

## Labour market and the varieties of capitalism in Croatia

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**Introduction**

There are several competing interpretations of the position of workers in the current socioeconomic system. Claiming inspiration from Marx, in a popular business book *Funky business* the authors argued that in the post-industrial economy workers are the ultimate owners of the means of production (Nordström and Ridderstråle, 1999). A more sophisticated argument was put forward by Hodgson (1999), which claimed that learning economy expands opportunities for emancipation from mainstream capitalism through co-operatives of knowledge workers. A much more pessimistic perspective is offered by the traditional left, which focuses on the negative effects of capitalism, such as social inequalities, demise of organised labour and the growth of structural unemployment and underemployment. The concept of 'cognitive capitalism' extends such thinking by viewing collective knowledge work as a new area of expropriation of surplus value (cf. Cvijanović, Fumagalli and Vercellone, 2010). Despite the widespread tendencies to view capitalism as a unified system that transcends national boundaries and institutions, the debate on the 'varieties of capitalism' (cf. Hall and Soskice, 2001) aims to offer a more socially contextualised view of economic realities. Institutional complementarities exist in different forms. The differences between liberal and coordinated economies<sup>1</sup> have been somewhat blurred by the globalisation of business and financial transactions. However, it can still be argued that many differences still persist.

This essay analyses the positions and prospects of different categories of workers in Croatia in the context of EU membership and wider socio-economic trends. As a post-socialist country on the periphery of Europe, Croatia has undergone a transition from market socialism to state capitalism and now awaits inclusion into the developed capitalist world (which is itself undergoing a profound economic and institutional crisis). That period has been characterised by low competitiveness, growth of structural unemployment and emergence of much more fragmented industrial structures. Industrial relations have been radically transformed along the way. Legal protection of employment, as measured by the Employment Protection Legislation (EPL) Index has been initially reduced by changes in relevant laws (1995, 2001, 2003) but it has remained at a fairly high level<sup>2</sup>. The situation

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<sup>1</sup> Liberal market economies are mostly associated with the Anglo-Saxon countries, whereas coordinated market economies involve continental European and Nordic countries and Japan. Ambiguous economies (which combine the characteristics of both systems) are often found in the Mediterranean.

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<sup>2</sup> Prior to the Labour Act reform in 2003 Croatia had the value of the EPL index (3.6), which was second only to Portugal, while significantly higher than the EU average (2.4) and the transition countries for which the data existed at that time (2.2). Labour legislation reform in 2003 decreased EPL index in Croatia from 3.6 to 2.8 (cf.

was further strengthened by collective agreements in the public sector. However, in practice there has been an erosion of rights of private sector employees.

Labour market policy is implemented at the national level, so it has not been directly a subject of EU accession negotiations. However, institutional structures and market processes associated with EU membership (e.g. free movement of goods and capital, temporary restrictions on the movements of labour in many countries, financial instruments provided by the European Social Fund) have influenced and will influence the positions and prospects of workers in Croatia. The effects of EU accession on the labour market and employee rights are often difficult to distinguish from more general trends. The crucial part of privatisation, which set the course of many future labour market trends, occurred during the 1990s, before EU accession was initiated. On the other hand, market liberalisation was a crucial component of Stabilisation and Association Agreement signed with the EU in 2001; but it could be argued that a similar process would have occurred nonetheless. Spillovers from the EU economy occurred through trade, tourism and investment whereas bilateral relationships and agreements with EU member states influenced the policy relatively independently of the formal accession process.

### **From market socialism to political capitalism and beyond**

In former Yugoslavia socialism was mixed with some elements of the regulated market economy (product market, bank finance). Industrial relations were characterised by full employment, self-management and collective bargaining under an ideological umbrella. Due to the overarching role of the League of Communists, enterprises were run by autocratic proto-capitalist managers politically supported by the party officials and connected with regional oligarchies (Županov, 1997). The primary industrial relationship was between the government (i.e. the Party) and the working class (rather than the individual worker). A specific company only fulfilled the ideological promise of availability of work for all. In order to facilitate the political legitimacy of the system, almost unconditional job security was practised regardless of the economic performance of a company. The post-1979 crisis increased the differences among workers in different companies and organisations, but the basic features of the system were kept until its dissolution.

Regaining independence led to reinforcement of 'political capitalism' (Županov, 1997), although the prevailing ideology changed. The first stage, which encompassed the 1990s was marked by a poorly managed privatisation, clientelism, post-war reconstruction and relative isolation from international economy. Between 2000 and 2008, opening up occurred and a credit-driven expansion fuelled the economy. That was followed by a prolonged crisis from 2008 onwards.

Post-socialist transition engendered a break up with some of the key elements of socialist heritage. Instead of self-management a more authoritarian management practices were introduced not only into privatised and private companies but also into state-owned companies. New 'bosses' and politically appointed managers adopted similar authoritarian styles of management and leadership (cf. Sikavica, 1997). The primary industrial relationship was reconstituted as a relationship between employer and employee. Government thus assumed the role of regulator and judge but it often

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Matković and Biondić, 2003). Despite minor changes in labour market regulations, the EPL Index has remained at a similar level ever since.

failed in fulfilment of its obligations. A redefined form of political capitalism, which included entrepreneurship and partial privatisation of social/state property, emerged. Political and entrepreneurial capitalism co-existed, with the political aspect still positioned at the core and entrepreneurialism assuming the role of the periphery. According to Franičević (2012), the relationship between labour and capital thus developed at the intersection of three competing discourses – liberal democracy (which emphasised freedom, entrepreneurship and markets), authoritarian modernisation (which emphasised the developmental role of the nation-state) and paternalism / clientelism (including both the welfare state and other regulatory and redistributive interventions that often result in rent seeking).

Therefore, the system engendered paternalism and a weak legal protection of most firms and employees. Firms suffered from inadequate rule of law, state voluntarism, rigged public procurement and abuses of market power by politically connected competitors. Such a situation constrained the development of a productive private sector and exacerbated the tendencies towards rent seeking. That deficient 'political and moral economy of transition' (Franičević, 2002) affected private sector employees as the eventual victims – through layoffs, early retirement, violation of rights and overall decline of trade unions and collective bargaining.

In many Western countries the past struggle of industrial workers and their trade unions led to expansion of employee rights and improved legal protection of workers. That was only partly reversed by globalisation of business operations and financial transactions. In Croatia, a major part of industrialisation occurred after World War II. One-party system and the doctrine of self-management precluded antagonistic relationships between the employer (i.e. the state) and the workers - and a similar situation was continued during the struggle for independence and post-war recovery. By the time industrial relations came into focus, the major part of privatisation was over, many traditional companies were bankrupt or significantly downsized, whereas new business owners often viewed employee rights enshrined in laws or collective bargaining agreements just as an obstacle to competitiveness. Changes in the structure of the economy (e.g. prevalence of SMEs, deindustrialisation, expansion of services) also facilitated marketisation of employment relationships, and reduced the bargaining power of employees. On the other hand, trade unionism and reliance on the state as a guardian became the only 'line of defence' to many workers in established companies and in the public sector. The result has been a strong differentiation of patterns of (un)employment and working conditions between sectors, regions and enterprises (cf. Franičević, 2012).

The expansion of the economy in the period between 2000 and 2008 brought about improvements in wages and employment, but economic growth (which will prove to be unsustainable) masked the unresolved conflicts within the political economy, including the differences in positions of private and public sector employees (please see below), which have been further reinforced later on by the prolonged economic crisis. During the crisis, employment in private sector and mixed ownership companies declined, whereas employment in the public sector increased. Moreover, increase in the share of fixed term contracts has been observed in recent years, which particularly characterises private sector companies, as well as sectors with higher shares of young workers (Vukšić, 2014).

Croatia entered the European Union while experiencing low employment and high unemployment<sup>3</sup>, as well as uncompetitive economy and weak trade unions. The overall quality and effectiveness of social dialogue is weak. The government intends to amend the Labour Act in order to facilitate flexibility in the labour market, while protecting the key rights of workers, but it is not yet clear what would such 'flexicurity' mean in the Croatian context. The negotiations with stakeholders are in the process, but the consensus is far from being reached.

### **Types of workers**

Individualisation of industrial relations is taking place throughout the Western world. It is driven both by technology and ideology. ICT enables better management and measurement of individual productivity, and the changing industrial and technological landscape changes the nature of collective work effort. Ideology of individual achievements and rewards fuels and follows these processes. The prevailing management discourse claims that employees have become the 'key assets' of an enterprise, but, due to individualisation of employment relationships, in practice that mostly applies only to key managers and experts. The quest for efficiency facilitates polarisation between employees who develop the ability to reap its rewards and those who lag behind. Although the distinction between them is somewhat blurred, the line usually follows opportunities (or lack of them) of certain groups of workers to acquire and utilise knowledge and other resources (e.g. economic, social and cultural capital). Alongside core competencies and employees, organisations produce their margins. Work flexibility has several aspects (wage flexibility, geographical mobility, occupational status, contractual security etc. - cf. Freeman and Soete, 1994), any of which may facilitate divisions. These divisions initially occur in the private sector, but efficiency-related reforms also bring elements of the same logic into the public sector. Furthermore, wider societal, economic and technological trends bring about new types of work and new categories of workers.

The overall result is a segmented labour market in which different categories of workers find themselves in substantially different positions in the labour market. The following matrix has been designed as an analytical tool for tackling the labour market in Croatia (which should in the future be complemented with empirical analysis), but it can arguably also be applied elsewhere. The matrix is based on the dimensions of the level of education and skills and the level of individualisation of each category of workers. Higher level of individualisation entails direct individual participation in the labour market, whereas lower level implies that a worker's participation in the labour market is mediated by organisational hierarchies (employers and/or trade unions).

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<sup>3</sup> The Labour Force Survey employment rate (15-64) has reached 52.5% in Q3/2013 due to seasonal effects, but employment rate is still lower than was in Q3/2011 (53.2%). Unemployment rate stood at 15.0% (Q3/2011: 12.6%), 68% of unemployed being long-term unemployed. The total registered unemployment rate in December 2012 was 21.1%.

		Level of individualisation	
		Low	High
Skill level	High	public workers	net-workers
	Low	private workers	not-workers

**Net-workers**<sup>4</sup> are 'ideal type' workers of our age. They include professionals, experts, managers, consultants, small entrepreneurs, freelancers and other 'knowledge workers' who have skills, flexibility and resources to actively participate in the flexible accumulation regime. They rarely seek collective means of protection in the labour market because their position in the labour market is seen as individualised both by them and by their current or potential employers or clients. The fragmentation of tasks, interests and positions precludes formation of strong collective identities and representation of collective interests. In addition, net-workers often view themselves as competent, self-reliant and entrepreneurial. In reality, this self-reliance involves a wide spectrum of socio-economic positions - from relative wealth (or at least comfortable middle class lifestyles) to temporarily or even permanently precarious existence. Some net-workers are in this position by choice (because of opportunities, freedom and flexibility related to such work), whereas others are forced to take it (e.g. because of inability to find stable jobs).

The category of **public workers** involves workers in public administration, public services and public enterprises<sup>5</sup> owned by central or local government. Many public workers are similar to net-workers in terms of education, but they differ in terms of higher job security and public sector ethos. They are often employed in larger public sector organisations which implement complex tasks (universities, hospitals, government agencies, but also public companies). However, this group also includes public sector employees which perform generic tasks and have few specific skills, but enjoy the benefits of collective protection instruments. The rights and position of workers in the public sector are in the short run determined by Labour Act provisions and existing wage setting mechanisms (usually collective bargaining), and in the longer run by the debate about roles, size and performance criteria applicable to different types of public sector organisations. Namely, most organisations of the public sector are likely to be subjected to some form of reform, restructuring, outsourcing of some functions or even privatisation.

**Private workers** are traditional industrial and service workers with some specific skills and accumulated experience employed in stable jobs in private sector companies. They are 'ideal type' workers of the past industrial era. Their skills are related to specific jobs and specific companies. Unlike net-workers, they cannot easily change jobs or become independent contractors. But they

<sup>4</sup> They are called 'net-workers' because they extensively use both personal networking (as a form of cultural capital) and internet as means to obtain and implement jobs and projects.

<sup>5</sup> This entails a company in public or state ownership and is not to be confused with publicly listed companies.

also have more valuable skills than not-workers (please see below), and are not readily replaceable. Their relative weight has been reduced by deindustrialisation, increased role of SMEs, fragmentation of tasks enabled by ICT, as well as by globalisation of business operations which put pressures on labour costs and jeopardised the position of labour unions. After privatisation, many established companies have entered defensive restructuring through layoffs or early retirement of workers, which was at the heart of resulting labour productivity growth (cf. Račić and Cvijanović 2005). In the process, occasional shortages of skilled workers were also created. Trade union coverage is nowadays low. An increasing proportion of private sector employees works for SMEs where they have a lower level of rights (e.g. related to job termination). Many new employment contracts are fixed-term, also leading to reduced rights. Consequently, the position of private workers is problematic - it depends on the competitive position and strategy of their company<sup>6</sup>, and on their skill portfolio (generic vs. specialised skills). Private sector workers have been severely affected by the economic crisis as they suffered massive layoffs and stagnation or fall of income.

The final group of **not-workers** involves those with few skills, limited experience, those who perform precarious low wage work and the long-term unemployed. In the future it may also include immigrant job seekers. As 'invisible' and marginalised participants in the labour market, they have difficulties in finding any job, let alone a permanent or a reasonably well-paid one. During transition, first emerged a large group of middle age workers who lost their jobs at the privatised and restructured companies in traditional industries. They either became long-term unemployed or retired early; some of them found occasional jobs in the unofficial economy. Fixed term or seasonal jobs in construction, retail and tourism could not provide a proper alternative, and many such jobs were lost during the recession. More recently, youth unemployment has also boomed; during the crisis, first time job seekers found themselves competing for few available jobs with more experienced workers<sup>7</sup>. Not-working also has a regional dimension; unemployment is particularly problematic in rural and semi-rural areas of continental Croatia. Continued recession forces not-workers into long-term unemployment or even makes them economically inactive because of discouragement. Increased efficiency of the Tax Administration (e.g. fiscalisation of cash payments) reduced the opportunities within the 'grey' economy, therefore limiting the chances of the most disadvantaged for finding any work.

### **The future of workers and industrial relations**

Individualisation of industrial relations restricts the availability and effectiveness of collective means of protection of workers' rights. The categories that are heavily individualised (net-workers and not-workers) are usually outside the scope of unionisation and collective bargaining. The dominant

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<sup>6</sup> For example, despite low wages and poor protection of employee rights in store chains, drugstore chain DM has adopted a different approach and is often named as one of the most desirable employers in Croatia.

<sup>7</sup> Structural and long-term unemployment also affects highly educated persons (mostly youth without working experience but also some older workers) - so their categorisation under 'not-workers' may be questioned. However, given the structural nature and long-term duration of unemployment, it can be argued that their education and skills have not been recognised by employers and put into practice. They thus share the conditions of labour market invisibility and/or marginalisation with other 'not-workers', which justifies their inclusion into this group.

discourse emphasises the independence of net-workers as social agents, which bear risks and reap the rewards of their career endeavours. Their antipodes are not-workers, whose individualisation makes them vulnerable and, more importantly, dependent on social structures and policies which aim to alleviate their unfavourable position in the labour market and in the society in general. The position of public and private workers is strongly characterised by interdependence; their (collective) agency is enabled and/or constrained by social structures. These workers still resort to collective representation and, occasionally, action - but their labour market position is challenged by attempted reforms of the labour market which aim to make it more flexible and, consequently, more individualised. The dialectics of reform and resistance can often be observed. As Žižek (2013: 278) has analysed, current strikes and protests are usually carried out by those who still earn a 'surplus wage', usually in the public sector, but whose position is jeopardised: 'In times of crisis, the obvious candidates for 'belt-tightening' are the lower levels of the salaried bourgeoisie: since their wage surplus does not play an immanent economic role, political protest is their only recourse if they are to avoid joining the proletariat.'

In the case of net-workers, both the specificities of their jobs and the dominant ideologies prevent them from seeking collective means of protection. The rights of net-workers rarely stem from belonging to an organisation or a trade union. Collective representation exists only in the case of professional chambers which secure some specific rights of their members (e.g. attorneys at law, auditors, construction engineers). This lack of collective rights is compensated by higher propensity to set up small companies, as well as by the skills and motivation to seek work outside the immediate local labour market – either by moving abroad or by seeking distance work. As in other new EU member states, many younger and some middle aged Croatian professionals will look for jobs, contracts or distance work in the European labour market.

On the other end of the spectrum, not-workers are a diverse group without any significant bargaining power in the labour market, which makes their position particularly vulnerable. They face a high risk of poverty and social exclusion. Their interests are not served by existing trade unions (who primarily protect those who are currently employed). The only sources of support available to them come from government-sponsored social and labour market policy measures (social assistance, unemployment support, further education, retraining etc.) or from civil society organisations that tackle poverty and social exclusion. New jobs for not-workers can be created through major increase in demand for labour (major new investments, growth in service sectors that require relatively less training) or through community-based projects (e.g. social enterprises, including co-operatives) that will creatively combine business and social objectives. The position of not-workers will also be affected by emigration from Croatia and immigration into Croatia.

When it comes to the future of work and industrial relations in Croatia, the greatest changes can be expected in the case of the public sector. They will in part be driven by EU membership, which will bring into focus the issues of liberalisation of different sectors previously occupied by public sector monopolies or oligopolies, and efficiency of public sector organisations in general. As in other EU countries, a heated public debate can be expected on the roles, size, and performance criteria applicable to the public sector. However, public sector entails a diverse set of organisations, some of which are excluded from the market logic (public administration, state/local monopolies), whereas all others need to serve the public interest in competitive conditions (and thus are influenced by both regulation and market processes). New competition and requirements to become more efficient or

financially sustainable facilitate reforms which deeply affect the position of employees in public sector organisations and may lead to future layoffs and lowering of employee rights. In the case of major macroeconomic disturbances, such a scenario will be highly likely, as the example of neighbouring Slovenia demonstrates. Although industrial actions have been relatively rare, they may intensify in the future. When public sector organisations are subjected to market liberalisation, private competition emerges, but so far its effects have often been limited. For example, private providers in health care, social services and higher education have often focused on simpler and more profitable services and programmes which do not require significant investments, and which are still relatively affordable to clients. With few exceptions, public providers remain better staffed and equipped, as well as more prestigious<sup>8</sup>. Introduction of new performance criteria will also be used as a basis for restructuring of core activities and outsourcing of non-core activities (e.g. facility management, cleaning, food preparation). What can be expected in most cases is differentiation (segmentation) of public sector employees and the corresponding erosion of group solidarity. The current public sector workers are likely to split into groups whose position will range from elite net-workers to not-workers<sup>9</sup>. Top members of the elite will circulate among public sector (at national and EU levels), politics and private sector companies. Most public sector professionals will be more specialised and less mobile, but they will be able to develop their careers on the basis of professional and networking capabilities. Some current public workers will become net-workers or private workers in Croatia or abroad – either because they will want to seize opportunities, or because the reforms in their sector will reduce the scope of public provision of services and force them to seek employment in the private sector. At the bottom of the pyramid, there will be public servants without significant career prospects and less skilled workers performing non-core activities.

Private sector workers have already experienced a profound transformation of their organisations, lowering of actual rights and weakening of bargaining positions. Only a redefined development model, which will increase levels of investment and competitiveness of Croatian companies, but also emphasise the social responsibility of businesses, may lead towards renegotiated industrial relations in the private sector. In other words, the future of private sector workers will largely depend upon the effectiveness of development policies and the corresponding ability of economic actors to create 'good' jobs in sophisticated manufacturing and high value added services<sup>10</sup>. A complementary role can be played by facilitating rights of workers through ownership (e.g. employee stock ownership

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<sup>8</sup> Public sector institutions are more likely to lose their dominance when the service provided is straightforward so a price competition can ensue (e.g. electricity) than in the cases when new providers not only inevitably charge higher fees but also have to demonstrate more complex capabilities and build a reputation (e.g. higher education).

<sup>9</sup> For example, a recent struggle related to collective bargaining in the health sector demonstrated an increasing divide between doctors (which have a relatively strong bargaining position – in part due to demand from Western EU countries), nurses (which also enjoy some career opportunities, but are less likely to move abroad) and non-medical staff (which may be subjected to outsourcing and reduction of their rights and thus leave the public sector altogether).

<sup>10</sup> A small minority of workers may opt for 'guest work' or emigration abroad, but the demand for such work in many EU countries will be limited. Moreover, language and cultural barriers will be difficult to overcome for many potential migrants.



plans, co-operatives owned by workers) and participation in decision making within companies<sup>11</sup>. Finally, pressures applied by regulatory bodies, consumers and other stakeholders should steer businesses towards a more complex form of economic, social and environmental sustainability. A wider public debate is needed on the subject, which could bring about creative solutions aligned with institutional and cultural characteristics of the Croatian society, as neither simplistic market fundamentalism nor preservation of uncompetitive businesses through subsidies are compatible with EU regulations.

The following table provides a brief summary of the main implications of the discussion. Starting from the defined categories of workers, and taking into account their skill levels and the level of unionisation in their sector, some possible policy responses for each group of workers are identified. A more detailed analysis would be required to tackle the exact design, sequencing and the interrelationship between various policy measures.

Types of workers	Skill level	Level of unionisation	Policy response
net-workers	high to medium	low	<ul style="list-style-type: none"> <li>• education</li> <li>• brain circulation &amp; immigration policy</li> <li>• SME policy</li> </ul>
public workers	high to low	high	<ul style="list-style-type: none"> <li>• public debate</li> <li>• strategic approach to reforms</li> <li>• accountability &amp; performance management</li> </ul>
private workers	medium	medium	<ul style="list-style-type: none"> <li>• investment promotion</li> <li>• matching skills and labour market needs</li> </ul>
not-workers	low	low	<ul style="list-style-type: none"> <li>• active labour market policy</li> <li>• social entrepreneurship policy</li> <li>• social policy</li> </ul>

### Croatia and the varieties of capitalism

EU accession brings about a complex web of regulatory institutions and practices, but places the economic activity firmly in the context of the single market which broadly operates in accordance with (neo)liberal principles. Since economy and society are interlinked, their interrelationship requires interpretation through public policy, which places economic issues within wider legal and cultural frameworks. That results in various modalities of the market economy which are often labelled as the varieties of capitalism (cf. Hall and Soskice, 2001).<sup>12</sup>

The type of capitalism that has emerged in Croatia has been based on legacies from the previous period, as well as by the processes that occurred in the 1990ies. Economic assets have been defined

<sup>11</sup> EU accession makes worker councils mandatory for EU multinationals with more than 1000 employees.

<sup>12</sup> Alternative conceptualisations involve the theories of the social systems of production (cf. Hollingsworth and Boyer, 1998), business systems (cf. Whitley, 2000) and systems of corporate governance.

and distributed through privatisation and new firm creation. That process was complemented by as defining and enforcing legal and social frameworks that govern business transactions and firms engaged in them. However, the mismanagement of privatisation and institution building (cf. Račić and Cvijanović, 2005) contributed to underdeveloped capital market, high unemployment rate and insufficient technological and managerial upgrading of companies which results in their weak competitive position in the product/service markets. Opening up of markets has led to increased competition and crowding out of many local producers, whereas economy has been reoriented towards services (including wholesale and retail trade, finance and real estate). Foreign direct investments have mostly been motivated by market-seeking reasons; they were mostly attracted by the non-tradable services sectors, such as trade, telecommunications and financial intermediation. Some of these trends are broadly consistent with the theory of 'dependent market economies' (cf. Nölke and Vliegenthart, 2009), which was applied to post-communist countries such as Hungary, Czech Republic, Slovakia and Poland<sup>13</sup>. However, the key missing element is export-oriented foreign direct investment in manufacturing sectors, which absorbed a significant part of the labour force in the aforementioned economies and contributed to their technological upgrading and export performance. Due to a variety of reasons (including underdeveloped institutions, price of labour and lack of coherent FDI policy), such investments have had a relatively marginal role in Croatia. Therefore, effects on the export performance and the transfer of technological innovations within transnational enterprises were limited. Institutional complementarities that characterise dependent market economies and contribute to their performance have not been developed.

The contours of 'Croatian capitalism' often offer a perplexing picture when juxtaposed to the characteristics of the dominant sets of varieties of capitalism – liberal (Anglo-Saxon) and coordinated (continental European). On the one hand, the social and legal systems, including the experience of the pre-Communist era, gear Croatia towards the coordinated or ambiguous forms of market economy. Croatia also belongs to the Mediterranean circle of low trust societies with strong collectivist values (cf. Hofstede, 1996). The processes of European integration and globalisation have both induced transformations in the continental Europe and provided stimuli for the inclusion of Anglo-Saxon characteristics in the transitional countries' economies and societies. Moreover, elements of Anglo-Saxon systems are often embedded in the in the macro- and microeconomic policies and institutional frameworks endorsed by the major outside actors (e.g. European Commission, the World Bank and the World Trade Organization). The process of blending the elements of both systems in a rather underdeveloped and incoherent way has resulted in a situation whereby neither the market, nor the legal and social norms ensure sufficient effectiveness and accountability within the economy<sup>14</sup>.

An earlier analysis (Račić, Babić and Podrug, 2005) has confirmed this paradoxical situation in the context of the labour market. Despite all-encompassing applicability of the relevant laws, Croatian labour market has in practice been segmented. Employees in different sectors have tended to

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<sup>13</sup> A different conceptualisation views these economies as 'liberal dependent market economies' (cf. King, 2007). The extent of political and economic liberalism in Croatia has often been disputed (cf. Šonje and Vujčić, 2001). Most reforms in that direction have been challenged and implemented only partially.

<sup>14</sup> Consequently, parallels can also be drawn with ambiguous (Mediterranean) varieties of capitalism which are claimed to produce suboptimal outcomes.

experience substantial differences in protection of their legal and contractual rights. Due to the institutional insufficiency of the judicial system to protect individual rights, segmentation largely resulted from the patterns of unionisation and collective bargaining. Employees of public sector and state-owned enterprises (where unionisation is still strong) and some larger companies have tended to enjoy job security, above-average wages, and good working conditions. The workers in the SME sector and many larger privately-owned companies, where unionisation has been ineffective or even discouraged by employers, have experienced more problems in the protection of their rights. They have been exposed to individualisation and marketisation of industrial relations. The economic crisis has brought about loss of jobs and lower real wages and further reduced the bargaining power and rights of private sector employees. Public sector employees have experienced relatively milder consequences, but the current government plans further reforms of the public sector.

To sum up, it can be claimed that Croatia is an example of a 'dependent ambiguous market economy' which combines elements of post-socialist economies and ambiguities of Mediterranean economies. A similar tension can be observed in the analysis of global labour market by Dobbs at al. (2012). Although Croatia is classified within the group of post-socialist countries, its parameters of (above-average) age and (below-average) education bring it closer to the countries of Southern Europe. Such a situation contributes to the lack of institutional complementarities, segmentation of the labour market and weak performance of the Croatian economy.

### **Concluding remarks**

Croatia entered the European Union while facing a prolonged economic crisis to which effective policy responses have not been reached so far. EU will bring a better protection of individual rights, but it will also facilitate a decline of collective identities, solidarities and bargaining regimes. EU membership necessitates the development of strategies which will not only be the basis of absorption of EU funds, but also need to steer the Croatian society and economy towards a more sustainable future. The success of that complex process is however uncertain - and the future of Croatian workers will significantly depend on it. Persistently high levels of unemployment and low rate of employment can only be tackled by new and increasingly productive economic activities. It remains open whether the political-economic preconditions for strong and sustainable economic growth and which paths should be taken. However, without a strong impetus to the economy and an increased demand for work, only the most capable 'net-workers' will be able to prosper – and many of them will opt to do it abroad. The consequences of migration of the most potent segments of the working population would include not only the loss of human capital, but also deterioration of the entrepreneurial capability and perpetuation of the paternalistic culture (Franičević, 2012).

Policy responses need to be adjusted to the each group of workers. Net-workers need to be educated, kept and attracted from abroad (through brain circulation and immigration policies) and facilitated in their activities (e.g. through SME policies). As for the public sector, a more substantive public debate about its future is needed. On the basis of such a debate, a strategic approach to reforms should be developed. Public goods need to be protected and created, but that does not entail that institutions responsible for them should be exempt from accountability or some forms of performance management. Public sector also needs to tackle high prospects of further segmentation among its employees. Job creation in the private sector requires investment promotion and better linkages between skill formation and labour market needs. A similar logic can be applied to not-

workers, who should be additionally supported through measures provided by the active labour market policy and social policy. Although positions, challenges and prospects of these groups of workers in the Croatian labour market are fundamentally different, they are also interrelated and borders between groups can be crossed. Therefore, although policy responses should be specific, their wider implications should also be taken into account.

Through opening up borders and markets by insisting on clear rules and individual rights, EU membership moves Croatia towards a more liberal society and economy. Having in mind strong authoritarian and clientelistic tendencies in recent past, whose consequences can still be vividly observed, it is reasonable to view that as a positive development. However, taking advantage of more liberal conditions and mitigating their adverse consequences (weaker social cohesion, democratic deficits etc.) requires much more social dialogue and bottom-up activism that it has been customary in Croatia. Such activism can take place at the level of particular professions, sectors, regions and companies – and can help define what kinds of practices, jobs, companies and societal conditions Croatian citizens and workers prefer. Instead of the current tug-of-war that engenders institutional sclerosis and economic stagnation, interest groups and organisations should develop capacities for strategic interaction and integration, and appropriate framework for protection of interests. That can eventually lead towards interactive governance (cf. Messner, 1997) and higher ‘systemic competitiveness’ of Croatia, based on the interaction of financial, production, innovation and governance systems (Bradford, 1997).

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