

## Chapter 9

# UNEMPLOYMENT AND EMPLOYMENT IN THE REPUBLIC OF CROATIA

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### ABSTRACT

The labour market has the most important role in determining the standard of living of citizens of the Republic of Croatia, but this labour market is characterised more by the aim of preserving existing employment than of creating new jobs. Unemployment is a burning topic, irrespective of the considerable differences in data about employment or unemployment in various official sources. The paper will detail EU activities connected with employment, analyse the labour market and measures for reducing unemployment in the Republic of Croatia, and propose some ways in which the labour market might be improved.

#### **Key words:**

employment, unemployment, labour relations, labour market, Republic of Croatia, EU

## INTRODUCTORY REMARKS

It can be sensed intuitively that over the long run unemployment, the regulation of labour relations and the situation in the labour market will not create a very great obstacle for the Republic of Croatia to achieve convergence with and join the European Union. Croatia is a small country, and although there is a large number of unemployed people, this should not affect the trends in the EU labour market, while the geographical mobility of the unemployed is limited by language and cultural barriers. Still, trends in the labour market could well be short-term and medium-term hurdles to Croatia's joining the EU. The most important reason is to be found in the relatively high payouts for welfare policy in the broader sense of the word, payments which are mainly channelled towards the poor. While the number of clients for various kinds of welfare transfers is increasing, the amount available for each individual is diminishing appreciably. According to the World Bank *Study on Social Vulnerability and Welfare Study*, the unemployed in Croatia, along with inactive people, are the most affected by long-term poverty.<sup>i</sup>

In the Croatian labour market, and in the regulation of labour relations, much greater attention is devoted to maintaining existing jobs than to the creation of new employment opportunities. Legislative solutions and political figures in the Republic of Croatia are more inclined to extend *the lives* of unprofitable firms than to stimulate the creation of new and sound businesses. This persistent, and exaggerated, maintenance of current employment produces the diametrically opposite result from that desired, and the uncompetitiveness and inflexibility of the labour market have resulted in a reduction of the number of existing jobs, and at the same time restricted the space for new employment. Thus there is a *polarisation* of society into the relatively safe (though, with respect to the cost of living, underpaid) employed (*the insiders*) and the unemployed (*the outsiders*), a very considerable number of whom are long-term unemployed with very slight chances and likelihood of finding work. This shows a total failure to understand (or even to know) the trends to greater flexibility that mark both the global and the regional EU economy, in which the emphasis is not upon *saving jobs*, but on creating the conditions for *employability*.

## THE EUROPEAN UNION AND EMPLOYMENT

When the EEC was set up in the 1950s, its most important goals were to create the conditions for the free movement of goods, services, capital and manpower. Although there was some tendency to bring the populations of the member countries closer together, the practical ambitions of the EEC were economic rather than social, and activities such as *equal opportunities* were believed to be an integral part of the free market system and economic competition. Nevertheless, over the years, the EEC, and later the EU, acquired increasingly extensive authorities in the determination of social policy and action. In this policy, employment and the reduction of unemployment formed an important component of a successful struggle against poverty and social exclusion. In the last two decades, the policy of employment has become an essential determinant of the production of synergy between economic and social developmental goals, and in the attainment of equality and the creation of the opportunities for total participation in civil rights. Much of this was contained in the Social Protocol of the Maastricht Treaty adopted in 1992. This document states the objectives to be attained, and includes the obviating of social exclusion on the labour market and in society as a whole, draws attention to the existence of discrimination in the labour market, the lack of opportunities for training and further training, inadequate protection of minorities, a lower level of social protection and restrictions on freedom of movement.

The condition of employment or the lack of it and the solutions for it vary from country to country within the EU. Esping-Andersen (1990) distinguishes three basic models of social policy, and hence of employment policies. The first is *the neoliberal*, in which the emphasis is on the effectiveness of the market, a restrictive assistance policy in which there is great social stratification (e.g., in the UK). The second is the *social-democratic*, in which there is little stratification, the public welfare system is very developed, the state provides direct protection or financially assists members of society at risk and attempts to improve their quality of life and enable them to participate fully in the labour market or to have security during times of unemployment (the Scandinavian countries, for example). The third is *the corporate model*, in which there is also high stratification, while government intervention is provided via market regulation or financial assistance (for example, France and Germany). There are considerable differences in unemployment rates from country to country, as well as of

unemployment structure, average length of unemployment and attitude to the unemployed, and it is hard to speak of any *average situation* in the EU. In principle, the countries that we have termed social-democratic and that are systematically carrying out an active employment policy (mostly via further training, retraining and professional qualifications for the unemployed, as well as joint financing of the difficult to employ) have lower rates of unemployment (at the end of the 90s, about 6% in Sweden and Denmark). The neoliberal group also has a low rate of unemployment (UK – 6%), while the corporate countries have on the whole a greater rate of unemployment (Germany and France from 9% to 12%). However, of all the EU member countries, traditionally the highest rate of unemployment obtains in a fourth group – the Mediterranean lands, and the unemployment rate at the end of the 90s in Italy, Spain and Greece was as high as 16%.

Monetary benefits and assistance during a time of unemployment, apart from providing material security for the unemployed, are also important labour market regulation mechanisms. The attitude towards them in the EU, from the point of view of their compass, length and amount, is fairly similar to the views about the active employment policy. In the corporate and Scandinavian, or social-democrat, countries, a large number of the unemployed receive monetary benefits (about two thirds in Germany and Denmark) that are relatively high, while in the neo-liberal and in the Mediterranean countries the coverage of the unemployed that receive monetary benefits is lower (from 20 to 30%), and the amounts of the benefits are considerably lower. Still, in all EU member countries, because of increased outlays for unemployed and the reduction of budgetary revenue, and belief that it will encourage the unemployed to be more active in looking for work, since the early 1990s the criteria for being able to claim benefits and assistance during unemployment have been toughened and the relative amounts of the benefits and the periods for which they can be claimed have been reduced.

To put into operation the strategy and measures for the encouragement of employment and economic development, in 1993 the *White Paper on Growth, Competitiveness and Employment* was brought out; in this, the challenges, difficulties and the ways in which they could be solved were clearly stated (*European Commission*, 1993). The EU aim was to spur economic growth based on creativity and productivity, and the implementation of a social or welfare policy acceptable to the member countries, thus improving social and economic cohesion. The

European Council helps and encourages members to improve their education and training, including measures of accelerating employability and narrowing the educational gap. The Council constantly stresses the need for the development of an active employment policy, which apart from reducing unemployment, also helps in the reintegration of the unemployed and the provision of equal opportunities for everyone. At the same time, the Council is aiming at the establishment of gender and age equality, the protection of those at risk and ethnic minorities, and a consistent and ongoing encouragement of social integration, under the motto that *employment is the best defence against poverty and social exclusion*.

Since about 1997, the EU has stepped up its activities aimed at reducing social exclusion, and the Amsterdam Treaty stressed the need for the creation of an advisory Employment Committee, while in the same year a decision was adopted about putting an appropriate strategy into force. In this, an increasingly greater stress should be placed on the creation of a system of social protection to stimulate employment and accelerate employability.

*The European Employment Strategy* is part of a broader political programme that the Union launched in 1997 in Luxembourg, and ratified in 2000 in Lisbon, with the purpose of creating an EU that would be the most dynamic and most competitive region in the world, founded upon knowledge, a sustainable environment friendly to economic growth, in order to induce greater employment and social cohesion. In the conditions of the creation of a common market and currency it is necessary to coordinate, adjust and approximate (though not to equate) social policies, in order to deepen the consensus and to make use of the experience of various different states. There was total acceptance of the viewpoint that employment and social protection had to work together for the purpose of reducing exclusion and stimulating integration via participation in the labour market. In its monitoring of unemployment and employment and social policy, the EU regularly collects and considers 18 indicators<sup>ii</sup> connected with the fight against poverty and social exclusion. The list of these indicators draws attention to the complexity and multidimensionality of poverty and constitutes a foundation for the consideration and working of national and international programmes and the construction of a poverty eradication policy.

*The European Employment Strategy* defines the framework of the employment programmes for member countries, which the coun-

tries make annual reports on. The member countries carry out and report on their employment and labour market policies to do with four groups of issues:

- *improving employability and quality of work* – with an emphasis on an active labour market policy, particularly oriented towards the young and the long-term unemployed;
- *the development of enterprise* – most of all through deregulation, the simplification of approaches to the market and the easier foundation of small firms;
- *encouraging the adaptability of firms and employees* in which an important active role is given to social partners;
- *the strengthening of the equal opportunities policy*, focusing on the problem of employment and equal conditions of work for women and people with reduced capacities for work.

As for *employability and quality of work*, in the reporting process the emphasis is placed on the supply of work, while relatively little attention is devoted to the actual quality of jobs. A considerable advance has been made in improving knowledge and expertise, and in whole-life learning and professional development. Half the members have adopted whole-life learning strategies, but the implementation of them is still in the early phases. At the level of the EU and within members there is clearly lack of adequate coordination and synergy among various competent bodies (ministries, offices and agencies). Within the set *developing enterprise*, a great accent is placed on the simplification of administrative procedures and legal approaches that determine the creation and development of business units. In several countries there is increased activity aimed at suppressing unreported work, while at the same time there is an attempt (slow, if truth be told) to reduce the burden of taxes and social security contributions. In most countries, ongoing attempts are being made at simplifying the regulations concerned with hiring and firing, which are believed to be essential components of labour market flexibility. Other forms of flexibility relate to *flexible working time* and flexible forms of work. In many countries, the social partners are working very hard together to improve security and health at work, because as a whole the situation is not satisfactory. Surprisingly, most countries have not undertaken (or at least, have not informed the EU about) any very significant activities to achieve full computer literacy in society up to 2003. Some countries are a very fine

example of activity and innovative approaches to *gender equality in the world of work*, a better *synchronization of life and work*, and the reduction of diverse forms of discrimination (especially Denmark).

As a whole, the achievements of the *European Employment Strategy* are very positive and encouraging. Today the results of the coordination of employment policies can be seen. Since 1997, more than 10 million jobs have been created, and the number of unemployed has been reduced by more than four million. Particularly much was achieved in 2000, when the EU saw an average increase of 3.3% in GDP, an increase of productivity of 1.6%, accompanied by the creation of three million new jobs, and a reduction of the rate of unemployment to 8.3% (corresponding to the level of the early 1990s). According to predictions of the rate of unemployment of those capable of working and of the employment of women in EU member countries, these should be 67 and 57% by 2005, and 70 and 60% by 2010. At the same time, valuable effects of structural reforms in the European labour market were seen, particularly greater employment in the high technology and scientific research sector, as well as improved entry of women into the labour market.

What remain of the essential structural weaknesses of the European labour market are the still high share of long-term unemployed (especially the young), considerable gender biases and low rates of unemployment for older workers. By 2010 the rate of employment for those in the 55 to 64 age group should be increased to 50%. Everything stated here is a sign that it is necessary to make use of the various mechanisms for achieving a lasting improvement in the labour market. Part of this, undoubtedly, is the active European employment and labour market policy, but this is not enough by itself. For this reason in the future the aim of the strategy should be the achievement of a synergy of active employment and labour market policies and coordination of macroeconomic policies. Employment and the condition in the labour market are of common interest, and in conditions of monetary union they cannot be left only to the member states.

Just as the employment/unemployment situation varies in the different EU member states, so there are considerable divergences among the countries that are in the first round for joining. In fact the differences are almost greater than the similarities. While one group of such countries had relatively low rates of unemployment in 2000 (Estonia, Czech Republic, Hungary 7 to 9%), a second group had very high rates of recorded unemployment (Bulgaria, Slovakia and Poland

15 to 18%). Slovenia, after a high recorded unemployment rate in the 1990s (around 15%), managed to cut this to around 12% in 2000 (Vidović, 2002). The unemployment rate alone is not an adequate indicator of the gravity of the situation in the labour market; rather, the structure of unemployed looking for work needs to be made clear. In this Poland is the best off – the long-term unemployed (those waiting for work for more than a year) were about 40% of total unemployed, while Slovenia was worst-off, with almost two thirds of the unemployed waiting for more than 11 months. The situations in Bulgaria and Latvia are only slightly better. It would seem that the existing situation in the labour markets – high and debilitating unemployment – is nevertheless not an insuperable barrier to entry into the EU, not even for large countries such as Poland and Romania; hence there is no reason to suppose that it should be for Croatia either.

As from its own members, the EU sets those countries in the first round (Poland, Czech Republic, Estonia, Hungary and Slovenia) the requirement to draw up *annual national employment programmes*, and reports on their implementation. At the same time, the EU does not impose any particular requirements on them for the transitional period in the sense of employment and hiring, but does seek additional information about social protection, labour legislation, equal opportunities for men and women and discrimination in hiring.

## **MOST IMPORTANT CHARACTERISTICS OF EMPLOYMENT AND UNEMPLOYMENT IN CROATIA**

This part of the paper will consider features of the labour market in Croatia, particularly the working age population, rates of activity, trends and markers of employment, and the scope and structure of unemployment. In the ten year period under observation, from 1991 to 2001, the total population fell by 150,000 (3%), but the working age population increased by more than 500 thousand. Simultaneously, the activity rate (active in labour force / working age population) fell from 65.3% in 1991, to 50.7% in 2000. This reduction was mostly the consequence in a fall of the number of employed persons (by 285,000 or 14%), which was accompanied by a growth (absolutely and unexpectedly weaker) in the total number of unemployed persons (69,000). The greatest absolute fall in the number of employed was recorded in legal entities, irrespective of the form of ownership.



Table 1. The demographic structure of Croatia 1991-2001 (in thousands)

	1991 <sup>a</sup>	2000 <sup>b</sup>
Population as a whole	4,499	4,349
Working age population	3,125	3,647
Active	2,040	1,850
Employed	1,811	1,553
Unemployed	229	298
Inactive	1,711	1,797

Source:

<sup>a</sup> DZS(1993:78)

<sup>b</sup> DZS (2002:131)

Table 2. The active agricultural population, employees in legal entities of all proprietorial forms, in trades and freelance or selfemployed occupations<sup>a</sup> (in thousands)

Characteristic	1991	2000	Indices 1990=100
Active farm population	265	166	62
Total employed	1,432	1,258	88
In legal entities of all forms of ownership	1,303	1,053	81
In trades and freelance or self-employed occupations	129	205	160
Unemployed <sup>b</sup>	254	357	140

Source:

<sup>a</sup> DZS (2002:115)

<sup>b</sup> DZS (2002:11)

Table 3. Structure of the labour force according to qualification level

	Employed		Unemployed	
	1981 <sup>a</sup>	1986 <sup>b</sup>	1996 <sup>c</sup>	1996 <sup>c</sup>
Total	100	100	100	100
Elementary school not completed	19	17	9	4
Elementary	21	20	21	19
Secondary <sup>d</sup> :	48	49	53	67
Colleges	5	6	7	4
Polytechnics, universities, academies	7	8	10	6

Sources and notes:

<sup>a</sup> RSIZ Usmjerenog obrazovanja, 1985.

<sup>b</sup> Republic bureau of Statistics (RBS, 1988. Dokumentacije 701 and 705, Popis radnika udruženog rada 1986.

<sup>c</sup> DZS (2002:128)

<sup>d</sup> For the sake of comparability between years, for 1986 the 1st and 2nd degree of "directed education" are assigned to elementary school, and 3, 4 and 5 to secondary school. For all years, schools for skilled and highly skilled workers and other secondary schools are lumped together as secondary schools.

However, divergent trends with total unemployment should be remarked: while the number of those employed in legal entities has fallen by practically a fifth, the number of those in trades and self-employed occupations has increased by almost three fifths. If we look at employment in legal entities not including the army and the police (which is the only definition of employment comparable over the whole period), the fall came cumulatively, as compared with the situation before the transition, to about 35%, with a recovery that is visible only at the end of the period under observation (Biondić et al., 2002).

In spite of the difficulties in employment, in the whole period after 1980, there has been a sustained and continued improvement in the qualifications and employment structure of those employed in Croatia. This is the consequence of the hiring of skilled younger people, as well as the further training and education of those already employed. Since changes are however best visible at longer intervals, we give some details about the labour force in 1981, 1986 and 1996 and, for comparison, data about the educational structure of the unemployed in 1996.

The educational and qualification level of the population and the employed are important factors in employment, the alleviation of poverty and social exclusion, and the attainment of economic development. In a relatively short period, the structure of the labour force according to level of formally acquired educational qualifications was much improved (of course, we do not go into the question of the real quality of given educational curricula and courses). While in 1981 almost half of the employees had not even finished elementary school, in 1996, there were less than a tenth of such people among the employed. The share of the employed who had completed secondary school, which at the beginning of the 1980s was less than 50% of all employed persons, in 1996 was more than a half of all employees. There was a particularly considerable rise in the share of persons with some form of tertiary level education, which increased by almost a half (from 12% in 1981 to 17% in 1996). On the basis of development to date, of the further education of the population and the employees, registered vacancies<sup>iii</sup> (jobs available as reported) and of the educational structure of employees in developed countries, we may expect a further decline in the number of employees who have not completed elementary education, a stagnation in the number of employees with junior college level tertiary education, a slight rise in persons with degrees and a considerable increase in the number of persons who have completed secondary education in the employed category. In comparison with the employed, in the educa-

tional structure of the unemployed there is a higher percentage of persons with secondary education, and a considerably smaller percentage of those with some level of tertiary education, which is actually in contradiction of the widely held opinion that the educational structure of the unemployed is better than that of the employed. Educational level is a really essential determinant of employability. Apart from needs for employees with tertiary education being greater than their percentage in total current employment, unemployed persons with this level of education wait for a job on average a shorter time.

Unemployment in Croatia is mainly structural in nature; i.e., it is the consequence of maladjustment between supply of and demand for labour with respect to the occupations, education, knowledge and skills of job seekers and the requirements of existing jobs. The dynamics of transition from employment, unemployment and inactivity are very weak. When someone has once lost a job, the chances of reemployment are slight. This is exacerbated by the inappropriate education and qualification structure of the unemployed, that is, their failure to have the knowledge and expertise being sought and limited opportunities for relocating to areas where there are certain possibilities of employment. In addition, there are other labour market restrictions conditioned by the relatively small difference (and certainty of reception of) the lowest wages and the various benefits in the welfare system (which does not provide adequate stimulus to active job-seeking), a highly developed underground economy and psychological barriers (such as indecisiveness and incapacity for employment because of long-term unemployment and lack of preparedness for education, the acceptance and application of new knowledge). In addition, labour in the Republic of Croatia is expensive because there are few who pay taxes and contributions, and a large number of beneficiaries of various forms of welfare transfers.

There are two sources of indicators of employment and unemployment in Croatia. Firstly, there are the data about registered unemployment processed by the Croatian Employment Service (CES). The other indicators derive from the LFS (Labour Force Survey), which has been carried out each year since 1996 by the CBS [Central Bureau of Statistics], the methodology of which has been brought into line with the rules and instructions of the ILO and Eurostat, comparability with research in EU countries thus being assured.

According to CES figures, in the given period, from 1991 to 2000, the number of unemployed increased by more than 100,000 or

about 41%. A particularly high rise was recorded in 1991 (almost 60%), when the number of unemployed reached the level of 254,000. A certain revival of economic activities in the second half of the nineties (GDP rose in 1996 by 6% and in 1997 by as much as 6.5%) was not accompanied by increased and more rapid hiring; instead, the number of unemployed went on rising considerably. Average registered unemployment in 2000 was 358,000. After a great fall in the number of reported vacancies (which in some years of the 1980s came to more than 230,000<sup>iv</sup>, and during the 1990s no more than 130,000, with the lowest level being attained in 1991 – about 79,000) in 2001 a considerable rise in the number of reported vacancies was recorded, and it came to 203,000. The increase in the number of available vacancies did not lead to a reduction in the number of unemployed (the number had grown to 395,000 by the end of 2001), but the rise in the growth of unemployment was slowed down; thus the annual rise of 11% seen in 2000 was almost halved in 2001, when it came to 6%.

*Table 4. The most important labour market indicators in Croatia*

Indicator	1996	1997	1998	1999	2000	2001
LFS rate of unemployment <sup>a</sup>	10.0	9.5	10.5	9.9	9.5	10.4
men	11.4	10.9	12.0	13.6	12.8	
women	14.5	16.1	15.0	17.3	16.3	
Rate of registered unemployment <sup>a</sup>	15.7	16.5	17.7	19.5	21.3	22.0
Employment rate <sup>b</sup>	50.6	58.7	43.5	49.3	56.9	42.7
men	47.0	54.5	40.6	44.8	51.7	
women	38.9	42.6	49.7	36.4	41.8	
Share in total unemployment						
men	49.9	50.1	49.2	50.8	47.5	52.5
women	47.3	52.7	47.0	53.0	45.7	54.3
Rise in registered unemployment	8.5	6.4	3.6	11.9	11.2	6.2
Percentage of long-term unemployed <sup>c</sup>	51.3	49.0	50.4	50.3	52.5	52.9

*Source and notes:*

<sup>a</sup> For 1999, i 2000, the average of the half yearly rates.

<sup>b</sup> DZS(2002:131)

<sup>c</sup> Longer than a year.

The number of unemployed according to ILO criteria is lower than the number of registered unemployed, because the criteria are more stringent than those for the monitoring of registered employment. Hence this research shows a considerably larger number of employed and a smaller number of unemployed. For this reason there is a difference in the rate of unemployment in these two sources of more than 5%, unemployment in 2000 according to the CES coming to 21% and according to the LFS to 16%. According to civil service records, more than a fifth of the active population was unemployed, while the LFS suggests a smaller problem, because the average number of unemployed in this system of measurement was smaller by almost 80,000.<sup>v</sup> Approximately since the beginning of 1999, the differences between registered unemployment and the figures from the LFS have been shrinking, since unemployment according to ILO criteria has been rising dynamically. The LFS unemployment level of 16% is not unusual in the transitional countries. The highest rates of unemployment have been recorded in Slovakia and Bulgaria, 19%, while in Poland the rate came to 17%.

Not only is there a high level, but unemployment in the Republic of Croatia is characterised by an average long period of waiting for employment. Half of the unemployed wait for a job for more than a year, and as many as about 30% are unemployed for longer than two years. While in 1991 9% of the unemployed waited for more than three years, in 2000, on average more than a fifth of all unemployed waited this long for a job. More than half of the unemployed in the Republic of Croatia waited over a year for a job.

Important features of the alleviation of poverty during periods of unemployment are the existence, duration and amount of benefits and other rights for the unemployed, which the EU has clearly made a condition for future and current member countries. Article 57 of the Constitution of the Republic of Croatia clearly guarantees material security during unemployment, and the conditions for being able to claim it are laid down in the Law on Mediation in Employment and Entitlements during the Unemployment Period (NN 32/02). Material security consists of the right to financial benefit and assistance, rights to reimbursement of costs during training, the right to travel and moving costs, and the right to health and pensions insurance. The unemployed can also claim other rights, such as social assistance (maintenance assistance, housing costs assistance, various one-off forms of assistance); exemption from the payment of participation in health care; child benefit; tax relief; exemption from payment of court fees; extended pensions insur-

ance; rented housing; free school books and school meals; subsidy for part of the costs at kindergartens, and other things.

Although unemployment benefit is small in absolute terms (from 741.40 to 900 kuna p.m.) and does not last very long (from 78 to 312 days), which is shorter than the average in other countries, the amount given does have a ratio to the average salary similar to that obtaining in the developed industrial countries. We can say that the system of monetary benefits in the Republic of Croatia does provide its clients a certain protection, however limited by the capacities of the country, and at the same time does not create disincentives with respect to active job-seeking. If the amount of the benefit were much bigger, this would be likely to create negative motivation for job-seeking and thus promote the unemployment trap.

Irrespective of the considerable differences in the data about employment and unemployment, unemployment is a burning social and political topic in the Republic of Croatia; apart from there being a large number of unemployed, the long period people have to wait for a job is also a cause for concern.

## **MEASURES FOR REDUCING UNEMPLOYMENT IN CROATIA**

At the beginning of 2002, the high level of unemployment led to the Croatian government launching its *Employment Stimulation Programme* (NN, 21/02). As a result of this programme, the Croatian Employment Service (CES) developed a series of active labour market measures, among which were: incentives for self-employment, loans for small and medium firms and public works. Some of the measures were directed towards speeding up the hiring of young and highly qualified persons with the co-financing of at least 60% of gross pay for the first year and an undefined period subsequently. At the same time, for any people with degree-level education taken on, an employer would receive a grant of 1,000 euros if the employment was extended for more than a year and became permanent. Such incentives are a considerable advance on the common bureaucratic provision of agency services in hiring, and mean a shift directed at users, and are better adjusted with the contemporary activities of the state such as giving monetary benefits, social services and regional development. Still, there is some uncertainty whether these measures for the hiring of the young

and the well educated are well targeted, for they do after all have above-average advantages in finding jobs.

As for other measures, one can mention the need to bring the *Programme for the Encouragement of Self-Employment* on stream, the aim of which is to bring unreported economic activities determined to be the main source of income for a considerable number of registered unemployed within the law. A special problem in Croatia is represented by unemployed persons over the age of 50 for, although it is true that they do not constitute a high proportion of total unemployed (14% as of May 2002), the number of them is increasing the most (up 20% in May 2002 as against the same month the previous year) and make up a considerable percentage of the long-term unemployed; for them, the systematic implementation and enforcing of the *By Experience to Profit* measures.<sup>vi</sup> Not only should older workers be integrated, but special attention needs to be directed to the employment of underrepresented groups: women and the disabled. It is true that the Labour Act does stipulate the protection of the more weakly represented gender, but the experience and attitude of social partners show that the existing regulation is inappropriate and does not produce any effects. At the same time, the integration of all categories of worker that are hard to activate on the labour market should be encouraged.

There have been many awkward or not properly adjusted approaches in social and labour legislation. Until the adoption of recent regulations (The Rights of Croatian Veterans of the Homeland War and Their Families Law, NN, 94/01), disabled veterans of the Homeland War had no incentive to work because a Croatian veteran as unemployed disabled person received 100% of the wage of active members of the armed forces. In this way, an employed invalid of the War had the same rights as those who were unemployed (Office for Social Partnership in the Republic of Croatia, 2002b).

Croatia has witnessed the phenomenon of the simultaneous rise in wages and a fall in the rate of employment (or a rise in unemployment), which is indirect evidence of the rigidity of the labour market. Such trends are characteristic of states in which the legislation provides a high degree of protection for the employed, thus making competition in the labour market impossible. The rigidity of the labour market can be seen in the long, complex and expensive system involved in dismissals (including the cancellation of the employment contract, the legally set notice period and amount of severance pay). This makes turnover in the labour force much more expensive, and the high level

of protection for employment reduces the flows in the labour market, and lengthens the average duration of employment<sup>vii</sup>. The reason for this is that the complex and expensive laying-off process means that the employer will not take on workers if he does not really believe that their work will be long-lasting and productive enough to cover the high costs incurred (Bertola et al., 2001). The result of this complex and expensive manner of firing workers, and the formality of registering newly-hired workers, is that employers, particularly those that fall into the category of small employers according to the Labour Law, will often not take on a replacement for a dismissed worker but rather make use of *black* workers. Also for the sake of making severance easier, most newly-employed workers (almost 80%) are taken on for fixed-time contracts, this kind of work thus becoming the rule and not the exception; it is used, without any control at all, in a way completely opposite to the intention of the regulations of the Labour Act, which is a further proof of the rigidity of the regulation of labour relationships. In addition, in connection with labour market rigidity, it is also worth mentioning problems related to claims of rights arising from labour relations, which is a result not only of the regulation of these relationships, but the problem of the clogged and inefficient judiciary.

In line with the *Programme for employment stimulation*, the Republic of Croatia is carrying out several active hiring policy measures while the rigidity of the labour legislation acts as a brake, tending to work against further employment.

## **POSSIBLE SOLUTIONS FOR THE IMPROVEMENT OF THE LABOUR MARKET IN CROATIA**

Apart from on a better convergence of labour supply and demand, the focus should be on making labour relationships cheaper and more flexible, in order to increase the likelihood that more labour will be taken on. It is not necessary rashly and in a hit-or-miss manner to deregulate the employment and work relationships system, *rather to attempt to find the optimum ratio between the desired labour market flexibility and the required social protection*. Flexibility need not be thought up in such a way as to undermine the standards of labour law, but as an expansion of the far-reaching consequences of the regulatory matter of labour and social law. The point of making



employment relations cheaper and more flexible is seen in getting labour and social (establishing medical and retirement insurance) legislation to work in the same direction and in harmony, and in the procedures for the handling of labour conflicts.

For the sake of the improvement of employability and the reduction of unemployment in the Republic of Croatia, it is necessary to carry out *a review of the entirety of the labour and social legislation and make changes* wherever necessary. This implies *reconsidering all existing forms of contractual relations*<sup>viii</sup>, which will not be an easy task. For while in the area of labour relations there is a fair amount of stability in the legislation, social insurance and social rights are very much subject to being politicised, and there are thus frequent amendments to laws and byelaws, and there is considerable resistance to the reduction of any social rights.

For the sake of reducing tax pressure, and the broadening of the tax base and the cheapening of labour – which are conditions for greater employment – *it is necessary to bring as many as possible of the economic activities of the working population within the limits of labour legislation*, and to carry out the legalisation of those activities of the grey or underground economy which should be brought within the fold of the law.

Activities related to professional orientation, whole-life education and qualification, professional development and the increase of the total stock of knowledge in society ought to be enhanced, and this will increase the adaptability of the labour force and make it more capable of adapting to the requirements of the labour market.

*Active labour market policy measures must be more strongly directed to persons between 15 and 24*, among whom the rates of unemployment are the highest (and in this group, the return from investment in human resources is probably the highest), with the emphasis on training and further qualifications. Training programmes should to the highest measure possible be matched with the demand for given occupations and capacities that will be sought in the future, that is, the emphasis should be placed on qualifying for a known employer.

The labour market *must be monitored all the time, and measures to ensure men and women equal opportunities and responsibilities undertaken*, in addition to measures to facilitate the position and return to the labour market of men and women who have family obligations.

At the micro-level of the company, for the sake of the improvement of productivity and the increase of employability, use should certainly be made of the potentials of the workers' representatives in the workers' councils, while at the macro-level the real possibilities of the agreements of the social partners need respecting. Collective negotiations and agreements of employers and workers' councils should be looked at within the context of sustainable economic growth, and not only as a means for protecting the interests of those currently employed. Long term planning of the activities of social partners could be brought in as a supplement to collective negotiations, in which the emphasis should increasingly be laid upon negotiating at the level of whole industries.

It is important *to redefine the system of the programme for looking after redundant labour*, which, supplementing the agreements of the social partners, would be ensured by the earlier involvement of the CES in the advisory process during the drawing up of the programmes for taking care of redundancies. This could be in line with the EC 98/59 guideline.

In the EU member countries, employment policy is determined and carried out in line with the European Employment Strategy and the annual regulations. The national *Programme for employment stimulation* should be supplemented in line with the market development policy, thus being brought into line with the national employment plans of the member states. The Croatian *Programme* should include all the indicators that the EU member states have accepted in the monitoring of the implementation and effectiveness of policy measures related to four groups of issues.

It is important *constantly to evaluate the effects and influences of the different measures* on the labour market. This implies determining improvements in the possibilities of employing people who have come out of educational programmes. It is also necessary to *consider the costs of obtaining these results*, or the cost effectiveness of given programmes. In the material law protection of the unemployed, it is necessary *to study the justification of extending and/or increasing the amount of the benefits* for unemployed people who accept retraining and professional qualification and the possibility of making one-off monetary grants for the sake of encouraging self-employment and so on.

Also needful is *the passing of a law concerning the professional rehabilitation and employment of persons with a disability* to prescribe the rights of such persons to professional rehabilitation, employment, setting

up activities, to regulate the measures for the encouragement of hiring and work, and to determine the foundation of establishments for professional rehabilitation, secure workshops and work centres.

## CONCLUDING CONSIDERATIONS

U policy relating to reducing or eliminating social exclusion does not stop at hiring, but is directly linked to education and training systems, welfare, prevention of discrimination and other things. The working and effectiveness of this policy can, of course, be jeopardised if it comes into conflict with any desire for the preservation of national sovereignty, hence it is necessary to define quite clearly the scope and sphere of competence of the Union, particularly since a successful employment policy (and hence the struggle against exclusion) requires cooperation at all levels of government. This is the harder and more demanding in that the policy of employment and the battle against poverty and social exclusion do not as yet have in EU practice any clear conceptual definition, which is a barrier to giving shape to the immediate strategy.

The existing high unemployment will probably not be a major barrier to possible Croatian entry into the EU, rather, according to the experience of several countries (Eire and Portugal for example), integration into the EU, because of accelerated economic growth and development and the increased entry of foreign investors can be a very successful way of solving it. In employment policy, we could say that Croatia is on the whole moving in the direction of the policies that are being carried out in Europe. These policies are marked by a narrowing of rights through the implementation of more stringent conditions, and a stronger emphasis on active measures in the employment policy, with unemployment benefits being more linked to participation in training and re-qualification programmes. What remains is the rather fraught task of encouraging a more flexible labour legislation and the removal of organisational and administrative barriers to the foundation of new small and medium-sized enterprises, which should be of the most help in the mitigation of unemployment in Croatia. Within the context of Croatian association with and ultimate membership of the EU, constant attention is required to consideration of the labour market and labour legislation.

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<sup>i</sup> *The working age population (older than 15) can be divided into active and inactive. Active members of the population are those who are employed or who are seeking*

*employment, or who have stopped working to serve in the armed forces or to serve a term of imprisonment. Inactive members of the population are those who are not employed and are not seeking work.*

*ii Of these there are ten primary indicators, such as low income and long-term unemployment, and eight secondary indicators, which are used in the more detailed measurement and comparison of the member countries. The indicators cover four areas of social exclusion: financial poverty, employment, health and education.*

*iii According to data of the Croatian Employment Service, in requirements registered for employees in 1996, about 6% related to college level and 13% to degree level qualifications (CES, 2002: 155), while at the same time the percentage of them in total unemployment was markedly lower.*

*iv This might include jobs that were reoffered, if they were not filled within six months.*

*v Of the total number of registered unemployed, 136,000 of them (or 39%) do not meet ILO unemployment criteria because they are not available to work either for reasons of being inactive (59%) or not looking for jobs, because they did not wish to accept jobs offered or because they were working (41%), because in the LFS they announced they were working. It should also be said that among the unemployed found by the survey, 57,000 or 21% were not registered with the CES.*

*vi Joint financing leads to the hiring of older persons and endeavours to encourage employers to make use of the work experience they have acquired. The measures have been little employed in practice however and do not work from the point of view of raising the self-confidence and security of unemployed older persons; it does not give employers enough incentives to take on the older section of the working population (Office for Social Partnership in the Republic of Croatia, 2002a).*

*vii This effect can be positive for working people because it reduces the uncertainty of being employed. In addition, because of the greater links between employer and employee, employers are more apt to invest in human resources, which is also positive from a social point of view.*

*viii About permanent and short-time employment contracts, with full and reduced hours of work, overtime, constant seasonal and temporary work. As well as this, there should be changes in the provisions of the system of incapacity for work because the relatively large extent to which it is used has a negative effect on employers, especially small employers. This could be corrected by shifting the burden of compensating for wages to the Health Insurance Institute earlier on.*

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