

NEW PERSPECTIVES ON A LONGER WORKING LIFE IN  
CROATIA AND SLOVENIA, Maja Vehovec (ed.), 2008, The Institute  
of Economics, Zagreb and Friedrich Ebert Stiftung, Zagreb, 161 p.

Review\*

Leon Trotsky is said to have once quipped that *Old age is the most unexpected of all things that happen to man*, as most persons painfully experience in the last decades of their lives. But so, I would add, is the ageing process itself, as most developed and developing economies have painfully experienced in the last two decades.

Central, Eastern and Southeastern Europe are no exception to the rule and are undergoing what is sometimes called the 'third transition' in post-socialist economies. Croatia and Slovenia, the two northernmost former Yugoslav republics, are good examples of this trend: their populations are ageing fast and the two countries seem anything but prepared for the future challenges of their greying labour forces.

This is of course not a problem confined to the region, but a malaise that has plagued most advanced political economies since the heyday of the golden age of welfare capitalism. In this respect, the World Bank and the European Union are not just passive bystanders. On the contrary, both organisations correctly emphasise the need to retain older workers in an employment relationship for longer.

The World Bank, a chief promoter of the new pension paradigm, recently assessed the ageing process in Central, Eastern and South-eastern Europe from a variety of perspectives, thereby stressing the necessity to simultaneously reform retirement systems, labour markets and financial services. The Bank (Holzmann, 2009:16) conveys three fundamental messages: pension systems still contain many incentives for early retirement; there is a common misperception that the number of jobs in an economy is fixed; it is crucial to maintain and create demand for elderly workers.

To this end, the European Union even more explicitly set the fundamental Stockholm and Barcelona targets in 2001 and 2002. The former promotes the objective to employ 50% of the labour force aged 55-64 by 2010 and the latter to progressively increase the effective average retirement age by five years during the same period. However, if these

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two targets are hard for the EU-15, they are almost unreachable in the new member states and (prospective) candidates.

In light of the above, the volume 'New Perspectives on a Longer Working Life in Croatia and Slovenia', edited by Maja Vehovec of the Institute of Economics in Zagreb, is a welcome contribution, and a timely one. In addition to having some of the worst demographic prospects in the region, close to those of Italy or Japan, Croatia and Slovenia experienced more than forty years of the Yugoslav 'heresy' and of experimentation with self-management. These generated a transformational recession for which policy-makers were caught off guard. The transition to a market economy fostered, in its inability to deal with older and redundant workers, an early retirement culture that now seems extremely tough to eradicate.

In order to analyse the problem, the book presents a collection of essays written by predominantly young economists from Ljubljana and Zagreb, which neatly develop three old-age related topics: i) the impact of ageing populations on the labour force; ii) the influence of the institutional setting on decisions to retire; iii) the importance of age for the demand for labour. The *leitmotiv* pervading the book is that only by disentangling the factors affecting the composition and constraints of labour supply in the future as well as the attitude of those demanding older segments of the labour force, is it possible to formulate adequate policy proposals to face the looming crisis.

However, dealing with such an eclectic topic as the interaction between ageing, retirement and labour market participation presents, in addition to positive aspects, some challenges, which directly stem from the argument's very heterogeneity. In particular, the contributions have to be praised for the variety of methods of analysis employed in each of the three sections. However, this eclecticism comes at the expense of overall coherence and homogeneity, as the following paragraphs show.

The first part, dealing with the impact of population ageing on the labour force, systematically interprets demographic projections both at the European level (Chapter 2 by Redek, Domadenik and Ograjšek) and for the two countries separately (Chapters 3 by Švaljek and Nestić and 4 by Redek, Domadenik and Ograjšek). The authors share the preconception that the working-age population will inevitably shrink in the region, policymakers thus being unable to afford substantial inactivity by older workers. The whole section serves as a general and extended introduction for the substantive part of the book, which starts by analysing the institutional constraints affecting retirement decisions.

Nestić and Bakarić (Chapter 5) do a great job in exploring the 1999 Croatian pension reform, the innumerable amendments that were introduced afterwards and its interaction with labour market legislation. On the one hand, they find out that a rapid phasing in of new retirement age limits forces older workers to retire later. On the other hand, however, they point out through a micro simulation of future benefits that the system may generate social tensions in the future if no further redistribution is allowed.

Focussing on Slovenia, Domadenik, Redek and Ograjšek (Chapter 6) use a theoretical model and estimating equation to test whether the country's labour market discriminates against the older working cohort due to institutional rigidities and inappropriate corrective policies. They build their contribution on the premises that older and younger

workers are not simple substitutes, and that hence pushing elderly employees out of the labour force does not automatically free labour posts in the economy. The authors provide evidence that Slovenian legislation is rife with barriers to hiring older workers. In addition, they show the inability of active labour market policies and unemployment benefits to provide the right incentives for people to seek employment.

Once again, the method of analysis shifts in the third section of the book, which first presents the attitudes of Croatian and Slovenian employers with respect to older as well as younger workers (Domadenik, Redek, Ograjenšek and Vehovec in Chapter 7), and later reviews the policy proposals and international practice to enhance the demand for older labour (Chapter 8 by Švaljek).

The estimation of employers' attitudes towards older workers relies on a factor analysis of two surveys conducted in the spring of 2008, one in 200 firms in Slovenia and the other in 216 employers in Croatia. The results show that employers do not match words with deeds. Even though employers do not disagree with the existence of incentives promoting a greater share of elderly workers, they employ only a tiny proportion of older labour and very seldom target senior workers.

The last chapter by Švaljek is instead a more traditional survey of available policy options to mitigate the 'early retirement culture' that took root in Croatia and Slovenia. The author individuates push and pull factors affecting retirement decisions and indicates ways to reverse the early retirement trends. She focuses specifically on ways to enhance employer demand for older workers by giving examples of international practice. A whole section is dedicated to the inefficiency of wage subsidies to retain older employees and of penalties for their dismissal.

The variety of methods employed to describe the rather sclerotic labour markets in Croatia and Slovenia and the inefficiency of existing active policies is, as said before, a fundamental strength of the book. However, this eclecticism relatively impairs the volume's overall unity.

A crystal-clear thread linking the three sections together is somehow missing, or better is present only in the introduction but never elaborated upon, once the reader gets acquainted with the individual contributions. In particular, the second section, dealing with the institutional framework affecting retirement decisions, does not cover the same analytical ground for both countries. The two most noteworthy contributions investigate, in turn, the Croatian pension system and the Slovenian labour market rigidities. The reader gets the disturbing impression that something is definitely missing.

Notwithstanding this flaw, the volume represents fundamental reading for those interested in the ageing process in the two ex Yugoslav republics and may come in very handy for policymakers, experts and practitioners who are confronted with similar problems across Central, Eastern and South-eastern Europe. Moreover, by focussing on the interaction of labour markets and retirement, it is a book that correctly interprets the *esprit du temps*, neatly embodied in the words of Chawla, Betcherman and Banerji (2007: 40):

"The reform agenda to deal with aging necessarily covers a number of sectors of the economy [...] financial markets, labor markets, education, pensions, and health. However, while sector-specific reforms are needed to address the challenges posed by demo-

graphy, their effects will cut across sectors because of the strong links between these aging-related challenges. The reinforcing nature of the needed reforms in different sectors - and their country-specific variations-can be illustrated by looking at how the region will address one of the key challenges of population aging-addressing the decreasing working-age population. If this challenge is not handled effectively, economic growth will be constrained, and adequate resources will not be available to finance pensions, health, and education systems.”

After a stroke and a mastectomy, actress Bette Davis famously wrote that *Old age ain't no place for sissies...* well, as the authors of 'New Perspectives on a Longer Working Life in Croatia and Slovenia' have forcefully shown, neither are countries that fail to prepare for the inevitable ageing of their populations.

*Igor Guardiancich*

#### LITERATURE

**Chawla, M., Betcherman, G. and Banerji, A., 2007.** *From Red to Gray: The "Third Transition" of Aging Populations in Eastern Europe and the former Soviet Union.* Washington, DC: The World Bank.

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