

EMPLOYMENT AND EMPLOYABILITY IN THE REPUBLIC OF CROATIA AS AN ESSENTIAL FACTOR IN THE GROWTH OF GDP

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Economic growth and social inclusion under conditions of ever greater transparency, and the direction of national economies toward global events, is a process that is relentlessly, unstoppably moving forward, and which is becoming even more intense and all-encompassing. How Croatia, a small country with a postwar economy, and which is engaged in a transition process, can find the appropriate responses for growth and development is a key question facing the country today.

Research into the importance and potential of the labor force in Croatia, the rate of employment, the prospects for employment and a definitive assessment of it as one of the essential factors of development, is in its infancy in Croatia. Behind us is 15 years of a different kind of process -- a reduction in the number of employed, especially in the manufacturing industry of the economy, a shortage of significant new investments, and a view of education more as a kind of social and personal obligation than as a fundamental ingredient of personal and national prosperity. Experience, and the results of those countries that have been proactive in this area, demonstrate how essential efficiency in this field is for success in the overall development of society.

Key words: social capital, employment, unemployment, employability, economic growth and development, education, institutions, social costs.

The purpose of this article is to examine the existing limits and dilemmas in this extremely important, and economically and socially sensitive field, and also to suggest possible solutions that are achievable in theory and in practice in a select group of countries, including Croatia. Another goal of the study will be to analyze Croatia's conditions, and to seek an appropriate scientific and theoretical basis for practical solutions in the future.

After the *Introduction*, the first section of the study will present a framework of developments; how in the developed world the interaction between several fundamental values operates: the quality of education, the situation in the labor market, the competitive positions of individual countries, legal regulations that are an essential catalyst for the labor market and finally, the prevailing tendencies for prolonging working careers and the active engagement of the employed work force.

In the second section the focus of interest will be on developments in Croatia. The position and importance of education in specific phases of the development of an independent country, as a derivative of general events, will be analyzed. This section emphasizes the importance of recognizing the value and role of education for economic and social development, and, at the same time, the post-war period of initial capital accumulation in which the system of values rests on different assumptions. Regulations in the labor market will then be analyzed, especially from the aspect of their basic goals and protection of the rights of workers, and the influence that this has on the growth of employment. Differences can be noticed in the possible approach: the position of defending the existing situation, i.e. safeguarding jobs, and/or efforts to raise the level of employability of every participant labor market, regardless of his/her current job.

In the *Conclusion* of the study the author underlines the need to attach importance to the concept of employability to a wider circle of people capable of active employment and stresses that their need for a more adequate education is not something that represents only a specific need of Croatia. It is, as an analysis of outside events will show, an unavoidable factor that has been successfully confronted by the developed world with sustained efforts for continued success. The labor market, its adequate regulation, and well-conceived labor relations are vital elements of the overall context. The adequacy of these relations and the strengthening of the competitive position of a national economy create a situation and a general atmosphere in which retirement at a later age becomes a conscious, rational choice of the individual. At the same time, it also has a social benefit and contributes to the level of GDP, as well as alleviating the financial burdens of the state.

INTRODUCTION

Croatian economic, social and sociological matrices in relation to the degree of (un)employment of its population are contradictory. On one hand, measured by various criteria, there is a high degree of unemployment and a profound lack of balance between supply and demand for labor. There are a high number of unemployed people with a type or degree of education that is neither sought by the labor market, nor relevant, and not only for today but for the future as well. On the other hand, an increasing number of businessmen and companies, both domestic and foreign, are pointing to the need for educated people from various disciplines as a precondition (or an obstacle!) either for continued development, or for reaching a decision on new investment.

Table 1: Administrative and Polled Unemployment Rate in Croatia, 1996. – 2006.

	Administrative Unemployment Rate (%)	Polled Unemployment Rate (%)
1996	15,7	10
1997	16,8	9,9
1998	17,6	11,39
1999	19,5	13,55
2000	21,4	16,07
2001	22,3	15,8
2002	22,3	14,8
2003	19,2	14,25
2004	18,1	13,8
2005*	18	13,1
2006**	18,3	

* The polled unemployment for 2005 is for the first half of the year.

** Administrative unemployment for the period January-February 2006.

Source: Croatian National Bank (www.hnb.hr) (2006)

Here the stated rate of unemployment, both administrative and polled, are high, in absolute terms and in relation to the same values of transition countries. But, the essential measure of this contingent of unemployed should take in consideration and include an analysis of the degree and type of their education structure, and accordingly, the average amount of time that the period of their unemployment lasts.

1. BACKGROUND OF EVENTS

What are the reasons for the accelerated growth and prosperity of the US in the last decade and a half in comparison to the rest of the world, including the Far East and Europe? There are several reasons that can be immediately identified as important: *economy of scale*, becoming the world's sole remaining superpower, a powerful innovative-technological and capital foundation. But, one reason predominates – **developed social capital**,¹ a concept that encompasses general education, health protection, general security and security of property, religious freedom, and awareness of the values and interdependence of living in one's immediate environment and in a broadly diffuse, generally present cultural environment. But, this concept also includes the encouragement to accept entrepreneurial risk in a society where ownership rights, protection of creditors, legal protection for debt repayment, transparent business dealings, and rigorous procedures for financial reporting are clearly defined and protected. This is the first and indispensable step. But, it is not the only one, and it is not sufficient to ensure economic growth and prosperity. Also necessary are the quality and transparency of financial markets, the quality of education and professional training (human capital), and, of course, investment capital – equipment and technology –, as well as developed municipal property and its corresponding infrastructure. These are the basis, and they are the fundamental ingredients on whose interaction – weaker or stronger, synergistically or not – depend the achievement and the extent of economic growth and development.

Certainly, this cycle moves in every milieu by means of a well chosen long-term development model (relying on the *competitive position of the country*) and corresponding operational instruments of economic policy. Education and employment, and this means the adequate accessibility to professionally trained, motivated employees, to a considerable extent determine the overall final outcome. Success in activating all of the remaining segments of development is inspired initially by the professional knowledge of individuals, and by the properly established organization of society and the overall matrices of national development.

1.1. Education, Labor Costs, Labor Regulations

Knowledge and expertise have become the dominant questions in social and economic development. This means that it is also an essential factor for creating new and greater added value, both for the individual, who possesses those qualities and who enters or has entered the labor market with them, and for the position of the national economy: what kinds of investments can be attracted, what kinds of products and services are created and delivered to the market. The sum of these individual values, combined through the

¹ According to Putnam, social capital involves the collective value of social networks and the tendency that emerges from these networks to make things one for the other. For Putnam and his followers, social capital is a key component for building and maintaining democracy. Source: http://dictionary.laborlawtalk.com/Social_capital

activities of the public and private sector in new products and services, also determines the final outcome – in the level of national GDP. At the same time, it is clear, if there is one thing that is valuable and worth acquiring, it is education, treated as an investment in the future.

In developed countries education is increasingly linked with efficiency. This is especially evident in the influence of the information society, of the internationalization of the economy and of science and technical knowledge.

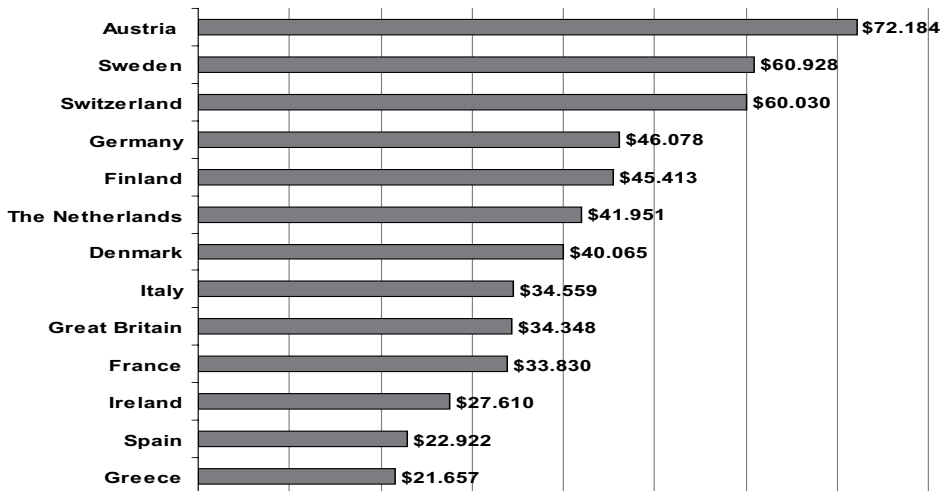
The influence of the information society is mostly present in those types of products that are intended for a certain segment of consumers (*customized type of production*), in a flexible and decentralized organization of enterprises and in a networked system of cooperation, etc.

The internationalization of the economy stimulates the mobility of capital, labor and services, which strengthens Europe's position on the world stage. Important contributions to this effort are being made by various measures to solidify development in the region, the harmonization of technical standards, and real advances in the area of education through program like Erasmus.

Modern education is based on the methodology "learning to learn" in the course of an entire working career. It starts from a broad base of knowledge that has to be accessible to every individual in order to improve or refine that individual's chances for employment and earning a living.²

The level of science and technological innovation achieved in developed countries demonstrates that transition countries, including Croatia, have to devote considerable attention to their educational systems. Education stimulates the mobility of human resources and enables successful communication with all segments of the global marketplace: goods, services, and human resources. Quality education, or the quality of human capital, is especially important for attracting foreign investment.

² "Education in Croatia on the Eve of the 21st Century", Z. Jašić, in *A Croatian Economy for the 21st Century*, Matica Hrvatska, Zagreb, 2000, pp. 195-203

Figure 1: Shelling Out

Source: OECD, from *The Wall Street Journal Europe*, June 19, 2001, p. 26

Investment costs per student range from very high levels – \$60-72, 000 in Switzerland, Sweden, and Austria – to half of that amount or lower in Italy, Great Britain, France, Ireland, Spain and Greece. An important factor is that with a few exceptions (Austria, Italy, and Greece) the period for obtaining a degree is under five years. This means that there is a relatively rapid entry into the labor market and a quick repayment on the investment in education and, at the same time, the creation of new value. The high level of public investment in tertiary education, which on average is one percent of GDP in the EU member countries, is nearly identical to that in the US. But, there is one very significant difference in favor of the US (amounting to an additional 1.4 percent of GDP) and that is in resources from private sources -- donations, endowments, scholarships, etc. -- compared to which the EU countries have only 0.1 percent. The EU has recognized and understood this difference and has established its own goal – that by the year 2010 it will devote two percent of GDP to higher education from these or other sources, but especially and primarily from public ones.³ The quality of education undoubtedly corresponds to the level of investment in university infrastructure, equipment and all of the other accompanying items that enable the instruction to be conducted in the best and most effective manner. This includes lectures by prominent guest lecturers from the academic and outside world and ensuring that students have the opportunity to conduct research during their studies.

³ Expenditures for education in individual Scandinavian countries already greater than this and amount to 8.5% in Denmark, 7.66% in Sweden, and 6.24% in Finland.

Table 2: Public Expenditures for Education (% GDP)

	1998	1999	2000	2001	2002	2003
EU25	n/a	4,77*	4,71*	5,02*	5,14*	5,21
EU15	n/a	4,7*	4,73*	5,01*	5,13*	5,2
Romania	n/a	3,36	2,88	3,28	3,52	3,44
Bulgaria	4,28	4,46	4,19	3,78	4,04	4,24
Ireland	4,82	4,51	4,29	4,26	4,28	4,4
Slovakia	4,53*	4,40*	4,15*	4,03*	4,35*	4,38*
Croatia	n/a	n/a	n/a	n/a	4,32*	4,66*
Hungary	4,59	4,66	4,5	5,1	5,45	5,94
Slovenia	n/a	n/a	n/a	6,08	5,98	6,02
Austria	5,8	5,79	5,66	5,7	5,67	5,48
Italy	4,65	4,7	4,47	4,86	4,62	4,74
Portugal	5,36*	5,42*	5,42*	5,61*	5,54*	5,61*
Turkey	3,26*	3,08*	3,48*	3,65*	3,56*	3,74*

* *estimated*

Source: Eurostat - Education Across Europe 2003.

From the aspect of the national economy, with the stated concern for and dedication to providing a quality education, nothing is more important than the professional disciplines that are offered to students entering a university, so that their diploma represents a *quality and liquid asset* tomorrow, which means that their professional skill is both sought and employable. There is a significant role for the state here. Through its agencies and institutions it can direct students to areas in which there are, or in which there will be, shortages in the labor market. A listing of well-paying professions that are expected to be most in demand on the US labor market (2002-2012) is as follows:

Table 3: Ranking of the Expected 10 Most Sought after Professions 2002-2012

1.	Medical assistants
2.	Network systems and data Communication analysts
3.	Physician assistants
4.	Social and human service assistants
5.	Home felt aides
6.	Medical records and health information technicians
7.	Physical therapist aides
8.	Computer software engineers
9.	Systems software
10.	Physical therapist assistants

Source: US Department of Labor, according to *The Financial Times*, July 28, 2005,
M. Lind: "Exploding the Myths of Global Competition," p.13.

This list may change over time and it may be added to, but the essential trend remains. This list is usually presented with another column showing the costs of schooling at individual universities, and with a column showing financial data on starting salaries for individual professions. This is frequently an important indicator because of the possibility to repay loans that are raised as part of the cost for investing in one's own education. And this is then a complete circle: quality education, market verification, with the highest quality investment, and not as a cost, that in a synergistic way is an element of personal advancement and a contribution to general economic and social development.

It should be noted that four of the 10 professions listed above require some knowledge and capability with computers. The active relationship toward acquiring new and adequate knowledge and skills is also a part of employment policy for that portion of a work force that has lost, or that will lose, its jobs due to outsourcing – for example, portions of the auto industry in the US and in some of the EU member states.⁴

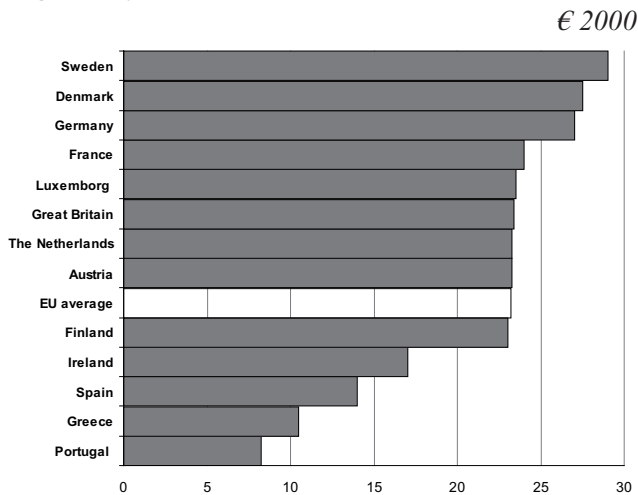
What kinds of new knowledge and to which sector a portion of the existing labor force should be redirected are questions of vital importance to economic and social policy. Hungary, for example, is in the process of attracting foreign investment (*brown field*),

⁴ For example, General Motors employed 14,000 workers in one of its domestic plants in 1978; today, less than 30 years later, that number is 2,500 workers. Another 80,000 jobs in General Motors, Ford and Delphi, the largest producer of auto parts in North America, will disappear in the next three years. Production is moving to cheaper locations in the Far East and Latin America. (Source: *The Financial Times*, June 15, 2006, p. 8.). These efforts should be also be considered comparatively. In China, 400,000 engineers with various specialties are graduated annually, in India 300,000, while in Germany about 40,000. And this is an additional reason for outsourcing and its increasingly greater presence in these regions.

in its automobile industry. Part of the work force from the existing metal industry is being redirected to agro-industrial production by managing the mechanism of the existing knowledge of part of the work force. In this way the technological base of the agricultural sector is enhanced, the high costs of equipment are avoided, as are the costs for early retirement and high long-term social expenditures, along with the additional stigma of social exclusion for that part of the workers who are not employed.

An additional dimension of the educational process, and its quality and its attractiveness to the labor market, lies in the fact that prosperous individuals, families and nations are based to a large extent on the level of wages that are achieved in individual areas.

Figure 2: Average Hourly Labor Costs



Source: The Financial Times, London, July 2, 2003, p. 11.

Labor costs per hour in developed countries are high, in both absolute and relative terms. They range from €28 in Sweden to €27 in Denmark, €26 in Germany (the western part), and €23-25 in Finland, Luxembourg, Great Britain, Austria, and the Netherlands. On average they are lower in Ireland with a per hour labor cost of €18, Greece with €11, and Poland with €8. The overall average for the EU is €23, which closely corresponds to average per hour labor costs in the US industrial sector of €23, and to Japan with average per hour labor costs of €22. This, then, is the whole sequence: the high costs of education and high labor costs demand production and products and services with a very high degree of added value, which can bear this level of costs.

It is also interesting to analyze the number of working hours in the labor markets of individual countries, the length of annual leave and the number of working days compared to holidays.

Table 4: Hours Worked and Holiday Entitlement (*data for 1999-2002*)

	Average hours worked		Average holiday entitlement	
	Per week	Annually	Vacation days	Statutory days
Japan	-	1,955	18	11
SAD	40.0	1,904	12	11
Switzerland	40.5	1,844	24	9
Greece	40.0	1,840	22	9
Ireland	39.0	1,810	20	9
Luxembourg	40.0	1,784	28	10
Portugal	39.0	1,768	22	14
Spain	38.4	1,722	23	14
Italy	40.0	1,720	35	11
Austria	38.4	1,720	26	11
Sweden	38.0	1,710	25	11
Finland	40.0	1,708	38	10
Belgium	37.0	1,702	20	11
Norway	37.5	1,695	25	10
Great Britain	37.5	1,692	25	9
Germany (eastern)	38.3	1,685	30	11
Netherlands	37.5	1,670	31	7
Denmark	37.0	1,650	29	9
France	35.6	1,605	25	11
Germany (western)	35.7	1,557	30	13

Source: The Financial Times, London, July 2, 2003, p. 11

The number of working hours is highest in Japan, the US and Switzerland; the shortest in Denmark, France, and Germany (western). The smallest number of vacation days is in the US (on average just 12 days!) and in Japan (18 days); the largest number is in Finland (38 days) and Italy (35 days). The most holidays are in Portugal (14 days) and Germany (western) (13 days), and the least are in the Netherlands (seven). The positions are different and dependent on the negotiating strength of labor and capital; by the influence of the state and of labor legislation (*vacation days and holidays*). The level of productivity is determined by a series of external and internal variables that ultimately influence the

competitive position of an individual sector and of the national economy in general.

1.2. Legislation and Labor Relations

Industrial relations and labor legislation that accompanies them, collective bargaining, the average annual number of working days spent on strike in individual countries, is always an open area for theoretical discussion. Moreover, they are also factors with a vital influence on the global competitive position of individual national economies.

The fact is that the share of temporarily employed people in the overall number of newly-employed people is growing more and more.⁵ By employing people for a limited period of time, companies can control costs more effectively, and they can react more quickly and better to fluctuations in the demand for their goods and services. With this accelerating use of part-time employment, there is also a parallel processes at work in which developed countries are trying to maintain employment within their own borders, which means in areas where wages are high.

*“In order to keep employment in high-wage areas, it is necessary to include more high-value components, and this again requires flexibility in the workforce in terms of skills previously acquired, a willingness to upgrade these skills constantly, and a readiness to leave jobs while upgrading skills. This could be seen as personal risk-taking, but is, in reality, a survival strategy... Northern Europe is clearly doing best in employing its workforce, and this is most likely due to the less rigorous regulation of its labor markets. It is very difficult to change the workforce - for example, to alter the make-up of skills - in Continental Europe, but this is quite easy in the Nordic and Anglo-Saxon models.”*⁶

In this context, the reform of the labor market introduced in Denmark in 1994 is extremely inspiring. This reform was based on the conviction that the creation and offering of jobs has to remain, as much as possible, free from over-regulation.

*“Those out of work receive generous welfare benefits and highly targeted active employment support (training, job search facilities, etc.), which both encourage and compel the unemployed to seek new jobs as rapidly as possible. Denmark now spends up to 5.2% of its GDP on labor market policies, including extensive retraining programs for the unemployed. As a result, the average time spent out of work by the unemployed in Denmark is among the lowest in all developed economies. This, in turn, allays feelings of job insecurity, as most Danes remain confident that they will be actively supported in finding new jobs in the event that they are unemployed.”*⁷

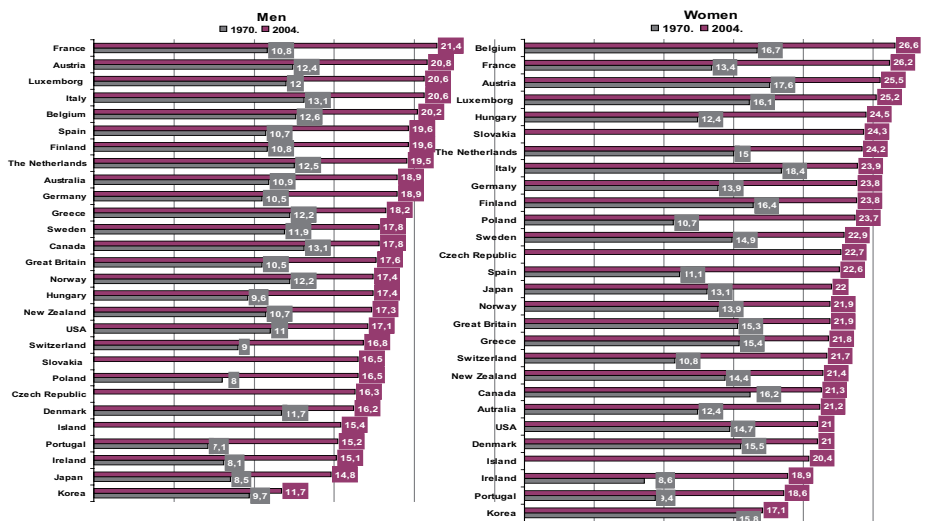
⁵ So, for example, in Croatia in 2005 of the total number of newly-employed, only 12.1% of them were hired permanently, 14.8% were seasonal hires, and 72.2 % were temporary hires (Source: Document of the Croatian Employment Bureau (HZZ), Zagreb, (www.hzz.hr))

⁶ Source: Growth and Jobs, EPC Working Paper No. 20, September 2005, p. 23

⁷ Source: *ibid*, p. 30.

Such an orientation, such a policy and such achievements which ensure maximum flexibility to employers, and maximum security to workers in terms of their employability, are clearly expressed in the overall competitive positions of these countries. Among the first eight countries in that ranking are Denmark, Norway, and Finland; Sweden is in 11th place, Ireland in 12th place, and the Czech Republic is in 18th place. Countries with more rigid labor legislation, and with a different kind of orientation to labor market relations, are ranked considerably lower (Italy, France, and Poland). Leading the rankings, in first and second place are Singapore and Hong Kong, extremely highly developed city-states, which also have extremely well-balanced relationships between labor, capital and the state.

Figure 5: Labor Relations



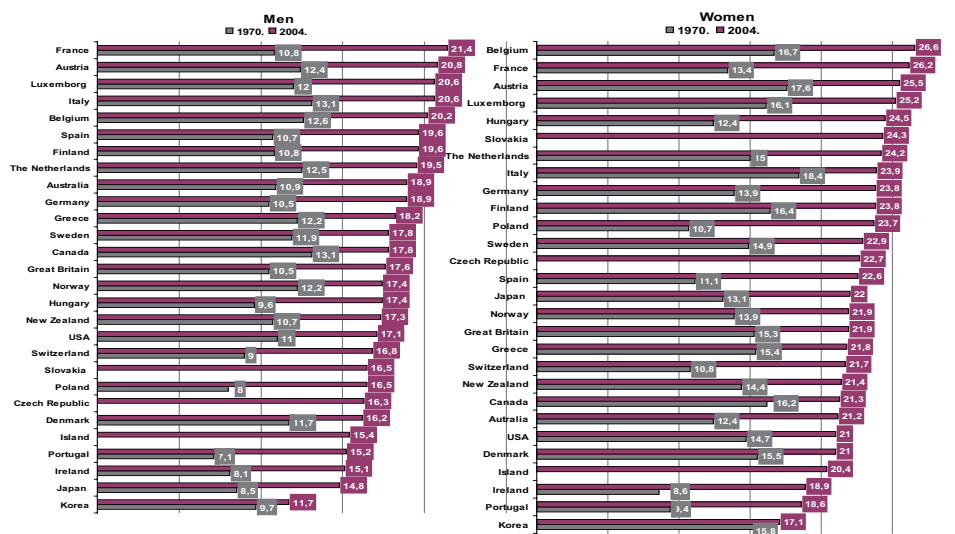
Source: Stephane Garelli: *Top Class Competitors: How Nations, Firms and Individuals Succeed in the New World of Competitiveness*; John Wiley and Sons, Chichester, 2006, p. 84.

Substance is the interest of all, including employees, not at the level of static and formal protection of an existing situation, or in general changes, but rather in an overall feeling of security, so that in the event of losing a job, each individual will be helped in an organized way (re-schooling, and financial assistance for that purpose, etc.) in acquiring new knowledge and in finding a new job as quickly as possible.

1.3. Employment and Retirement

One trend in the labor market that is increasingly a centre of attention in mid-term and long-term assessments is that of an aging population within the contingent of the employed. This includes the number of years that retirees expect to remain in the pension system and the fiscal burdens that this places on society, in other words, inter-generational solidarity and the level of the burden on public consumption by these expenditures. The most recent OECD study that has focused analysis of this phenomenon points to completely new trends.

Figure 6: Expected Years in Retirement



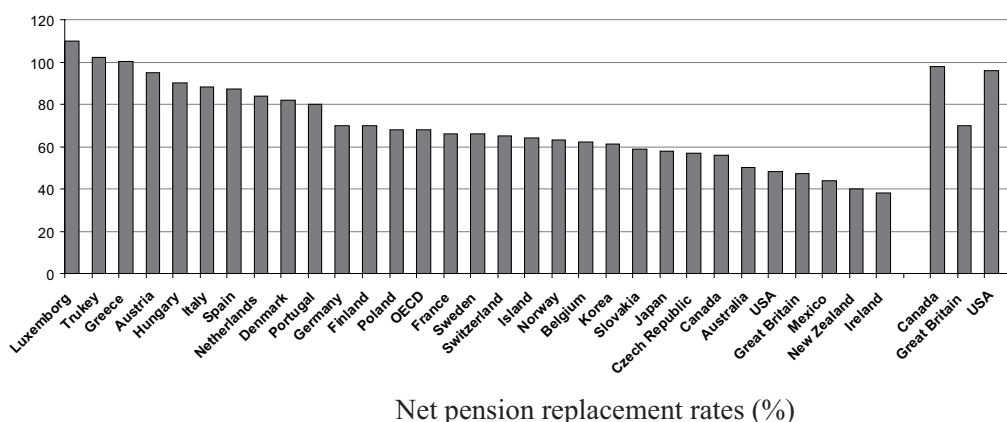
Source: «Live Longer, Work Longer», OECD Study, Paris, 2006, p. 33.

The data above deserve further analysis. The average amount of time spent in retirement for men in Finland in 2004 is twice what it was in 1970, increasing from 10.8 years to 21.4 years. In Austria, Italy, Luxembourg, and Belgium it is also over 20 years. In France, Spain, the Netherlands, Germany, and Greece it is only slightly shorter, while the amount of time spent in retirement in Portugal, Ireland and Japan has also doubled.

The amount of time that women spend in retirement has also shown a drastic increase, even though they retire earlier and spend a longer time in retirement. Women today spend on average more than 25 years in retirement in Belgium, France, Austria, Luxembourg, and only a few months shorter than that in Hungary, Slovakia, the Netherlands, Italy,

Germany and Poland. In the US the figure is 21 years compared to slightly less than 15 years in 1970. The increase in the number of years in retirement among the overall population of retirees correlates with an increasing absolute number of retirees. From a financial viewpoint, there is still one other synergistic variable: a higher average pension compared to wages earned before retirement.

Figure 7: Pensions are much more generous in some countries than others



Source: «Live Longer, Work Longer», OECD Study, Paris, 2006, p. 58

The amounts vary considerably: in Luxembourg and Turkey the values are greater than the amount of income before retirement, then 90 percent of income in Hungary and Italy, and 70 percent of income in Finland, which is the overall average of OECD countries. In the US this proportion amounts to 50 percent of income, while in Ireland it is something less than 40 percent. The US percentage can be raised to an exceptionally high 90 percent of income before retirement through additional voluntary payments (self-saving). It is similar in Canada, where that additional payment can raise the amount to 70 percent of income before retirement. It is clear that pension amounts compared to income from employment are a powerful factor in making the decision when to retire. This is especially true if it is linked to other inducements by employers or other government agencies. It is most frequently connected to the restructuring of specific branches of an industry, or in organizational changes and modernization processes in parts of public administration.

Globally and locally, labor markets and the effects that they achieve are becoming increasingly more demanding. Entry into the labor market, or survival in it, means starting with an adequate education, and in the course of employment, receiving additional specialized education. The level of education will determine the ability of an individual

to create new value. These qualifications will also determine the position of this same individual in the economic and social sphere. Taken collectively, the level of overall qualifications will determine the competitive position and the capability of the national economy, and it will influence the level of GDP, in absolute and relative terms. These trends do not know and do not recognize national boundaries, but they come back to them with concrete results or consequences.

2. CROATIA

The above trends, evaluations, and ideas from developed countries in regard to education, employment, the regulation of the labor market and the social costs of early retirement, are extremely important for Croatia's competitive position and its prospects for development.

2.1. Education

For decades, the quality and structure of higher education in Croatia lay outside the focus of *mainstream* political and economic thinking in the country. Inertia, along with an unrealistic conviction that the existing position of education was secure -- because it was viewed until 1990 as a better quality education than in most of the rest of Yugoslavia -- is partly the reason for the self-satisfaction shown in this area. The quality of education as a category *per se*, and further, the demand for quality and quantity in education, lagged behind other areas because of the passive method of restructuring the Croatian economy, which specifically meant the firing or forced retirement of employees instead of holding onto the existing programs for the production of goods and services, or adopting new ones.

In addition, and this is extremely important, throughout the recent past four-fifths of foreign investment was *brown field* investment, the purchase of existing capacity, and only one-fifth was *green field*. This means that in contrast to the majority of other transition countries, and of course in contrast to developed countries, the demand for the employment of a work force trained and educated in a focused, professional manner in accordance with globalization trends, has lagged behind.⁸

The importance of qualitative growth is one of the dominant themes in the formulation of any strategy of economic development. Based on situation at the beginning of 2000, a document of the World Bank, "*A Strategy for Economic Growth through European Integration*," in regard to the effectiveness of Croatian labor points out:

⁸ To this list can be added the powerful influence of political arbitrariness where management by state and local budgets and by the privatization process has had considerably greater influence on businessmen and companies, from investment in education to hiring professional staff.

“Workers without the appropriate qualifications, especially those without the ability to acquire the necessary qualifications, will not only expand the ranks of the long-term unemployed, but will limit the potential for restructuring an enterprise and the growth of stimulative innovation. The strategy of education, therefore, is an integral part of social strategy and the strategy of growth.” “The second step in the proposed strategy of growth is the need to revamp education standards, as well as technological and organizational standards, that will allow Croatian firms to compete in European markets. This requires an examination of the role of the state in education. With regard to the nature of the shortcomings in education in comparison to the demands of the labor market, it is clear that the state has a role in financing education, a regulatory role and a role in providing information. If it is assumed that all levels of education produce certain positive external effects in the community, the state has a role in financing at all levels.”⁹

Awareness of the need to change the educational system, the creation of endogeno (within Croatia) and exogeno (pressures for development from international institutions and organizations), gradually has formed an element of national development policy and, at the same time, a part of the process of adjusting to EU integration.

“Croatian education priorities have been gradually redirected in order to respond to the needs of a free market economy and have improved the quality of the system of education and training. The area which requires special attention is the teaching of foreign languages in elementary and secondary schools.”¹⁰ And further: “A serious challenge is represented by the Croatian system of professional education and training (PET) at the secondary school level. The PET strategy has started and the reform process has begun, including the establishment of the National Council for Professional Education and Training. However, the efforts made under the present reforms seem to be insufficient in overcoming problems like the shortage of professional teachers, outdated programs, insufficient investment, shortcoming in the system of national professional standards and professional training, and an inadequate linkage to the private sector. Improvement in this area will represent an important component in the fight against unemployment.”¹¹

Such a transformation in the understanding of education not only for success but also for self-sustainability in the global economy and society that has been established in the last 10 years, in principle, has been adequately recognized in the Croatian development document, “A Strategic Framework for Development, 2006-2012. In Chapter II of this document the following important goals have been defined:

⁹ “Economic Memorandum for Croatia: A Strategy for Economic Growth through European Integration,” The World Bank, Volume 2, May 2003, Part VI, p. 120.

¹⁰ “Findings on the Request of the Republic of Croatia for Membership in the European Union,” Commission of the European Union, Brussels, 20 April 2004, p. 98.

¹¹ *ibid*, p. 98.

- Education and enabling the work force to adapt to the changing needs of the labor market, to increase the proportion of college graduates in the overall population.
- To reduce the number of those who temporarily abandon education, and especially higher education. To increase expenditures for education, but also the effectiveness of current expenditures.
- To encourage the participation of the private sector in financing both regular education and advanced job training.

The basic attitude is that: *“It is necessary to accept a certain degree of flexibility (Author’s Comment: in the labor market, for example) but also to construct a system of education that protects employees much better from unemployment and the poverty of simple legal regulations. To respond to the concrete challenges in conditions of unquestioned openness and globalization means to learn and to improve oneself throughout one’s working career and in that way to maintain and increase the employability of every individual. The aspiration for long-term employment and for long-term job security has to be replaced by the aspiration for long-term employability. However, it is just in the area of life-long education where Croatia is considerably lagging behind the European average. According to polls on the labor force, 10.8 percent of the European population has participated in some form of education and training during its working career, while in Croatia the figure is 2.3 percent.”*¹²

The fact that possession of an adequate education is a crucial question for protecting not just one’s existing job, but, dynamically considered, one’s long-term employability is evident from the importance that developed countries attach to education after one has achieved a degree of formal education.

The European Union is increasingly speaking about social exclusion, which is most frequently understood as a vicious circle with three components: unemployment, poverty, and social isolation. Social exclusion is usually understood as exclusion from the labor market. When the role of labor is emphasized, it means not just labor as the basis of economic independence, but in the sense that work promotes certain moral values, such as self-respect, a desire to advance, etc. The message in a large number of EU documents is that education is one of the key mechanisms for social inclusion. The message is based on the claim that employment is an important precondition for social inclusion, and that the degree of employability is linked to the possession of qualifications and training. The meeting of the European Commission in Lisbon in 2000 shaped the strategy for the fight against social exclusion. The following factors influence social exclusion and education itself: income inequality, class and/or ethnic divisions in society, spatial separation, globalization, the distribution of power, the stratified nature of the market, education, etc.

¹² “A Strategic Framework for Development, 2006-2012,” Republic of Croatia, State Administration for Development Strategy, 21 April 2006, p. 14.

All employees do not share an equal probability for employment because their various characteristics can influence the probability of employment. Therefore, in periods of economic growth the “circle of poverty” remains tightly closed. Those who are in poverty often appear as “outsiders” on the labor market, which means that due to inadequate human capital (a low level of education and inadequate training) they are not able to take advantage of the possibilities arising from economic growth. In this way long-term unemployment comes to be considered as a significant determinant of social exclusion. About half of those who are unemployed in Croatia have been waiting for a job for more than a year, and about 30 percent have been unemployed for more than two years. While in 1991 nine percent of those who were unemployed waited an average of more than three years to be employed, in 2002 more than one-quarter (26.5 percent) waited an equally long period of time.

In the majority of European countries policies governing the labor market and education are classic areas for state intervention and the development of neo-corporate arrangements in which the state surrenders responsibility for the creation and implementation of policy to interest groups representing labor and capital. The reason for this is that employers, if there is no intervention, train employees only for their immediate needs, which might be damaging to their long-term profitability and economic results.

Three main assumptions stand behind the policy and initiatives of the European Commission regarding education. First, it is assumed that for the goal of competing on global markets the EU needs a well-trained and well-educated work force. The second assumption is that differences in the qualifying systems of the countries represent the main obstacle to the free movement of labor and this is the basis for a comparison that establishes equivalents of basic and professional education received in various countries. And finally, the restructuring processes initiated within a unified market, with all of its regional inequalities, demand active policies for the labor market and regional politics from the member countries.¹³

2.2. The Labor Market - The Role and Meaning of Regulations

For a long time Croatia was among those countries having the strictest regulations on employment protection, both in comparison to transition countries as well as “old members” of the EU and OECD countries.¹⁴ Such a situation is measurable in the high value of the composite index -- Strictness of Employment Protection Legislation (EPL)

¹³ According to the “The Social Dimension – Employment Policy in the European Community”, ed. M. Gold, The Macmillan Press, 1993, pp.188-190

¹⁴ Changes to the Law from 2001 and 2003.

-- devised by the OECD.¹⁵

The OECD uses the concept of Employment Protection Legislation (EPL) generally in the context of legislation to protect employment. The concept relates to many different measures to protect legislation, whether they are based on legislation, judicial rulings, conditions for collective bargaining or customary practice.

Table 5: Strictness of Employment Protection Legislation in Croatia and in Countries of Central and Eastern Europe Entering the EU (CEEEUA

Country	Strictness of EPL			
	Permanent Employment	Temporary Employment	Collective Dismissals	Summary Index
Croatia	2,8	3,9	5,0	3,6
Czech Republic	2,8	0,5	4,3	2,1
Estonia	3,1	1,4	4,1	2,6
Hungary	2,1	0,6	3,4	1,7
Poland	2,2	1,0	3,9	2,0
Slovakia	2,6	1,4	4,4	2,4
Slovenia	3,4	2,4	4,8	3,5
CEEEUAC Average	2,7	1,2	4,1	2,4
EU Average	2,4	2,1	3,2	2,4
OECD Average	2	1,7	2,9	2,0
CEEEUAC Minimum	2,1	0,5	3,4	1,7
EU Minimum	0,8	0,3	2,1	0,9
OECD Minimum	0,2	0,3	0,4	0,7

Source:: "Economic Memorandum for Croatia: A Strategy for Economic Growth through European Integration," *The World Bank, Volume 2, May 2003, based on OECD data, p. 127.*

It is evident that regulations on employment protection are stricter in Croatia than in other transition countries, which are characterized by low unemployment and a flexible labor market. These countries include, for example, Hungary, Denmark, Ireland, and the Netherlands. The data show that strict protection of employment cannot prevent high unemployment, but can provide a more flexible labor market, along with corresponding

¹⁵ "Economic Memorandum for Croatia: A Strategy for Economic Growth through European Integration," World Bank, Volume 2, May 2003, Paragraph 6.23, p. 127

development capacity, and consequent to that, measures of economic policy.¹⁶

Evaluation: *“Strict regulations on employment protection and the high costs of firings contribute to and are responsible for the results observed in the labor market, such as the small number of available jobs and employment, long-term unemployment and a low rate of “escape” from unemployment, and a concentration of unemployment in groups of workers in difficult circumstances. On one hand, strict regulations on employment protection de-stimulate entry into a (Scarpetta, 2002). On the other hand, the high cost of dismissals de-stimulates employment because employers are limiting the employment of staff in order to avoid the future costs of modifying the number of employees to changes in the demand for products (OECD) 1994). In this way, limited employment is a mirror image of limited firings. By preventing the job cuts and the creation of new jobs, strict EPL limits job fluctuations. As a consequence, both the length of employment and the length of unemployment have a tendency to last longer. The prospects for escaping from unemployment are less in a dynamic labor market with high job fluctuation. In combination with the effect on a discouraged worker, this leads to a low ratio in the number of employed in the population, especially among groups of workers in difficult circumstances, such as the young, women, and older workers, and therefore to an under-utilization of labor resources.”*¹⁷

The solution to the Croatian dilemma -- how to achieve its development goals and needs, treating labor legislation as an obligatory part of the mosaic of required actions -- may be suggested by the experience of India, which from the beginning had a series of advantages (economy of scale, a high proportion of educated people, competitive labor costs), and which recently conducted research has shown:

*“It is not an accident that software businesses and outsourcing companies are exempt from a considerable portion of labor legislation, such as the number of working hours and overtime work. The management of these companies have stated that without these exemptions it would be impossible to organize back office (activities) in India. In order to attract foreign investors in labor intensive activities, the government has to consider the possibility of making legislation more flexible.”*¹⁸

Croatia, for example, analyzing its (current) economic structure and the importance that it (un)justifiably places on the tourist industry as one of the key sectors of the national economy, must soberly evaluate how to regulate this area. In summary, Croatia in a development sense is faced with several limitations, the solution of which could strengthen

¹⁶ Stated more descriptively, when driving a car, a driver is not protected from an accident by an insurance policy he/she may have bought, but by his/her ability to find adequate solutions or to react to the external events while driving when circumstances in traffic are constantly changing.

¹⁷ “Economic Memorandum for Croatia: A Strategy for Economic Growth through European Integration,” The World Bank, Volume 2, May 2003, Part VI, p. 128.

¹⁸ The McKinsey Quarterly 2004 Special Edition: “What Global Executives Think,” Chicago, 2004, p. 34

the foundation of its development potential.

First, based on criteria of the International Labor Organization (the proportion of employed population in the labor contingent), the employment rate for those between the ages of 15 and 64 is at the limit of 50 percent. Of 3.66 million people capable of working, 1.8 million are actively employed. In the EU this ratio is 64.4 percent and in the US it is 71.2 percent. In Croatia, 1.58 million people are employed. The difference to a full labor contingent is in those seeking employment.¹⁹

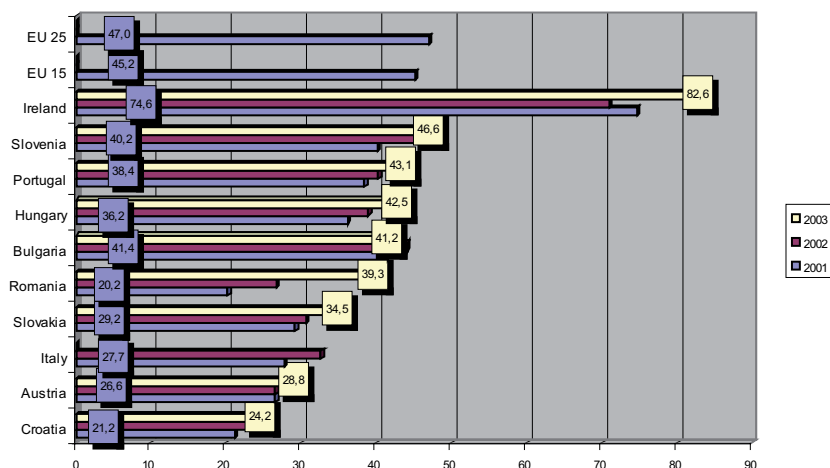
Second, as of May 2006, there are 1,034,507 retirees in Croatia, which means that the ratio of employed to retired is 1.5:1.0. In the EU today that ratio is 4:1. The EU considers a continued trend in that ratio, which is expected to be 2:1 by the year 2050, to be financially and socially extremely risky and completely unsustainable. In Croatia the average monthly net amount of a pension is 1,860 kuna (after taxes and surcharges), which represents 39.7 percent of the average personal income of workers. The pensioner insured person ratio is 1:1.43.²⁰ In the number of pensioners, and their expected life span, it is recognizable to what extent the restructuring of existing enterprises and institutions has placed a burden on the retirement system.

Third, in Croatia among those aged 15 years and above, only 7.8 percent have a college degree, which is below the EU average. It is a cause for concern that Croatia is behind countries in a comparable state of transition in the number of students who graduate from institutes of higher learning.

¹⁹ The number of unemployed is represented on the basis of two methodologies: a) the unemployment based on ILO criteria – stricter criteria and a lower unemployment rate demand an active attitude in terms of seeking employment; b) data from the Croatian Employment Bureau – based on administrative reports on the status of the unemployed.

²⁰ Data for July 2006 (www.mirovinsko.hr).

Figure 8: Students Graduating from Higher Education Institutions*, per 1000 Population between the Ages of 20 and 29



Source: "Annual Report on Croatian Competitiveness, 2004," Zagreb, 2005, p. 67.

In regard to inclusion in the system of continuing education and professional training, participation in such programs at the national level is considerably lower than the EU average. The data in Table 6 shows very clearly that the inclusion of adults in life-long education is four times lower in Croatia than the average for the EU 25.

Table 6: Number of Adults in Life-Long Education

	2002.	2003.
EU 25	8	9
EU 15	8	9,7
Slovenia	9,1	15,1
Ireland	7,7	9,7
Austria	7,5	7,9
Hungary	3,2	6
Slovakia	9	4,8
Italy	4,6	4,7
Portugal	2,9	3,7
Croatia	1,5	2,1
Bulgaria	1,3	1,4
Romania	1	1,3

Source: "Global Competitiveness Report, 2004," Resource Material, National Competitiveness Council, Zagreb, 2005, p. 70, based on the EU Workforce Survey, 2004, **Aralica i Bačić (2004)

More adequate legal regulations, organized stimuli for continuing education, better quality and more adequate choice of professional and higher education, and a better dialogue between labor, capital and the state, viewed overall, are the essential conditions for employment and employability in Croatia to change from a current problem to an important opportunity for development.

CONCLUSION

1. The globalized world and today's competition of "every man for himself" has drastically accelerated and sharpened all of the processes for managing development at the national level.

At the same time, these processes of globalization at the national level to a great extent are creating a development deficit, and as a consequence, deficits in public expenditures to those who are not optimizing their educational systems in accordance with the current and future needs of the labor market.

2. The developed countries are continuing to increase their already high level of investment in all levels of education, but especially at the tertiary level. In addition, they are increasing the levels of investment in follow-on training and re-training, as well as long-term professional training.

3. After a long period of being preoccupied with the problems of its own existence -- beginning with the aggression and war to independence and rejuvenation -- Croatia has directed its attention, after a 10-year delay, to the educational process in the framework of a new, independent state. It is today attempting to redefine and remodel that system to meet the needs of its economic growth and development. This means a greater focus, increased financial investment, and an approach to education as a factor for growth, and not as a cost.

4. The only real chance for protecting the labor market, which is increasingly open to the pressures of open competition (whether from outsourcing or from the influx of outside workers into the domestic labor market) is adequate education. This is an expertise for which there is a demand and which enables flexible changes as well as a relative and absolute improvement in one's own position, which, at the end of the day, is assessed both in terms of status and materially. It is an active measure that ensures employability, and as such, it has the greatest meaning for the labor market.

An exemplary legal framework, and its implementation, along with any necessary corrections, has to be created jointly with the participation of labor, capital and the state. The responsibility of state institutions in controlling this implementation is especially important. But, still greater is both the immediate task and the responsibility of state institutions in organizing and achieving an active role in promoting changes in the education of those who are entering the labor market, or those who are (currently) leaving it. This is the *best practice* of the so-called *Nordic model*, which is a particular interest and importance (i) for the Croatian economy; and (ii) Croatian society in general.

5. Croatia cannot ignore the resource that today is the most dominant in development: a well-trained and well-educated work force and an active management. This is the driving force that animates and moves all of the other factors of development. Keeping in mind the country's demographic structure (evident aging of the population, permanent emigration, often of the most qualified) it becomes Croatia's *sine qua non* to make a transformation in three mutual and inseparable segments:

a) To improve the quality at all levels of education, especially for those who are in the final stages. To increase significantly, in relative and absolute terms, the participation of the school-age population in adequate technical training schools and in tertiary education.

b) To formulate and to stimulate participation in adequate programs for additional professional training and re-training of segments of the working population that fall into vulnerable groups (women, young people, older workers), and generally to orient education and training toward those whose existing professional qualifications and knowledge cannot meet current market demands.

At the same time, to evaluate the circumstances of defensive regulatory policies in the labor market, which in an attempt to protect against losing a job frequently and to an even greater extent prevent new employment. And, all discussions about labor legislation to reduce (un)paid work on Sundays and holidays are pointless.

c) In the last 10-15 years leaving the labor market frequently has been (ab)used in the privatization process, or it has been used when and where possible as a quasi measure of social policy replacing the right to continue to work -- even though this latter idea is closely linked to point (b) above, that is, the need to acquire additional knowledge. Employees who wish to keep working point to the fact that by stopping to work they receive only 39.7 percent of the income they would receive by continuing to work.

6. The stability of the ability to be employed -- *employability* -- in an era of increasingly greater openness, change, and overall flexibility, is an important social value. But, viewed in a broader context, the long-term increase of GDP, both per capita and in absolute terms, is only possible by achieving a development policy that simultaneously takes into consideration all factors of development and applies them synchronistically. This begins with macroeconomic policy, with a policy of attracting investments and investors, with an adequate economic framework and an efficient public administration, and finally and most emphatically, with an education policy that is viewed as a vitally important factor in the success of the labor market.

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