EC project – Minimum Wage Systems and Changing Industrial Relations in Europe

National Report Croatia

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1. Introduction

The current economic crisis has accentuated the weaknesses in social dialogue in Croatia. It reignited the debate on the minimum wage shortly after the adoption of the Minimum Wage Act in June 2008. Subsequently, in the summer of 2010, the Government initiated amendments to the Labour Act aimed at limiting the prolonged application of collective agreements. This initiative was sparked by a failure to adjust agreements in the context of changed economic conditions. Trade unions strongly opposed the proposal and have even called for a national referendum on the issue. At national level the social actors have found themselves steeped in conflict without a strategy to improve the dialogue.

The new minimum wage discussion has been centred on a dispute over the exact mechanism of regular annual adjustments. Although such a mechanism is prescribed in the 2008 Act and was assumed to apply automatically, various interpretations have emerged and as such have required legal intervention. At one point a more radical change in minimum wage regulation was considered although the social partners in our study had mixed feelings towards any significant development regarding the minimum wage uprating procedure. The employers perceive sectoral collective agreements as the most effective platform to reconcile specificities of the sectors with agreements on minimum wages. Major trade unions, on the other hand, insist on statutory regulation and oppose sectoral differentiation. In the end, the discussion has returned to the question of legal interpretation of existing regulation.

The weak tradition of social partnership in Croatia seems a drawback in the current context. The discussion on the minimum wage has taken place almost exclusively at the national level and tripartite dialogue has overridden bilateral talks. Such a tendency is common and can be observed in dialogues concerning other issues too. In addition to the prolonged application of collective agreements, some other legislative provision also seems to inhibit bilateral dialogues, such as the non-selective policy of extensions and the poor enforcement of collective agreements. Unlike sector-level dialogue, company-level collective bargaining has been improving, albeit unevenly across varying industries. Our study has a focus on three sectors; construction, clothing and retail in order to investigate the interconnection between the minimum wage and industrial relations at sector level.

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1 Prepared for the EWERC research project ‘Minimum wage systems and changing industrial relations in Europe’ VS/2009/0159 (EWERC, University of Manchester) for the European Commission, DG Employment, Social Affairs and Equal Opportunities.
The state of play concerning social dialogue is also of interest in accession negotiations between Croatia and the EU. The Progress Report by the Commission recognizes some progress in the area, but also reports on the somewhat weak capacities of the social partners (Commission of the European Communities, 2009). Nevertheless, the chapter on social policy and employment was provisionally closed in December 2009. Croatia has adopted a large part of the *acquis communautaire* (the body of EU law) and is engaged at the advanced stage of the membership talks. Most analysts estimate that negotiations will be concluded by the end of 2010 and Croatia will join the European Union in 2012, or 2013 at the latest.

The report is organised as follows. Section 2 gives a brief overview of the major features of the labour market in Croatia. Section 3 reviews the development of the minimum wage policy since the beginning of transition and describes trends in the average and the minimum wage. This section also estimates low-pay incidence and identifies the profile of minimum wage workers. Section 4 discusses the main features of the industrial relations system and its relation with the minimum wage policy. This section also reviews industrial relations in nine sectors impacted by the minimum wage. Section 5 presents the main interactions between statutory minimum wage developments and the nature of social dialogue in three selected sectors: the construction industry, the clothing industry and the retail sector. Findings are based on original research conducted by reviewing collective agreements, pay reports and other documentation in selected sectors along with interviews with trade unions and employers’ representatives. Finally, a discussion on the main findings, as well as conclusion is presented in Section 6.

2. An overview of the labour market

Before considering the minimum wage system and approach to social dialogue in Croatia, this section provides a brief overview of the major features of the labour market.

Croatia has a relatively rigid labour market with strict employment protection, dominance of inflexible employment forms, pronounced segmentation and the notable presence of informal payments. Rigidity of labour market regulations has been inherited from socialism and subsequent changes have been gradual and often designed to preserve the positions of so-called insiders. The employment protection legislation (EPL) index developed by the OECD revealed that Croatia had probably the most rigid protection in Europe prior to 2003, chiefly due to the stringency of legislation on temporary employment and collective dismissals (Matković and Biondić, 2003). In 2003, amendments to the Labour Law liberalized the regulation of temporary work agencies and collective dismissals, and reduced severance payments. In spite of that, Croatia still has a relatively rigid employment protection system and the EPL index has remained above the European average and well above the average for Eastern European countries (Tonin, 2005).

The structure of employment contracts reveals a relatively low degree of flexibility in formal labour relations. Permanent employment contracts are the most common and comprised of around 86 percent of all contracts in 2008. This shows a slight decrease from 1997 when around 88 percent of contracts were of the permanent type (Crnković-Pozaić, 2004). However, those with fixed-term and temporary employment contracts seem to bear a large burden of instability. Fixed-term employment is prevalent among the newly employed while Rutkowski (2003) estimated that the incidence of temporary employment contracts among newly created jobs was around 55 percent. Over a half of new fixed-term and temporary contracts are signed for periods of less than 6 months and this proportion is on the increase.
Such a situation has led to increased labour market segmentation. Employees in the highly unionised public sector, state owned enterprises and to some extent large companies tend to enjoy job security and good working conditions, while the young and those employed in the SME sector are confined to precarious fixed-term and temporary contracts.

Part-time employment in Croatia is rare. Eurostat figures for 2008 report an 8.8 percent share of part-time employment (the share has been consistently falling since 2005), compared to an 18.2 percent average share of part timers for the EU-27. The Eurostat data draws on figures that include paid employment, self-employment, subsistence farming, occasional and family workers. While in contrast the Croatian Central Bureau of Statistics reports just 2 percent of paid employment is carried out by part time workers.

Employment in the informal sector is still a significant issue in Croatia and is in fact a very flexible form of employment in comparison to the rigid formal sector. According to a survey conducted by the Croatian GfK agency in 2004, 11% of Croatian citizens above the age of 15 worked in the informal sector, sometimes having only that job, sometimes as a second job to the one that they hold in the formal sector (ETF, 2006). Sectors with the highest share of informal work are construction, catering, tourism and agriculture. In addition to undeclared work, underreporting of income from declared activities is also an issue. Envelope payment is a common practice in the small private sector. One portion of the wage, often paid at the level of the minimum wage, is paid regularly, including all taxes and social security contributions, while the other part is paid in cash without any documentation. The precise size and extent of the informal economy is not know, however Croatia has recently adjusted its GDP level upwards by approximately 9 percent on average for the post-1995 period in order to take into account the unmeasured activities of the informal sector.

3. Minimum wage policy and pay trends

3.1. Minimum wage policy
Post-socialist Croatia went through a period of loosening the minimum wage regulation, up to the mid 1990s, which was subsequently followed by a period with an inverse tendency towards a more stringent system. In the socialist period and early years of transition Croatia had a form of minimum wage called ‘the guaranteed wage’. In that period, the government played the leading role and set the minimum wage level each quarter. With certain legislative changes, from 1993 to 1995, the government continued to amend the minimum wage level but did so only occasionally and irregularly at a relatively low level that had no significant influence on the economy. The new Labour Law that came into force in 1996 provided a completely new framework for labour market regulation and strengthened the role of collective bargaining. According to the Law, the Government was still allowed, but not compelled, to set a minimum wage in consultation with the social partners. In reality, no minimum wage level was set in 1996, or in 1997. In March 1998 Croatia re-introduced the minimum wage after the conclusion of the National Collective Agreement on the Lowest Wage and it had an immediate extension to uncovered workers and employers. The agreed minimum wage was generally binding.

A new stage in the regulation of the minimum wage emerged with the introduction of the Minimum Wage Act on 1 July 2008. Major changes from the previous system include a statutory regulation, defined penalties for non-compliance, a substantial one-off hike in the level of the minimum wage, a sub-minimum rate for specific sectors and the introduction of a specific adjustment formula (Table 1). The effects of these changes are particularly interesting
However, we are limited in this respect because of the relative recentness of the introduction and the effect of the ongoing economic crisis to some extent masks the interplay between the minimum wage system and the industrial relations in force.

In the new system, the minimum wage is defined as a single rate, with a temporary derogation in the form of a sub-minimum rate for specific industries. The sub-minimum rate covers employees in the textile, clothing, wood processing and leather industries. The stipulation of the sub-minimum defines it as 94 percent of the national minimum in 2008/2009, 96 percent in 2009/2010, 97 percent in 2010/2011 and 98 percent in 2011/2012. That is the period in which these industries should be restructured and able to pay the full minimum wage without negative employment effects. The minimum wage is defined as a single monthly rate as total remuneration for full-time work. The Act does not specify any terms concerning the minimum wage for part-time work, but it can be assumed that the minimum rate is proportional to the number of hours worked.

The level of unemployment benefits is the only welfare payment linked to the minimum wage. Unemployment benefit is dependent upon the wage from the individual’s previous job, but its maximum amount is limited by the minimum wage level. The reference minimum wage is taken as reduced by mandatory social security contributions because unemployment benefit is completely non-taxable. In the first 90 days of unemployment, the highest unemployment benefit is equal to the minimum wage (minus contributions). For the remaining time that the benefit is received, which depends upon the length of previous employment, the highest level of benefit that can be claimed is 80 percent of the minimum wage. For those who have the right to receive unemployment benefit permanently (older workers) until they find a job or retire, it is set at a maximum rate of 60 percent of the minimum wage after the first year.

Table 1: Key features of recent minimum wage systems in Croatia

<table>
<thead>
<tr>
<th></th>
<th>Old MW system</th>
<th>New MW system</th>
</tr>
</thead>
<tbody>
<tr>
<td>In force</td>
<td>1998-2008 (June)</td>
<td>Since 1st July 2008</td>
</tr>
<tr>
<td>Legal basis</td>
<td>Legal Extension of Collective Agreement on the Lowest Wage to all employees and employers</td>
<td>Minimum Wage Act</td>
</tr>
<tr>
<td>Coverage</td>
<td>All employees</td>
<td>All employees, sub-minimum wage rates for the textile, clothing, wood processing and leather industries in the first four years following introduction of Minimum Wage Act</td>
</tr>
<tr>
<td>Initial rate (fixing)</td>
<td>Set by government (equal to minimum monthly rate for payment of social security contributions)</td>
<td>Set by Minimum Wage Act</td>
</tr>
<tr>
<td>Frequency of updating</td>
<td>Once a year (in January)</td>
<td>Once a year (in June)</td>
</tr>
<tr>
<td>Method of updating</td>
<td>Set by government, (in 2003 -2008 defined as</td>
<td>Automatic indexation with the average wage and GDP</td>
</tr>
</tbody>
</table>
The new statutory regulation was implemented just before the current crisis hit Croatia. In a way, the Act reflects optimism regarding the overall state of the economy prevalent at that time and intended to provide favourable annual adjustment of the minimum wage rate. The rate for the initial period, from 1 July 2008 to 31 May 2009 was prescribed by the Act stating that it “is equal 39 percent of the average monthly gross wage in the previous year, ... and amounts to HRK 2,747”. The initial level was set as a result of negotiations between trade unions and employers without explicit reference to the criteria on which it is based. The regular annual update is stipulated as automatic by application of the rule described in the Act. Accordingly, the minimum wage rate will be up-rated each year in June “in such a way that the minimum to average wage ratio from the previous year increase by a percentage equal to the real GDP growth in the previous year”. The new rate should be published by the Central Bureau of Statistics (CBS).

Unfortunately, the adjustment rule as stated in the Act was ambiguous in its wording and resulted in differing understandings of the mechanism by the social partners. The problem escalated around the time of the first such adjustment in June 2009. “The minimum to average wage ratio from the previous year”, the ratio that serves as the basis for the adjustment, was a major stumbling-block. That ratio was understood as 39 percent by the trade unions because exactly that number was stated by the Act in explanation of the minimum wage level in the previous period (July 2008-May 2009). However, “39 percent” was the result of new minimum wage divided by the 2007 average wage. If that ratio had been increased by the GDP growth in 2008 and then applied for calculation of the minimum wage in June 2009, it would have resulted in a very high increase in the minimum wage level of around 9.7 percent. However, the Central Bureau of Statistics, in consultation with the Ministry of Economy, Labour and Entrepreneurship decided to use the actual MW/AW ratio for 2008 as a basis for calculations. The actual 2008 ratio was 36.4 percent, not 39 percent. In adjustment calculus, this actual ratio was multiplied by the real GDP growth from the previous year to get MW/AW ratio of 37.3 percent meaning that new minimum wage rate should be 37.3 percent of the 2008 average wage. The result was a rate of HRK 2,814 per month which was published by the CBS as the official minimum wage rate valid from 1 June 2009 to 31 May 2010. The increase in the rate of 2.4 percent, was, at that time, close to the inflation rate and slightly lower than the average wage growth over the previous twelve months. The next round adjustment (June 2010) has caused problems again. In a purely arithmetic interpretation of the formula, the minimum wage should have been decreased due to the GDP decline in the previous year. However, official interpretation was that the minimum wage could not be adjusted downwards because the word “increase” is used in the description of the adjustment rule. Accordingly, the minimum wage level remains at its current level for the next twelve months.

Aside from problems in the legal interpretation of the adjustment formula, it is evident that the formula’s backward-looking feature is problematic. The formula juxtaposes the economic

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2 HRK is the international abbreviation for the Croatian kuna, the official currency in Croatia.
situation of the previous year onto the new minimum wage level, which creates significant
difficulties in its implementation in times of rapidly changing economic conditions.

The minimum wage in Croatia provoked heated debate in 2009, not only concerning the
adjustment mechanism, but also around the overall minimum wage system. Major trade union
associations asked the Legislation Committee of the Croatian Parliament to provide
authoritative interpretations of the adjustment mechanism from the Act. In parallel, a special
working group was established by the government’s Office for Social Partnership to consider
“problems in implementation of the Minimum Wage Act” with participation of
representatives from major trade union associations, an employer organization, and the
government. Views of the varying social actors differ substantially in spite of the fact that
they all supported the Act when it was enacted in the Parliament in June 2008.³

The Union of Autonomous Trade Unions of Croatia (SSSH/UATUC), the largest trade union
association, insists on implementation of the current Act and expects the Legislation
Committee of the Croatian Parliament to provide a clear and indisputable explanation of the
adjustment method. However, in light of the current crisis, the UATEC is ready to consider
amendments to the Act. In that respect, they are opposed to the present differentiation of the
minimum wage by sectors, but are in favour of differentiation by skills. Their justification for
supporting wage differentiation by skill is based upon the problem of wage compression at the
lower end of the distribution i.e. there is a high concentration of wages around the minimum
wage even for skilled workers, which is unfair in their view.

The Independent Trade Unions of Croatia (NHS), the second largest association, propose fine
tuning of the Act in order to clarify articles that appear problematic. The NHS propose that
the minimum wage should be treated as the base wage and be subject to all the wage
supplements prescribed by other laws, collective agreements and contracts. Seniority
premiums, supplements for work at night and holiday pay, for example, should be paid on top
of the minimum wage if granted by collective agreements, which at present does not occur.
Another proposal requests greater clarification of the adjustment mechanism from the Act and
aims to ensure a continuous rise in the MW/AW ratio in the future. The NHS also proposes
that the minimum wage should only be paid to workers who are employed in unskilled jobs,
not skilled workers.

Behind these views and proposals from both trade union associations is their assessment that
the current level of the minimum wage is unacceptably low, and that the MW/AW ratio
should gradually increase to a “strategic” level of 50 percent. Both associations reject any
potential negative employment effects and believe that the government should support the
most vulnerable sectors such as the clothing and leather industry. It is our impression that
trade unions want to involve the government more directly in the provision of the minimum
wage.

The Croatian Employers’ Association, the only employer association representative at the
national level and the only one with influence on policy, has more fundamental objections to
the existing legislation. Essentially, they suggest that the Minimum Wage Act ought to be
adapted to allow collectively agreed rates of pay in sector agreements at a level below the
statutory minimum wage level.

³ Positions of social partners presented in the report are taken from our interviews with their high level
representatives that took place in the fourth quarter of 2009 and the first quarter of 2010.
It appears that the government has no clear position on the future of the minimum wage. The government initiates and facilitates negotiations between social partners and would most likely accept any agreement as long as it does not include direct costs for the government budget. There has been some suggestion that the government should cover part of the costs of the increased minimum wage, for example, paying social security contributions for minimum wage workers in certain cases or for selected sectors; however this has been rejected by the government. The government may have some motivation to support a higher minimum wage for tax collection purposes. The practice of envelope payments is widespread and means that many more workers falsely declare the minimum wage as their total income than they should. In such cases, an increase in the minimum wage would not affect employment but only increase tax revenues. However, any increase in the minimum wage level would also increase costs of unemployment benefits and as a result the government position is likely to be neutral on cost grounds.

In our view, the adjustment formula from the Minimum Wage Act has been ineffective and should be re-evaluated in order to provide a more appropriate reaction to the current crises and future challenges. In addition, further improvements to the Act are needed, at the very least to clarify ambiguous articles concerning coverage, part-time work, and the adjustment mechanism. Although debate on the minimum wage re-emerged in 2009, in 2010 other issues took precedence and no further talks took place. The recent experiences with the Minimum Wage Act in Croatia show that the social partners generally prefer strict rules defined by the authority of the law, rather than solutions provided by regular negotiations. The notion that the law should prescribe adjustment mechanism in detail rather than establishing yearly consultations indicates a high degree of mistrust among the social partners. Low trust cooperation usually goes hand in hand with problems in social dialogue. Weaknesses in collective bargaining have led trade unions to require a more stringent minimum wage regulation, which in turn has resulted in a minimum wage system that is isolated from social dialogue.

3.2. Pay Trends
Average gross earnings rose steadily by around 2.5 percent per year in real terms between 2000 and 2008, which was enabled by the relatively stable and appreciable economic growth that Croatia experienced in that period (Figure 1). Employment has also increased, while the unemployment rate has fallen to 8.4 percent in 2008 from almost double that rate in 2000. The economic optimism in 2007/8 can be illustrated by the cautious suggestion from the employers’ side to contemplate a relaxation of immigration regulation to combat labour shortages in certain sectors, such as construction and accommodation. Such optimism was also incorporated into changes in minimum wage regulation introduced in June 2008. However, things have changed recently and 2009 brought zero growth in the average wage.
From 1998 to 2007 the minimum wage level was updated regularly each year (2001 is an exception) and it has broadly followed the dynamics of the average wage (Table 2 and Figure 1). In 2008 there were two increases in the minimum wage level; one in January by 6.2 percent under the regular update scheme from the previous regulation; and the other in July when the level increased by an additional 12.5 percent in line with the Minimum Wage Act. The first hike was mostly anticipated by the market, while the second one was not expected because the Act was passed only a month before. The overall increase in the minimum wage in 2008 was 19.5 percent in nominal terms, and around 12.5 percent in real terms. After the (disputable) application of the adjustment rules from the Act, the minimum wage for the period June 2009-May 2010 was fixed at HRK 2,814 or around EUR 386, which is 2.4 percent higher than in the previous one-year period. From June 2010 to May 2011, the minimum wage is unchanged at HRK 2,814.

The minimum to average wage ratio has tended to be relatively stable over the 1998-2008 period, fluctuating between 32.6 (in 2007) and 34.9 percent (in 2000). Recent changes in regulation resulted in a higher ratio of 36.7 percent in the period June 2009 - May 2010.

Table 2: Minimum and average wage trends, all employees in paid employment, 1998 – 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly minimum wage (MW)</th>
<th>Average monthly gross wage (AW)</th>
<th>MW/AW ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HRK</td>
<td>EUR*</td>
<td>HRK</td>
</tr>
<tr>
<td>1998</td>
<td>1,370</td>
<td>192</td>
<td>4,131</td>
</tr>
<tr>
<td>1999</td>
<td>1,500</td>
<td>198</td>
<td>4,551</td>
</tr>
<tr>
<td>2000</td>
<td>1,700</td>
<td>223</td>
<td>4,869</td>
</tr>
<tr>
<td>2001</td>
<td>1,700</td>
<td>228</td>
<td>5,061</td>
</tr>
</tbody>
</table>
### Figure 2: Minimum monthly wages in new EU member states and EU candidate countries, January 2009

Note: Minimum monthly wages in national currencies were converted into EUR by applying the monthly average exchange rate in December 2008. Purchasing power parities for household final consumption expenditure for 2008 are used to measure it by the purchasing power standard (PPS).
Source: Eurostat and the authors’ estimates for Croatia.

Discussion concerning the minimum wage often leads into a discussion about international competitiveness. If the minimum wage in Croatia is converted to Euros at the current exchange rate and compared with countries in the wider region, for example new EU member states and EU candidate countries, it follows that Croatia has one of the highest statutory minimum wages, with Slovenia and Malta being the only countries with a higher minimum wage (Figure 2). Even allowing for correction for differences in price levels between countries and considering the expression of the minimum wage level in PPS terms this does not alter the Croatian position in the region. Eurostat estimates (not shown here) indicate that the Croatian GDP in PPS terms is broadly comparable with Hungary, Poland and Estonia.
Therefore, considering its level of productivity Croatia will find it relatively more difficult to support the current minimum wage level compared to these other countries in the region.

The state statistical office does not report data on the distribution of wages, such as percentiles or the median, as such our scope for low-pay incidence analysis is limited. Our estimates are based on individual-level data from the Labour Force Survey. In the LFS, respondents report their net (after-tax) wage and this information is likely to be subject to underreporting. However, that problem is supposedly more striking in the upper part of the wage distribution, while the lower part is less likely to be affected.

The low-pay incidence, defined here as having wages below 2/3 of median or 2/3 of mean, shows no particular trend from 1998 onwards. In 1998 there were around 17 percent of workers paid below 2/3 of the median wage, in 2005 around 18 percent, and in 2008 around 16 percent. Similar oscillations at a slightly higher level are observed for the proportion of workers paid below 2/3 of the average wage. Without other reliable data to compare with, our tentative explanation of the decreased proportion of low-paid workers in recent years is that in times of prosperity, such was the period 2005-2008, there was emerging labour shortage for the lowest-paid jobs, which was resolved by rising wages. Cross-border flows could not help because they are restricted. The Croatian labour market was not, and still is not, integrated into the EU labour market. Our estimates of the minimum wage incidence show that it was relatively low during the previous minimum wage system, comprising of around 3 percent of the workforce. However, an increase in the minimum wage in 2008 brought a higher incidence, estimated at around 8 percent for the second half of that year.4

Table 3: Minimum wage and low-pay incidence
(in proportion to the total number of employees in paid employment)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage earners</td>
<td>3%</td>
<td>3%</td>
<td>8%*</td>
</tr>
<tr>
<td>Below 2/3 of median</td>
<td>17%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Below 2/3 of the</td>
<td>25%</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>average wage</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures refer to full-time employees. *Calculated using minimum wage level as of the second half of 2008 (following introduction of the MW Act on 1 July, 2008).

Source: Authors’ estimates based on the LFS.

Implications of the minimum wage for the gender pay gap are unclear. Available data suggest that the gender pay gap was quite stable in 2000s, at around 11 percent (Table 4). Employed women are, on average, better educated than men – around 30 percent of employed women have tertiary education, compared to 20 percent of men. The moderate unadjusted gender pay gap in fact hides a higher gap when adjusted for human capital (Nestić, 2008).

The minimum wage is expected to be more important for female workers because they are more often minimum wage earners. Our estimates for the second half of 2008 show that around 11 percent of women received a wage at the minimum wage level or below, compared

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4 Estimates based on CBS data on the distribution of employees by monthly net wage level (13 wage brackets) in March 2009 indicates that there could be somewhat less minimum wage earners, around 5 percent. A more precise estimate is precluded by a different wage definition (net principle) and relatively large wage brackets used in CBS data. It should be added that official data on wages refer to all employees in paid employment. Unincorporated sectors such as small private entities engaged in crafts and trade, and freelance workers are not covered by wage statistics. Our estimates based on LFS data include all employees in paid employment.
to just 5 percent of men. Around 2/3 of minimum wage workers are women, (Table 5 and Figure 3), while only 45 percent of all workers are women. If efficiently enforced, the minimum wage should eliminate the gender pay gap at the bottom of the wage distribution. Although our presented figures refer to all employees in paid employment, full-time and part-time, we can perceive that the inclusion of part-time workers does not influence the result significantly because there are only around 3 percent of women working part-time and 1 percent of men.

**Table 4: Gender pay gap**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>5,868</td>
<td>6,206</td>
<td>6,492</td>
<td>6,909</td>
<td>7,344</td>
</tr>
<tr>
<td>Female</td>
<td>5,251</td>
<td>5,540</td>
<td>5,806</td>
<td>6,149</td>
<td>6,549</td>
</tr>
</tbody>
</table>

Gender wage gap* | 89.5% | 89.3% | 89.4% | 89.0% | 89.2%

Note: Unadjusted gap, calculated as the average female gross monthly wage as a percentage of the average male gross monthly wage.
Source: Central Bureau of Statistics.

**Table 5: Minimum wage incidence by sex, 2008**

<table>
<thead>
<tr>
<th></th>
<th>2008 (Jan-June)</th>
<th>2008 (July-Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Male</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Female</td>
<td>5%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Note: Figures refer to full-time employees
Source: Authors' estimates based on the LFS.

**Figure 3: Distribution of wages by gender (kernel density estimate)**

Note: Minimum wage as of the second half of 2008.
Source: Authors' estimates based on the LFS.

**Table 5: Profile of the minimum wage workers, second semester of 2008**
Minimum wage incidence is higher for the young, the low-educated and those with fixed term contracts. As Table 5 shows for the second semester of 2008, the incidence among workers up to 24 years of age is almost two times higher than it is among prime-age workers. However, young workers comprise a relatively low proportion of the total workforce and therefore there are less than 1/5 of minimum wage workers aged up to 24 years. Older workers are rarely paid the minimum wage. Although a higher incidence of the minimum wage is expected for unskilled workers i.e. those with primary education or unfinished primary education, they constitute less than a third of minimum wage workers. Almost half of minimum wage workers completed vocational training, and a fifth have secondary education of the general type. Government sector and state-owned enterprises are considered good employers in terms of the minimum wage incidence, which is below 3 percent. Around 90 percent of minimum wage workers are employed in the private sector. As for the regional distribution, Central and Eastern Croatia pay the lowest wages and more than half the minimum wage workers reside in that region.

Figure 4: Minimum to average wage ratio by branches

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5 According to the CBS, only a margin of workers (0.1 percent) has 18 or less years of age, and around 7 percent has less than 25 years. Less than 1 percent of employees are trainees.
Although we do not have sufficiently detailed and precise data on minimum wage incidence by sector, available records on average wages reveal that the sectors with the lowest wages are in the manufacturing industry (Figure 4). It appears that these sectors are the most affected by the minimum wage – namely, the textile, clothing, leather, wood, and furniture sectors, where the minimum wage is close to 60 percent and higher of average earnings. The only sector outside manufacturing with a broadly comparable MW/AW ratio is “other personal services” where the minimum wage was slightly below 50 percent in 2008.

4. Interaction with the industrial relation system

4.1. Key issues

The collective bargaining process in Croatia is relatively poor in spite of seemingly well developed institutional arrangements and relatively high coverage with collective agreements. The tripartite social dialogue at the national level is relatively well developed and its influence on policy-making via regular consultations within the National Economic and Social Council is notable. However, bipartite dialogue is much weaker. It takes place mostly at the company level and is very poor in small companies. There are few sector-level agreements outside the public sector. No regional or occupational collective agreements are found (except for medical doctors). Although the Office for Social Partnership (2006) estimated the collective agreement coverage at below 50 percent, Bakić (2010) estimate it at 61 percent, which we see

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Note: For 2008, the minimum wage as of the first half of the year (before change in regulation).

Source: Central Bureau of Statistics.
as a reliable figure. Similarly, social partner representatives in interviews estimate the overall coverage at around 60 percent or more. First of all, there are around 35 percent of public sector employees (including state-owned companies) that are mostly covered by agreements. In the private sector, there are 10 sectoral collective agreements, of which 8 are extended and legally binding across all employers and employees in the sector. These extended agreements cover a substantial proportion of employees. Sectors with extended collective agreements are: accommodation, construction, trade, humanitarian mine clearing, security, travel agencies, unincorporated entities (crafts and trade), and the wood and paper industry. Two sectoral collective agreements that are not extended refer to the printing industry and health care in the private practice. At the firm level, many large companies have concluded company-level agreements. Bakić (2010) estimated that public administration is covered practically 100 percent, while the wider public sector that includes state-owned enterprises is over 70 percent covered. In the private sector, coverage is estimated at 44 percent. Around 4/5 of the private sector coverage is due to sector-level agreements, half of which are covered only due to extension.

Enforcement is one of the weakest areas in the contemporary state of the social dialogue. Trade union representatives repeatedly warn of obstacles to full compliance. In the case of any legal dispute a long time passes from an action of the inspectorate and a court ruling. Poor enforcement was one of the arguments for a switch from the minimum wage regulated by national collective agreement to the introduction of a statutory minimum wage. The current regulation has greater transparency in the sense that the general public recognizes the presence of the minimum wage and is broadly aware of its level, which was not previously the case. New regulation also prescribes penalties for non-compliance, but responsibility for control is vaguely divided between the Tax Authority, the State Inspectorate and the Finance Policy. Court cases have been relatively rare, in both the current and the previous system, and therefore it is not clear whether the Act has brought a significant improvement in enforcement.

Collective bargaining in Croatia has many shortcomings. One possible explanation could be the lack of a tradition of collective bargaining. The socialist history of the country has provided a unique legacy and as such a diverse industrial relations system. Croatia, as a part of Yugoslavia, followed a rather unique “self-management” type of socialist system, where worker representatives at the firm level participated actively in decision-making. Of course, it was far from genuine democratic participation, but it had a form that gave the impression of governance. In such a system, enterprises were proclaimed to be owned by workers and not by the state. Participation was realized via workers’ committees. Trade unions were active, but mostly engaged in ensuring some general benefits for workers such as cheap meals within the enterprise, discounted purchase of food, organization of travel and accommodation. However, in the later stage of socialism they developed as a kind of opposition to the political and economic elites. As a heritage from that time, workers perceive old-established enterprises as being owned by their employees. That could be one justification as to why workers and trade unions have developed strong conflicting feelings towards the new owners subsequent to privatisation. New owners are perceived as intruders, especially if they emerge from a privatisation process that was not deemed to be transparent enough. Also, the new owners, especially in the case of problematic privatisation procedures, were often without the

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7 Similarity with the Works Councils is not incidental, although the context is completely different. Perhaps drawing on its experience from the socialist time, Croatia introduced the Works Councils relatively early, in 1996, by following the German model with a significant codetermination role of the Councils.
competences to run a company, and as a result have entered into conflict with the trade unions.

Consequently, after the first steps towards privatisation and with strong decline in production in the early transition of the country, there was a conflictual relationship between trade unions and new owners. Trade unions have remained much better organized in privatized firms than in newly-established companies. Overall, it seems that confrontation and disbelief in cooperation are often inevitable features of bilateral social dialogue in Croatia. The culture of social dialogue in Croatia obviously needs more time to develop. Šokčević (2009: 322) warns of “a deep divide in values and interests between actors of collective bargaining” and calls into question the competences of key social actors.

The trade unions scene is highly fragmented at present and there are about 700 registered trade unions (Rebac, 2006). The majority of registered trade unions are affiliated with five union associations: the Union of Autonomous Trade Unions of Croatia (SSSSH), Independent Croatian Trade Unions (NHS), Croatian Trade Union Association (HUS), Association of Workers’ Trade Unions of Croatia (URSH) and Matrix of Croatian Trade Unions (Matica).

Table 6: Trade union associations in Croatia

<table>
<thead>
<tr>
<th>Trade union associations</th>
<th>1999 Members</th>
<th>2008/9 Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSSSH</td>
<td>289,651</td>
<td>164,732</td>
</tr>
<tr>
<td>NHS</td>
<td>40,455</td>
<td>113,598</td>
</tr>
<tr>
<td>Matica</td>
<td>46,282</td>
<td>80,311</td>
</tr>
<tr>
<td>HUS</td>
<td>32,493</td>
<td>41,584</td>
</tr>
<tr>
<td>URSH</td>
<td>31,458</td>
<td>23,739</td>
</tr>
<tr>
<td>Total</td>
<td>440,339</td>
<td>423,964</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy, Labour and Entrepreneurship.

Union density in Croatia is declining. According to the data from the Ministry of Economy, Labour and Entrepreneurship in 1999 there were around 440,000 members in five major trade union associations, while in 2008/9 there were 424,000 members (Table 6). Around 40,000 members could be in trade unions out of associations and that number is more or less unchanged over the period. However, the total number of employees in paid employment has increased over the last ten years and union density has declined from an estimated 40 percent in 1999 to 34 percent in 2008/9. There is a large difference in union density between the public and the private sector. Bakić (2010) estimates union density in the private sector at only 17 percent, while in the wider public sector (including state owned enterprises) at 70 percent. He has found that union density is higher in large companies, in companies established before 1990 (i.e. established in the socialist time) and among older workers. Union density is found particularly low among those with fixed term contracts. After controlling for the sector of employment, there was no systematic difference in union density between men and women. Trade union representatives in interviews confirmed that trade union membership is relatively low among young workers which indicates a potential problem for unions in the future.
Employers’ organizations have been established more recently than trade unions. The Croatian Employers Association, the dominant employers’ organization today, was recognised in 1993 and started its active operation in 1994 when the National Economic and Social Council was established.\(^8\) Currently, members of the Association are companies that employ around 400,000 workers, meaning that the coverage is similar to that of major trade union associations.\(^9\)

In addition to historical influences certain elements in current legislation and court practice might have influenced the current state of, and motivation for, collective bargaining. These are: the extension of company-level collective agreements to all employees in the company; the widespread practice of legal extension of the sector-level collective agreements; and the prolonged application of key terms of the collective agreement.

At present collective agreements are as a rule applied to all employees in the company because union membership is not considered an acceptable reason for workers to be paid differently for the same work within the company. Such “anti-discriminatory” practice might lead to decreasing incentives for unionization and enable “free-riding”. The same practice prevails in the public sector, where sector-level agreements dominate and the government acts as an employer. In that case, all the employees in the sector are covered by the agreements regardless of union membership. Although such a practice is beneficial for a large number of workers, trade unions are aware that it undermines their strength. Potential initiatives to combat this issue are under consideration. One is to explore possibilities to change the practice, while the alternative is the introduction of mandatory contributions (the so called “solidarity contribution”) paid by non-members equating to approximately half of the average union contribution aimed at financing general activities important for better functioning of social dialogue, for example research. However, trade unions have no unanimous position on such initiatives and they are currently not considered a priority for the unions’ agenda.

Legal extension is applied for most sector-level collective agreements in Croatia, which is implemented by the decree of the minister responsible for labour affairs. Extension is regulated by the Labour Law and, according to the previous Law justifiable in case of “the public interest”. Currently eight of the ten sectoral agreements in force in the private sector are extended under such provision, most often without indication of what the public interest is. Some of these sectors comprise a large number of employees such as construction, the distributive trade and the unincorporated sector (crafts and trade). It appears that enforcement is a particular problem in these branches, with a large number of small employers operating which results in difficulties in ensuring compliance efficiently. The new Labour Law enacted in December 2009 specifies conditions on which each minister responsible for labour affairs should base their decision on extension. The tripartite commission appointed by the Economic and Social Council should carry out an impact assessment of extension. If the assessment confirms the public interest and if the agreement is concluded “by the trade unions with the highest number of members and the employer association with the highest number of employees in the area intended for extension”, the minister will grant an extension.\(^{10}\) Up to now, there have been no new sector-level agreements, or annexes of the old ones that have requested extension. In our interviews, social partners from the construction and the retail

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\(^8\) Before that, the Croatian Chamber of Economy, an association of companies with compulsory membership that is financed by mandatory contributions played a role of an employer association in negotiations at the national level.

\(^9\) Information taken from the web page of the Croatian Employers Association ([www.hup.hr](http://www.hup.hr)).

\(^{10}\) Art. 267 par. 2 of the Labour Law (Official Gazette 149/2009).
sector expect no problem in getting extension of their future agreements in spite of below-average trade union density in these sectors.

Another issue, as mentioned above, is the prolonged application of collective agreement in case of its expiration without cancelling. All terms of collective agreements that are related to material rights of workers such as hiring, termination of employment, as well as wages and benefits then remains valid up until the conclusion of a new agreement. No doubt inspired by such a practice, collective agreements, particularly at the sector level, sometimes have an explicit clause on application by cancellation or by conclusion of a new agreement, such as the distributive trade and the unincorporated sector. On occasion they are specified as open-ended for example the accommodation and security sectors. Recently, the Government initiated abolishment of the prolonged application, but trade unions are strongly opposed to that.

It should be added that in cases where different statutes regulate the same standard, the Labour Law prescribes priority of legislation that provides the highest level of the right for the worker.

An interesting situation concerning the lowest base wage in sector-level collective agreements is apparent. In most cases, the lowest base wage is below the statutory national minimum wage level, for example in collective agreements for trade, travel agencies, accommodation, the unincorporated sector, printing and demining. However, this is not problematic as the priority is given to the most beneficial norm for workers, therefore each worker should receive the statutory minimum wage regardless of the collective agreement provision. The lowest base wage is significant as the base unit in terms of pay scales and as the base for wage supplements such as seniority premiums, various allowances and bonuses. Total wage, including supplements, paid according to the agreement could therefore be above the minimum wage.\footnote{In court practice, the minimum wage is treated as the minimum final payment for full-time work.} Such situations are exemplified in case studies later in this study.

The above mentioned legal practice has resulted in relatively high coverage with collective agreements, but as a consequence may inhibit collective bargaining and cause union membership to stagnate. The question is whether the statutory minimum wage has also weakened motivation for bargaining. In interviews with trade union and employers representatives, such an impact is rejected. Implementation of the new minimum wage regulation has overlapped with the current crisis and the effect on the collective bargaining is therefore difficult to distinguish. The fact is that there were no new sector-level agreements in 2009, while only one agreement (security) and one annex to the agreement (the wood and paper industry) were concluded in 2008.

On the whole, bearing in mind various shortcomings of collective bargaining in Croatia, the minimum wage system seems to have created only a minor threat. Weaknesses of the bargaining process are on the one hand a result of a conflicting tradition and on the other hand influenced by a legal framework that provides limited motivation for bargaining. On top of this, the current crisis calls for more cooperation between social actors and some progress in that direction is taking place. There is strong preference favoured by major social partners towards national tripartite dialogue. Trade unions most likely consider that centralized bargaining improves their position in negotiations. The media are supportive of the position of
trade unions, while more tangible problems such as threats of unemployment seem more distant in such negotiations.

4.2. Selected sectors impacted by low wages/the minimum wage
In eight of nine selected sectors impacted by low wages, collective bargaining coverage in Croatia is well above the national average, while only in the cleaning sector this indicator is below the average (Table 7). For union membership, evidence is mixed, around half of selected sectors are below the average, and half above. Initially it appears that, in these cases union density is uncorrelated with a collective bargaining outcome. However, sectors with extended sector-level agreements should be treated as a special group due to government policy interference. “Public interest” as the criteria for extension was not elaborated upon in four ministerial decrees that served as a legal basis for extension in these sectors. Initial agreement coverage (before extension) in these sectors was not assessed officially. In our view, it was not particularly high.

In three of the four sectors with extended agreements, construction, trade and accommodation, union density is in fact below the average. There are many small companies operating in the market. Labour costs are an important factor in determining prices of their output/services, although may not be the crucial one. In the case of the construction and retail sectors, these companies are largely oriented to the local market. Importantly, there are a number of leading companies that have an interest in setting the standards in the whole sector in an effort to prevent unfair competition on the basis of very low labour costs or poor working conditions. Extensions are most likely a result of vigorous lobbying.

Security, the fourth sector with the extended sectoral collective agreement is currently characterized by a small number of employers, with relatively well organized trade unions. However the sector is rapidly growing and there are a potentially high number of entrants with (unacceptably) low labour standards that could emerge soon. Bargaining over agreements took a long time and final acceptance was difficult to reach – from the employers’ perspective it was conditioned by extension. In all sectors with extended collective agreements, extension is important for employers, and it is possible that without it, the sector collective agreement would not be concluded.

Table 7: Industrial relations in selected sectors

<table>
<thead>
<tr>
<th>Sector (NACE Rev.2 Code)</th>
<th>Trade union membership (below/above national average)</th>
<th>Collective bargaining coverage (extended, below/above national average)</th>
<th>Gender composition (predominant group)</th>
<th>Market structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction (F)</td>
<td>Below</td>
<td>Extended</td>
<td>Male</td>
<td>Competitive, local orientation</td>
</tr>
<tr>
<td>Land transport (49)</td>
<td>Above</td>
<td>Above average</td>
<td>Male</td>
<td>Public provision important</td>
</tr>
<tr>
<td>Retail trade, except of cars (47)</td>
<td>Below</td>
<td>Extended</td>
<td>Female</td>
<td>Competitive with leader</td>
</tr>
<tr>
<td>Cleaning (Services to buildings 81)</td>
<td>Below</td>
<td>Below average</td>
<td>Female</td>
<td>Small firms</td>
</tr>
<tr>
<td>Residential care (87)</td>
<td>Above</td>
<td>Above average</td>
<td>Female</td>
<td>Public provision important</td>
</tr>
</tbody>
</table>
Motivation for collective bargaining in sectors without extension is somewhat different. Land transport which is largely dominated by urban transport is most often organized in monopolistic companies owned by the local government. In such companies, collective agreements are more a rule than an exception. Residential care is also often organized by local governments and collective bargaining is well established in such organisations.

Clothing and food processing are two branches of the manufacturing industry where pressures from their highly competitive markets motivate trade unions and employers to find the optimum solution that combines workers’ interest in pay and job security with the employers’ interest in preserving or enhancing competitiveness. Importantly, these two sectors are export oriented. In the case of the clothing sector direct competition between local companies is low because they work for diverse markets. The cleaning sector is highly fragmented and the social dialogue is underdeveloped.

The gender composition of the nine selected sector seems unrelated to the trade union density of collective agreement coverage. However, the average wages paid by sectors are not immune to a gender bias. Three out of the four sectors with the lowest average wage are dominated by women – clothing, cleaning and retail (Table 7 and 8). Security is the only male-dominated industry with the average wage well below the national average.

### Table 8: Wage and employment developments in selected sectors, 2009

<table>
<thead>
<tr>
<th>Sector (NACE Rev.2 Code)</th>
<th>Sector AW*</th>
<th>MW*</th>
<th>Estimated MW incidence*</th>
<th>Job growth (decline) 2003-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction (F)</td>
<td>85%</td>
<td>43%</td>
<td>10%</td>
<td>Growth</td>
</tr>
<tr>
<td>Land transport (49)</td>
<td>108%</td>
<td>34%</td>
<td>5%</td>
<td>Stable</td>
</tr>
<tr>
<td>Retail trade, except of cars (47)</td>
<td>75%</td>
<td>49%</td>
<td>9%</td>
<td>Growth</td>
</tr>
<tr>
<td>Cleaning (Services to buildings - 81)</td>
<td>57%</td>
<td>65%</td>
<td>-</td>
<td>Growth</td>
</tr>
<tr>
<td>Residential care (87)</td>
<td>91%</td>
<td>40%</td>
<td>-</td>
<td>Growth</td>
</tr>
<tr>
<td>Security and investigation (80)</td>
<td>58%</td>
<td>62%</td>
<td>-</td>
<td>Strong growth</td>
</tr>
<tr>
<td>Accommodation and food services (I)</td>
<td>85%</td>
<td>43%</td>
<td>8%</td>
<td>Growth</td>
</tr>
<tr>
<td>Clothing (14)</td>
<td>49%</td>
<td>72%**</td>
<td>30%**</td>
<td>Decline</td>
</tr>
<tr>
<td>Food processing (10)</td>
<td>87%</td>
<td>42%</td>
<td>5%</td>
<td>Stable</td>
</tr>
</tbody>
</table>

Note: *Calculated using minimum wage level and the average wage as of the second half of 2009. For certain sectors estimation is missing due to missing sector data on the wage distribution. **Sub-minimum wage level applied (96% of the national minimum wage) as stipulated by the MW Act.

Source: Authors’ estimates based on CBS (1998-2009).

5. **Minimum wage and social dialogue in selected sectors**
The three detailed sector case studies of wage arrangements based on the company or industry collective agreements in the construction industry, the clothing industry and the retail aims to look into the relation between the social dialogue, minimum wage system and resulting wage developments. These three sectors were picked out to identify good practices in various circumstances and with respect to differing groups of workers. The construction industry is the industry with the best developed social dialogue and tradition of collective agreements in the country, and the industry dominated by male workers. The retail trade is a sector of similar size and structure as the construction industry, but differs from it by having many shortcomings in the social dialogue. It is dominated by female workers. In the retail industry, however, we also presented a company case with well developed relations between social partners. The clothing industry is the largest low paying sector in Croatia giving a solid justification for the selection of this sector for the case study on both the industry and the company level. Selection of sectors was also coordinated with other partners in this study in order to enable cross-country comparisons.

The main source of information for the selected cases is documentation related to collective agreements, as well as interviews with representatives from trade unions and employers. Interviews were conducted with high level representatives of the dominant trade union of the sector, the key pay negotiators at the employer side at the company or the industry level, depending on the case that is presented, and trade union representatives at the company level where applicable. The research covered twelve interviews, which included four interviews from the retail sector, three from the construction sector and five interviews from the clothing industry. In addition, we have an interview with a high level representative of the Government’s Office for Social Partnership who has been involved in key stages of bargaining over some of the most important sector-level collective agreements. The semi-structured interviews lasted for up to two hours. The respondents were handed a short summary of the discussion topic prior to the interview itself. Also, social partner representatives were consulted during the drafting of the report.

5.1. Construction sector
Social dialogue in the construction sector is relatively well developed compared to other sectors in Croatia. Sector-level collective agreements have been regularly updated since the early 1990s. In our interviews with trade union and employers’ representatives, they all commented favourably on the relationship between social partners. A survey of trade union representatives across companies shows that more than 60 percent of respondents are satisfied with the dialogue, with around 20 percent being very satisfied and 20 percent unsatisfied. It is certain that expansion of the construction sector in the last decade has made social dialogue easier to practice, but it also seems that subjective factors, such as the stance of trade unions’ and employers’ leaders have also been significant. Both, trade union and employers’ representatives described their counterparts by the same three characteristics: “they are all persons from the practice”, “they understand the situation in the sector very well” and “they are communicative in the dialogue”.

The 2000s, until the onset of the crisis, were good years for the construction sector in Croatia, which can be illustrated by the following figures:
- Gross value added (GVA) in the construction industry as a share of total gross value added in the economy increased from 4.9% in 2000 to 8.3% in 2008, and then decreased

12 Survey results are provided by the Trade Union of Construction Industry of Croatia (SGH).
somewhat to 8.0% in 2009, but despite the decrease it remained, one of the largest shares in Europe (Figure 5).

- The construction industry employed around 146,000 workers (including the self-employed), or 9.4% of the total workforce in 2008. Employment increased by 65 percent between 2000 and 2008.
- The value of performed construction works of Croatian companies with 5+ employees amounted to 3.8 billion EUR in 2008, 3.9 times the value in 2000. Around 35 percent of that was related to transport infrastructure, while the residential buildings accounted for around 20 percent.

However, the crisis hit the sector quite strongly. From April 2008 to April 2010 employment shrank by around 16 percent, with real output dropping by a similar magnitude.

**Figure 5: Gross value added (GVA) in construction as a % of all branches**

(at current basic prices)

![Chart showing GVA in construction as a % of all branches](image)

Source: Eurostat.

The Croatian construction market is quite competitive. The top ten building companies (classified by total revenue) generated 21 percent of total revenue of the industry in 2007 (HGK, 2009). Out of the top ten companies, only one is foreign owned (Strabag, in eighth place). Existing construction companies are largely oriented towards the domestic market. In 2007, the value of works abroad was around 250 million EUR, or around 7.5% of the total for the industry (HGK, 2009). Construction sector expansion was supported by ambitious government plans in road construction and an upswing in residential buildings construction. The latter was related to the rapid extension of commercial banks’ credits to both sides of the market; construction companies and developers on the one side and households via housing loans on the other side.

**Main bargaining partners in the sector**

Employers in the construction industry are organized in the Employers’ Association in Construction (Udruga poslodavaca u građevinarstvu -UPG), a branch association of the Croatian Employers’ Association. Around 140 companies employing around 18,000 workers are members of the UPG. The largest trade union in the sector with around 13,000 members is the Trade Union of Construction Industry of Croatia (Sindikat graditeljstva Hrvatske-SGH) that is affiliated to the Union of Autonomous Trade Unions of Croatia (SSSH). The SGH is
also active in companies engaged in the manufacturing of building materials. However, that sector is not covered by the collective agreement for the construction industry. There are some other trade unions operating in the construction industry, but with substantially less members. However, two of these minor trade unions in the sector do participate in negotiations establishing the sector-level collective agreement. Both, trade union and employers’ association densities are below the national average.

We spoke to high level representatives from two major bargaining parties in the sector, the UPG and the SGH. The history of bargaining between these two parties is rather rich. The construction industry was the first sector in post-socialist Croatia that employed the sector-level collective agreements. Collective bargaining was regularly undertaken, with yearly amendments to the agreement over the past decade, except in the most recent years when the recession has altered the usual pattern. Other sectors in the Croatian economy have a much poorer record of sector-level collective bargaining.

Company level collective agreements are not widespread in the construction industry because employers are usually unwilling to negotiate better conditions for workers in their companies than are enforced across the entire sector. As informed by SGH representatives, there are 22 company level agreements with higher levels of conditions for workers though rarely do these improvements extend to wages. On the whole they offer other benefits, such as the holiday bonus, the Christmas bonus, the food allowance and improve the length of various paid leaves. It appears that the sectoral collective agreement has crowded out company level negotiations.

Large companies have also established the Employment Rules, a unilateral company act that regulates work, employment and wage setting rules. In reality, rules are in most cases set to be almost identical in the collective agreements for the sector, with more details over some specificities of the company. For example, the wage schedule of the Employment Rules can be more detailed than in the sectoral collective agreements, although basic relations are contained. The Employment Rules might become more important if collective agreement is annulled. Subsequently these rules would become the main regulatory instrument for work and employment conditions. The Labour Law stipulated that employers with more the 20 workers must define wage setting rules by the Employment Rules, which is akin to a legal back-up for the company if sector agreement is annulled.

Collective agreements for the sector
The first collective agreement for the construction industry was concluded in June 1991, as the first sector-level agreement in post-socialist Croatia. The following agreement was reached in December 1992. In both agreements, the base wage was set at the same level as in the General Collective Agreement for Industry and Services in force at that time. In 1996, the UPG and the SGH concluded the collective agreement for the construction industry where the lowest base wage was independently set at 1,200 HRK. Since then collective agreements for the sector have been regularly renewed.

The actual collective agreement was concluded at the end of 2001 and came into force in 2002. Five annexes have been concluded in the meantime, approximately one each year. The last annex was agreed in October 2007, meaning that in the last two and a half years there have been no changes in the agreement. The agreement is concluded for an indefinite period of time and was extended to the whole sector soon after its conclusion by the decree of the responsible minister and similarly with each of its annexes.
According to the collective agreement, total wage consists of four elements: i) the base wage that is equal to the lowest base wage multiplied by the coefficient specific to various positions (the wage schedule) in case of standard working conditions; ii) the stimulus that depends on individual performance; iii) the seniority bonus; and iv) bonuses for unusually difficult working conditions.

The lowest base wage is set at the level of the statutory national minimum wage. The wage schedule accompanying the collective agreement defines coefficients for 10 groups of positions that take values from 1.00 for the simplest routine work, for example, cleaners or transport assistants, to 2.65 for the most complex and creative work, such as engineers or project leaders. The stimulus should, as the agreement proposes, be rules-based where rules should be known to the worker in advance. The seniority bonus is set as a 0.5-percentage increment on the base wage for each year of work experience with the current and all previous employers. The bonus for unusually difficult, dangerous and unhealthy work is defined as an increment on the base wage in the range of 5 to 50 percent, depending on specified conditions.

The collective agreement also sets that hourly wage for overtime work will increase by 50 percent. A swing shift differential is set at 10 percent, a night shift differential at 30 percent, the premium for working on Sundays and public holidays at 35-50 percent, while the holiday bonus is set as a lump-sum payment of 1,800 HRK, paid around the time that the individual takes their annual vacation.

The agreement also sets entitlements for various compensations that are not treated as wages i.e. they are not taxed up to certain maximum amounts. The compensations are also important for the material position of workers. The most important compensation is the fieldwork daily allowance that is paid when the worksite is a certain distance from the usual workplace. It is set at 80-170 HRK per day, which is higher than the daily base wage of workers at lower positions. This allowance aims to cover increased living expenses such as accommodation and meals, but a notable part of it usually remain at the worker’s disposal after covering all costs. The worker will also receive the transport allowance in an amount equal to the actual cost of public transportation between their home and the worksite. The severance pay, the longevity pay (determined for 10, 15, 20, 25, 30, 35, and 40 years of continuous employment with the current employer), the bereavement pay and in-kind gifts (in equivalent of 400 HRK per year) are also established. The agreement proposes some other benefits that are, however, optional.

Five annexes to the original agreement brought gradual rises in the lowest base wage, while improvements in other benefits were limited. The holiday bonus, the severance pay and the premium for working on public holidays were the only benefits that have increased since the 2001 agreement. The agreed rise in the base wage followed closely developments in the national statutory minimum wage. In the fifth annex in 2007, this link was made explicit and the lowest base wage was set to be equal to the minimum wage. Since 2002 the lowest base wage has had a slight increasing trend compared to the average wage both for the construction industry and for all sectors (figure 6). This also corresponds to trends in the national minimum wage because the collectively agreed base rate and the statutory minimum wage have been

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13 In spite of a somewhat vague formulation in the 2007 Annex that linked the lowest base wage to the minimum base for paying the social security contribution (i.e. to the minimum wage in the previous minimum wage system), all signing parties undoubtedly concluded that this link refers to the minimum wage as defined in the 2008 Minimum Wage Act.
practically equalised in that period (figure 7). For the second half of 2009, the lowest base wage was set at 43 percent of the average wage in the sector.

**Figure 6: The Lowest Base Wage Agreed in the Collective Agreement for Construction**

![Figure 6](image)

Source: Authors’ calculations based on CBS wage data and relevant collective agreements for construction.

**Figure 7. The minimum Wage and the Lowest Base Wage Agreed in the Collective Agreement for Construction**

![Figure 7](image)

Source: Authors’ calculations based on relevant legal acts.
In the expansion period, from 2001 up until the 2009 crisis, there were very few workers paid the minimum wage. As informed by one of the key pay negotiators from the UPG, wage stimuli, bonuses and allowances increase actual wages by around 30-35 percent over the base wage on average. While the fieldwork daily allowance paid on top of accommodation and meal costs, adds an additional 30 percent to the wage, on average. So the overall additions to the base wage are around 60 percent in regular conditions. In such a situation, even a worker on the simplest jobs (coefficient 1.00 in the wage schedule) and without previous work experience, can earn well above the minimum wage. It is worth noting that the minimum wage is defined as a single monthly rate for total remuneration for full-time work, while the collectively agreed lowest base wage is subject to various supplements. In that respect, there was no particular reason to set the lowest base wage at the level of the minimum wage, except perhaps a psychological one. However, official statistical data on wage distribution suggests that around 10 percent of full-time workers in the construction industry in 2009 could receive a wage at around the minimum wage level. This is primarily the result of informal payments practiced in small companies, where some workers are reported as receiving the minimum wage while their actual wage is higher.

Although generally content with the social dialogue in the sector, trade union representatives we talked to are not satisfied with the agreed base wage. Market wages, especially for higher positions, are much above the agreed rates. However, employers were tough negotiating over the base wage. Trade unions have therefore focused on the introduction and increases in various supplements.

Employer’s representatives admit that in most cases wage supplements are less costly than increases in the base wage. Before the crisis the base wage in the sector was at an acceptable level for them. Currently, they are considering proposing its decrease in the next round of bargaining over the collective agreement. In that case the lowest base wage will fall below the minimum wage. New round of bargaining talks commenced in September 2010 aimed primarily to align the collective agreement with the new Labour Law enacted in December 2009. Two major elements should be fixed in the agreement: the length of paid annual vacation and the allocation of work, but other issues might be added to the agenda.

For employers, the most problematic part of all agreed additions to the base wage is the seniority bonus of 0.5% per year of work experience. Such bonus is established in practically all collective agreements in Croatia because it has its roots in socialist times. For trade unions all over the country, the seniority bonus is a part of established rights (“droits acquis”) and should not be abolished in spite of the fact that it is not set as a legal obligation for employers in existing laws. In the construction industry, it is debated whether the seniority bonus reflects the underlying performance of a worker.

An interesting negotiation case is related to the status of the seniority bonus. As informed by trade union representatives, the average bonus for their members is 12.5 percent of the base wage. That suggests that the average union member has 25 years of experience, and is probably around 45 years of age. Employers’ representatives confirmed that the seniority bonus of similar or slightly lower size is paid in large companies in the sector. The sector seems “old” in that respect. In past negotiations over the collective agreement, employers proposed to lift the lowest base wage by 14.5 percent in return for withdrawal of the seniority bonus. In that case, wages of the vast majority of workers, if not all, would increase because the wage schedule, as well as bonuses and allowances would apply to the increased lowest
base wage. In the first rounds of negotiations employers’ were given the impression that the trade union negotiators would accept the offer. However, the offer was eventually declined. The most probable cause, suggested by two employers’ representatives we talked to, was implied to be intervention from the headquarters of the largest trade union confederation (SSSH). The confederation feared that the example set may negatively impact upon other sectors and therefore strongly insisted that the offer was declined. Trade union representatives from the construction industry that we talked to denied this explanation of events and simply responded that the offer was unfair. However, they concluded from this episode that there is a scope to increase the lowest base wage in the sector and they will continue to press in that direction without diminishing the seniority bonus. It could be argued that the trade unions reacted in favour of protecting the wages of average members in anticipation of the continued ageing of their members in that sector.

The recession has increased the importance of the base wage and hence the minimum wage for the sector due to the emergence of job shortages. As a consequence of both the costly dismissal procedure and the willingness of the company to retain staff despite times of economic hardship, a proportion of employees have been sent home whilst retaining formal employment. According to the collective agreement, in such cases the employees should receive wages equal to the base wage. Workers in the lowest positions are in such a situation and are paid the minimum wage. Although the number of such cases is not yet significant, it is increasing as the crisis continues.

The collective agreement was not amended for more then two years since October 2007, during which the recession substantially changed the situation in the sector. Both trade union and employers’ representatives report significant employment reduction and wage cuts. Employers state that wages are not reduced below the level guaranteed by the agreement, however cuts to the stimuli benefits have been made. In company-level agreements, trade unions often accept temporary wage reductions and in our interviews their representatives mentioned that they have been rather cooperative in attempts to survive the crisis. The unchanged sector-level agreement in the current situation suggests that the wage level determined in the agreement was below market conditions and has left enough manoeuvring space for employers.

Both social partners find sector-level dialogue important. However, differences exist around the importance of company level agreements where employers are often reluctant to conclude one if there is a sector-level collective agreement in place. Extension of the sectoral agreement is seen as highly important by both partners as a tool in preventing unfair competition. A trade union representative also explained in our interview that extension of agreements is of general interest for workers and it is not harmful for trade union membership. There are some cases where workers in the sector, mostly in small companies without trade unions, are employed without any contract and in case of non-payment of wages the extended collective agreement is the only criterion available to protect the worker when claiming wages in legal disputes. The question remains whether extension is an effective barrier against unfair competition in the situation where provisions in the agreement, especially wage rates, were set well below prevailing market conditions. It appears that extension of agreements aim to set common rules for big companies, some of which are not members of the employers’ association (UPG), while for small companies effective control is already difficult to implement.14

14 In order to better regulate the situation in the sector and to prevent unfair competition, the UPG has also pressed, with the support of trade unions, to enact the Licence Regulation, which define that each construction
5.2. Clothing industry

The clothing industry in Croatia is a labour intensive sector with strong export orientation. Over the years, and especially in 2009, the clothing industry has been facing a significant fall in output and employment. In the period 2000-2009 employment shrunk by almost 40 percent. In 2009, the clothing industry employed around 19,000 workers, 1.6 percent of the total number of employees. Its share in Croatian exports was 2.4 percent in 2009, down from 8.5 percent in 2000. The clothing industry is dominated by low-wage work. The average wage of clothing sector employees is below 50 percent of the economy-wide average, while the minimum wage has gradually climbed to over 70 percent of the sector average wage (Figure 8).

Figure 8. Average and Minimum Wage in the Clothing Industry

*Sub-minimum rate applied in 2008 and 2009.
Source: Croatian Bureau of Statistics.

The majority of production in the sector is made for export, but is dominated by a very specific type of export production within so called "lohn" contracts. Within these contracts foreign partners provide the material and design while the domestic company organizes manufacturing.\(^{15}\) Lohn arrangements employ between 80 and 95 percent of the sector’s capacity in most of the larger companies. In such arrangements, the production is completely company should ask for the licence for various types of works and issuance of the licence depend on demonstrated capability of the company to conduct such works. The first version of the Regulation was relatively stringent and in favour of large companies by limiting small companies from taking important roles in large construction projects, but the current version that is incorporated in a specific law is less restrictive in that respect. For trade unions, an important provision of the regulation is that the licence shall be annulled if wages are not paid according to the collective agreement.

\(^{15}\) Lohn deals might be defined as a specific form of cooperation between firms as the subcontractor performs all or part of the manufacture of the principal’s product according to customised specification provided by the principal company. Lohn deals are named upon German word “lohn”, which means “wage”, showing the substance of such deals and their origins in contracts with German companies.
dependent upon the foreign partner. If a company relies on a small number of partners, it may become highly vulnerable, as the recent crisis has demonstrated. Foreign partners, mostly from Western Europe, have cut their orders. The industry has been unsuccessful in forging relationships with new partners and the domestic market is too small to compensate for such losses. Such an unfavourable situation has disrupted the financial stability and liquidity of many clothing factories. In 2010, the situation has improved in terms of physical production, but profitability remains the issue, as is often the case with lohn contracts.

In general 70-80 percent of the lohn contract value is related to labour costs, consequently the industry is very dependent upon the wage level, and the minimum wage in particular. In a way, lohn arrangements in the clothing industry can be compared with the business services sectors, such as cleaning or security. The cost of labour is the most significant expense, and the client continuously presses the company to provide the cheapest service possible. Since the market is highly competitive prices are slashed and as a result so too is the labour cost and workers wages. The manufacture of clothing products (clothes, suits and other wearing apparel) is a global market and therefore is even more competitive than other saturated industries.

Around 85 percent of employees in the sector are women and trade union representatives’ do not believe that gender discrimination is an issue, citing that many managers and professionals in the sector are women. However in certain situations there can be what is described as harassment (or mobbing) which is not necessarily discrimination or sexual harassment and they are in extreme cases penalized by courts. A more widespread issue across the sector is the low educational level of most of the workforce.¹⁶

**Social partnership in the sector**

The key social actors in the clothing industry are the Croatian Trade Union in Textile, Footwear, Leather and Rubber (Sindikat tekstila, obuće, kože i gume Hrvatske - TOKG) and the Textile and Leather Industry Employers’ Association as a part of Croatian Employers’ Association. Trade union membership has been continuously declining although this is the likely consequence of reduced employment figures in the sector. According to estimates by TOKG, there were 100,000 members in the mid 1990s, while in 2008 they numbered just 13,400. The union currently has around 9,500 members, but it also covers footwear, leather and rubber industries. Union density in the sector is estimated at around 40 percent, while in companies where this trade union is active, the density is around 65 percent.

The clothing industry is not covered by sector-level collective agreement. In spite of that, social dialogue has progressed relatively well. 19 company level agreements are concluded, while sector-level dialogue is dynamic in several areas In 2005, social partners signed the Agreement on Sectoral Social Dialogue and Strategic Partnership, which is not a collective agreement in the legal sense although it can be treated like that by establishing the principles of a partnership in the sector. In 2010, the Sector Committee was established as a tripartite body operating within the Economic and Social Council at national level. This committee for

¹⁶ As informed by trade union representatives, this problem was particularly evident when establishing the Works Councils, which have a significant codetermination role in Croatia, similar to Germany’s model. Also, Works Council representatives in the Board need additional education to be able to cope with that new responsibility.
The textile and leather industry is the first, and the only Sector Committee in Croatia. Sector committees for the industry are also established in two regions (counties).

The absence of sector-level agreement can easily be explained by the harsh situation in the sector where such agreement cannot provide more than the minimum guaranteed by laws. The sector is highly asymmetric with some successful companies, whilst on the other hand there are many companies having serious difficulties. The sectoral standard for the collective agreement was gradually pushed towards the level acceptable for troubled companies. After receiving an unfavourable offer from employers in 1998, the TOKG trade union changed its strategy by focusing on company-level collective bargaining. Company level agreements are perceived as a better opportunity to tailor negotiations to the specific situation and provide the highest level of protection for workers in the given circumstances. But at the same time, the TOKG union tries to standardize many provisions across company collective agreements in an effort to limit competition based on variations across worker rights and labour costs. In that way, social partnership at the company level appears to be rather productive with a number of companies. However, the social dialogue in many companies has remained conflicting. The conclusion of a new sector-level agreement was initiated by the employers association again in 2005, but the TOKG union declined it as in their view it offered unacceptably poor conditions, worse than those prescribed in the 1997 agreement. The union was also concerned that an acceptance of such an offer could lead to the crowding out of company-level agreements which provide a higher level of protection for workers.

**Minimum wage and collective agreements**

The statutory national minimum wage has been increasingly important for the clothing sector. Between a quarter and a third of workers received the minimum wage (our estimate for 2009,) despite the fact that the sector is entitled to apply the sub-minimum wage (96 percent of the national minimum wage in the period June 2009-May 2010, and 97 percent in the following twelve month period). The minimum wage that is paid to a substantial proportion of the workforce has negatively impacted motivation and productivity. The minimum wage is set at a fixed monthly rate, while production workers’ wages in the sector were most often based upon individual performance. In many companies the lowest skilled jobs are paid at a rate entirely dependent upon their individual performance which might result in a wage that is below the minimum wage. In that situation the company is legally bound to compensate the worker with an additional payment up to the minimum wage. Workers on more complex jobs would often earn the minimum wage too. Personal effort or job complexity no longer enables workers to significantly impact their own wage. As a result managers we talked to witnessed a substantial reduction in workers’ effort and perceived a diminished morale among workers in their companies. If the company is in a stringent financial situation, this problem is difficult to solve, even within the framework of a well developed social dialogue.

There is a variety of wage calculation schemes across company-level collective agreements in the sector. In most agreements, overall wages consists of two parts: the basic rate and the supplements. The basic rate (sometimes called the base wage, but not always) is usually given as the lowest base wage multiplied by the coefficient of job complexity and the indicator of individual performance (often expressed as a percentage of the expected performance). As for

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17 As stated in its establishing act, the Sector Committee aims to develop the capability to anticipate and manage relevant changes for a socially responsible business climate and monitor developments in relevant sectors, providing counselling on issues relating to increases in competitiveness, participation in creating educational programmes and institutions, and similar activities.

18 See, for example, Šokčević (2006) for a review of collective agreements concluded by the TOKG trade union.
supplements, the seniority premium is included almost as a rule, together with various lump-sum allowances (for example, meal allowance, and a lump-sum allowance for each day at work).

All wage schedules that accompany company-level collective agreement are very much alike across the sector because they rely on the wage schedule from the sector-level agreement established in the late 1990s. Coefficients are usually between 1 and 3 for production workers. As informed by trade union representatives, for standard performance, even workers with the coefficient 1.3 to 1.7 earn the minimum wage in many companies. In order to prevent an increase in the overall wage bill in the past, companies have opted to keep the lowest base wage in collective agreements very low and have gradually increased allowances in order to meet the minimum wage regulation. Therefore, the lowest base wage in agreements across the sector is set well below the minimum wage and the negative gap is increasing over time.\(^\text{19}\) That contributes to a highly compressed wage structure, much greater than the wage schedule would suggest, because the wage schedule applies only to the basic portion of the wage, not on the supplements.

The basic part of the wage includes the individual performance indicator. As informed by trade union representatives, these indicators that are linked to the expected performance (the norm) are disputable because the standard is unilaterally set by management, most often without any external control or verification. There have been cases of a sudden unexplained rise in the norm, usually when the company experiences financial difficulties.

**Company Case Study**

The company ClothCo is a respectable manufacturer that can well illustrate the impact of the minimum wage on the sector and also highlight some coping strategies employed to deal with some of the resultant problems.\(^\text{20}\) The company is an interesting case for at least two reasons. First, it is an example of a successful company in the declining sector which went through tough times due to the global crisis and is now recovering. The second reason is the well developed social partnership which could be partly attributed to the ownership structure of the company as workers hold a substantial stake.

The company was established in the mid 20th century and has specialized in manufacturing men’s clothing for the Western European market. The number of employees during the last ten years was close to 800 in peak years, but in 2010 it is around 600. A key to its success, as stated by the company management,

... has been the continual cooperation with the domestic, academic and professional community, investments that are made in professional training and education, the creation of proprietary brands, as well as investments in modern machines, devices and appropriate organization.

In the early 1990s privatisation laws enabled workers to use some preferential options for buying shares in the company. Workers took full advantage of such an opportunity. At the present day workers and retired workers of the company own around 48 percent of the

\(^{19}\) Based on information from Šokčević (2006), in 13 company-level collective agreements out of 16 for which there was comparable data, the lowest base wage is set below the minimum wage and in 3 agreements it is set exactly at the level of minimum wage. Other agreed supplements, however, could lift overall wage up to, or over the minimum wage for the simplest jobs.

\(^{20}\) It should be pointed out that management in other companies we have contacted, especially those who find themselves in a somewhat worse business situation, were not interested in providing information on their wage setting practice and social dialogue.
company's shares, while one main owner and management together own the remaining majority stake. Shares are not listed on the stock exchange. According to management assessment, around 40 percent of today's workers own some company shares. Such structure might contribute to collective agreement provisions that are very flexible and provide the management substantial autonomy to set workers pay.

As is typical in the industry, a vast majority of the work is based on subcontracting arrangements (*lohn* deals), with around 95 percent of total production being exported to foreign markets, predominantly to Germany. In the period between 1997 and 2008, the company achieved positive and above-average results for the industry. Towards the end of 2008 and in 2009 a highly unfavourable situation emerged. A large foreign client whose orders usually employed one third of the capacity abruptly cancelled all orders. The domestic market, where the company sells their own brands, virtually collapsed. The company went through 44 non-production days in the period between March and September of 2009. Fortunately, the overall financial position of the company was strong enough to continue operating.

During the break period, all workers received their wage as an average of the previous three months, as stipulated in the Labour Law for situations where workers are not responsible for interruption in production and where collective agreements have prescribed no other mechanism. Wage costs for that period, however, caused substantial financial loss for 2009. The company did not want to initiate a costly dismissal procedure (costly in terms of the severance pay and the notification period) because they believed that the situation would improve shortly. Therefore retaining their staff was a priority. The company did not want to lose such capable production workers as the local labour market lacked workers with the necessary manufacturing skills.21 In order to limit wage costs if a similar situation were to arise in the future, the Annex to the collective agreement that was signed in February 2010 states that workers should retain the right to wage compensation in cases when production is interrupted for reasons beyond workers control, but it will only be equal to the statutory minimum wage.

A branch of the Trade Union in Textile, Footwear, Leather and Rubber (the TOKG) is the only trade union organized in the company. The actual collective agreement was signed in 2002. Up until present, a total of 10 annexes have also been signed. Bearing in mind difficulties the company faced in 2009, the union and management agreed to cooperate and undertake measures aimed at preserving the company’s competitiveness and retaining employment. The company decided to reduce costs, including wage cuts by 6-8% for production workers and 10-12% for non-production workers. Also, the last concluded annex from 2010 was made rather flexible in defining workers compensations. In certain cases of defining material compensation of workers (for example the transportation allowance) words “shall be” from the original agreement are simply replaced by “can be”. As stated by the management:

> In the collective agreement we have stipulated a minimum obligation for the company, close to what is stipulated in the Labour Law. However, in practice, we pay the maximum we can.

21 Based on this experience, the company management proposed, together with others from the branch, introduction of “temporary unemployment” mechanism, whereby a company could dismiss workers for the number of months. In that period a worker would receive unemployment benefits, while employer would be obliged to call workers back at work by agreed deadline (once the situation had improved). In such a case, the employer would not pay severance payment. However, if the employer would not call workers back at work, the severance pay and all other due worker rights would have to be settled by employer. The proposal not accepted by the Government.
Workers recognize our stance and believe that we do everything to make the best for workers and owners. That is the way the trade union supports the last annex to the agreement.

According to the last annex, the lowest base wage is 1,728 HRK. That is significantly below the minimum wage (currently, national minimum wage is 2,814 HRK, sector sub-minimum is 2,701 HRK). The wage schedule defines the set of coefficients for various positions in the range from 1.05 to 3.04. The coefficient is multiplied by the lowest base wage and the individual performance (% of expected performance). On top of that, the seniority bonus is paid, as well as a permanent allowance and other allowances added to the base wage as lump-sums.

Based on the management’s assertions of ClothCo, the minimum wage is received by 20-25 percent of production workers. At present, the management has not found a strategy to reduce this percentage, but intends to attempt this in the future. The current proportion of minimum wage workers is much higher then in previous years. As we are told, if the lowest job complexity coefficient (1.05) is applied to the lowest base wage (1,728.00 HRK) for standard individual performance, and if other allowances are added, the gross wage would be around 8 percent below the statutory minimum wage. In cases where the regular wage is below the minimum wage, the company pays the minimum wage.

One of the key elements in wage determination is individual performance. The management claims that their calculations of the standard performance are prepared in consultation with academics and are fair. The set of graphs that were shown to us reveal that the performance density has a normal curve shape, centred around 100% performance. Improved performance could reduce the need for the company to pay the minimum wage for workers whose regular wage is lower. The most recent annex to the collective agreement states that workers with an individual performance below 85% of the norm will be more carefully monitored. If it is ascertained that the below-average performance is the worker’s fault, management and the trade union shall endeavour to find a way to increase the worker’s productivity. The names of poor performers are made public as one informal strategy to encourage workers to increase productivity despite the fact that the minimum wage is guaranteed.

Management of the company has considered to increase the base wage and decrease lump-sum allowances at the same time. Such a switch is permitted by the last annex to the collective agreement. The base wage is dependent on individual performance and its increase could improve worker incentive, although it might also increase the total wage bill due to the application of the wage schedule to the base wage. The management believes that they can make this change neutral in terms of the unit wage cost. This new strategy is a reversal compared to previous years’ developments. For example, the lowest base wage in the 2002 collective agreement of 1,460 HRK was 81 percent of the statutory minimum wage, while the latest annex has set it at 1,728 HRK or 64 percent of the minimum wage applied for clothing. At the same time, the lump-sum proportion of the wage has been growing and has suppressed wage distribution. Now, it seems that the negative incentive effects require a different approach.

5.3. Retail sector
The retail sector has a wide variation in the success of social dialogue. In some companies a fruitful partnership has developed, while in others, often large companies, trade unions are not
welcomed at all. There is a sector-level collective agreement in force which was concluded in 1998 and amended only once, in 2005.

The retail market in Croatia is characterized by a relatively high degree of concentration and internationalisation. There is increased competition among leading players. Market consolidation results in takeovers and strategic alliances of specific retailers. The share of the top five food retailers was almost 50 percent in 2008, while the leading company in the sector held almost a quarter of the market (Table 9). At the same time, a substantial market share was held by small shops, around half in 2001 but this diminished to only a third in 2008, while hypermarkets and supermarkets are gradually taking the lead (HGK, 2008). Before the crisis, the recent expansion of the sector was notable including an employment increase of 35 percent between 2008 and 2000. Around 2/3 of employees in the sector are women.

Table 9: Market share of leading food retailers (%)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Konzum</td>
<td>8.0</td>
<td>24.3</td>
</tr>
<tr>
<td>Kaufland</td>
<td>-</td>
<td>7.3</td>
</tr>
<tr>
<td>Billa</td>
<td>2.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Mercator</td>
<td>1.1</td>
<td>5.4*</td>
</tr>
<tr>
<td>Presoflex</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Plodine</td>
<td>-</td>
<td>4.6</td>
</tr>
<tr>
<td>Lidl</td>
<td>-</td>
<td>4.1</td>
</tr>
</tbody>
</table>


Social partnership

The first collective agreement for trade (including retail and wholesales, and logistics) was signed in 1993. The actual sectoral collective agreement for trade was signed in December 1998 between the Commercial Trade Union of Croatia (Sindikat trgovine Hrvatske – STH) and Trade Union of the Trade Sector (Granski sindikat trgovine) on the one side, and the Croatian Employers’ Association – Trade Association (Hrvatska udruga poslodavaca – Udruga trgovine) on the other side. The Agreement was concluded for one year, but it also included a clause on application by cancellation or by conclusion of a new agreement. This agreement is still in force, together with its annex that was concluded in 2005. The Agreement and the annex were extended across the whole sector.

High level employers and trade union representatives that we interviewed supported an extension emphasizing that it should prevent unfair competition. Employers organized in employers’ associations expressed a high interest in the extension and wanted to have the same rules for all companies. This is because they feel that some large employers that are not members of the association could have an unfair advantage because even have no trade unions organized in their companies. Trade union representatives are not so strongly in favour of an extension, but support such initiative from employers’ side.

In addition to sector-level agreement, there are eleven company-level collective agreements concluded by the STH, the largest trade union in the sector, and single employers. These
collective agreements cover around 43 percent of STH members. Two more collective agreements are being negotiated covering an additional 6% of members, and two more are in the early preparatory stages and when concluded would then account for a further 4% of members. However, the whole sector (including wholesales and car sales) employs around 230,000 workers, out of which only 18,000 are members of this trade union. Other unions are present, but lack the same level of power and are much less important. Other than the leading companies with the highest market share, the sector is highly fragmented precluding higher union density.

The retail sector has been very sensitive to the recession and it received one of the heaviest blows of all the sectors in Croatia in 2009. According to the Central Bureau of Statistics, the turnover fell around 15 percent in 2009 in real terms while employment in mid-2010 was around 7 percent below the level at the end of 2008. Both partners are aware of the crisis and are willing to cooperate. In some new company-level collective agreements the STH and employees accepted somewhat lower level wages and compensations.

Sector level social dialogue has been difficult. Only one annex to the sector-level agreement in the last twelve years points to a knotty bargaining process. Provisions of the current agreement are close to the legal minimum and as such wages and compensations are relatively low compared to other sectors. Questions concerning the enforcement of the agreement remain open, especially in small firms, regardless of extension. An inability to improve the position of employees through the sector agreement has led the STH union to focus on company-level agreements.

However, company level dialogue is often ineffective. Trade unions, generally speaking, find it rather difficult to initiate the process of collective bargaining in multinational companies. That may be a result of the sector-level collective agreement which has been in force for a long period of time and as such many companies do not want to be involved in company-level bargaining. On the other hand, employers' representatives suggest that trade union representatives lack the required professionalism and negotiation skills for successful bargaining. In spite of that, there are examples of good practices in social partnership at the company level. Employers and trade union representatives both refer to the case of RetailCo, which we have reviewed below.

In our interviews trade union representatives continuously pointed to the problem of enforcement, not only of collective agreements, but of the Labour Law too. In their estimate, if the industry would comply with statutory provisions regarding overtime work and the maximum weekly work load, wages would grow substantially and another 30,000 workers could be employed. They estimate that unpaid working hours amount to 5.5 million HRK a year (0.75 million EUR). Retail is one of the industries where employment is most frequently unreported (together with the tourism and construction industries), especially in small shops. On the other hand, employers have pointed to inflexible labour legislation where it is difficult to terminate the employment of unreliable employees. Dismissals are, in their view, too costly and as such do not provide an appropriate solution to the crisis.

The sector-level collective agreement
The lowest base wage for the simplest jobs provided in the sector-level collective agreement is 1,600 HRK, which was around 77 percent of the statutory minimum wage in 2005, when the annex to agreement was concluded. However, by the beginning of 2010 this ratio had fallen to 57 percent (Table 10). In the 1998 agreement, the share was 91 percent. The lowest
base wage has remained unchanged in the last five years, while both the minimum wage and the average wage for the sector have increased.

**Table 10: Collectively agreed lowest base wage, minimum wage and the average wage in the retail sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Lowest Base Wage (CA) as a Percentage of the Sector Average Wage</th>
<th>Percentage Gap between the Lowest Base Wage (CA) and the Minimum Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>41.4%</td>
<td>8.8%</td>
</tr>
<tr>
<td>2005</td>
<td>34.7%</td>
<td>23.1%</td>
</tr>
<tr>
<td>2006</td>
<td>31.4%</td>
<td>26.3%</td>
</tr>
<tr>
<td>2007</td>
<td>30.4%</td>
<td>30.4%</td>
</tr>
<tr>
<td>Jan 2008 - Jun 2008</td>
<td>30.4%</td>
<td>34.5%</td>
</tr>
<tr>
<td>Jul 2008 - May 2009</td>
<td>28.1%</td>
<td>41.8%</td>
</tr>
<tr>
<td>Jun 2009 - Jan 2010</td>
<td>27.8%</td>
<td>43.1%</td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on CBS and relevant legal acts.

However, the lowest base wage is not the full wage that is set out in the terms of the agreement. The agreement set wages consist of: i) the base wage, ii) the seniority bonus and iii) a bonus awarded for difficult working conditions. The base wage is the product of the lowest base wage and the coefficient for the particular job (coefficients range from 1.00 to 3.50). The seniority bonus depends on the individual’s total years of employment and adds 0.5 percent onto the base wage each year. As for difficult working conditions, employers are obliged to issue Employment Rules which would define a transparent procedure to calculate wages for those jobs that require above-average efforts or for an incentive payment earned for above-average work results. Stimulation payment is either calculated as a percentage of the base wage or defined in lump-sum term.

A full wage for the lowest skilled and simplest jobs can be higher than the statutory minimum wage. If full wages are not equivalent or higher then the minimum wage must be paid. Overtime work and work on Sundays are widespread across the industry, which is also reflected in wages, although trade union representatives doubt that such work is universally paid according to the agreement (50% rise for overtime, and 35% for Sunday work). They also warned that the Employment Rules set by companies have recently been altered in a number of companies thus reducing bonus and incentive payments leading to a significant wage drop, sometimes up to 30% as a response to the crisis.

As informed by social partners’ representatives, the number of employees receiving the minimum wage is rather low in large companies, but it is estimated to be higher in small companies, partially due to the common practice of envelope payment. In light of such practice our estimate, based on official wage statistics for 2009, that there are around 9 percent of the workforce earning the minimum wage, is perhaps too pessimistic.

The sector-level collective agreement that encompasses provisions that are close to the legal minimum perhaps reflects poor trade union density and as such the unions’ limited bargaining power. Trade unions therefore press the Government to help them solve problems in the sector (for example, compliance and overtime pay) instead of talking directly to employers.
Case of company-level collective agreement

RetailCo is one of the largest companies in the sector employing over 12,000 workers. There are eight trade unions active in the company. The most important is the Commercial Trade Union of Croatia (STH) with around 4,500 members. Around 80 percent of staff directly engaged in retailing, are union members.

The first company collective agreement was signed in 1996, while the current one was concluded in 2006 and has been operating since January 1, 2007. Although it obligates the signing parties, the management extended application of the agreement to all employees. The tariff part of the collective agreement contains provisions on the lowest base wage, the permanent wage allowance, the premium pay, the annual vacation bonus, the Christmas bonus, the Easter bonus and other causal allowances. There have been two annexes added to the tariff section of the agreement so far, the most recent was included in March 2010.

There are specific elements that have been built into the agreement that mean that RetailCo is a groundbreaking company in Croatia. Employees of the company are among the first in Croatia to receive private health insurance. The tariff agreement also includes, probably the first such case in Croatia, a model for employees to receive annual premiums which are dependent on the profits of the Company. Each employee is entitled to 750 HRK (ca. 100 EUR) if the company makes 5 percent more profit than the annual plan envisaged. Even though the company’s collective agreement is more favourable than the sector-level agreement, most of its format and entitlements are very much alike to the sector agreement.

RetailCo managers confirmed in our interview that their priority in collective bargaining has been to provide the employees with protection above the industry average. They also want to achieve this in a transparent way. Such a strategy might explain comparable provisions in the company and the sector agreement. A RetailCo management representative pointed out that the last annex to the collective agreement has been signed under the difficult circumstances of the crisis which has increased competition. Their motivation, contrary to what is perhaps expected, was to increase the benefits for workers in an attempt to ensure the loyalty and retention of good workers. RetailCo managers find the collective bargaining process in the company rather complicated because there are eight trade unions represented, among which there is strong rivalry. Trade unions were not able to elect a single representative body to negotiate as a result the bargaining process is usually conducted with each trade union separately.

The lowest base wage determined in the tariff section of the RetailCo collective agreement is 1,700 HRK (60 percent of the minimum wage). The permanent allowance can not be less than 350 HRK, while the incentive part of the salary can amount to up to 30 percent of the gross wage. These and other allowances are higher than in the sector collective agreement (Table 11). Importantly, RetailCo applies the wage schedule from company’s Employment Rules that provides for more favourable coefficients of job complexity than it is the case in tariff part of the sector agreement for comparable positions. With such coefficients and all agreed bonuses and premiums, practically all workers in the company are paid well above the minimum wage. Wages close to the minimum wage are paid only to inexperienced workers.

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22 Growth of RetailCo operations was partially featured by acquisitions that brought new trade unions into the company.
who deal with the simplest of tasks such as cleaners and guards. Their share in total employment is negligible because such jobs and services are largely outsourced.

Table 11: Basic wage provisions in company collective agreements for RetailCo and sector collective agreement for the retail industry

<table>
<thead>
<tr>
<th></th>
<th>RetailCo CA</th>
<th>Sectoral CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest base wage</td>
<td>1,700.0 HRK gross</td>
<td>1,600.0 HRK gross</td>
</tr>
<tr>
<td>Permanent allowance to salary</td>
<td>at least 350.0 HRK net</td>
<td>350.0 HRK net</td>
</tr>
<tr>
<td>Premium pay</td>
<td>up to 30 % of the gross base wage</td>
<td>not regulated</td>
</tr>
<tr>
<td>Annual vacation pay</td>
<td>4,500 HRK gross</td>
<td>defined by employer</td>
</tr>
<tr>
<td>Christmas holidays bonus</td>
<td>at least 1,500 HRK net</td>
<td>not regulated</td>
</tr>
<tr>
<td>Easter holidays bonus</td>
<td>at least 500 HRK net</td>
<td>not regulated</td>
</tr>
<tr>
<td>Seniority bonus</td>
<td>0.5% of the base wage per year of experience</td>
<td>0.5% of the base wage per year of experience</td>
</tr>
<tr>
<td>Private health insurance</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Increase of hourly wage</td>
<td>Swing shift work: 10%</td>
<td>Swing shift work: 10%</td>
</tr>
<tr>
<td></td>
<td>Overtime work: 60%</td>
<td>Overtime work: 50%</td>
</tr>
<tr>
<td></td>
<td>Night work: 40%</td>
<td>Night work: 30%</td>
</tr>
<tr>
<td></td>
<td>Sunday and public holiday work: 40%</td>
<td>Sunday and public holiday work: 35%</td>
</tr>
</tbody>
</table>

Sources: Collective Agreement for RetailCo (manuscript) and Collective Agreement for Trade (Official Gazette 41/98, 79/05)

Figure 9: Collectively agreed wage rates in RetailCo

Source: RetailCo Collective Agreement and RetailCo pay reports.
Note: Base wage is calculated as the product of the lowest base wage and the coefficient specific to the position of the salesperson/cashier defined in RetailCo’s wage schedule. Standard wage for a salesperson/cashier is defined as her/his base
wage plus the seniority bonus in case of 5 years of experience plus standard bonuses and allowances (permanent wage allowance and seasonal bonuses). Other agreed bonuses and premiums (overtime, Sunday work, stimuli...) fixed in RetailCo’s collective agreement are not counted as the standard wage. All amounts are expressed in monthly gross terms.

Over years, wages paid in RetailCo according to company’s collective agreement have increased notable. However, increase in the national minimum wage has been higher (Figure 9). Just like in case of the sector agreement, the negative gap between the agreed lowest base wage and the minimum wage have widened to almost 40 percent in 2010 (HRK 1,700 vs. HRK 2,814). The minimum wage has only marginal influence of wages paid in the company. Around 1/3 of RetailCo’s staff are employed as salespersons/cashiers, warehouse workers or similar with the job complexity coefficient from the wage schedule of 1.78. That means that the base wage (coefficient*lowest base wage) for them is above the minimum wage. The standard wage for a worker with 5 years of experience, which includes all bonuses and premiums that are regularly paid for standard performance was around 40 percent above the minimum wage in 2010 for a worker with 5 years of experience. However, the gap between the standard wage for salespersons/cashiers in the company and the statutory minimum wage is on decline since the introduction of the minimum wage in 1998. As informed in our interviews, such developments are illustrative for the sector as a whole: salespersons in Croatia were losing their wage advantage over the minimum wage workers.

6. Discussion and conclusion

We have reviewed three sectors impacted by the national statutory minimum wage; retail, construction and clothing. Findings are drawn from the documentation on collective agreements and interviews with trade union and employers’ representatives. Collective bargaining strategies of social partners are seen to differ across the three sectors – in the retail and construction sector social partners are in favour of sector level collective agreements and extension of these agreements, while in the clothing industry the most influential trade union prefers collective agreements at company level. Sector level dialogue has remained rather intensive in the clothing industry, focused on more general problems and is engaged in lobbying the Government, while in the retail sector it has been constrained in spite of existing sector-level agreement.

The structure and conditions of the market appear to be a crucial influence over the extent and success of social dialogue at sector level. In the construction and retail sector, there is strong competition in the local market with only a few leading companies – market-leaders. Some of these companies are members of the Croatian Employers’ Association, the only respectable employers association in the country, while some aren’t. In the retail sector, in some large companies trade unions are not represented. In such conditions, extended sector-level collective agreements are strongly preferred by the employers’ association in order to set common standards and prevent unfair competition. It appears to us that extension is primarily aimed at regulating the large companies outside the association, while small companies are not seen as a threat and their (non-) compliance with extended collective agreements is seen as a part of a much wider law enforcement problem. Trade unions in these two sectors support extension, although they are much less enthusiastic about it than employers. The clothing industry is a highly fragmented, export-oriented sector, with limited direct competition between domestic companies either in the local or international market. In such a situation, the incentive for unification of sector standards is much weaker. As a consequence of the widespread low profitability of the sector, standards can only be met at such a level that is
already guaranteed by laws and so there is less incentive for conclusion of a sector-level agreement.

There is an intriguing variation between sector agreements and bargaining between the retail and construction industries. In the construction industry, the agreement is regularly updated, while in retail industry it is not. The agreement for the construction industry provides higher pay than that for the retail industry. The rationale behind such variation is twofold – firstly the construction industry employs more skilled workers and yields higher returns thus enabling more comfortable negotiations, and secondly as construction is an “old” sector, the leading companies have operated in business for decades with continuous presence of active and influential trade unions. Whereas in the retail sector, some of the largest companies has emerged in the last 10-15 years, either as completely new companies or as rapidly growing entities where trade unions have not been established very long or at all and therefore there is much less experience with the social partnership.

We have observed situations where employers are not willing to negotiate over company agreement if there is a sector-level collective agreement. Instead, the company establishes its own Employment Rules with practically all provisions set to at the same standard as in the sectoral agreement. Although those Rules are set after consultations with the works councils, their approval is not a precondition for their application. The Rules account for company specificities and provide a legal back-up for the company if sectoral agreement is annulled. In any case, changes in Rules are at the discretion of employers. Hence, the unilateral employer’s act competes with company-level collective agreements. Limited incentives for negotiations at company level could also be attributed to the principle of favour, where the most favourable norm for the employee shall be applied. Company level agreement cannot under-cut an employee’s rights given by laws or sector-level agreements. That principle is also important for the minimum wage provision, for example, when a collectively agreed minimum is directly linked to the minimum wage. However, such a link only exists in the agreement for the construction industry, while in almost all other agreements, the agreed lowest base wage is set independently, and it is set well below the minimum wage. Our case studies exemplify that the negative gap between the lowest base wage and the minimum wage has increased in recent years (except in the construction industry). The increasing gap has helped to suppress a rise in the total wage bill in spite of an increase in the minimum wage. As an alternative, lump-sum allowances have increased both in number and amount to ensure that earnings at least equivalent to the minimum wage are received by low-wage workers. This combination has led to more compressed wage distribution, especially at the lower end.

Trade unions are aware of employers’ high sensitivity to changes in the base wage. Therefore, their strategy has been to seek improvements in other fields, such as allowances, bonuses and other compensation in money and in-kind. Over time, such provisions have become part of the established rights of workers and have proved difficult to change or cancel. In addition, improvements in “non-wage” benefits negotiated through bargaining are important achievements for trade union members. For employers, increases in non-wage benefits have
been less costly than an increase in the base wage would have been. Also, allowances are not taxed up to certain amount.

More recently, employers express their dissatisfaction with certain wage supplements built into collective agreements. The seniority bonus of 0.5 percent of the base wage added for year of experience, as a part of almost all collective agreements in Croatia, is considered unrelated to productivity and therefore unfounded. Conversely, trade unions consider this bonus very important for workers and also as an established right and therefore justifiable.

In spite of the very diverse positions’ of the sectors in terms of their expansion, profits and market structure, our case studies suggest that collective agreements generally offer a limited improvement in working conditions and benefits compared to the legal minimum. Rebac (2006) came to the same conclusion analysing a large number of agreements across sectors. Collective agreements are found to be restricted to minor improvements of those provisions specified in labour laws with limited flexibility for the specific nuances of individual companies or sectors. Why are collective agreements’ provisions so close to the legal minimum, especially those at sector level? In the clothing industry, low profitability of the sector is one explanation. But, the construction industry with its high profitability could provide better conditions in collective agreements. One more general explanation for that is an inherent inflexibility of the labour market in Croatia and its institutional arrangements. Employers fear any unfavourable situation in the market due to the extent of legislative provisions (statutory or agreed) that are in place in Croatia. They do not believe that trade unions would accept agreements with poorer provisions. Another issue could be the infrequent and cumbersome negotiations that have occurred in the past (the retail sector) which have not fostered an effective partnership. In addition the deeply rooted tradition of vested and established rights does not guarantee flexibility. Employers therefore wish to retain plenty of manoeuvring space in collective agreements and are cautious about accepting new obligations even in good times.

The minimum wage has become more and more important with the crisis, especially for the clothing industry. The minimum wage reached 70 percent of the average wage in the sector, and a third of workers are paid the minimum wage or slightly above it. In the sector where individual performance is traditionally a part of the wage, such a situation has caused problems with work incentives. The case study of a company from the sector indicates that the problem is difficult to solve, especially if financial resources to honour more productive workers are limited.

Trade unions have been rather active in tripartite dialogue at the national level. It seems that they are more successful in lobbying the government and legislators than negotiating with employers. Any change in labour legislation is the subject of heated debate in the media, which is often supported by unions’ threats of large-scale strikes. One of the results is a relatively high level of worker’s protection stipulated by the law. Tonin (2005) shows, for example, that legislative employment protection in Croatia is one of the highest in the region. Such legislation, however, narrows the space for further improvements in collective agreements. That is a further justification to explain why collective agreements do not go any further from the legal minimum. Statutory minimum wage regulation is part of that story - it provides the minimum wage rate that is followed closely by collective agreements without any significant increase.
Gender equality is not perceived as an issue in Croatia. None of the social partners’ representatives that were interviewed had evidence of any significant breach of equality principles in their sectors. However, they understand that segmentation is an important issue.

The crisis has introduced some changes to the established practices in collective bargaining. In the last 15 years of bargaining (in the initial transition years there was no social dialogue in Croatia) increasingly favourable conditions have been agreed and there was practically no cuts in any of the established rights for workers. However, with the present crisis workers and trade unions are willing to accept flexible arrangements in order to retain their jobs, but at present this practice is only being negotiated at the company-level. It is likely that in companies where workers hold company shares, a more flexible arrangement for employment and wage setting is easier to reach, as our company case study from the clothing industry exemplifies.

In interviews with both trade union and employers’ representatives, the current minimum wage level is described as “low”, “insufficient for normal life” and “hardly acceptable”. However, employers, especially from the clothing sector, argue that they face increasing pressure to pay higher wages for the lowest skilled and simplest jobs. They imply that a deeper commitment from the government with improved policy in this area is needed. For example, they suggest introducing a reduction in social security contribution for minimum wage workers or a provision of tax credits and in-work benefits to improve the situation. 
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