
Social Policy Reforms in Croatia*

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Summary

The author analyses data about the present social situation in Croatia and the state of social policy reforms. The indicators of social situation are very unfavourable as a result of a decade of dramatic changes: very high level of unemployment, high percentage of retired persons, growing social inequality, permanent financial crisis of social security systems.

In the second part of his paper the author describes recently initiated or planned social policy reforms in the sectors of old age pension systems, health care, protection of the unemployed, social welfare, family policy, labour market and education policies.

Introduction

In the socialist period the social policy of Croatia was a kind of amalgam of the socialist and western model. On the basis of employment in the public ownership sector a social security system was developed, and certain categories of employees in the private sector (craftsmen and farmers) also realized their right to social insurance, primarily old-age pension insurance and health insurance. However, obligatory social insurance was not sufficient to solve an increasing number of social problems in the country, so a social welfare system for the socially threatened population was established, as well as a network of social institutions for offering different sorts of services to the vulnerable social groups, primarily children and the elderly. Moreover, the public-owned companies themselves solved directly certain social problems of their employees and their families, so they represented a significant agent of social policy. Public companies, due to extensive employment, featured hidden redundant labour and low productivity. As a matter of fact, one of the major tasks of socialist economy used to be the preservation of social peace and legitimacy of the government. Owing to this, the state managed to achieve “patron security” and integration of employees into the ruling system, thus guaranteeing to them relatively low wages and social protection. Social problems, however, accumulated and with time proved to be unsolvable by socialism and its social organization scheme. At the economic and social level, socialism exhausted its development potentials right after the initial successes achieved in the modernization of the so-

* This paper has been prepared for a Regional project on Social Policy in South Eastern Europe, organized and funded by the Friedrich Ebert Foundation, Germany.

ciety. In other words, the socialist state could not secure accumulation and growth in economy anymore, and accordingly, could not offer social security to its citizens. Therefore, it lost the mandate of governing the society. A tacit contract between the ruling elite and the general public fell apart, and the socialist system simply collapsed from within. (Puljiz, 1996).

In Croatia, the fall of socialism was related to the dramatic breakdown of the Yugoslav state union and the constitution of Croatia as an independent state during the Croatian Liberation War (1991-1995).

In the Constitution of the Republic of Croatia, adopted in December 1990, the basic values on which the Croatian society is founded are recorded, which are proper to liberal democracy. Among other things, in Article 1, Paragraph 1 of the Constitution Croatia is defined as a welfare state. Furthermore, in the chapter of the Constitution on economic, social and cultural rights basic social rights are quoted which the state guarantees to Croatian citizens, and which are recorded in international documents such as the European Social Charter.

Unfortunately, Croatia did not have a chance to constitute itself and develop as a democratic and welfare state, but in the period of 1991 – 1995 had to wage a difficult war for independence. The economic and social development of Croatia were thus in the past decade marked by the war for the creation of a national state on the one hand, and simultaneously, by post-socialist transition to market economy on the other.

War in Croatia caused great human suffering, destruction of material goods, a decline in production, employment and standard of living. The war brought about a large number of displaced persons, refugees and other victims of war such as the disabled, families of the killed ones, those gone missing and others. In the middle of 1992 Croatia was taking care of about 700 thousand displaced persons and refugees, which made nearly one sixth of its total population. At this time massive solidaric energies of the society articulated themselves in a collective effort to overcome the fatal challenge that Croatia was facing.

During the war, a post-socialist transition was carried out, in the centre of which there stood the privatization of public property. Privatization essentially determined the social situation in Croatia. The crucial problem was that privatization was happening in difficult war circumstances, when economic activities were considerably reduced and the market was very limited. Moreover, during the privatization process quite a lot of abuses and irregularities sprung, planting a firm belief throughout the classes of the pauperized population that the game had been unfair, that is, that there had been an alliance of the new political and economic elites with the purpose of a redistribution of the national wealth in their favour. Furthermore, privatization was accompanied by a dramatic decrease in employment as well as a social stratification of the society. Decreased and uncertain employment led to considerably reduced financial transfers in the social security system, which resulted in the reducing of the citizens' social rights. Briefly, the economic crisis caused severe unemployment and social stratification, threatening thus – by nature – the social security systems that became less generous and social rights that were reduced. As a result, in today's Croatian society one can notice dissatisfaction of the general public, who are made social and economic losers by war and pri-

vatization. It primarily refers to displaced persons, refugees, returnees, the unemployed, pensioners and other pauperized social groups.

Politically, today's Croatia faces two opposite pressures. On the one hand, a portion of the population pauperized and struck by the war call for an intensified state intervention and redistribution of the national income so that their social position, which they consider unfair, could be improved. On the other hand, the international community and the interior imperatives of economic development impose a need for a reduction of social costs, that is an increase in accumulation and investments. The most direct advocates of such an approach are private entrepreneurs, but also international financial institutions which stipulate that their loans will follow a reduction of government costs and the creation of a more active market. In such contradictory and unfavourable circumstances, social reforms are being carried out and prepared, primarily in the old-age pension and health insurance, in the policy to the poor, unemployed, in the family policy, education and so on.

Indicators of economic and social situation

In 1991, when last census was carried out, Croatia had a population of 4,518 thousand people living in the country. Due to the war suffering and migrations, the population in the country decreased and, according to demographic estimates, it totalled 4,224 thousand in 1998, which is 6.5% less than in 1991. However, it was not only migrations that affected the decrease of the population but also the birth rate, which was negative in the past decade. Thus, Croatia – regardless of the return of displaced persons and refugees or the settlement of the Croatian population from Bosnia and Herzegovina – is faced today with the problem of pronounced demographic recession (Akrap, Gelo, Grizelj, 1999).

In the past decade, the Croatian gross domestic product (GDP) fell considerably. The fall of the gross domestic product was the most drastic in the war years of 1991 and 1992. Actually, the fall was already recorded in 1989 (-1.6%), and was following in 1990 (-7.1%), 1991 (-21.1%) and 1992 (-11.7). In 1999, a fall of the gross domestic product by 0.3% was recorded, while in 2000 a 3%-increase is expected. Estimated level of real GDP in 1999 is 4467 US\$ per capita, what is only 78% of GDP in 1989 (Transition Report 2000).

These figures speak of deep changes which occurred in the Croatian economy and society. These changes were caused by large-scale destructions and regress of economic activity due to war. Furthermore, one should take into consideration the loss of the Yugoslav market as well as the markets of former socialist countries, which were very important for Croatia. During and after the war in Croatia the privatization of public property was carried out, which is estimated today as economically unsuccessful and socially unjust. All this led to a drastic deterioration of economic and social situation.

Croatia will reach the pre-war level of its national income only in next two years, and after that, in the process of approaching the European integrations, it will be reducing its lag behind developed countries.

The economic crisis was reflected in the unemployment trends. The unemployment problem existed in Croatia in the period of socialism, too, and was demonstrated more considerably in the second half of the sixties, when a lot of Croatian citizens left to search for jobs in western European countries, mostly West Germany. In 1990, Croatia had 161 thousand unemployed or 8.2% of the total population. Five years later the number of unemployed amounted to 241 thousand or 14.5%, and the average number of unemployed in the first eight months of the year 2000 totalled 352 thousand or 20.8% (Bilteni Državnog zavoda za zapošljavanje – State Employment Agency Bulletins). This drastic increase in unemployment was mostly caused by the loss of jobs in the past decade. We are talking of the registered unemployment. However, since November 1996, Croatia has kept the employment record on the basis of the labour survey, which shows lower unemployment than recorded. It is the matter of a different definition of employment. (In the labour survey, the category of the employed includes all persons who worked at least an hour in the reference week.) According to these data unemployment at the end of 1996 was 10.0%, in June of 1997 9.9%, in the second term of the year 1998 11.6%, and in the second term of 1999 14.6%.

Very important is the information on the trends of the personal income, primarily wages of the employed. The salaries of the employed grew faster than the national income did. If the year 1994 is taken for the basis of 100, then realistically the wages went up to 145.8 in 1995, to 163.0 in 1996, to 190.6 in 1997 and to 216.0 in 1998. A comparatively high increase in real wages is in contradiction with unemployment growth, so one can speak of some kind of dualization of the Croatian society. On one side, there are the employed whose standard of living, speaking in simplified terms, rises, and on the other, there are the unemployed, pensioners and others whose social situation is getting worse. This simplified image is deranged by a considerable number of the employed who do not receive their wages for months and are threatened by a job loss. We are talking of more than 100 thousand people who are in the transitional status of uncertain, precarious employment.

In 1998, an average monthly salary, converted according to the official exchange rates, totalled DEM 640, and according to the available information, nearly DEM 850 in the first six months of 2000. The fact that wages in Croatia, especially in the public sector, are comparatively high, is proved by continuous warnings of the World Bank, which analyzes and in a way supervises economic trends in Croatia. According to the information submitted by the World Bank, in 1999 one fifth of all the employed (20.7%), who worked in Croatia in the public sector, spent 11.5% of the gross domestic product by way of wages. In comparison, in other transitional countries the share of wages for the same category totalled 3.6%, and in developed European countries 5.3% (World Bank, 2000.a:11). Unlike the public sector, in the private sector employment is being reduced, and the working conditions are more unfavourable and uncertain. After all, in the private sector the so-called grey economy has become quite widespread, which realizes 26.5% of the GDP (Bićanić, 1997). Therefore, jobs in the public sector, especially state administration and public services, appear today as an oasis of economic and social security.

Distribution of the employed regarding the level of net wages in early 1998 was as it follows: up to HRK 1,400 – 15.2%, HRK 1,400-2,000 – 24.8%, HRK 2,000 – 2,600 –

23.7%, HRK 2,600-3,200 – 18.2%, HRK 3,200-3,800 – 5.7% and above HRK 3,800 – 9.8%.

One can, therefore, conclude that the differences in incomes within a category of employees have increased lately and that this points to the trend of social stratification. According to the findings presented in the publication of the World Bank "...the wages of badly paid workers (those receiving the wages below the median) grew more slowly than the wages of better-paid workers. It is clear that the favourable effects of growth were not evenly distributed" (World Bank, 2000.a:18).

Wages themselves are not a sufficient indicator for an estimate of the distribution of the income among different social classes. Other sources of income should also be taken into consideration. According to the research of the World Bank and State Bureau of Statistics, Gini's coefficient showing the state of inequality in a society totals 0.352 for Croatia. This coefficient is twice as high as in the Czech Republic (0.174) or Slovakia (0.168), but is lower than in Russia (over 4.0). In western countries Gini's coefficient varies from 0.2 and 0.4, and the USA has one of the highest (World Bank, 2000.b:27).

Surveys on receipts and payments of the population conducted each year by the Centre for Examination of the Market (CEMA) show that the majority of the interviewed households estimate they do not have a sufficient income for a normal living. Thus 100 households covered by the 1993 survey stated they had an average income of DEM 379, and that they needed DEM 753 for a living. The same information for the year 1995 quoted DEM 843 as realized funds and DEM 1.581 as needed funds, while in 1998, the realized sum was DEM 1.017 and the needed sum 1.696 (Šućur, 1999.:349-355).

We can, therefore, conclude that the fall of economic activity in the past period has been accompanied by strong differentiation processes in the society and that today the differences in the economic and social status of the Croatian citizens are considerably bigger than before the war. It has been said that this causes great frustration and dissatisfaction of those classes in the society that could be qualified as losers, and this primarily refers to the victims of war, unemployed, pensioners. In the war for independence, a high degree of solidarity and social cohesion of Croatian citizens was achieved around a high national goal – the achievement of state independence. However, when the war was over and vital issues came into focus, primarily the income creation and distribution, a large number of people perceived the privatization and distribution of the national wealth that had taken place in war as unjust and contrary to the then-predominant values. That is why in the Croatian society so much is still said on the theft, or even plunder, of the national wealth, and the new owners' elite along with their legitimacy is very much denied.

Taking into consideration such a condition of the social awareness, the new ruling coalition, that came to power in January 2000, promised in the pre-election campaign the revision of the privatization process. However, probably fearing that it might derange the economic process as well as the trust of foreign investors, it has not undertaken any significant steps in this direction yet.

Social security systems and their reforms

So far we have mostly discussed the primary distribution of social welfare (goods and services) that takes place at the market. In this section, greater importance is given to the secondary income distribution that the government performs through the social security systems, such as old-age pension system, health care system, protection of the family, unemployed, poor and so on. In this way the government redistributes the income, corrects market deviations, regulates the overcoming of social risks, levels out opportunities and defines the level of general well-being in the society. It was only natural to expect that in the past decade, due to the economic crisis, a fall in the personal income and unemployment growth, many socially threatened citizens tried to settle in the social security systems, primarily old-age pension system.

Information on the social costs bears witness to the condition of the social security system in Croatia. According to the World Bank sources, the social costs in Croatia in 1998 totalled 27% of the gross domestic product. This covered pensions by 12%, health care by 7% and education by 3%, while the remaining 5% was used for other social needs (World Bank, 2000.a:IX). In the past two years pension and health expenditures have gone up, so the social expenditures must have gone up to 30% of the GDP by now. Some expenditures for the victims of war (displaced persons and refugees) are run out of the mentioned social programmes. If they were also taken into account, the social expenditures might even reach one third of the gross domestic product. Such high social expenditures can be justified by the consequences of war and post-war circumstances that imposed the state interventionism and an intensified secondary income distribution. In other words, the situation in Croatia favours the Keynesian socio-statism, and the external circumstances and need for economic development imply an orientation towards the so-called Schumpeter state, where an increasing role is given to the market, and a diminishing one to the state. This means that in the social sphere the responsibility of the citizens and their associations is increased.

In the following sections, the indicators of the condition and reforms in the major social security systems will be briefly presented.

Old-age pension system

Old-age pension system is by its financial means, scope and interest of the population as well as the influence of the retired people on the national political stage the most important social security system.

The number of people insured through the old-age pension system went down from 1,968 thousand in 1990 to 1,406 thousand in 1999, i.e. it went down by 29%. On the other hand, the number of pensioners went up from 656 thousand in 1990 to 1,018 thousand in 1999, i.e. by 54%. The pensioner dependence index (ratio of pension insurance beneficiaries and retired people) was reduced in the past 10 years from 3.00 to 1.38. This index symbolizes the entire Croatian pensioners' drama.

As for the level of pensions in relation to wages, in 1992, that is – in the middle of the war period, the share of an average pension in an average salary was 63.19%, and in

1999 it went down to 38.37%. This average does not include the pensions of the former officials of the Croatian Army and veterans of the Croatian Liberation War, which considerably exceeded the average.

Due to a large number of pension beneficiaries and a fall of the national income, a growth has been recorded of the share of the total pension expenditure in the gross domestic product. This share in the GDP totalled 7.7% in 1992 and 13.27% in 1999. An important piece of information is that only 2/3 of the pensions are covered by the beneficiaries' contributions, while 1/3 of the pension costs has to be covered by the state through transfers from the Budget. The fall of pension contributions is not only caused by a reduced number of the employed, but also by a widespread phenomenon of avoiding to pay the contributions, that is the reduction of the contributions by the employer. Furthermore, the pension funds receive an insignificant income from the former public-owned assets, which they received during the privatization process.

Since the pensioners are well-organized and, being so numerous, carry a large number of votes and thus affect considerably election results, they exert a strong pressure on the government. A major dispute that pensioners' associations led with the government referred to the public debt to pensioners. Namely, in the war years the government changed by decrees the method of pension indexation, so they considerably lagged behind the wages. According to various calculations this debt varies between DEM 6 and 10 billion, which is a huge amount of money considering the Croatian situation. In the dispute that appeared with the government in May 1998, the constitutional court passed the verdict in favour of pensioners, which additionally strengthened their position. They expect the return of the debt from the new government, the negotiations on which are under way.

There were attempts to change the difficult situation in the pension scheme with two reforms contained in the 1998 Law on Pension Insurance. The goal of the first reform was rearrangement and rationalization of the existing system of inter-generation solidarity (pay-as-you-go), while the other reform contained in the same law anticipates the introduction of the second and third pillar of the obligatory and optional funded pension saving.

When talking of the first, so-called small-scale pension reform, the mentioned law prescribes a gradual passage to a later retirement age (for men from 60 to 65 and for women from 55 to 60 years). An important change is that, according to the new law, pensions are calculated on the basis of the wages earned throughout life, and not only on the basis of the top 10 years as it used to be the case. Furthermore, pension indexation is performed half according to the growth of the wages of the employed, and half according to the growth of prices. As for disability pensions, the definition of disability has been modified so that general and functional disability are differentiated. Simultaneously, the disability pension terms, which were rather flexible until recently, have been made stricter. The criteria for premature retirement have also been made stricter. Some earlier institutes of solidarity within the pension scheme, such as a protective supplement on the minimum pensions and a supplement for help and care, have been abolished and transferred into the social welfare system. They are allocated here on the basis of a property qualification and not automatically as it was the case in the pension system. Briefly, one can say that the first stage of pension reform was directed to the re-

duction of pension expenditure and the establishment of a more direct and transparent connection between paid contributions and pensions. The beginning of the implementation of the law in 1999 was followed by an increased inflow of pensioners, as many wanted to retire under more favourable previous and transitional conditions. But in the year 2000, the inflow of new pensioners has been reduced several times.

While the first reform tried to rationalize the existing pension system, the second reform brings a radical change into the system. Namely, a second pillar of compulsory personal pension saving is introduced for insurance beneficiaries younger than 40, and optionally also for insurance beneficiaries aged between 40 and 50. It is planned that younger insurance beneficiaries should pay 5% of the total of 21.5% of the pension contribution into the second pillar of pension saving. The contributions collected on personal pension accounts will be managed by special agencies which are expected to increase them through profitable investments. The goal of establishing the second pension pillar, the preparatory documents claim, is not only an increase in the insurance beneficiaries' pensions but also an increase in the total national savings needed for investments and economic growth in a country short of the capital. A third pillar of voluntary pension saving is also being established, in which a right to pensions will be realized by the beneficiaries who made a decision in favour of it themselves. At this instance, richer social classes are mostly counted on. Furthermore, in the new system the first pillar of inter-generation solidarity is maintained for older categories of beneficiaries, but also as an essential share in the pensions of younger beneficiaries.

The introduction of the second and third pillar implies extensive institutional, administrative and financial preparations, which have not been carried out for the time being, so their introduction has been postponed for the year 2002. Furthermore, there is a severe problem of the so-called transitional cost of the reform implementation, which will supposedly amount to 1-1.5% of the GDP. In professional circles, there has been quite enough criticism of the very starting points of the pension reform. Some critics warn that the assumption of an increase in the national saving through the second pillar is not a reliable one. They warn of the undeveloped financial market, the risks of this market for future pensioners, high transitional costs and so on (*Revija za socijalnu politiku – Social Policy Journal*, 2-3/1998).

In any case Croatia has defined its pension reform. The first step has been made by transformation of the current PAYG system, and it now stands before the introduction of a multi-pillar system, which will bring along pension diversification, extension of the beneficiary's personal responsibility, but also pension risks implied by the capital market.

Unfortunately, it should be said that the pension reform has not attracted expected attention in the Croatian public and that it has been pushed aside by less significant events for the future of the society.

Health care

Another major social security system is health care. The Croatian health care system is in a critical condition. The funds allocated for the health care sector, although high by

its share in the national income, are insufficient for the covering of the increased costs. At the same time, health and medical services are below the expectations of the public, and are therefore the cause of the widespread citizens' dissatisfaction.

Croatia spends about 9% of the gross domestic product on health care. Out of this, 7.2% are the funds from the health insurance fund, while the rest comes mainly from private and other sources. (This is where this information differs from the earlier information on health expenditure, which refers only to the state financing.) This is above the relative share of funds spent on health care in other transitional countries of Central and Eastern Europe. Health care is marked by a high external payments deficit which, according to the World Bank data, totalled HRK 3.76 billion or 2.7% of the GDP at the end of 1998 (World Bank, 2000.a:31).

Health insurance beneficiaries are all active beneficiaries, old-age and disability pension beneficiaries, the unemployed registered at the Employment Agency and other insured persons. A right to health insurance is also realized by the members of the insurance beneficiary's family. In Croatia, virtually the entire population, apart from some marginal groups, is covered by health care.

Health care is financed through a contribution of 9% paid by the employer and a contribution of 9% paid by the employee. The total contribution rate is 18% of the gross salary.

A right to health care refers to primary health care, specialized and counselling health care and hospital health care. Insurance beneficiaries also have a right to various aids, stomatological and prosthodontic services as well as medications the costs of which are covered by the health insurance. Besides, a right to health care implies allowances in the case of sick leave, maternity leave and additional maternity leave, compensation of medical treatment-related travelling expenses, allowance for a newborn baby and for funeral expenses. Medical care accounts for three quarters of the total costs, out of which hospital treatment accounts for a half. About one fifth of the expenditure is spent on allowances, while the remaining funds are spent for other purposes (Ott, ed., 2000.:99).

The problems in the financing of health care as well as old-age pension insurance have been caused by a decrease in the number of the employed and an increasingly difficult collection of health insurance contributions. Difficulties in the financing of health care were aggravated after 1995, which coincides with the post-war decline in foreign aid in the form of medications and other means. Foreign support to the Croatian health care system was rather generous during the war and covered for the lack of domestic resources in the financing of health care.

Efforts are made now to overcome the health care system crisis by a health care reform, which is also planned with the support of the World Bank. In this sense, a document on health care reform has been elaborated which, true enough, has not been adopted yet, but makes it possible to have an insight in its main orientations (World Bank, 2000.a). We will outline the conceptual and financial aspects of the health reform, neglecting the medical aspects, which typically constitute an important part of the planned health reform.

The reform plans the abolition of the current way of financing the health care almost exclusively from salaries and the future financing from three sources. The first source of financing would be the decreased contribution rate of 10% from the wages (it has been 18% so far). Such a reduced contribution rate will supposedly relieve the economy of a burden, i.e. reduce the labour costs. Contributions should secure a little less than 40% of the funds needed for health care. The second source would be the Budget, out of which the health care of vulnerable social groups, such as children, the elderly, unemployed and non-insured citizens, would be financed. Moreover, the Budget would also finance the measures that fall into the category of public health care, medical prevention and health promotion campaigns. The Budget would approximately provide the funds equivalent to those collected through contributions from wages. The third source would be an additional medical insurance which is, at least at the beginning, expected to provide up to 12% of the needed funds. This would pay for those medical services not covered by the compulsory health insurance. This source would also include the funds collected from participation fees paid by citizens, as well as the funds of territorial units, such as counties or towns, which would additionally finance the health care institutions in their region. Participation fees paid by citizens, counties and towns are expected to provide the funds in the amount of the additional health insurance.

An important reform tool is a list of medical services which are guaranteed by the compulsory health insurance. For the rest of medical services, i.e. for a higher hospital standard, an additional health insurance is planned, which will be paid by citizens on a voluntary basis.

The goal of the health reform is for Croatia to come closer to the model of health care financing and organization in the countries of European Union. The competition between public and private health institutions will supposedly rationalize health care costs. Reduced contributions will cut down the labour costs and increase the competitiveness of the Croatian economy at the world market. It is expected that after the reform has been completed, the influence of citizens on health care will be enhanced and the overall attitude of citizens towards health care will change. Health has to become a top value which is maintained and promoted in all phases of life.

However, one should fear certain negative consequences of the health care privatization that, as a matter of fact, did show up in some other countries. Namely, it is not quite certain that privatization brings along rationalization and lower medical expenses. Furthermore, private surgeries in public health institutions, as is the case at present, can lead to the erosion of public health care. In the extreme, privatization in health care can cause hardly bearable differences in the ethically most sensitive domain of human existence- the right to life. It is sometimes believed that inequalities among people, brought about by the hierarchization of health care, are not morally justified as it implies that the rich can afford a much better-quality medical treatment than the poor. It is believed that this kind of inequality breaks an archetypal equality of people and that cracks open up leading to the destruction of the society (Parijs, 1999.) Such reminiscences in the face of the health reform, which seem well-founded from the moral point of view, can be beaten by counterarguments. Anyhow, do the rich not receive a far better health care already, in the form of the present – apparently egalitarian – health insurance system than the poor by the principle of St. Matthew, according to which the one who has more, also

receives more of common goods. In other words, richer people have a better treatment in any case, so since this is how it is, it is much better if they pay for it themselves than if they take from the common good, and at the expense of the poor.

Protection of the unemployed

Previously we discussed the number of the unemployed, and here we will confine the subject to their social welfare. The total expenditure for the social welfare of the unemployed totalled 0.4% of the GDP in 1998. These funds are collected through a contribution of 1.7% from the wages. In the case of losing a job, an employed person has a right to an allowance. The right to an allowance can be realized after 9 months' continuous working period or 12 months' working period with interruptions in the previous 18 months. The unemployment allowance lasts for 78 days at least and 312 days at most if the insurance beneficiary has had 10 years of working experience. A right to an allowance can be prolonged in the case of sickness, pregnancy or professional training. The allowance level is determined according to the wages, and must not be lower than 20% of the average salary. The conditions for receiving the allowance are quite restrictive, so in the late 1990s the allowance was received by about 15% of the total number of the unemployed. However, following the end of the war in Croatia, employment offices saw the registration of a large number of demobilized veterans of the Croatian Liberation War who had a right to unemployment allowance – by the 1996 Law on rights of the veterans of the Croatian Liberation War and the members of their families. The share of the unemployed receiving allowances rose then to 20%. In the year 2000 unemployment allowances have been received by 17% of the registered number of the unemployed, the lowest allowance being HRK 615.20 and the highest HRK 900.00 (Bilteni Državnog zavoda za zapošljavanje – State Employment Agency Bulletins).

The unemployed, furthermore, have a right to health, old-age and disability pension insurance. When they lose a right to the allowance, they may apply for welfare.

An allowance and other forms of insurance of the unemployed belong to the so-called passive measures toward the unemployed. An active policy implies re-training, creating and offering jobs to the unemployed. The goal is to include the unemployed in the labour market. Such approaches in the overcoming of the unemployment problem are increasingly common all over the world. This is the so-called “workfare”- the programmes in which Croatia also has certain, although scarce experience. Namely, the Croatian Employment Agency launched certain initiatives regarding public works in 1998 and 1999. Doing this, it animated the local self-government units as well as the representatives of some institutions and associations from the area of social welfare. In this programmes 2,670 workers were employed, and they were primarily oriented to utility programmes, infrastructure and environment maintenance and social programmes. However, these programmes of employment in public work projects are of a very limited scope, there are few funds for them, so in the whole policy toward the unemployed they have stayed marginal and have not significantly changed the employment situation.

So, speaking of the policy towards the unemployed in Croatia, it can be said that it manages very limited funds and that it is prevalently oriented to the passive measures. For an active policy, the state has to look for partners, beside the unemployed themselves, among local communities and non-government organizations.

Social welfare

There are different data on poverty in Croatia. It seems that the most reliable data are the ones gathered through a survey of the State Bureau of Statistics and World Bank in 1998 (World Bank, 2000. b.). The research was carried out on the sample consisting of 3,123 households, but it did not include the Croatian regions occupied during the war. As the threshold of the so-called absolute poverty an amount of USD 4.30 per day per person was taken, converted according to purchasing power. The research showed that in 1998 there was 8.4% of poor people in Croatia according to this criterion. If the previously occupied regions are also taken into account, about 10% of the total population is then below the threshold of poverty. On the basis of this, Croatia had the smallest share of poor population among the post-socialist countries, with the exception of Slovenia. However, the appearance of great income inequalities, as well as an intense social differentiation, led to the so-called subjective poverty. The study of the World Bank on poverty stresses the information that as much as 80% of the Croatian citizens believe they live below the level representing an acceptable minimum standard. This points at their very widespread dissatisfaction with the social status they have. Therefore, the comparatively optimistic data on absolute poverty are deceiving to some extent. The unemployed and poor make a numerous category of excluded citizens in Croatia, who are not managing to find their place in the social division of labour. An unfavourable fact is that these are often young people, who are potentially the most creative and can contribute most to finding the way out of the present crisis.

Social welfare is one of the major tools in the struggle against poverty. Social welfare can be given in the form of financial aid, in kind or as a service. In 1998 the social welfare spent in Croatia totalled 0.4% of the GDP, which can be considered a comparatively small expenditure. The social welfare means are given from the Budget, and a right to welfare is given to all the persons not having essential means for a living, and meeting the additional requirements.

A right to various forms of social welfare has been determined by Law on Social Welfare, which came into effect at the beginning of 1998. During the war, in March 1993, the government adopted the Social Programme with the purpose of securing the fulfillment of the basic existential needs of the socially most threatened population. Apart from the government social welfare bodies, national and foreign non-government organizations also participated in the implementation of the Social Programme. Their help was primarily aimed at the victims of war. For evidence and aid control, social welfare centres used to issue social welfare identity cards which were given to the representatives of the beneficiary households. In March 1997 there were 98.8 thousand social cards and in the beneficiaries' households 219.9 thousand members used to live (Jurčević, 1999) It could be said that the Social Programme played a key role in the overcoming of a difficult social situation during the war.

The Social Programme, and also social cards, were abolished by the 1998 Law on Social Welfare. The new law put an emphasis on a greater responsibility of an individual and local community to solve social problems (principle of subsidiariness), planned a possibility of some forms of social welfare privatization, set up the framework for the cooperation between the state and non-government organization in the field of social welfare, introduced new institutes throughout the system and so on.

Out of the total population of Croatia the share of welfare beneficiaries totalled 8.1% in 1999. The most important form of social welfare is permanent support allowance, which was received by 1.7% of the population in 1999. There are several other forms, mostly periodical and temporary benefits, as well as housing assistance.

Beside social welfare, the social welfare system encompasses the programmes of accommodation, care and education of socially threatened children, disabled and elderly persons, on which twice as much money is spent as on the social welfare itself.

Social welfare system represents the last social safety net for those who have not found their place at the labour market, nor met their needs in other social security systems. Social welfare is granted on the basis of a means-test and is related to a stigma. That is why a lot of people who normally need it do not want to ask for it. However, regarding the fact that in the period to come, the main social security systems, such as old-age pension and health systems, will increasingly differentiate according to the beneficiary's contributions, which means that the solidarity level within their circle will go down, we can expect that an increasing number of people will apply for welfare. Regarding the numerous excluded population, Croatia will, simultaneously with an increase in the well-being level, have to develop the inclusion programmes. These are programmes for overcoming poverty and exclusion, which are compatible with an active policy toward the unemployed, i.e. the "workfare" programmes. In the new policy toward poverty great roles may be played by the civil society organizations and local community which is their natural framework of action. Changes in the Law on Social Welfare and decentralization of social services that are being prepared are expected to bring about the start-up of the unused social resources in helping poor people.

Family policy

Family policy is oriented to raising the quality of the standard of the family as a basic human community. It differs to an extent from the population policy, the purpose of which is to affect the reproduction of the population.

The most significant tools of the family policy that the state has at its disposal are various allowances and tax benefits, services and leaves for care for a child or care for other members of the family. Bearing in mind the combination of these three elements (money, service, time) one can estimate what type of family policy this is.

In the Constitution of the Republic of Croatia, special protection is determined for the family, and also the protection of motherhood is guaranteed as well as material and other conditions for a worthy life and development of children and youth. A number of laws contain different measures of the protection of the young and families. Three fun-

damental documents defining the family policy basics can be singled out. First, we should mention the National Programme of Demographic Development adopted in 1998 and quoting many measures of support to the family, especially with the purpose of reversing the unfavourable trends in demographic reproduction. This document is very ambitious and in order to realize the measures proposed in it, large funds would be needed, which Croatia is incapable of allocating at present. That is why it represents rather a projection of wishes than a feasible programme. The second one is Law on Family Relations adopted in 1999. It brings along significant innovations into legal relations within a family. The third one is Law on Child's Allowance. Many questions related to the family policy are regulated by other laws, e.g. Labour Act. (Bortek-Knešaurek, Tursan, ed. 1999).

Child's allowance attracts particular attention of the public, more than other family policy issues. The new Law on Child's Allowance was passed in 1998 and its implementation started as late as October 2000. The reason for the postponement lay in the financial means which were supposed to be allocated on top of the past ones for the implementation of the new law to a larger number of children. Child's allowances were previously financed from the contributions of the employed by the rate of 2.20% of the salaries, and they could only be received by the families of employees with a poor income scale. Child's allowances and other family supplements accounted for 1.4% of the GDP. Last year child's allowances were received by 37% of children, and the amounts were differentiated in view of the income scale and number of children in the family. According to the new law, child's allowance can be received by all children regardless of the parents' employment, taking into consideration the material situation in the family. It is anticipated that this right will be realized by 55% of children. The level of the child's allowance varies regarding the property qualification and number of children in the family. The method of financing the child's allowance is also being changed (*Revija za socijalnu politiku – Social Policy Journal*, 1/1999). Instead of being financed from the contributions from the salaries of the employed, it will be financed from the Budget, i.e. from taxes. Considerably larger funds will be allocated for the child's allowances than it used to be the case till now, so the new government has postponed the implementation of the new law for 10 months. It is quite a significant social policy measure which influences the material position of the family.

The former, rightist, government tried to achieve the retraditionalization of the family. This can be seen in the National Programme of Demographic Development, which was an unrealistic project of increasing the birth rate and strengthening the traditional family. It may be supposed that, regardless of ideological differences in relation to the previous government, the new government, faced with negative demographic processes, will be under constant pressure of a need to stimulate the birth rate and requirements for a more generous support to the families with children. Furthermore, new institutions for children will have to be opened, not only due to busy parents but also because of socialization and education of children before school. Unlike other social policy systems, family policy will probably see an increase in the level of state interventionism as it is simply the vital issue of population reproduction, which all states are very sensible to.

Labour market and education policy

Labour market policy

Croatia inherited the policy of extensive employment from the socialist era. In the war circumstances and during the period of ownership transformation and privatization of the former socialist companies, while getting rid of redundant labour the government relied largely on the retirement institute. This led to an increase in the number of pensioners in relation to the number of the employed. This strategy managed to relieve the shock of reduced employment. However, the necessary redistribution of labour and transfer to new expansive economy sectors have been slowed down. The increased needs in the financing of the social security systems caused greater burdens on labour while strict laws and regulations protecting the employed increased the costs of entering and withdrawing from the labour market. The current level of taxes and contributions in gross salaries in Croatia totals about 45%, while this share remains below 30% in the transitional countries of Central and Eastern Europe and is even lower in the European Union countries. According to the estimates by economic experts and international financial institutions such as the World Bank, this is one the major brakes for the creation of new jobs. This also leads to inappropriate thriving of the non-formal economy sector, which reached the scope of one quarter of the national economy. Furthermore, in the formal sector of economy itself informal payments of workers are widespread with the purpose of avoiding to pay taxes and contributions. All this makes it more difficult for the government to collect the funds needed for the financing of public expenditure and endangers the functioning of welfare state.

For a new policy at the labour market, which would contribute to a higher employment, it is necessary to reduce the labour costs and carry out labour market deregulation. This implies a larger-scale introduction of flexible labour forms, today expanding in European countries. With this purpose the government adopted the national employment policy at the beginning of 1998, which advocates the liberalization, flexibilization and removal of government controls at the labour market. The reduction of labour costs are particularly insisted on. (*Revija za socijalnu politiku*, 1/1998.). However, due to a fiscal state crisis little has been done on the implementation of this document.

Croatia inherited the system of large companies, which are inert, unproductive and poorly innovative. The development of small and medium companies, which could make the growth more dynamic and modify the economic structure, lags behind due to unfavourable socio-economic environment, high taxes and non-stimulative terms of loan. One should also add here that Croatia realizes a lower rate of self-employment out of agriculture than other countries, such as Hungary, Poland or the Czech Republic.

These few remarks on the labour market policy point to the likely character of the future measures which will be undertaken by the new government in the employment field. The available indicators speak in favour of the thesis that the policy of cutting labour costs, redistributing the fiscal burden from companies to citizens and flexibilization and deregulation of labour market will be exercised. This will, of course, have significant consequences on the social security systems, where more and more privatization and marketing elements will be introduced, which has already been discussed.

Education

Education can, at least partly, be classified into the social policy area. Education affects the levelling out of life opportunities and social mobility of the population. The social position of individuals and social groups depends largely on their educational level. Research, even the above-mentioned one by the World Bank and State Bureau of Statistics, shows that educational status is mostly affected by poverty.

In Croatia, the 8-year elementary education, starting at the age of 6 or 7 is compulsory. Secondary school is not compulsory, and at present 66% of the corresponding age groups are enrolled in it. It is a comparatively low share in relation to other countries, especially the highly developed ones where the rate of secondary school attendance is 91%. The average educational level in Croatia is 11.2 years while in the western countries it is 14.6 years. Croatia has a well-developed network of higher (university) education in which approximately 80 thousand students are involved. Besides, there is specialized education for the handicapped population, as well as adult education. A significant number of citizens participates in informal education forms.

Education is financed from the Budget. The total education funds account for 3.4% of the GDP, which is less than the European average. This is not enough for meeting the needs of the education system, for the renewal of educational infrastructure and modernization.

Elementary, secondary and higher education are financed from the Budget, while municipalities finance pre-school education in which about 30% of children participate. However, regarding the differences in the development of certain regions, pre-school education is unevenly distributed, and in less developed municipalities problems arise over its financing.

In Croatia the first private schools have been opened, too. Some private schools are subsidized by the state and they have more autonomy. In the private education system it is possible to develop alternative programmes and stimulate creativity. Moreover, private schools relieve the pressure on the capacity of state schools.

In higher education, participation in the payment of schooling by the students poorly placed at the entrance exam lists has been applied for several years now. Students' homes and students' food are highly subsidized by the state.

In expert circles and in the general public, debates have been held lately on the strategy of a further development of education. It has thus been proposed to prolong elementary education from eight years to nine. Apart from the changes in the curricula themselves and the modernization of the education process, a gradual introduction of continuing education should be expected as a standard for overall population. Furthermore, in accordance with the changes in the society, more private schools are expected, as well as a greater participation of citizens in the financing of education. Massive computerization will change the technology of the education process, which is rather old-fashioned in Croatia. Generally, gradual deinstitutionalization, dispersion and individualization of education may be expected. (Pastuović, 2000)

At this moment, it is not possible to undertake radical steps in the education reform as there are not enough funds for it. However, it is obvious that education will in the following years go through major changes which will, on the one hand, follow the changes in the society and economy and, on the other, only encourage and direct them.

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*Appendix 1: Indicators of social situation in Croatia**Population*

Present population (1998)	4,224 thousand
Average age (1998)	39.2 years
Average life expectancy	72 years
Share of population aged 0-14 (1998)	17.5%
Share of population aged 65 and older (1998)	15.5%
General fertility rate (1999)	1.38
Average level of education (1998)	11.2 years

Economy

Real GDP per capita 1999 (estimate)	USD 4,467
1999 GDP index (1989 =100)	78
Expected GDP growth in 2000	3.0%
Inflation rate (1999)	4.0%
Share of non-formal economy in GDP (1995)	26.5%
Average wages in the first half of 2000	USD 360
Share of social expenditure in GDP (1999 estimate)	30%

Pension scheme

Pensioners	1,018 thousand
Pension insurance beneficiaries	1,406 thousand
Dependence index (insurance beneficiaries/pensioners)	1.38
Pensioners' average age	64
Share of pensions in GDP (1999)	13.27%
Budget share in pension fund expenditures (1999)	33.19%
Share of an average pension in an average salary – with the exception of Croatian soldiers' pensions	38.37%

Health care system

Share of health care costs in GDP (1999)	9%
Infants' death rate per 1000 of the liveborn	8.0
Patients per doctor (1996)	440

Unemployment

Share of expenditure for protection of the unemployed in GDP	0.4%
Official unemployment rate (2000)	20.8%
Unemployment according to labour survey (1999)	14.6%
Employment estimate in non-formal economy (1995)	25.7%
Unemployment allowance range (1999)	HRK 615-900

Poverty

Poverty rate (USD 4.3 per capita daily) (1998)	10%
Gini's inequality coefficient (1998)	0.352
Social welfare expenditure in GDP	0.4%
Share of population on continuous welfare	1.7%
Law-defined level of monthly welfare per person	HRK 365