda networks in the Balkans. It is clear, that the Anglo-American war faction wants exactly that. But the challenge is to those who have some sense of reality, to change course and order the IMF to shut up.—*Elke Fimmen*

of overall development, which had been among the highest in the world during the 1960s and '70s, began to slow. By 1988, all highway construction was halted. Nobody in Croatia believed any more in the completion of the Zagreb-Split highway. Between 1991 and 1995, starting with the Serb rebellion, the whole region around the northern Croatian and Dalmatian coast was occupied, and Split and Dalmatia virtually cut off from the rest of Croatia. The region was devastated by the war.

During President Franjo Tudjman's rule, the highway project was put back on the agenda, together with the Danube-Sava canal project that had been cancelled by Belgrade in 1966 for alleged financial shortages. Designs that had been prepared years ago, were put on the table, adapted a bit, and the first work on the highway commenced during the war (1994-95), on the Sveti Rok tunnel (through the huge Velebit mountain chain, which separates the coast from the hinterlands) and the destroyed Maslenica bridge, both near Zadar.

After the war, Croatia's so-called credit rating was very low, and the government, in 1997, signed a framework agreement with the U.S. construction company Bechtel. It stipulated Bechtel's construction of 130 km of highway, including the section to the Bosnian border via Sisak, a town south of Zagreb. Bechtel was obliged to purchase a commercial loan of \$220 million and to facilitate additional financing on the credit markets. The Croatian Road Authority, in 1998, signed a consecutive contract for the planned scope of works, which was amended in 1999. This contract finally defined the route from Karlovac (Bosiljevo intersection) to the Sveti Rok tunnel. The Sisak section to the Bosnian border was cancelled.

### Croatian Companies Get Contracts

The total cost of the project is \$990 million on a length of 190 km, with a target price of \$5 million per kilometer. Interesting are two facts: First, the tunnels were contracted directly to Croatian companies that either will carry out the work alone, or in joint ventures with Strabag, a famous Austrian tunnel construction company. Second, Bechtel, which formed a joint venture with the Turkish firm Enka, sub-contracted more than 50% of the works to Croatian companies, as stipulated in the contract. Subsequent sections in Dalmatia are designed, and some are already contracted to Croatian companies.

In 2000, the post-Tudjman Croatian government decided to accelerate the pace of construction, moving completion dates up to the main tourist season of 2005. A viable plan was found to finance the whole package of this and other necessary highways in the country, including those belonging to the European transport corridors V and X. The government formed a new, 100% state-owned company, Croatian Highways, in order to meet the accelerated schedule. The company counts on stable revenue from tolls on the existing highway network, and increased revenue from higher gasoline and oil prices, which creates the precondition for servicing normal,

FIGURE 1



syndicated loans of bank consortia. Nevertheless, repayment of debts for the whole investment, estimated to be \$1.7 billion, is a source of concern to the IMF supervisors, who recently bluntly warned the government not to build the highways. Their argument is the usual (incorrect) one: Debt repayment and service will supposedly burden the already strained state budget. However, as stated already, this argument does not hold, since repayment has already been secured by non-budgetary revenue.

So far, the government is talking about 10,000 new jobs. This project means a revitalization of the dying Croatian construction industry, and the possibility of development of the backward counties along the routes. Up to 25,000 jobs could be created. Most important, a new optimism has arisen in the nation. Recent polls show that people expect the project to be a very long-awaited economic impetus for development. Second, the loan of equipment, construction material, and other existing and planned local facilities can facilitate similar works in nearby Bosnia, when highway construction commences there. Bechtel-Enka are already exploring the Bosnian market, and are preparing for assignment of works by Bosnian authorities. Interest is rising in small-scale production and setting up medium-sized facilities and service installations along the route. Increased budget revenues from new production and services will result from jobs created either directly through construction, or indirectly through new industrial and service facilities along the route.