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FACTORS AND CONDITIONS OF THE LABOR MARKET IN MACEDONIA AND THE REGION - CONDITION AND ANALYSES

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Abstract

Having in mind the specific economic and social development of Macedonia and the countries of the West Balkan, recognized by the condition of the market labor, the labor sustains the most important determinants of the economical dynamic and the trends in the employment and unemployment rates. The aim of this paper is to identify and evaluate the relative importance of certain determinants of the labor market's condition in the countries of the West Balkan, in order to define recommendations for concrete measurements of employment policies, that could contribute in better performances and higher efficiency in the market of labor. The accent is on the factors that could be improved with only the coordinated implementation of a summary of strategies that can simultaneously affect the economic growth and development, professional environment, association of the educational institutions with the market of labor and total implementation of active measurements aimed towards the unemployed population.

Key words: labor market, unemployment, West Balkan region, active employment measurements

1. Introduction

Businesses are satisfied with their business results, competitiveness of their products and trends in customers' demand in 2018. Majority of business subdges expect to hire new employees and further expand their business operations. However, there is less satisfaction with the overall economic situation, although hard macroeconomic indicators suggest that the South East Europe (SEE) economies reached its 10-year peak. Such contrast between business sentiments and economic indicators is likely caused by insufficient reforms in both business environment and regulatory framework, which are still perceived as unfavourable. Frequently cited problems, such as the sustainability of macroeconomic framework, functioning of tax administration, effectiveness of labour market, and consistency and predictability in the rule of law, are still perceived as the most binding constraints. In addition, businesses generally feel detached from business policy-making processes, suggesting that their governments lack commitment when it comes to listening, understanding and resolving businesses' main concerns. It should be noted that governments' effort on digitalisation of public services seemingly shows positive results, as businesses are increasingly satisfied with that process and find it very useful. The survey results confirmed the trend observed in the previous waves of Balkan whereby business executives are generally

more open towards regional and EU cooperation (67% and 64%), compared to the general public (65% and 56%), as they are seeking new market opportunities and demand for their goods and services.

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 (Vinay, P. 1999: 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), Atfield и Silverstone (1998), Lee (2000), Harris and 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 'broadbased', 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. The workforce market

3.1. Aims of the employment strategies in the European Union

In the EU, the policy of the labor market is defined for a long period of time, as part of the long-term strategies. Because of the insufficient fulfillment of the aims from the Lisbon Strategy, determined in 2000, in 2010 in Brussels, a strategy for a smart, sustainable and inclusive development was made, called "Europe 2020". The main goals of this strategy in the field of employment policy are (http://europa.eu/legislation_summaries/employment_and_social_policy/eu2020/em0040_en.htm):

- Increase of the participation rate of the workforce- the aim is to increase the employment rate of men and women between the ages of 20-64, up to 75% until 2020. In order to achieve this, the member-countries work on the stimulation of the increased participation of the youth, older workers, low-qualified workers and legal migrants. Also, the importance of the principles of flexibility and mobility of the labor is promoted within the national employment policies;
- Increase of knowledge and skills of the workforce-New skills that satisfy the needs of the labor market aiming to increase productivity and employment of the workers, are in the making. The operationalization of these measures is implemented through increase of the quality of formal education, and also promoting of the lifelong learning concept. It insists on opening programmes for worker training, with low and medium qualified people, and especially for support from social institutions and business activities;
- Improvement of the systems of education and training-including investing in improving of the quality of these systems, with adjustment of the teaching methods to socio-economic trends, aiming toward increasing the employment of individuals. It's expected that by 2020, rates of premature termination of education will be less than 10%, with at least 40% from people aged 30-34 years;
- Fighting social exclusion-this measure is aimed towards the most vulnerable population, with low financial status, that doesn't have of has a harder access to the labor market. Within the employment policy, specific policies of the labor market are defined through active and passive measures. In the EU countries, there is a special system of classification of the active and passive policies of the labor market.

3.2. The condition of the labor market in the West Balkan

In relation of the labor market, statistics recognize five essential notions:

Activity rate, employment rate, population capable of work, economically active population (workforce),

unemployment rate

- The population capable of work constitutes of all the people between 15 and 79 years of age.
- Economically active population or workforce, constitutes of all the employed and unemployed people in one national economy.
- The activity rate is a relationship between the economically active population (workforce) and the population capable of work.
- The employment rate represents a participation of the employed population in the population capable of work.
- The unemployment rate represents the participation of the unemployed population in the economically active population (workforce)

As contribution to these terms, the economic and sociological sciences also interpret the term *unemployment*, which, according to the International Labor organization (ILO), is defined as a condition in which a certain number of people don't have employment, want to work, have actively pursued employment in the past 4 weeks, and are immediately ready for employment. (http://ww2.prospects.ac.uk/cms/ShowPage/Home_page/Main_MenuNews_and_information/Graduate_Market_Trends/Definitions_of_International_Labour_Organisation_measures/p!edXbLa)

The condition of the labor market often is a reflection of wider tendencies associated with the dynamics of the economic growth and development, and also the changes in the economic structure. The unemployment rates, as indicator of the labor market, are affected by factors associated with the political state of the country, educational system and demographic factors. Therefore, the analyses of the condition and tendencies of the labor market is an important indication of the economic development of every country.

This paper makes comparative analyses of the labor market in the West Balkan and the EU. The West Balkan region's representatives are: Serbia, Bosnia and Herzegovina, Macedonia, Montenegro and Albania. The main goal of the paper is to establish the condition of the labor market, to identify the main determinants of the differences in values of key

indicators, and also form recommendations for improvement of the condition of this market.

The analyses cover the factors of labor supply of these countries, or the employment and unemployment, which are primarily associated with the problems in relation with the inconsistency of the work demand, which are mainly a result of an inadequate system.

Table 1: Employment and unemployment rates in the countries of the West Balkan and EU in the period of 2007-2017.

Godina	Albanija		BiH		Crna Gora		Makedonija		Srbija		EU	
	Employment	Unemployment	Employment	Unemployment	Employment	Unemployment	Employment	Unemployment	Employment	Unemployment	Employment	Unemployment
2007.	13,5	48,4	28,9	34,5	19,4	40,5	34,9	35,4	18,1	44,6	7,1	53,0
2008.	13,1	47,9	23,3	37,2	17,2	41,5	33,8	36,5	13,6	46,3	6,9	53,3
2009.	13,8	47,0	24,0	36,7	19,1	40,3	32,2	37,6	16,1	43,7	8,9	52,2
2010.	14,2	46,6	27,2	35,1	19,7	39,7	32,0	37,8	19,2	41,1	9,5	51,8
2011.	13,9	47,9	27,6	34,7	19,7	39,4	31,4	38,1	22,9	39,2	9,6	51,7
2012.	13,4	49,7	28,1	34,3	19,7	39,7	31,0	38,0	24,0	38,9	10,4	51,4
2013.	15,6	45,3	27,5	34,3	19,5	39,7	29,0	39,6	22,2	40,6	10,8	51,2
2014.	17,5	44,9	27,5	34,0	18,0	40,2	28,0	40,2	19,2	42,4	10,2	51,6
2015.	17,1	46,8	27,7	33,8	17,5	40,3	26,1	41,0	17,9	42,7	9,4	52,0
2016.	15,2	47,7	25,1	35,1	17,7	40,1	23,7	41,9	15,3	44,6	8,5	53,0
2017.	13,9	48,3	25,6	34,7	16,1	40,6	22,4	42,7	14,1	46,3	7,6	53,3

Source: World Bank Database, 2018

There's a tendency of minor increase of the employment rate in all mentioned countries, except the data for the EU, which have the highest rates.

From the West Balkan countries, Albania and Serbia have the highest employment rates, and Bosnia and Montenegro have the lowest.

Albania has a higher unemployment rate in 2017, compared to 2007, and has the lowest unemployment rate compared to all countries from the West Balkan.

Macedonia, Bosnia and Herzegovina have the highest unemployment rates from 2007-2017.

As expected, the average unemployment rate in the EU is drastically lower than the one in the West Balkan region.

Because the dynamic of economic growth is an important factor in the unemployment rate and its changes, we're going to include the rates of economic growth in the countries of West Balkan and EU.

In relation to this, BDP in the West Balkan region has decreased for more than 6 percent points, or from the growth rate in average of 5.3% to -1.5% in 2009. A similar situation was noticed in 2012, in a somewhat smaller measure. From the data in table 1 it's obvious that the rates of economic growth is in correlation with the rate of employment, i.e unemployment is associated with the decrease of economic growth, and vice versa in almost all of the noted countries.

It is estimated that the coefficient of elasticity of the employment rate compared to the growth rate of BDP was around 0.4, which means that every increase, or decrease of the rate of economic growth by 1% was accompanied with increase, or decrease of employment by 0.4 (Western Balkans Labor Market Trends, 2017: 21).

A notable characteristic of the labor market in the West Balkan, is the presence of non-formal employment, which in the most part is a result of inadequate and insufficient employment, or laws that regulate this area. Informal employment is very high in vulnerable groups, especially with young people, women and the elderly (Oruč & Bartlett, 2018:13).

3.2.1. Competitiveness as an aspect of West Balkan economies

One of the reasons for the unfavorable tendencies of the labor market is associated with the general level of uncompetitiveness of the West Balkan economies. According to the global report of competitiveness, the level in these countries is relatively low. Between the twelve observed pillars of competitiveness, we identify three that are more related to the condition of the labor market, and on which the classification of the West Balkan countries is based, from the period from 2017-18.

Table 2: Classification of the West Balkan and EU-11 from chosen competitiveness pillars

	Albania	BiH	Macedonia	Montenegro	Serbia	West Balkan	EU
High education and training	49	91	76	61	59	67	45
Efficiency of the labor market	91	123	95	74	92	95	67
Technological preparedness	78	69	61	48	72	66	38

Source: Global Competitiveness Report 2017-18, World Economic Forum, Geneva

Therefore, the countries of the West Balkan are ranged much higher than the average rang-list of the eleven most highly developed countries in the EU. The most notable difference is in relation of the parameters of macroeconomical environment, which can be related to transitional processes and instability present in the region of West Balkan. Also, the countries of this region are characterized with insufficient efficiency of the labor market, which is mostly dominant in the case of Bosnia and Herzegovina, and also the underdevelopment and inadequacy of the institutions, which, among other things, should regulate the function of the labor market.

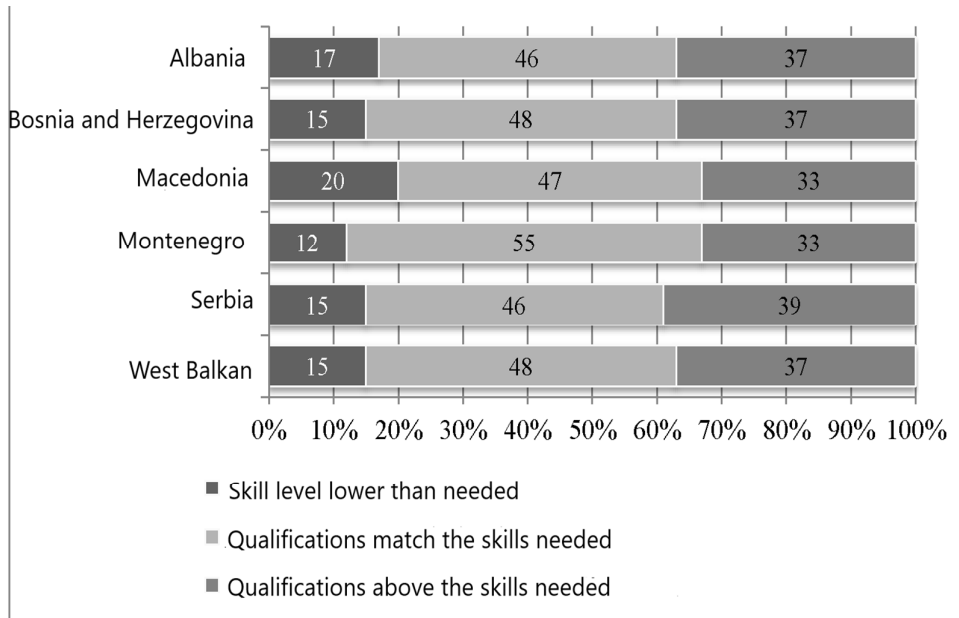
Tightly associated with the level of competitiveness of the countries in the West Balkan, especially according to the pillars of 'Higher education and training', and 'Techological preparedness', is the perception of the employers for the quality of the people that pursue employment and their qualifications and skills.

A higher level of harmony between the skills needed for the available employment, and the ones owned by the aplicants, facilitates their association, which on the labor market level has a positive effect on the increase of the employment rate.

Anyhow, the situation in the West Balkan countries is not on an envious level in this view, because the employers face serious problems while seeking employees with the needed level of skills.

The longterm unemployment results in losing the existent knowledge and skills, which additionally complicates every employment. As an addition to this, is the low preparedness of the employers to invest in workplace training, and the programmes for association of the institutions of higher education in professional practice (Bartlett & Arandarenko, 2012: 3).

Chart 1: Vertical inconsistency of the graduated students in the countries of West Balkan (in %)



Source: Bartlet, Uvalić, 2016: 53.

As we can see on picture 3, the situation is similar in all west Balkan countries, with the exception of Montenegro, that has a slightly more favourable situation, because 55% of the youth has the levels of qualification adequate to the needed skills for a certain workplace. The vertical consistency of needed qualifications and education is reflected in terms of salaries, productivity, employment satisfaction and if the work is not consistent with the qualifications, there is a big possibility of leaving the place of employment or labor market (Marjanovikj, 2018: 94).

In doing so, we should have in mind that transformation is more often discussed if the situation is observed from the point of view of people that pursue employment, while most employers estimate that the qualifications of the workforce are below the ones needed.

3.3. Market of workforce in Macedonia-condition and dynamics

The condition of distribution of workforce, chronologically from 2008 to 2017, is noted in the following table:

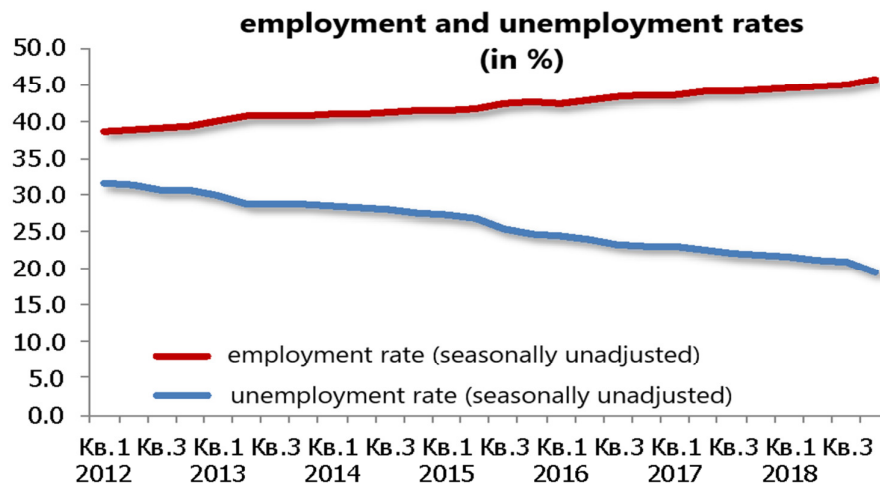
Table 3: Overview of distribution of workforce from 2008 to 2017

T 3: Labour force and activity rates ¹⁾							
	Total working age population	Labour force			Activity rate	Employment rate	Unemployment rate
		Total	Employed	Unemployed			
2008	1 633 341	919 424	609 015	310 409	56,3	37,3	33,8
2009	1 642 360	921 543	622 720	298 814	56,1	38,4	32,4
2010	1 652 026	954 928	659 557	295 371	57,8	39,9	16,6
2011	1 656 215	940 048	645 085	294 962	56,8	38,9	31,4
2012	1 669 965	943 055	650 554	292 502	56,5	39,0	31,0
2013	1 672 460	956 057	678 838	227 219	57,2	40,6	29,0
2014	1 676 198	958 998	690 188	268 809	57,3	41,2	28,0
2015	1 676 400	938 599	723 550	225 049	57,0	42,1	26,1
2016	1 678 890	948 559	723 550	225 049	56,5	43,1	23,7
2017	1 679 935	954 212	582 773	371 439	56,8	44,1	22,4

¹⁾ Because of calculations of the sample and rounding up calculated results to one number, sometimes deviations are possible in the total of the results that are obtained by summing up individual items.

According to the data of the State Statistical Office, in the IV quarter of 2019, the labour force in the Republic of North Macedonia numbered 968 604 persons, of which 807 362 were employed, while 161 242 were unemployed persons. The activity rate in this period was 57.5, the employment rate was 47.9, while the unemployment rate was 16.6.

Chart 2: Graphic presentation of employment and unemployment rates



Source: National Institute of Statistics

The indicators of the labor market in the fourth quarter of 2018, show further increase in the number of employed people, which is more expressed compared to the increase in the previous quarter. At the same time, the unemployment rate is down to 19.4%, which is a new historical minimum. The surveys of

business tendencies generally indicate a raised optimism in terms of employment in the next trimester. On the side of the offer, the annual increase of active population, which started in the last quarter of 2016, still continues. In terms of indicators of competitiveness, despite minor positive movements on annual level in the productivity of the labor in the last three quarters, the expenses for labor per unit of product still mark a growth. (Quarterly report of national bank, 2019:18).

Table 4: Employment state in the population in 2018 and 2019 regarding rate of activity and gender

T-4: Labour force and activity rates ¹⁾							
	Total working age population	Labour force			Activity rate	Employment rate	Unemployment rate
		Total	Employed	Unemployed			
2018	1 682 702	957 623	759 054	198 569	56,9	45,1	20,7
2018/IV	1 683 148	957 609	771 806	185 803	56,9	45,9	19,4
2019/III	1 685 351	964 248	799 546	164 702	57,2	47,4	17,1
2019/IV	1 685 436	968 604	807 362	161 242	57,5	47,9	16,6

¹⁾ Because of calculations of the sample and rounding up calculated results to one number, sometimes deviations are possible in the total of the results that are obtained by summing up individual items.

Source: http://www.stat.gov.mk/pdf/2020/2.1.20.04_mk.pdf

The data from the researches of the institute of statistics show that the activity rates of the population (economically active population aged between 15 and 64) in the period from 2018 to 2019 are relatively stable and are somewhere around 56,9%. During the quarter analyses in 2019, a mild increase in average by 0.3 percent points is observed (p.p), which results in a value of 57.5% in 2019 (Table 1).

Viewed by periods, from the fourth trimester of 2018, to the fourth trimester of 2019, the unemployment is lowered by 24 561 people.

The analyses show that the total active population in the fourth quarter is increased by 0.4%, on annual level, while the activity rate was 56.9%.

The number of unemployed people in the fourth quarter decreased by 10,9% on annual level, while the unemployment rate is on a level of 19.4% (annual and quarterly decrease by 2.5 pp, and 1,4 p.p respectively).

Viewed by structure and gender, from the fourth trimester of 2018, to the fourth trimester of 2019, the unemployment is decreased in men by 21 560, and in women by 3 001. (table 5).

Table 5: Change of the employment state in population for the fourth trimester of 2018 and 2019 (economical activity and gender).

T 5: Population aged 15 years and over by economic activity and gender				
	IV quarter 2018	IV quarter 2019		IV 2019
	persons	persons	structure by gender	IV 2018
Labour force				
Total	957 609	968 604	100.0	101,1
Men	582 800	573 454	59,2	98,4
Women	374 809	395 150	40,8	105,4
Employed				
Total	771 806	807 362	100.0	104,6
Men	467 083	479 296	59,4	102,6
Women	304 723	328 066	40,6	107,7
Unemployed				
Total	185 803	161 242	100.0	86,8
Men	115 717	94 157	58,4	81,4
Women	70 086	67 085	41,6	95,7
Inactive population				
Total	725 539	716 832	100.0	98,8
Men	259 642	270 236	37,7	104,1
Women	465 898	446 597	62,3	95,9

Source: http://www.stat.gov.mk/pdf/2020/2.1.20.04_mk.pdf

4. Recommendations:

The limitations, which the economies of the countries of West Balkan face, result in an unfavourable condition of the labor market in a form of insufficient investments, the accompanied positive effects on the economy, and labor market could be realised.

These investments usually mean new technologies which would promote the level of technological development of economies. Still, in order for this tendencies to be expressed positively on the labor market, they should be accompanied by measures aimed towards raising the levels of knowledge and skills of the educated staff, sustainable economic growth and development, political and economic instability, and also negative demographic trends, aging and emigration of the population.

Because the situation of the labor market is affected by the macroeconomic performances, we need to strengthen the bases of a sustainable and stable economic growth.

The reforms should be in the direction of improving of the work of domestic and foreign economic subjects, simplified procedures for starting new businesses, promoting entrepreneurships, preferential tax politics, etc. Especially significant, is the possibility of targeting these policies by targeting the vulnerable groups, such as youth, women and children with special needs. This way, these groups can be encouraged to include themselves in the labor market. Also, these measures assist the creation of larger possibilities of

employment and entrepreneurship.

On the other hand, the challenge of the insufficient number of qualified employees according to the needs of the labor market, under conditions in which there are insufficient employment offers with adequate skills, is one of the obstacles in the growth of the employment rate. This reflects in a limited labor market for the employers (offer), which leads to slower increase of the employment rate, and increased demand for innovative ways for increased adequacy and productivity of the workforce. For the policy creators, this means less new workplaces in the economy, macroeconomic challenges and failure to accomplish the strategic goals. Still, we should have in mind that the implementation of these measures has to be coordinated with the policies aimed towards increasing the work demand, in order to avoid the risk of increased structural unemployment.

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