

COMPARATIVE ANALYSIS OF EMPLOYMENT AND SELF-EMPLOYMENT IN NORTH MACEDONIA AND THE WESTERN BALKANS

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Abstract

Unemployment has reached historic lows in most Western Balkan countries, but remains higher than in EU countries. Unemployment continues to decline, with the region experiencing a significant decline in long-term unemployment from 1.5 million in 2011 to 776,000 people, or 10.5 percent of the labor force, in the second quarter of 2018. However, unemployment and self-employment remained significant a challenge in the Western Balkans, where levels were two to three times higher than in the respective EU countries.

The paper follows the trend of market development and market movements in the six Western Balkan countries, which includes Macedonia. The comparison is based on data on labor market indicators for South East Europe (SEE).

The purpose of this paper is to highlight the general situation data and provide guidance on how the labor markets in the Western Balkans have evolved over the past year, namely employment and self-employment, with a focus on the Macedonian labor market.

Keywords: labor market, employes, self-employment, Western Balkans, North Macedonia.

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1. Introduction

In terms of higher growth and overall improvements in the labor market, they have not translated into better labor market conditions for low-skilled workers. The job is primarily lost to low-educated workers (down 3.8%), while higher education has the highest share of new jobs. On average, jobs increased by 4.2 percent for highly educated workers and 1.2 percent for those with secondary education (primary and secondary).

The only exception is Macedonia where employment for people with low education has increased by 6 percent, while those with higher education have lost approximately 6,000 jobs (2.9%). This general trend suggests the need to prioritize policies that help integrate the low educated into the labor market. Youth unemployment has declined in all countries except Kosovo (4.2% to 54.9%) and Macedonia (0.5% to 47.6%) (<http://SEEJobsGateway.net>).

2. Literature review

The Keynesian economy focuses on the fact that unemployment is the result of an insufficiently effective demand for products and services in the economy. According to (Romer 1990: 64) economic growth led to internal sectoral economic changes. These changes lead to structural unemployment. Technological development changed the way of production by reducing the number of employees. While (Pissarides 1990) and (Postel Vinay, 1998: 1091-1115) state that technological development helped for the reduction of unemployment due to the effect of capitalism. (Zaglar, 2006: 53) analyzed the ratio between economic growth and unemployment in the United Kingdom in the period 1982-1999, and the results showed a strong and negative correlation between economic growth and unemployment. According to him, fast-moving economies will face structural unemployment for a short period. Unemployment can be minimized by effective planning and human capital improvement. Many economists analyze this ratio between economic growth and unemployment to make estimates from the Okun coefficient. In particular, Okun (1962) at the time of the Kenyanism referred to a stable ratio between the GDP growth and the change in the percentage of employment. The others on the list were Smith (1975), Gordon (1984), Knoester (1986), Kaufman (1988), Prachowny (1993), Weber (1995), Musa (1997a, 1999), Attfield и Silverstone (1998), Lee (2000), Harris dhe Silverstone (2001), Sogner и Stiassny (2002), and Silvapulle et al (2004).

In the domain of the labor market, the transition was prompted by two driving forces: ownership restructure and sectoral reallocation (Blanchard, 1997). As a result, the transition countries, in which the Republic of

Macedonia belongs, represent a heterogeneous group and differ according to the experiences, as well as the degree of success in the implementation of the transitional employment reforms (Svejnar, 2002: 3-28). The countries of Central Europe (CEE), the Baltic countries and Slovenia were most successful in overcoming the initial recession, achieving dynamics of their GDP and employment, which can stylizedly be represented in the form of the Latin letter U. For the success of the transition process in these countries, recently accompanied by Romania and Bulgaria, speaks of the fact that they are today full-fledged EU members. Contrary to this group of countries, the countries that originate from the former Soviet Union, and today constitute the Commonwealth of Independent States (CIS) and the countries of Southeast Europe (SEE), still face high and persistent unemployment as a consequence of their low institutional capacity which generates modest development opportunities (Boeri, 2000: 274). Among the above groups of countries, this paper will focus on the functioning of the labor markets in the SEE countries, of which Macedonia is an integral part. Unemployment at the start of the transition has reached high rates in almost all transition countries, and especially in SEE and as such is the only historical phenomenon that requires the need to be thoroughly explored (Tichit, 2006:351). This unemployment is still termed 'transition unemployment' because it is a result of the shock of systemic reforms and, as such, differs in many respects from other types of unemployment (Mickiewicz and Bell, 2000). General characteristics of transitional unemployment are: pronounced segmentation of the labor market, long duration of unemployment and low likelihood of exit from the status of unemployment (Cazes and Nesporova, 2003). Almost all transition countries, at the beginning of the transition process, have introduced passive labor market policies that, according to their 'broad-based', are similar to those encountered in the developed countries of the OECD (Riboud et al., 2002). However, this kind of 'natural experiment' has proved unsustainable and has forced governments to shorten the rights enjoyed by the unemployed quickly (Boeri, 2000; Vodopivec et al., 2003).

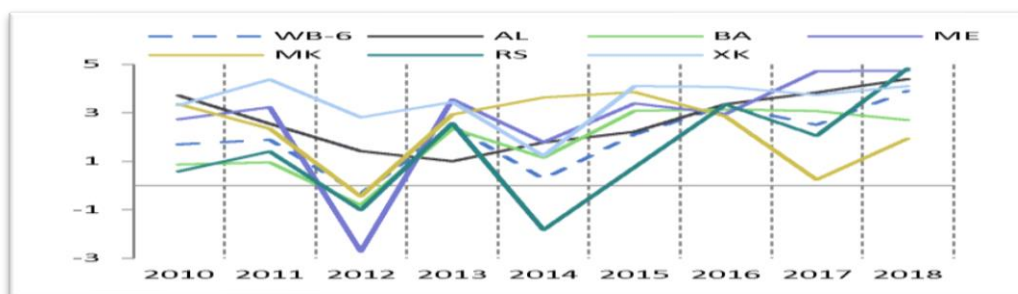
3. Development of the Macedonian labor market in relation to the Western Balkans

Market results vary across the Western Balkans, but there is considerable variation in the countries. Macedonia has shown the largest regional differences in employment and unemployment rates.

After a 2.5 percent increase in 2017, the total GDP growth of the Western Balkan countries rose to an estimated 3.9 percent in 2018 (Figure 1). Albania, Kosovo, Macedonia and Serbia, the largest economy in the region, saw higher levels of growth than the previous year. GDP growth remained

unchanged between 2017 and 2018 in Montenegro and decreased only in Bosnia and Herzegovina. As for the four peer countries, Austria and Hungary reported accelerating economic growth, while the opposite was true for Bulgaria and Croatia.

Figure 1: GDP growth, real change in % - Western Balkan countries



Source: SEE Jobs Gateway Database, based on data provided by national statistical offices and Eurostat and wiw Database.

Regional differences in employment rates were significant in Montenegro and Macedonia, and relatively low in Albania, Bosnia and Herzegovina and Serbia. Figure 2 shows the employment rates of the population aged 15 and over for the 22 NUTS-2 and NUTS-3 regions at the level (the latter refers to Macedonia).

In the second quarter of 2018, the highest regional employment rates in the Western Balkans were recorded in the Southeast region of Macedonia, where 58.8 per cent of the population aged 15 years and over were employed. Rates of over 50 percent have been reported in the eastern region and Pelagonia. The lowest employment rates, about one-third, were in the northeast and Polog regions of Macedonia. The differences in employment rates in the different regions were the largest in Macedonia (26 percentage points).

Macedonia also reported above-average employment growth (2.1 per cent), partly driven by government employment programs (EC, 2018), with job creation in construction, industry and tourism. In Bosnia and Herzegovina, which reported employment growth of 0.8 percent, industry and services were the main drivers, while agriculture's contribution to job creation was negative. In Serbia, employment grew by less than 1 percent and was primarily generated in industry, while employment in agriculture declined.

In Kosovo, which reported the highest employment growth in the region a year ago, employment fell by 4.5 percent; It declined in agriculture, industry and construction, but increased in the service sector, in particular trade, financial and insurance activities, information and communication

technology (ICT) and the public sector. Detailed information on the contributions of individual (sub-) sectors is given in Figure 3.

Figure 2: Activity rates (15-64) in %

Western Balkan countries

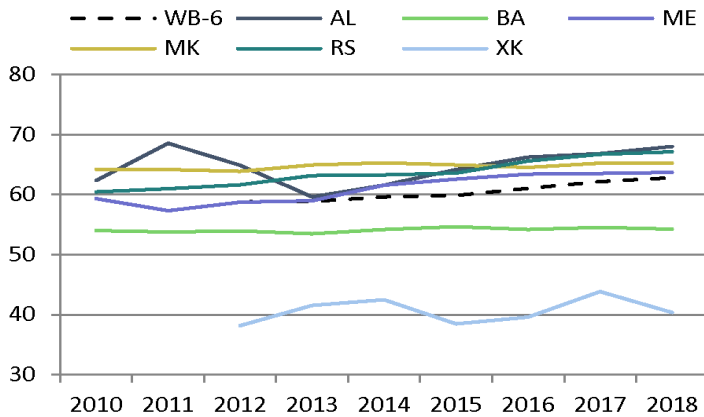
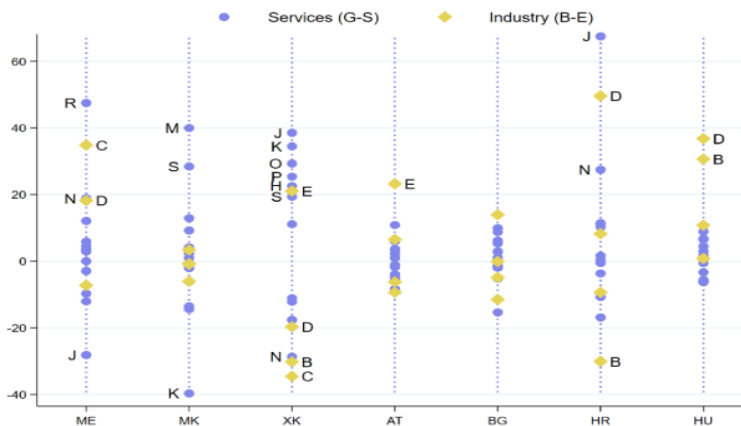


Figure 3: Activity rates (15-64) in %



Source: National Statistical Offices based on LFS of respective countries.

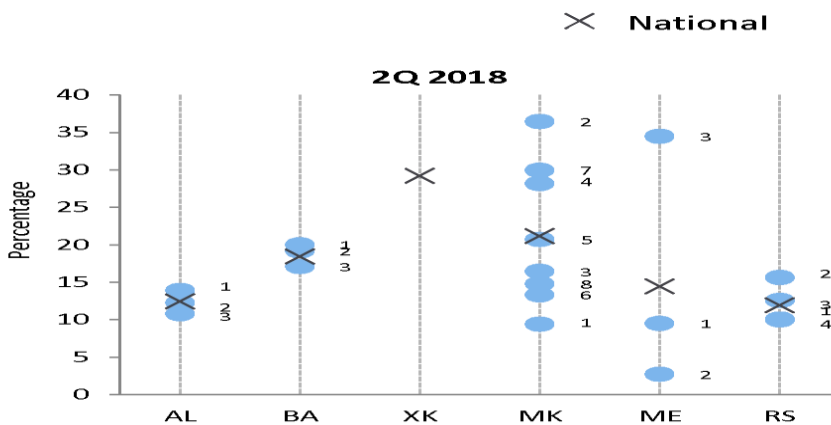
Employment rates have wide variations in regional unemployment, especially in Montenegro and Macedonia, while the differences are small in Albania and Bosnia and Herzegovina (Figure 4).

Unemployment rates varied widely across all regions of the Western Balkans in the second quarter of 2018, with the lowest rates recorded in Montenegro's

coastal region (2.7%), and highest in the Northeast Macedonia (36%) and the Northern Region. Montenegro (34.5%).

Of the 22 regions of the Western Balkans, 15 reported a fall in their unemployment rate in 2018, the most significant being in Bosnia and Herzegovina and the Vardar region of Macedonia (down 8.6 and 6% respectively). By contrast, unemployment continued to rise in South and Eastern Serbia and in the Southeast region of Macedonia.

Figure 4: employment rates, in %



Source: SEE Jobs Gateway Database, based on data provided by national statistical offices and Eurostat.

4. Employment in Macedonia

Macedonia reported employment growth of 2 percent in 2018, and females saw higher employee benefits than men (3 percent vs. 1.4 percent). Employment growth was supported - as part of GDP growth - through a government subsidy program. Jobs were created in a variety of activities, such as industry, construction, tourism and public services.

However, most of this increase is due to employment growth in the informal sector, which accounts for about 18 percent of total employment. Self-employment is the largest share of informal workers, while unpaid family work has declined.

Unemployment continued to fall in 2018, falling to a historic low of 21.1%. In contrast, youth unemployment rose slightly to 47 percent. Regional unemployment gaps were wide, ranging between 9.4% in the eastern region and 36.5% in the northeast region.

Tabela 1: Macedonia: Labor market indicator

	2010	2012	2013	2014	2015	2016	2017	2018 Q1	2018 Q2
Total									
Total population (1,000)	2,055	2,061	2,064	2,067	2,070	2,072	2,075	.	.
Working-age population aged 15+ (1,000)	1,649	1,670	1,672	1,673	1,677	1,679	1,680	1,682	1,683
Employment aged 15+ (1,000)	638	651	679	690	706	724	741	750	755
Employment rate (% population aged 15+)	38.7	39.0	40.6	41.2	42.1	43.1	44.1	44.6	44.9
Employment rate (% population aged 15-64)	43.5	44.0	46.0	46.9	47.8	49.1	50.5	50.9	51.3
Employment rate (% population aged 20-64)	48.1	48.2	50.3	51.3	51.9	53.3	54.8	55.1	55.7
Employment rate (% population aged 15-24)	15.4	15.5	16.2	15.2	17.3	16.2	17.5	17.5	17.0
Employment rate (% population aged 25-29)	47.8	45.7	45.9	48.2	47.3	49.6	51.5	54.3	53.8
Employment rate (% population aged 25-54)	55.8	55.8	57.9	59.3	59.4	61.2	62.7	63.3	63.4
Employment rate (% population aged 55-64)	34.2	35.4	37.9	38.6	40.1	40.7	41.4	40.6	43.0
Employment rate for low skilled 15-64 (ISCED 0-2)	26.6	25.7	28.4	29.9	28.9	27.3	28.4	27.9	28.8
Employment rate for medium skilled 15-64 (ISCED 3-4)	49.9	50.1	52.4	52.5	53.6	55.4	56.4	56.7	57.3
Employment rate for high skilled 15-64 (ISCED 5-8)	70.7	68.1	67.5	69.1	72.0	72.4	73.7	74.4	73.8
Self-employed (% of total employment)	13.1	13.6	14.5	14.0	13.9	13.2	12.9	12.2	14.3
Part-time employment (% of total employment)	5.9	6.4	4.6	5.9	4.4	5.0	4.2	3.6	3.8
Temporary employment (% of total employees)	16.5	13.7	14.0	15.4	12.6	13.6	14.0	13.5	16.1
Activity rate (% population aged 15+)	56.9	56.5	57.2	57.3	57.0	56.5	56.8	56.9	56.9
Activity rate (% population aged 15-64)	64.2	63.9	64.9	65.3	64.9	64.5	65.3	65.1	65.3
Activity rate (% population aged 15-24)	33.3	33.6	33.6	32.4	32.8	31.3	32.8	31.4	32.4
Activity rate (% population aged 25-54)	79.4	78.5	79.2	80.0	78.8	78.7	79.1	79.6	78.4
Activity rate (% population aged 55-64)	47.4	47.2	49.9	49.9	50.6	49.4	49.7	48.0	51.8
Unemployment aged 15+ (1,000)	300	293	277	269	249	225	214	207	202
Unemployment rate (% labor force 15+)	32.0	31.0	29.0	28.0	26.1	23.7	22.4	21.6	21.1
Youth unemployment rate (% labor force 15-24)	53.7	53.9	51.9	53.1	47.3	48.2	46.7	44.3	47.6
NEET rate (% population aged 15-24)	25.5	24.8	24.2	25.2	24.7	24.3	24.9	.	.
Long-term unemployment rate (% labor force 15+)	26.7	25.5	23.9	23.4	21.3	19.2	17.4	15.3	15.4
Share of long-term unemployed (% of total)	83.3	82.1	82.5	83.4	81.6	80.9	77.9	70.7	73.0
Unemployment rate, low educated 15+ (ISCED 0-2)	38.9	37.7	34.2	32.1	29.7	29.1	26.5	26.4	25.3
Unemployment rate, medium educated 15+ (ISCED 3-4)	32.1	31.4	28.7	28.3	26.6	23.7	22.6	21.5	20.9
Unemployment rate, high educated 15+ (ISCED 5-8)	21.8	22.4	23.5	22.5	21.1	19.4	18.7	18.2	18.3

Source: SEE Jobs Gateway Database, based on data provided by national statistical offices and Eurostat.

5. Self-employment in the region and in MACEDONIA

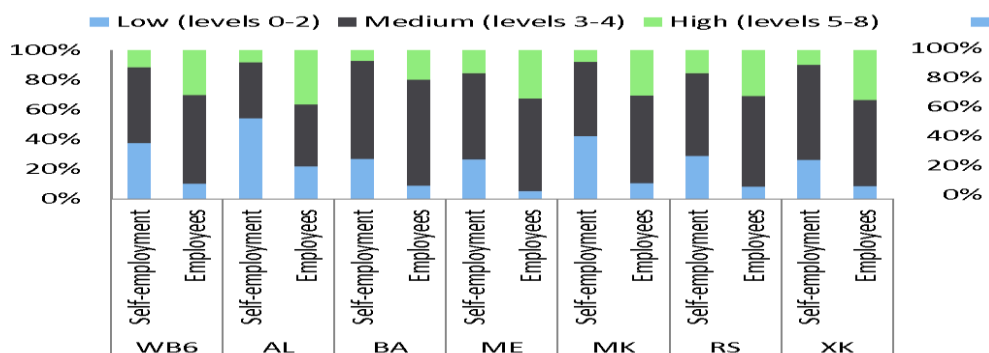
Self-employment across the region dropped by an average of 21.3 percent. As shown in Figure 5, changes in self-employment varied across the Western Balkans: declined most in Serbia, Kosovo and Bosnia and Herzegovina, and slightly increased in Montenegro and Macedonia. In 2018, self-employment was highest in Albania (34.2% of total employment), followed by Kosovo (21.2%), Serbia-Montenegro (about 19%).

In contrast, with about 14 and 16 percent of total employment, self-employment is the lowest in Macedonia and Bosnia and Herzegovina. Self-employment has not changed significantly in each other's countries between

2017 and 2018, with about 10% - about a third to half of the self-employment reported for the Western Balkans.

The incidence of self-employment is significantly higher for men than for women, in almost all countries. The difference in the share of self-employment between men and women is greatest in Albania and Montenegro, followed by Serbia and Macedonia. In contrast, the difference between men and women in the incidence of self-employment is lowest in Bosnia and Herzegovina and comparable to that of EU peers. On average, about half of the self-employed in the region have upper secondary education, while 40 percent have a low level and only 10 percent have a high level (Figure 5).

Figure 5: Self-employed education



Source: SEE Jobs Gateway Database, based on data provided by national statistical offices and Eurostat.

This is significantly different from employee education, with 10% having a low level of education and 30% having a tertiary education, while almost 60% have a secondary level of education (lower secondary to upper secondary).

Table: 2 Type of education of the self-employed

State	Education of the self-employed
Macedonia	1/3 highly educated people
Bosnia and Herzegovina	2/3 persons with secondary education
Montenegro	highly educated persons
Albania	persons with secondary education
Serbia	highly educated persons

In all countries in the region, except Albania, most of the self-employed have a secondary education level. In Bosnia and Herzegovina and Montenegro,

this group represented nearly two-thirds of the self-employed in the second quarter of 2018. In Albania, the majority of the self-employed have a low level of education. Montenegro and Serbia accounted for the largest share of highly educated people, with about 15 per cent. By contrast, nearly a third of employees had a high level of education in Montenegro, Macedonia, Serbia.

6. Analysis and findings

As a result of the slow development of the region's economy, countries have opted for various policy interventions to improve their labor markets. In an effort to improve the demand side of the labor market, Serbia (in 2014) and Bosnia and Herzegovina (in 2015) reformed their labor legislation to improve flexibility. Montenegro is currently preparing a similar reform. On the other hand, Albania has chosen another direction, amending the Labor Law in 2017 to expand workers' rights and to accommodate European integration requirements in the field of social policy and employment. Most recently, having made some improvements in the quantitative labor market and a more favorable macroeconomic situation, regional policy makers have begun to address the problems of backward wage supply, the decline of the working population (except in Kosovo and Albania) and increases.

The ammunition impulse is to raise the minimum wage, which after several years has been nominally stagnant and a real decline. In recent years, this policy has been applied most aggressively in Albania, Macedonia and Serbia, as shown in Table 2.

Table: 3 Gross minimum Wage in EUR

	2014	2015	2016	2017	2018
Albania	157	157	160	181	181
Federation BiH	280	280	311	311	311
Republika Srpska	295	295	295	317	337
North Macedonia	214	219	239	240	282
Kosovo	170	170	170	170	170
Montenegro	288	288	288	288	288
Serbia	235	235	235	253	285

Source: World Bank (2018), Eurostat and national statistics.

Reforming labor legislation, monetary gain for employers almost always means monetary (and non-monetary) losses for employees. In the long run, such reform can turn into a negative amount of play if it results in fewer

contests between employer and employee to withdraw members of the labor force from the official labor market or their emigration.

On the other hand, this analysis confirms the longstanding findings that the region's labor taxation system - and especially among high-wedge countries - is far from optimal. However, labor tax reform has inherent game benefits (positive play) for both employers and employees. This is not just a huge reform in negative earnings. It is quite clear that, in less restrictive terms, this should also apply to income-neutral tax reforms.

Changes in the structure of taxation, which are neutral income, can often have a greater impact on employment than a general tax cut that significantly reduces overall income tax. In bargaining and search models - which appear to be good proxies for regional labor markets - a more progressive labor tax shifts the wage setting (labor supply) right, with a large and positive impact on employment.

Conclusion

An efficient labor market that works well is an important part of the overall business environment. According to the Labor Market Performance Indicator (GIC), the labor market efficiency was assessed at 4.2, making Macedonia ranked 71th. Although there is some improvement, work efficiency needs to continue to improve. The ILO survey (2013) shows that firms generally consider that legislation on the labor market is relatively good, but certain aspects need to be significantly improved. As main areas, the ILO (2016) Enabling Environment for Sustainable Enterprises, where necessary improvements to the regulations state: termination of employment and dismissal of workers, days of annual leave, types of work contracts and employment. , for half of employers, the regulation on safety and protection at work presents a great financial burden. It is quite clear that the processes for advancing the legislation and its adjustment to the European legislation are positives ivni because improve standards and working conditions. But on the other hand, they represent a financial burden and time consuming large companies to respect the law.

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