

Danish Flexicurity Model and Policy Risks



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DANIEL
HINŠT

Social policy can be seen from a fragmented perspective with a purpose to justify growing costs of welfare and ideological battles against the free market economy. Such policies try to advocate limits of the market economy or even undermine its role, for the sake of making 'progress' in changing the economic system. Accordingly, false dilemmas are developed in order to support the ideological battle between social and free market policy.

In particular, the Danish Flexicurity Model represents a golden triangle combining a flexible labor market, high transitional income support for unemployed and training support for market relevant skills. Besides describing those policy features, the article considers risks in the case of applying such policies in Central and Eastern European countries. Understanding preconditions and building blocks that stand behind the Danish Flexicurity Model is necessary when considering its application in other countries with a different cultural mindset and societal context.

Lower levels of social trust, the welfare trap, mobbing at work, excessive public spending on unemployment benefits and training programs, should all be considered as significant policy risks. The Danish Flexicurity Model, if applied correctly, can bring a new light of reconciliation in ideological battles. In a different scenario, copying policies associated with flexicurity, without understanding potential risks and cultural circumstances, represents a risk that flexicurity will not be realized.

DANISH FLEXICURITY MODEL AND ITS GOLDEN TRIANGLE

As the Danish Flexicurity Model represents a golden triangle of mutually inclusive policy features, each of them has

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THE DANISH FLEXICURITY MODEL, IF APPLIED CORRECTLY, CAN BRING A NEW LIGHT OF RECONCILIATION IN IDEOLOGICAL BATTLES

a purpose that needs to be considered in combination with other features. The model combines a flexible labor market with high levels of security of income and employability. It is an innovative policy concept which creates a compromise between flexible labor market regulations, adequate unemployment benefits, and educational training for the unemployed. Therefore, flexibility satisfies the interests of employers for competitiveness and profitability, while workers and labor unions can be satisfied with generous unemployment benefits and training.

Since companies need to keep their market competitiveness, they need to adapt with production and workforce. Therefore, in some cases, job protections may not be a sufficient option. If workers lose their jobs, they require adequate labor security with regard to income and training to meet market needs¹. That way, social policy serves the needs of

¹ <https://www.cea-policy.hr/danish-flexicurity-model/>



FLEXIBLE LABOR MARKET REGULATIONS REPRESENT AN IMPORTANT PART OF THE METH- ODOLOGY OF MEA- SURING ECONOMIC FREEDOM

a competitive market economy with high levels of economic freedom.

The flexicurity model avoids market segmentation between *insiders* and *outsiders*², while restrictive norms can increase this segmentation together with long-term unemployment³. Also, a growing number of temporary employees can enhance flexibility in the long run, whereas, in the short run, it may create larger gaps

² Backhans, MC. et.al. (2016) "What Is the Impact of Flexicurity on the Chances of Entry into Employment for People with Low Education and Activity Limitations Due to Health Problems? A Comparison of 21 European Countries Using Qualitative Comparative Analysis (QCA)", [in]: *BMC Public Health*, Vol. 16(1), p. 842. Available [online]: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4992207/>.

³ Georgiana Noja, G. (2018) "Flexicurity Models and Productivity Interference in C.E.E. Countries: A New Approach Based on Cluster and Spatial Analysis", [in]: *Economic Research-Ekonomska Istraživanja*, Vol. 31 (1), pp. 1111-1136. Available [online]: <https://doi.org/10.1080/1331677X.2018.1456356>

between outsiders and insiders⁴. Therefore, restrictive labor regulations might provide protection to insiders but certainly not to all workers. In addition to that, long-term unemployment and gaps between insiders and outsiders have negative economic and social effects.

Flexible labor market regulations represent an important part of the methodology of measuring economic freedom⁵. In Denmark, the labor market is regulated by various players in contrast to regulation by legislation⁶. Flexible rules for hiring and firing, together with activation policies, lead to high dynamism in the labor market in Denmark. Many Danes experience only a short period of unemployment, with an average duration of four months. Such a high level of activation, offered in forms of counseling, assessment, and job training, is essential to maintain search incentives and combat moral hazard⁷.

⁴ Van Vliet, O. and H. Nijboer (2012) "Flexicurity in the European Union: flexibility for Outsiders, Security for Insiders", [in]: *MPRA Paper*, No. 37012. Available [online]: https://mpra.ub.uni-muenchen.de/37012/1/MPRA_paper_37012.pdf

⁵ Hinšt, D. (2021) "The Methodology of Measuring the Economic Freedom and Policy Framework", [in]: *Acta Economica Et Turistica*, Vol. 7(1), pp. 41-60. Available [online]: <https://hrcak.srce.hr/257707>. The methodology of economic freedom of the Fraser Institute contains the following policy indicators associated with labor market regulation: (i) Hiring regulations and minimum wage (possibility of defining a fixed-term contract for permanent tasks, duration of a fixed-term contract, share of the minimum wage of a person employed for the first time in the average value added per worker); (ii) Hiring and firing regulations; (iii) Centralized collective bargaining (extent to which workers' wages are defined by collective agreements in relation to individual contracts); (iv) Hours regulation (restrictions on night and holiday work, number of working days per week and overtime work, duration of average paid annual leave); (v) Mandated cost of workers dismissal (the obligation to give prior notice of termination and payment of severance pay and the penalty for termination of the contract).

⁶ <https://lifeindenmark.borger.dk/working/work-rights/working-conditions/the-danish-labour-market-model>

⁷ <https://cepr.org/voxeu/columns/danish-flexicurity-model-great-recession>

While it may be easily perceived that flexible rules encourage easy firing practices that encourage massive and enduring unemployment, such rules also reduce risks of hiring new employees. High job turnover combined with strong activation measures shorten the periods of unemployment.

However, it is important to consider that the model has been built on a historical legacy of strong consensus and trust between key social partners – representatives of employers and labor unions.

SOCIAL TRUST AS THE BASIS OF ECONOMIC COMPETITIVENESS

Social trust can reduce transaction costs in the economy, associated with ensuring that a certain agreement is fulfilled. In the case of the Nordic countries, social trust has been associated with several cultural factors, such as the breakdown of social hierarchies, fair and well-functioning institutions, low levels of corruption, respect for laws and Protestantism⁸ i.e., Lutheranism that contributed to the Danish welfare state^{9,10}. In particular, the overlap between Danish confessional and national identity emphasizes homogeneity of Danish high-trust culture that became central for the Danish welfare state¹¹.

Denmark is the leading European country in terms of interpersonal trust¹², with the lowest corruption perception index globally¹³. Moreover, it tops the world competitiveness ranking with its government efficiency in delivering a competitive societal and institutional framework, business legislation, business efficiency, productivity, and management practices¹⁴. Denmark is also among ten countries with the highest index of economic freedom¹⁵. In that context, social trust improves economic efficiency, while low levels of trust in particularistic societies lead to reduced cooperation and increased corruption, which undermines trust in democratic institutions¹⁶. Therefore, higher social trust is usually paired with lower corruption.

Accordingly, if the levels of trust among social partners are low or absent, flexicurity can meet strong opposition. Also, the Danish case suggests that decentralized labor policies are beneficial for flexicurity since parties involved in collective agreement, local organizations, and individual employees and employers have been given more opportunities for tailor-made solutions¹⁷. Decentralization provides institutional flexibility toward the needs of employers trying to adjust to the

⁸ Nordic Council of Ministers (2017) Trust – The Nordic Gold. Available [online]: <http://www.diva-portal.org/smash/get/diva2:1095959/FULLTEXT02.pdf>

⁹ Gehrman, T. (2007) *The Danish of Flexicurity and Possible Lessons for America*. Available [online]: <https://core.ac.uk/download/pdf/30797663.pdf>

¹⁰ https://www.researchgate.net/publication/29062-8981-The_Lutheran_Nordic_welfare_states

¹¹ https://www.researchgate.net/publication/34756-6577-Trusting_in_God_and_His_Earthly_Masks_Exploring_the_Lutheran_Roots_of_Scandinavian_High-Trust_Culture

¹² <https://ourworldindata.org/trust>

¹³ Transparency International (2022) *The 2022 Corruption Perception Index*. Available [online]: <https://www.transparency.org/en/cpi/2022>

¹⁴ <https://www.imd.org/news/updates/denmark-tops-economic-competitiveness-ranking/>

¹⁵ Heritage Foundation (2022) *2022 Index of Economic Freedom*. Available [online]: <https://www.heritage.org/index/>

¹⁶ https://www.researchgate.net/publication/32932-5697-The_effect_of_anticorruption_policies_on_social_and_political_trust_a_comparative_approach

¹⁷ Wilthagen, T. and F.H. Tros (2004) "The Concept of Flexicurity: A New Approach to Regulating Employment and Labour Markets", [in]: *Transfer, European Review of Labour and Research*, Vol. 10(2). Available [online]: <https://ssrn.com/abstract=1133932>

global economy¹⁸. Therefore, the model functions without a strong and centralized government interference, under the assumption that society is able to agree about working relations without corruption.

RECIPROCAL RECOGNITION AND INTEGRATED APPROACH

In line with the agreement based on trust, trade unions in Denmark recognize employers' right to manage work, while employers recognize the right of employees on collective representation. This reciprocal recognition is based on dialogue and cooperation¹⁹. Agreements are made by the employees and the companies, thus politicians are not in charge of them²⁰, nor can they regulate minimum wage. Instead, relatively high wages are set through regular negotiations between employers and unions. Around 67% of Danes are members of unions.

Employees who pay subscription fees to unemployment insurance fund can get a benefit up to two years after losing a job²¹. Compensation rate is 90% of previous earnings for lower-paid workers. Those who are not members of the unemployment insurance fund are entitled to a means-tested cash benefit, paid at

¹⁸ Campbell, J.L. and O. Pedersen (2007) "Institutional Competitiveness in the Global Economy: Denmark, the United States, and the Varieties of Capitalism", [in]: *Regulation & Governance*, Vol. 1, pp. 230–246. Available [online]: <https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1748-5991.2007.00012.x>

¹⁹ Andersen, S.K. and M. Mailand (2005) *The Danish Flexicurity Model: The Role of the Collective Bargaining System*. Available [online]: https://faos.ku.dk/english/pdf/publications/2005/The_Danish_Flexicurity_Model_0905.pdf

²⁰ <https://www.da.dk/en/politics-and-analysis/2020/the-danish-model---works-for-you/>

²¹ <https://denmark.dk/society-and-business/the-danish-labour-market>



THE DANISH CASE SUGGESTS THAT DECENTRALIZED LABOR POLICIES ARE BENEFICIAL FOR FLEXICURITY SINCE PARTIES INVOLVED IN COLLECTIVE AGREEMENT, LOCAL ORGANIZATIONS, AND INDIVIDUAL EMPLOYEES AND EMPLOYERS HAVE BEEN GIVEN MORE OPPORTUNITIES FOR TAILOR-MADE SOLUTIONS

a lower rate²². This means that employees have a choice. Income security based on sufficiently high unemployment benefits cannot be perceived as a free lunch

²² <https://www.star.dk/en/about-the-danish-agency-for-labour-market-and-recruitment/flexicurity/>

without obligations. In fact, this security perspective within flexicurity means that employees need to pay for their insurance first in order to expect a higher benefit.

Flexicurity represents an integrated approach combined with competitive gross labor costs based on minimum direct social security contribution of employers, without compromising employees' benefits and rights. In addition to that, Denmark has flat organizational structures with team orientation, where highly educated and independent employees have active roles in solving problems and innovation processes²³.

THE RASMUSSEN CONSENSUS

The model represents a happy compromise between flexibility and security. There is a lasting and broad political consensus that flexicurity works. Accordingly, flexicurity policies of the social democratic government led by Prime Minister Poul Nyrup Rasmussen were succeeded by liberal-conservative governments led by Prime Ministers Anders Fogh Rasmussen and Lars Løkke Rasmussen.²⁴ In particular, former PM Anders Fogh Rasmussen considers flexicurity as a key factor to why Denmark is one of the strongest European economies²⁵ and one of the happiest countries in the world²⁶.

²³ Ministry of Foreign Affairs of Denmark (2023) *Understanding the Flexible Danish Labour Market*. Available [online]: <https://investindk.com/our-services/danish-labour-market>

²⁴ Hinšt, D. (2006) *Flexicurity Is a Happy Compromise*. Available [online]: <https://www.cea-policy.hr/danski-model-fleksigurnosti-je-sretan-kompromis/> [in Croatian]

²⁵ <https://www.stm.dk/statsministeren/taler/speech-by-danish-prime-minister-anders-fogh-rasmussen-at-tokyo-institute-of-technology-on-november-22-2006-globalisation-the-danish-way/>

²⁶ Rasmussen, A.F. (2019) "I Led One of the Happiest Countries in the World. Here's What Other Democracies Could Learn from Our Model", [in]: *Time*. Available [online]: <https://time.com/5740400/denmark-happiness/>

FLEXICURITY INITIATED AT THE EU LEVEL

Inspired by Denmark, flexicurity as a concept was developed at the EU level in the second half of 2000s²⁷. In 2008, the Council of the European Union launched its "Mission for Flexicurity," concerning the implementation of common principles of flexicurity in relation to the Lisbon Strategy²⁸.

Similarly, the European Commission launched the initiative to promote flexicurity in member states²⁹. The 2010 EU Lisbon strategy and the 2020 Europe strategy³⁰ proposed flexicurity policies in the member states, as part of the policy agenda focused on improving competitiveness and increasing employment.

Liberalization of the labor market within the EU member states was found important, in combination with other crucial free market reforms, in order to see more competitiveness and increased employment³¹. Considering this purpose,

²⁷ Bekker, S. and M. Mailan (2018) "The European Flexicurity Concept and the Dutch and Danish Flexicurity Models: How have they managed the Great Recession?", [in]: *Social Policy & Administration*, Vol. 53(1), pp. 1-196. Available [online]: <https://onlinelibrary.wiley.com/doi/10.1111/spol.12441>

²⁸ Council of the European Union (2008) *Implementation of the Common Principles of Flexicurity within the Framework of the 2008-2010 Round of the Lisbon Strategy – Report by the 'Flexicurity' Mission*. Available [online]: <http://ec.europa.eu/social/BlobServlet?docId=1515&langId=en>

²⁹ European Commission (2008) *EU Reaches Out to Promote Flexicurity Approach in the Member States*. Available [online]: https://ec.europa.eu/commission/presscorner/detail/en/IP_08_758

³⁰ European Commission (2010) *Europe 2020 – A European Strategy for Smart, Sustainable and Inclusive Growth*. Available [online]: <https://ec.europa.eu/eu2020/pdf/COMPLETE%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>

³¹ <https://www.cea-policy.hr/flexicurity-policies-eu-rope-2020/>

flexicurity played a role in country-specific recommendations (CSRs) within the European Semester³² as one of the reforms that were initiated to foster a more competitive and productive European economy.

There are different policies and pathways for potential implementation of flexicurity in the EU member states. The first suggests reducing asymmetries by integrating non-standard contracts into labor law, collective agreements, life-long learning and social security. The second is focused on successful job-to-job transitions based on a strong human resource management, life-long learning, vocational training, and quick access to effective training funds. This can increase employment opportunities of persons on social benefits or persons working in the informal sector. Active labor market programs together with social security should offer incentives to return to work. Accordingly, increased conditionality of benefits could prevent long-term dependence on welfare. Furthermore, informal work can become regular by flexi-secure contracts and more financial resources can be raised for the social security system³³.

While the Nordic countries can serve as a benchmark for other countries, different forms and modalities of flexicurity need to

be considered from country to country³⁴. A multitude of pathways means that there is no easy solution for all member states, since they can already have different policies and results with regard to particular features associated with flexicurity and associated policies.

POLICY RISKS ASSOCIATED WITH FLEXICURITY

Flexicurity policies can also have a long-term perspective in other EU member states. However, flexicurity cannot simply be copied from Denmark to other countries since the model derives from the Nordic culture and its values of hard work, honesty, and a life-long learning approach. Such a culture minimizes cheating on high unemployment benefits and the so-called 'welfare trap' if an unemployed person may not be motivated enough to actively seek employment in the case that a benefit is too high³⁵. Such a trap discourages a person under a welfare entitlement to accept a new job, even a low paid one.

Therefore, flexicurity policies cannot be implemented without a change in civic attitudes. In continental and Mediterranean countries, unemployment benefits increase moral hazard. On the other hand, the people in the Nordic countries will hardly justify living benefits³⁶. In general, possible causes of this risk are

³² Bekker, S. (2018) "Flexicurity in the European Semester: Still a Relevant Policy Concept?", [in]: *Journal of European Public Policy*, Vol. 25 (2), pp. 175-192. Available [online]: <https://www.tandfonline.com/doi/full/10.1080/13501763.2017.1363272>

³³ Bekker, S. and T. Wilthagen (2008) "Europe's Pathways to Flexicurity: Lessons Presented from and to the Netherlands", [in]: M. Keune (2008) "Flexicurity: A Contested Concept at the core of the European Labour Market Debate", *Intereconomics*, Vol. 43(2), pp. 92-98. Available [online]: <https://www.econstor.eu/bitstream/10419/42007/1/562278605.pdf>

³⁴ Borghouts, I. W. C. M. (2012) "Employment Security for the Young Disabled – Policies and Practices in Europe", [in]: H. Lindberg and N. Karlson (eds.) *Labour Markets at a Crossroads: Causes of Change, Challenges and Need to Reform*, pp. 51-79, Cambridge: Cambridge Scholars Publishing. Available [online]: https://pure.uvt.nl/ws/portalfiles/portal/4022180/978_1_4438_3610_4_sample.pdf

³⁵ <https://www.cea-policy.hr/danish-flexicurity-model/>

³⁶ Algan, J. and P. Cahuc (2006) "Civic Attitudes and the Design of Labor Market Institutions: Which Countries Can Implement the Danish Flexicurity Model?", [in]: *IZA DP No. 1928*, January. Available [online]: <https://docs.iza.org/dp1928.pdf>



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determined by different cultures and attitudes toward work.

Accordingly, a social policy within the flexicurity model should first tackle the policy risk associated with the welfare trap, especially since high welfare benefits can lead to higher fiscal costs. A proper liberal oriented solution would be to introduce a strict control of unemployment benefits in a way that any person who does not prove to be actively job searching and sufficient readiness for participating on voucher-funded trainings for market-

relevant skills would lose such a benefit. Without satisfying strict minimum requirements, a person would lose their welfare right and only a sufficient voucher-based child assistance would be allowed. Moreover, an increase of individual unemployment benefits for hard-working job seekers and the abolishment of benefits for people who are not sufficiently motivated to seek new jobs could result in the reduction of the overall amounts of fiscal costs associated with unemployment benefits.

However, there is a fiscal risk associated with active labor market policies that unemployed persons would be willing to participate in many trainings, without actively seeking new employment. Therefore, it would be necessary to control and limit the frequency of participation in potential voucher-funded trainings.

Mentality attached to welfare and lack of individual responsibility for hard work would decrease social trust in a system where benefits depend on strong conditionality. In such a case, employers would lose social trust since they would be required to pay more taxes to fund increased welfare and procrastination in seeking a job. Also, unemployed persons who are active job seekers could also lose social trust in those who would prefer to enjoy living on benefits and training programs for a longer time, while rejecting new job offers.

On the other hand, reducing regulatory requirements that protect the existing employees, for the sake of achieving a more flexible and less costly firing, could be risky in cultures with low social trust. In such cases, deregulation could be misused by some employers to fire employees based on prior mobbing and abuse. That way, deregulation of the labor market would not lead to a more cost-saving and

competitive business environment, but rather an abusive business culture – far from the Danish case.

Furthermore, flexibility based on increased temporary work contracts would deepen market segmentation, similarly to cases when strict regulations lead to those non-standard forms of work.

Considering these policy risks is important for a proper implementation of a flexicurity policy. While it would be easy to deregulate labor legislation and simply increase budgetary spending on unemployment benefits and training programs, this would not automatically mean implementation of this originally Danish model.

Moreover, when states directly or indirectly delegate their regulatory powers to corporative arrangements of certain organizations of employers and employees, there is a risk of corporative cartels that can affect labor demand and supply.

Furthermore, if policymakers would try to seek flexicurity as a *magic solution* for improving mere macroeconomic performance, there would be no need for flexicurity in many countries. In particular, there are many countries with sufficiently lower levels of unemployment and higher employment rates without having a comprehensive combination of flexicurity policies³⁷. Similarly, flexicurity should not be considered as an easy reason to expect higher annual rates of GDP growth. Expectations based on mere macroeconomic numbers would represent only a limited understanding of a complex policy and societal background behind this model.

³⁷ For example, the Czech Republic and Estonia.



WHILE THE NORDIC COUNTRIES CAN SERVE AS A BENCHMARK FOR OTHER COUNTRIES, DIFFERENT FORMS AND MODALITIES OF FLEXICURITY NEED TO BE CONSIDERED FROM COUNTRY TO COUNTRY

Finally, in line with the context of the New Public Management model, which contains public policies for market driven institutional reforms³⁸, flexicurity should be considered in the long run, in order to reach labor market adjustments.

APPLYING FLEXICURITY IN CEE COUNTRIES

Despite labor reforms, CEE countries still have generally strict employment protection legislation. On the other hand, these states have increased the role of active labor market policies and non-standard

³⁸ Hinšt, D. (2021) "New Public Management – Public Policy for Institutional Reforms", [in:] *Acta Economica Et Turistica*, Vol. 7(2), pp. 169-189. Available [online]: https://econpapers.repec.org/article/awdacectuv/3a7_3ay_3a2021_3ai_3a2_3ap_3a169-189.htm

forms of work, despite a small share of individuals in lifelong learning³⁹.

Flexicurity policies, which can be measured by low employment protection legislation (EPL), high unemployment benefits (UB), and high active labor market policies (ALMP), could be considered in CEE countries. Bulgaria, Slovakia, the Czech Republic, Slovenia, and Hungary generally have higher unemployment benefits. Estonia, Romania, and Bulgaria have the lowest shares of ALMP in GDP, and very low participation in education and training. Despite that, Estonia has the highest employment compared to these countries. While Slovakia, Hungary, Slovenia, and Poland have low risk of poverty, Bulgaria has high poverty levels, despite income security measures⁴⁰.

The Baltic States and Romania have the lowest shares of unemployment benefits in GDP, with high risks of poverty. Lithuania, Estonia, the Czech Republic, Poland, Slovenia, Slovakia, and Latvia have made significant efforts toward flexicurity in terms of employment protection flexibility and unemployment benefits. In particular, the Czech Republic and Slovenia stand out with high EPL and relatively high shares of UB and ALMP in GDP. On the other hand, Hungary has a low EPL, medium level of UB, and large ALMP compared to the other CEE countries. Thus, Hungary follows the 'golden triangle' of flexicurity, unlike Bulgaria and Romania, which have

low EPL, UB, and ALMP. However, Hungary is placed among the countries with low flexicurity due to the short duration of working life⁴¹.

CONCLUSIONS

The Danish Flexicurity Model works on the basis of a deeply embedded policy legacy. There is no reason to believe that the Danish labor market model could not become a part of a cross-border policy transfer to countries of Central and Eastern Europe.

However, without a comprehensive understanding of policy risks mentioned above, policymakers searching for low-hanging fruit and easy solutions could be disappointed with insufficient outcomes. Implementing flexicurity policies without the consideration of different societal contexts could be risky if representatives of employers and employees would not be able to build sufficient levels of social trust – at least similar to the Danish case.

Nevertheless, even if the implementation of a comprehensive flexicurity model is deficient, it is better to make slow progress than to do nothing, since the policy risks of the latter are much higher.

⁴¹ Ibid.

³⁹ Nikulin, D. and M. Gawrycka (2021) "Implementation of the Concept of Flexicurity in the Selected Countries of Central Eastern Europe", [in]: *Ekonomista*, Vol.1. Available [online]: https://archiwum.pte.pl/pliki/1/8905/Ekonomista_21-1_118-141.pdf

⁴⁰ Georgiana Noja, G. (2018) "Flexicurity Models and Productivity Interference in C.E.E. Countries: A New Approach Based on Cluster and Spatial Analysis", [in]: *Economic Research-Ekonomska Istraživanja*, Vol. 31(1), pp. 1111-1136. Available [online]: <https://doi.org/10.1080/1331677X.2018.1456356>



DANIEL
HINŠT

Vice President of Croatian free market think tank Centre for Public Policy and Economic Analysis. A graduate of Advanced Master of European Studies and Political Science at the University of Zagreb, where he specialized in Enterprise Risk Management (ERM)