

3.4. Croatia: A Paradise Lost

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Abstract

Absolute poverty in Croatia is low, but this diagnosis is only deceptively consolatory. Poverty in Croatia is characterized by stagnancy - those who become poor take a great deal of time to escape from indigence. In Croatia many people are unemployed and/or with low employability and are seriously exposed to economic poverty and social exclusion. Work is widely regarded as the best form of welfare, so increasing the employment rate has become a key objective of social as well as of labour market policy. For most people unemployment is a dynamic transitional state but for some it becomes a wearisome constant companion. This is especially true in Croatia where a large proportion of able-bodied welfare recipients are very long-term unemployed. The effects are damaging and costly.

As a mean to ensure equity and efficiency in social policy, the task is to reduce both the flows into long-term unemployment and the stock of people already out of work for more than a year, primarily by improving their employability. The problems faced by many of the long term jobless are often multi-dimensional and frequently include low levels of education and of motivation. Croatia has a range of active and passive measures to assist the unemployed. To be more effective, these measures should be adjusted and carefully targeted through social planning and the systematic analysis and evaluation of policy outcomes.

3.4.1. Introduction

Croatia is a relatively small country in South-Eastern Europe, surrounded by Slovenia, Hungary, Serbia, Montenegro, Bosnia and Herzegovina and (sea border) Italy. According to the 2001 Census Croatia has about 4.4 million inhabitants. The capital is Zagreb with 780 thousand inhabitants. Recent Croatian history has been almost completely defined by three political factors: the fall of communism (the first free elections in 1990), the declaration of independence from Yugoslavia (1991), and the War of Independence (which started in 1991 and ended in 1995, when Croatia regained much of its occupied territories by military force). The aggression over Croatia in the early 1990's and the transition to a market economy have strongly affected the economic, as well as the social situation in the country. One third of Croatian territory remained occupied until 1995, while Gross Domestic

Product shrank up to 1993 to less than 60 percent of 1990 levels. The living standard fell significantly due to hyperinflation, destruction of household assets and growing unemployment; transitional problems coupled with war-related problems meant the country experienced a slower democratisation process than many other post-communist countries. Croatia became a member of the Council of Europe in 1996 and established its relations with the EU by signing the Stabilisation and Association Agreement in 2001. It was granted candidate status in 2004 and the negotiation process with the EU began in October 2005 after Croatia met all preconditions. However, due to limited Croatian cooperation with the International tribunal in Den Haag, negotiations for full EU membership are still not finished, and will probably not be completed till the year 2011. In the following text we will analyse the trade-off for Croatian social policy, labour market and education.

3.4.2. The Case for a Trade-Off in Social Policy

It is almost unnecessary to recall that poverty is multidimensional. It is complex, institutionally embedded, and also a gender- and location-specific phenomenon. Usually, in households, children and women suffer more than men. Poverty is the result of a complex interaction between policies and institutions in the economic and the political spheres. Knowledge of the incidence and scope of poverty in Croatia was very limited until the analytical work on poverty and vulnerability carried out by the World Bank (2001) in collaboration with the Government became available. The analysis was based on the first post-war household expenditure survey in Croatia, carried out by the Croatian Bureau of Statistics in 1998. Results showed that poverty in Croatia is relatively low, i.e., lower than in most transition economies in the region (except for Slovenia). Only four percent of the population lived on less than US\$4.30 a day at PPP (*internationally comparable* standard across transition economies), and about 10 percent lived on less than US\$5.30 a day, which the study suggested as an appropriate absolute poverty line for Croatia.

While absolute poverty in Croatia is low, this diagnosis is only deceptively consolatory. Poverty in Croatia is characterized by stagnancy - those who become poor take a great deal of time to escape from indigence (World Bank, 2001). There are several dominant groups of poor: the unemployed and inactive persons, the poorly educated, and the elderly. Although the unemployed and the inactive groups represent a relatively small share of the poor population in Croatia (2.9% and 5.4%, respectively), they are most exposed to poverty, while employment is a fairly reliable protection. Almost three-quarters of the poor live in families whose head completed primary education at most. These individuals are likely to have little

prospect of finding work if they are not employed, or to have low earnings if they are. The risk of poverty is particularly high when poor education is combined with unemployment. Those living in households with unemployed or inactive household heads are around 3 times more likely to be poor than the population as a whole. Thus, poverty in Croatia - having become much like poverty in Western Europe - is highly correlated with the situation in the formal labour market and the skills of individuals (Grootaert and Braithwaite, 1998). Also, the elderly, especially those without pensions, make up a significant part of the poor.

In the last few years poverty has mostly stagnated or slightly increased. The at-risk-of-poverty rate in 2008 was identical to the one in 2007 (17.4%), but the relative at-risk-of-poverty gap increased from 21.9% in 2007 to 24.9% in 2008. Of all age groups, only the oldest age group (65+) had an at-risk-of-poverty rate above the national average, and in this age group the difference between the rates of men and women was the biggest. In 2008, in comparison with 2007, the at-risk-of-poverty rates with the highest growth were those of single households and single-parent families (in other types of households the at-risk-of-poverty rate was mostly reduced or remained the same). Relative poverty data and indicators for 2009 are not yet available. The World Bank analyses and simulations show that poverty grew during 2009. It is estimated that the 2009 absolute poverty rate grew by 35%, or by 3 to 4 percentage points in comparison with 2008, when it was approximately 10%.

There is currently a concern that social care services in Croatia are not necessarily targeted to those most in need. Despite the high percentage of social transfers in GDP (around 25%), Croatia has achieved little redistribution. This is because most social spending programmes are relatively poorly targeted, while the relatively well-targeted programmes are fragmented and

account for a small portion of total social spending. The benefits in programmes where the majority of social expenditure is spent (primary pensions and health insurance) are relatively badly targeted, while programmes that use a smaller part of social expenditures (such as rights in the welfare system and unemployment benefit) are better directed towards the poor.

Furthermore, residential care is the predominant form of care provided by the Croatian social welfare system. Not enough attention has been dedicated to deinstitutionalisation and half-day or day-care centres and provision of services in the user's home. However, in the last few years, particularly in 2009, there has been some modest progress in terms of the deinstitutionalisation of people who are already placed in institutions. Nevertheless, this is a longer-term process on which intense efforts are concentrated. Thus, in 2009 as many as 70% of surveyed social welfare homes and 74% Centres for Social Welfare undertook activities aimed at reducing the number of beneficiaries in permanent institutional accommodation, 61% of homes (36/60) have organised the provision of non-institutional services, whereas 53% of them in the last year expanded the range of such services, with homes for disabled children, youth and adults taking the lead. One-fifth of the surveyed homes (12/60) have special posts for non-institutional services (The Ministry of Health and Social Welfare, 2010).

The key obstacles for deinstitutionalisation from the point of view of the service providers (social welfare institutions) include a lack of earmarked financing of the transformation, an insufficient degree of development of relevant services in the communities, a shortage of operational guidelines for the transformation of institutions, a lack of integration services in education institutions and inadequate rules and standards for the modernisation of institutions. These five most distinct obstacles can be

removed relatively quickly through the development of a network of priority social services. That can be achieved by social planning and financial support for the provision of services in communities by the Ministry of Health and Social welfare and the counties, but also through a parallel, systemic promotion of the transformation of institutions on the basis of the action plan currently under preparation.

The perspective of the transformation of institutions into a resource centre in the community or region, exclusively for non-institutional services, is a preferred option by the majority of stakeholders - institutions, particularly by homes for disabled persons and mentally-ill adult persons, as well as users. Some institutions proposed another form of operation, with the focus on a combined provision (mix) of institutional and non-institutional services, with services of accommodation and permanent care targeting long-term or palliative care.

Succinctly, we might recall that the characteristics of the poor in Croatia are very similar to those of the deprived population in other transitional countries in Central and South East Europe, and are mostly determined by education, the number of income earners, and employment status. There are several dominant groups among the poor, primarily the unemployed and inactive persons, as well as older people without pension rights. The economic growth in Croatia has failed to generate enough economic opportunities for the poor, and they are at a disadvantage with respect to benefiting from these opportunities.

From the standpoint of trade-off between equity and efficiency sometimes the impression is created that if only more funds became available for such measures, poverty could be eradicated in no time. We would regard it as much more appropriate for transitional countries like Croatia to invest in the "quality" of social policy rather than in quantity. There is clearly a strong association among poverty,

education, employability and long-term unemployment. Employment is the best protection against poverty and social exclusion. Also, paid jobs from home enable social integration and the realisation of full citizenship. People, who earn, participate more easily in social, political, even sporting activities. There is not enough work for all, to a certain extent because a part of the population does not have the knowledge and skills sought by employers. Thus, in the subsequent text, attention is dedicated to the analysis of the trade-off between equity and efficiency in employment policy.

3.4.3. The Case for a Trade-Off in Employment Policy

Croatia, like many other of the Central and Eastern Europe countries (CEECs), in the past 20 years was characterized by U-shaped trends in GDP, strong and persistent declines in employment rates and stagnation of unemployment pools in spite of the rapid structural change taking place. In Croatia there has been a remarkable increase in unemployment (more than threefold - from 123,000 in 1986 to 380,000 in 2001), and henceforth a decline until the second half of 2008. That was not accompanied by adequate scientific and political attempts to understand the causes of the rise in unemployment that took place, or by proposals for the reduction of unemployment and improving the transfer from unemployment to employment.

A relatively new and important area of research is the *political economy* of unemployment and employment policy (Calmfors and Holmlund, 2000). The key idea in this strand of research is that persistent unemployment may be explained by political mechanisms that prevent labour-market reforms. A successful strategy to fight unemployment must, according to this view, also recognize the prevailing political restrictions and offer proposals that can overcome

them. Most of the time the labour market is not perfect, unemployment and open demand co-exist. This implies that, particularly in countries like Croatia with high current unemployment, there is room for the improved functioning of the labour market by bringing unemployment nearer to the minimum of labour demand and supply, thus reducing both unemployment and vacancies. Research on unemployment around the world has identified a number of plausible determinants of unemployment situations and rates. Among others, these factors include: employment protection regulation, unemployment insurance, active labour-market policies, product market competition, taxes, systems of wage bargaining, working time, etc.

The inflexibility of the Croatian labour market was reflected in a high value of the composite index of the strictness of employment protection legislation (EPL) developed by OECD. The EPL index is calculated as a weighted average of 22 indicators that quantify different procedures, costs, limitations and terms related to the cancellation of the employment contract. Croatia was assessed by some researchers (Biondić et al., 2002) as among the strictest in Europe. When compared to other countries, Croatia had the second highest value of the index (3.6), which was significantly higher than the OECD average (2.0), EU countries (2.4) and the transition countries for which data exists (2.2). All these factors led to the Labour Code changes in 2003. Current reform has detached Croatia from the group of countries with the most protective EPL index – yet, it remains among the most protected transitional labour markets (Matkovic and Biondic, 2003).

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 Croatia have been more inclined to extend the lives of unprofitable firms in-

stead of stimulating 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 towards 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.

Labour market data indicate that rising unemployment has mostly hit first-time job seekers, particularly those with a secondary education. This suggests that unemployment is predominantly the result not of economic restructuring but, rather, of the countries' inability to create jobs fast enough to accommodate new entrants into the labour force. It may also reflect the willingness of educated youths to wait for jobs in the formal and public sectors to open up and to register themselves as unemployed in the interim, as well as the educational system's failure to provide its students with the kinds of skills needed for private sector jobs.

A particular problem is long-term unemployment - more than half of the unemployed are waiting for a job for longer than a year, while one third is waiting more than two years - because after an unsuccessful job search, long-term unemployed persons really tend to lose any prospect of finding a job. Partially, they lose the skills and knowledge gained through their education; other skills

and knowledge become obsolete, and job-seekers' self-esteem and hope for the future disappears. Some of the young turn to crime, while older persons become discouraged and apparently withdraw from the labour market.

Active labour market policy (ALMP) could redistribute job opportunities so that fewer people become long-term unemployment benefit and/or welfare assistance recipients. When total employment and total labour supply are given, this would imply distributing the unemployment burden among more people (assuming that it is not the same people who are experiencing more unemployment periods as a result of the policy intervention). Clearly, an increase in total employment as a result of ALMP would be preferable to a redistribution of unemployment to a greater number of people. Economic theory states that ALMP hardly affects total employment directly. But if ALMP succeeds in reintegrating long-term unemployed persons or welfare recipients, the effective labour supply increases. Therefore, reintegrating the long-term unemployed and preventing long-term unemployment are certainly worthwhile goals. There are other meaningful activities in addition to paid employment, which can be a source of social integration and individual fulfilment. Nevertheless, the prevention of long-term and recurring unemployment would be a major contribution towards combating poverty and social exclusion and/or large numbers of social welfare recipients. This is especially important when the employability of the long-time unemployed is increased, or they become attractive to potential employers.

It would of course be helpful to all unemployed people if there were more jobs. However, there is clear international evidence and examples in Croatia, that labour supply shortages can exist alongside high levels of long term unemployment. Furthermore, each business cycle creates additional long term unemployment that is not extinguished by the following

business cycle. Until recently, long-term unemployment was ratcheted upwards and more and more unemployed people were dropping out of the effective labour supply. That has negative influences on the efficiency of the labour market, and on the material position of exposed persons. It also increases the costs of the welfare system. One should stress that in Croatia there is a range of active labour market measures. They are comparatively small-scale and suffer from a funding mechanism that treats them as residual once the costs of passive measures are met. This has the perverse effect of diminishing funding for ALMP as unemployment rises. Active labour market measures in Croatia have been monitored but not evaluated for their net effect, i.e. what would have happened to the individuals had they not gone on an active measures such as training. Only for the public works programme has there been this kind of evaluation; it showed that the public works projects examined had almost no effect in improving the success of participants subsequently getting jobs on the open labour market (Dorenbos et al, 2002). Babic (2003), using comparative analyses of expenditure on ALMP programmes showed that the structure of ALMP programmes is inappropriate for the Croatian labour market.

Because of the lack of real evaluation of outcomes (as opposed to mentoring take up and outputs), it is not possible to draw clear and firm conclusions about the value of individual active labour market measures. What is apparent is that the measures are not sufficiently integrated with the administration of unemployment compensation or the activation agenda. Nor are they targeted at groups at risk of long term joblessness and others likely to get the most real benefit. The funding of active measures is too uncertain and the mechanism is perverse in its effect. Rising unemployment causes an increase of expenditure on unemployment benefits, which di-

minishes the scope for active measures. Consequently, there are problems related to *their short duration* and *relatively low consistency*. Different programmes started and enabled results that were better than expected, but the implementation of the programmes ceased (mostly because of insufficient financial possibilities or restrictions). This has a damaging impact on the infrastructure of providers of active measures and on the ability of the Croatian Employment Service to find ways of helping people out of unemployment.

The task is to reduce both the flows into long-term unemployment and the stock of people already out of work for more than a year. The problems faced by many of the long-term jobless are often multi-dimensional and frequently include low levels of education and of motivation. Croatia has a range of active and passive measures to assist the unemployed. The employability of the long-term unemployed should be enhanced and social exclusion reduced through participation in work-related activities. There is the lack of timely evaluation to assess the true effectiveness of policy measures on the labour market. This could be addressed through the introduction of new techniques (tracking studies) for collecting up-to-date data about their impact. It is important to enhance the employability of these people – especially increasing their human capital, or improving their knowledge and skills, and to enhance work attractiveness for them by the realisation of measures that make *work pay*.

Regarding a trade-off between equity versus efficiency, active labour market measures are diverse and recognised as useful instruments of labour market policy. They are not yet sufficiently targeted to where most international evidence indicates they are effective i.e. disadvantaged people at risk of, or in, long-term unemployment. Their scale is small and their availability is made particularly uncertain by the funding arrangements. They are not yet

integrated as closely as possible with benefit (administration of unemployment compensation) and placement work. Also crucial is the creation of an adequate entrepreneur and investment climate. This means improved governance, incentives for economic openness to foreign direct investment and foreign trade exchange, and creation of an adequate organisational infrastructure that enables investments. Better availability of public services and employment enable social inclusion of the poor citizen, which is so important for full participation in society. An important precondition is improved human capital, so we direct our attention towards the trade-off in education.

3.4.4. The Case for a Trade-Off in Education

Education is the most important determinant of employability – in Croatia, more highly educated persons find jobs more easily and faster – but it also doubtlessly carries ancillary non-market effects (for example, easier access to information, greater care for personal health, more active participation in social life which encourages responsible democratic civic behaviour, election of democratic authorities and actualization of the rule of law). Non-participation in education is especially precarious for the children of poor citizens. According to the World Bank (2001), the children of the poor in Croatia are very likely to drop out of the schooling system early, and differences in access to higher education are now very stark. The lack of access to levels of education that are highly valued on the market tends to lower their employability and increase the danger of staying in poverty. These factors perpetuate existing inequalities in earning prospects between the poor and non-poor and create the potential for the intergenerational persistence of poverty. A considerable number of youths in Croatia drop out of secondary and higher

educational institutions. This is, among other reasons, caused by a serious lack of a network of “second chance” schools, aimed at young people who have either been excluded from education or are on the verge of exclusion. High drop-out rates drive up the costs per graduate. The school drop-out rate should be reduced, and an apprenticeship system should be created or the existing system improved.

Systematic prevention of youth exclusion from education could be realized by optimal *flexibility* and the *passability* of the education system at all levels. Flexibility implies sensitivity of the educational system to changes in the needs of the environment and the needs of pupils and adult learners. Flexibility in education can be accomplished by recertification of the existing competences of an individual and by recognition of the results of non-formal education and self-education, i.e. by introducing a system of non-formally and formally acquired qualifications (introducing *identity cards* for acquired knowledge and skills). *Passability implies* avoiding “dead ends”. Dead ends in education are those educational streams (types of programmes) which do not allow for the transfer to a higher degree of education or to a different programme of the same educational level. *Dead ends* decrease the availability (democracy) of education and utilization of human resources. *Passability* is achieved by establishing a sufficient number of vertical and horizontal links among various directions in the system, which decreases its selectivity and avoids the “averaging” of pupils’ achievements. *Passability* of the system particularly depends on the pathways that make possible transfers between general education and vocational education at the level of higher secondary education, higher secondary vocational education and tertiary education, in order to enable the continuation of education at a higher education level; and non-university and university tertiary edu-

cation, in order to enable easier transfer from one type of higher education to another.

With the goal of lessening the number of drop-outs from the educational system and preventing low employability and poverty, it is necessary to establish counsellors for the employment of the young drop-out and provide measures for the ongoing training of the counsellors. Counsellors should assist in preparing the young drop-out for entering the labour market. To solve the employment problems of the young drop-out, an additional collaboration network should be established comprising various state institutions, private and non-profit organisations involved in employment issues.

Regarding youth education and employment, measures that increase the return and participation in secondary and particularly in tertiary education could enhance employability, reduce unemployment, prevent (or reduce) long-term unemployment, poverty and social exclusion. In all EU Member States and developed European countries, participation in education has increased in the last 25 years, but there are huge differences among countries and among particular regions in countries, and among particular socio-economic and ethnic groups. Although the situation and causes of unemployment in Croatia differ from those in the EU, similarly, the unemployment rates are lower for persons with higher education and qualification levels. Because of this, it could be assumed that, as in France and Finland, Croatia would also profit from motivating youth towards further education, while, like in Spain and Italy, there would also be benefits from increasing the possibilities and programmes of vocational education, and participation of youth in it. The education aspect is crucial in increasing their employability, which in turn is the most important determinant in evading poverty.

Due to many factors, it is hard and complex to evaluate the trade-off between equity

and efficiency in education. In the absence of domestic research and data and according to the situation in many countries (Wolf, 2002), we can be relatively certain that educational programmes in fact increase existing social differences, because poor citizens profit relatively little from participation in education, while children from richer social strata complete better and higher quality schools that provide entry into advantageous possibilities in further education, employment and professional promotion. In most transition countries, existing educational systems are expensive and ineffective with regard to their results. Students are forced to learn more data, but are weaker in their use of available knowledge and skills in unusual circumstances. Thus, at all levels of education, it is necessary to emphasize the active participation of students, and to improve efficiency and modernization, as well as to enhance teaching methods.

3.4.5. Conclusions

There is a strong and permanent link between social policy, the labour market and education. Undoubtedly, many long-term unemployed and poor people have completed at best a low level of education and/or have knowledge and skills that are not sought on the labour market. It would be reasonable to assume that many do not have the basic skills of literacy and numeracy; some have had no formal education whatsoever. There are many indicators and reports that stress insufficient incentives for lower paid workers to find jobs and leave the system of protection during unemployment or welfare.

Employers complain of the difficulty of finding an adequate work-force even in regions with high unemployment rates. Long-term unemployed people are in a further adverse position due to the depreciation of knowledge and skills during the period of their unemployment, as well as negative attitudes

by employers. Therefore, it is necessary, in a coordinated way, to improve the basic knowledge and skills of long-term unemployed people, develop new programmes so that these people will acquire work experience, and expand reorientation programmes (courses).

Apart from 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 in a hit-or-miss manner to deregulate the employment and work relationships system, but rather to attempt to find the optimum ratio between the desired labour market flexibility and the required social protection. Flexibility need considered in such a way 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 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 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 embrace of the law.

For employment and social policy, we could say that Croatia is on the whole moving in the direction of the policies that are current 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 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 in the consideration of the labour market and labour legislation.

Activities related to professional orientation, lifelong-learning and qualification, professional development and the increase of the total stock of knowledge in society ought to be enhanced, and this would increase the adaptability of the labour force to the requirements of the labour market. Active labour market policy measures must be more strongly directed at persons between the ages of 15 and 24, among whom the rates of unemployment are the highest (and for this group, the return from investment in human resources is probably the highest), with the emphasis on training and further qualifications. Training programmes should be matched, as much as possible, to 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, social and education policy must be monitored continually, and measures should ensure that men and women obtain equal opportunities and responsibilities. It is important to constantly evaluate the effects and influences of the different measures and of social and education policies 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.

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