

Employment and Labour -Market Policy in South Eastern Europe

Authors

Alfred Pfaller, Verica Janeska, Salih Fočo,
Mihail Arandarenko, Božidar Šišević, Kosta Barjaba,
Predrag Bejaković, Borut Rončević,
Vladimir Bojadziev, Julien Oneasca

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Preface

The countries of the South-Eastern-Europe are facing the enormous challenge of transforming their economies and political systems while at the same time preparing for the integration into the European Union. Furthermore, tensions and conflicts of different origin and dimension have created additional burdens for some of the transforming economies and young democracies, and for the cooperation between the countries in the region.

Democracy, development and stability in the Balkans require joint efforts of the governments and the societies in the region on one hand and of the international community on the other in order to overcome the deficiencies which accompany the difficult and painful process for many countries from the past to the future.

For some time now, the strategies and programmes of the governments and the international agencies have emphasized on the creation of adequate conditions for economic growth and juridical and institutional modernization. Recently, the social dimension of transformation has caught increased attention and is being put more on the top of the political agenda, not least by the people themselves through their votes in the ballot boxes.

There are at least four aspects which are increasingly giving reason for concern:

- Prolonged periods and increased levels of poverty and unemployment, social exclusion and misery of significant parts of the societies;
- Increased frustration in the societies about the poor results of the transformation process vis-à-vis their expectations, and the possible impact this might have on political stability;
- Continuing tensions and conflicts between different ethnic groups, which find fertile grounds in underlying social and economic disparities in the societies;
- Decreasing and insufficient investment in social and human capital, which is of major importance for the overall economic and political objectives of sustainable development.

Strategies and programmes for the protection and the creation of employment are being considered as a crucial policy objective in most of the countries in the region. However, the resources and the instruments are often inadequate, insufficient, or just not available. In addition, the inter-relationship between different policy-sectors with their respective objectives, and between different economic and social actors and their interests are to be taken into consideration. And, not at least, conflicting objectives between national players and international actors may impact negatively on the employment situation in the countries.

This document is the second publication on the social security and employment situation in South-Eastern-Europe which is being published by the Friedrich Ebert Stiftung, with special emphasis on the labour market and employment situation and policies. It offers an insight in the actual situation in nine countries of the region, analyzes the experiences with different policies, and presents the major challenges; and it puts the issue of employment and labour

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market in the context of transformation and modernization, and the harmonization with the European Union.¹

The publication is part of a wider and ongoing project of the Friedrich Ebert Stiftung² on social security and employment in South-East-Europe. This project proposes to

- identify and to analyze the major problems and challenges in the area of social and employment policies in the countries of the region;
- implement a program of consultation and formation in crucial social policy areas, based on the experiences of the region;
- elaborate concepts and strategies of human resource development and promote new policy approaches for the region and international debates.

This project emerged out of the experience and the day to day activities of the Foundation and its partners in all countries of the region, and our common concern for the democratic development and stability in South-East-Europe. It is not a coincidence that the Friedrich Ebert Foundation, which has its roots in the traditions, the values and the visions of social democracy, puts the concern for a more balanced development in the relation between social security and economic policies, and the commitment for the poor and underprivileged people in the centre of its attention and its activities.

The publication hopefully contributes to a better understanding of the region and to the search for more adequate employment and labour market policies. The project of the Foundation will continue this effort, and all readers of the book are invited to participate in the ongoing activities. The cooperation of the experts from within the region and with those from outside the region, the sharing of good (and bad) experiences of specific policies and the debate with decision and opinion makers will be a necessary and important contribution towards the mentioned objectives.

Many have contributed to this project and to this publication who merit the thanks of the Foundation; however, it would not be wise to single out anybody. Thanks have to be given to the authors of this publication, to those involved in the editing and preparing of the publication, to the participants of the debates in the workshops and conferences which accompanied the project, and to the colleagues in the offices of the Foundation. Without your ongoing commitment and participation in the project this publication would not have been possible. Thanks also to the German Government which financially supported the publication within its contribution to the Stability Pact for South-East-Europe.

¹ The country studies were realised by the end of 2002.

² The Friedrich-Ebert-Stiftung is the oldest of the so-called political foundations in Germany. The Foundation supports democratic development and international cooperation through research, public debates, training and consultancies in about 100 countries all over the world. It was founded in 1925 as a political legacy of Germany's first democratically elected president, Friedrich Ebert: The Friedrich-Ebert-Stiftung is a political non-profit making, public-interest institution committed to the principles and basic values of social democracy.

Further information can be obtained via internet through <http://www-fes.gmd.de>. Further copies can be requested by e-mail to fes.bgd@fes.org.yu

Contents

Employment and Labour-market Policy in Transition Countries: Concepts, Framework Conditions and Areas of Intervention

<i>Irina Kausch</i>	2
Albania <i>Kosta Barjaba</i>	36
Bosnia and Herzegovina <i>Salih Fočo</i>	52
Bulgaria <i>Vladimir Bojadziev</i>	60
Croatia <i>Predrag Bejaković</i>	84
Macedonia, <i>Verica Janeska</i>	106
Montenegro, <i>Božidar Šišević</i>	126
Romania <i>Iulien Oneasca</i>	144
Serbia <i>Mihail Arandarenko</i>	159
Slovenia <i>Borut Rončević</i>	178

Contributions to the International Conference: Employment as Factor of Stability and Development in South-East-Europe

Preliminary remarks <i>Michael Weichert</i>	202
Social partnership in the field of employment policy: Position of CITUB <i>Jeljazo Hristov</i>	203
Participatory policy process in Southeast Europe <i>Borut Rončević</i>	205
More active labour market measures – Panacea or folly? <i>Reinald Neubauer</i>	212
Employment policy in South Eastern Europe: Resetting the priorities <i>Alfred Pfaller</i>	217
Combating long-term unemployment and poverty <i>Predrag Bejaković</i>	225
Findings and recommendations <i>Irina Kausch & Alfred Pfaller</i>	231

Employment and Labour-market Policy in Transition Countries: Concepts, Framework Conditions and Areas of Intervention

Dr. Irina Kausch
Consultant

1	Conceptual groundwork	3
1.1	Forms and causes of unemployment and underemployment	3
1.2	Characteristics of labour markets in transition countries	6
1.3	Aims of and approaches to employment and labour-market policy	7
2	Employment policy: framework conditions and areas of intervention	12
2.1	Political and institutional framework conditions	13
2.2	Macroeconomic framework conditions and areas of intervention	17
3	Labour-market policy: framework conditions and areas of intervention	21
3.1	Institutional framework conditions and requirements	21
3.2	Areas of labour-market policy intervention	28
4	The importance of a coordinated approach for an employment-oriented policy	31

1 Conceptual groundwork

Unemployment and underemployment is a severe problem worldwide and one of the main causes of individual poverty. Due to their low and irregular incomes as well as to insufficient formal and informal social security systems, unemployed and underemployed persons and their families are as a rule among the poor or poorest groups of a country's population. The **problem of poverty and employment** thus poses one of the central challenges to the governments of many countries, one that also plays a key role in securing the social peace.

The present paper¹ centres for one thing on the institutional and macroeconomic framework conditions for employment and labour-market policy and for another on the connection between economic growth, policy-related economic interventions, and a given country's employment development. The paper does not focus explicitly on microeconomic issues such as promotion of employment at the enterprise level or sectoral policies in industry, agriculture, education/training, and health. While these issues are determinants of the labour-market and employment picture in the countries under certainly important consideration, they would have gone beyond the scope of the present paper.

According to ILO estimates, at the end of 2000 some 160 million people were affected by **unemployment** throughout the world. For the same period the World Bank assumes a figure of some one billion **poor people** worldwide who are forced to live on less than one US dollar per day. This indicates that the army of the **underemployed**, in particular in developing countries and in countries in transition, is far larger than the estimated number of unemployed persons and that underemployment is therefore the greater problem.² On the surface, it is possible to point to an imbalance between supply and demand in the labour market as the cause of unemployment. The fact that the needs of suppliers and demanders in the labour market cannot be brought wholly into alignment for all market participants is in turn the result of complex chains of cause and effect. These chains and their impacts assume different forms depending on the economic, political, and social framework in place in individual countries. Worldwide, the manifestations of unemployment and underemployment and the social effects to which they give rise are correspondingly diverse.

1.1 Forms and causes of unemployment and underemployment

The terms *unemployment* and *underemployment* refer to a lack of productive and appropriate work, and this in turn translates out concretely into a situation marked by insufficient income at the household level.³ The following aspects of employment play a role here:

¹ The analyses and findings of this paper are based on a broader study on employment and labour market policy in developing and transition countries, which includes numerous country and project analyses. See for more detailed information: Kausch&Trommershäuser (2002), *Strategies for Employment*; and, www.gtz.de/exnet

² Nevertheless, what follows mostly uses the term unemployment, it being the generally more current term.

³ It must, however, be noted here that, due to wage distortions, e.g. in subsidized state-owned enterprises, even unproductive labour can yield decent incomes.

- The term *unemployment* first of all designates a lack of jobs or work. A shortage of work may also be at the bottom of underemployment: despite their wish for full-time jobs some persons are unable to find employment for more than a few hours per day (ILO 1998: 9). This purely **quantitative dimension** of unemployment and underemployment is, however, not sufficient in itself since it fails to consider the quality of the employment that is in fact available.
- Including the terms *productive* and *appropriate* in a consideration of employment serves to emphasize that not any job per se can be seen as a success of labour-market and employment policy and that indeed the **quality of work, i.e. the working conditions**, is a significant factor here. The productivity of labour also influences both wage levels – and with them working conditions – and the sustainability of the employment. As a rule low-productivity work is bound up with lower incomes and, in a competitive environment, is also always in great danger of pricing itself out of the market. Consequently, only workers engaged in productive labour are, in the longer term, in a position to sustain their own livelihood and that of their dependent family members.
- Aside from the above-mentioned problem that many persons are unable to find full-time employment, underemployment is also understood as the situation in which workers are only able to earn a wage below their desired income levels or below the subsistence level (ILO 1998: 9). In contrast to the term *unemployment*, the term *underemployment* may thus be seen as addressing working conditions as one of the qualitative aspects of employment.
- Furthermore, the recent debate on development policy has increasingly focused on the **appropriateness** of employment (*decent work*). Appropriate jobs are jobs that are in line with the inclinations and abilities of workers, do not discriminate against workers or violate their dignity, and do not expose workers to undue risks (e.g. health risks).⁴

The longer unemployment and underemployment persist, the more pronounced are possible negative consequences (income losses, existence-threatening situations, health problems, loss of qualifications, social problems, etc.). The following section will focus first on more general definitions of unemployment bound up with seasonal, cyclical, and structural factors or due to low growth rates or labour-market segmentation.⁵ Furthermore, it explains what actually is being understood under transformation unemployment.

4 One of the ILO's future priorities is to promote decent work (Somavia 2000a); this comprises four strategic goals: (1) labour standards, (2) promotion of employment and income opportunities, (3) social security, and (4) social dialogue. These goals are closely interrelated and must therefore be approached together. Here the term *decent work* operates as an integrated development concept. The qualitative indicators needed to determine what is or is not decent work are set to be developed in the near future.

5 This means what follows is concerned only marginally with more or less short-term forms of unemployment. These include, among others, **frictional unemployment**. The reason for frictional unemployment is that it takes time to find a suitable applicant to fill a vacant job. This more short-term type of unemployment is for this reason also referred to **search unemployment**. There is also the phenomenon known as **natural unemployment**: in view of the imperfect nature of the labour market, a certain level of unemployment is seen as compatible with full employment, and it is assumed that there is thus no sufficient reason to take measures to counter it. One problematic aspect of this, however, is that natural unemployment is not a stable, exactly definable variable (Gabler 1990: 569). A point of contention here is *the level of unemployment at*

- **Seasonal unemployment** occurs at regular intervals due to fluctuations in output and demand in certain economic sectors (e.g. agriculture, construction, or tourism). It becomes a problem mainly when the job-holders affected cannot earn enough during the season to secure their livelihood for the rest of the year or when there is a shortage of complementary jobs in the off-season.
- **Cyclical unemployment** is a macroeconomic phenomenon caused by insufficient demand for goods and the recessionary trends this may entail. The reasons behind this may be domestic or trade-related. If it proves impossible to counteract an economic downturn, cyclical unemployment takes on the form of medium to longer-term unemployment.
- **Low-growth unemployment** refers to a situation in which economic growth is not sufficient to provide enough employment for all workers. There may be a variety of reasons for this: (1) a sharp increase in labour-force potential (**demographic unemployment**), (2) low or inadequate education/training levels on the part of the labour force, a factor which restricts a country's growth potential; (3) over-regulation of the labour market and labour costs so high as to constitute an obstacle to the creation of jobs (**classic unemployment**), though the latter is more a problem for industrial countries.
- **Structural unemployment**⁶ results from altered economic structures (e.g. obsolescence of branches of industry, reduction of the proportion of state-owned enterprises, development of the tertiary sector, etc.) that are not fully compensated for in the labour market. The reasons for this include above all deficits in training and experience and obstacles to mobility, but also a failure to create new jobs. This in particular illustrates the close interrelationship between low-growth unemployment and structural unemployment.
- Unemployment may result from labour-market segmentation, labour not being a homogeneous good. In fact, different worker qualification levels as well as individual worker skills and wage expectations on the one hand and employer requirement profiles and willingness to pay on the other hand may give rise to highly differentiated forms of employment and working conditions. These factors give the overall labour market a structure marked by different **labour-market segments**. Various types of employment and working conditions can be observed in all countries, though these differences tend to vary in intensity. They become a problem for the labour market if the boundaries between segments are, for objective or subjective reasons, insurmountable. This is referred to as segmentation or **barriers to mobility**. The basic reasons for this phenomenon are: lack of access to education/training or insufficient education/training, various forms of discrimination (gender-specific, ethnic) and/or social marginalization, inability to pay for higher levels of education/training or too few or inappropriate incentives designed to compensate for the opportunity costs of training/education. The higher the barriers to mobility, the more likely it is that supply and demand will develop differently in indi-

which further attempts to reduce joblessness will serve only to accelerate inflation. This is what is known as the "non-accelerating inflation rate of unemployment" (NAIRU).

6 Structural unemployment is often defined differently: the definition is then based on the structural features that characterize job-seekers (age, qualifications, etc.).

vidual segments. An oversupply of labour necessarily leads to a situation in which certain segments of the labour market are affected by persistent and long-term unemployment, underemployment, and precarious (or synonymously: inadequate) working conditions (Anker 1997).

- The term **transformation unemployment** has been introduced to identify more exactly the specific features of the unemployment encountered in countries in transition. It can be seen as a special form of structural unemployment that emerges in connection with transformation and is due to abrupt drops in output as well as to the profound upheaval of the overall economic and social structure in these countries.⁷ This form of unemployment therefore takes on far greater dimensions than, for example, structural unemployment in industrialized countries (Kausch et al. 1994: 16).

1.2 Characteristics of labour markets in transition countries

With their relatively high percentage of persons in dependent employment and the higher share that the industrial sector contributes to value-added, the labour markets in the **transition countries** in Central and Eastern Europe seem more to resemble the labour markets in industrialized countries (than in developing countries). At present, however, some shifts can be observed here. In some of these countries employment in the agricultural sector – much of which is self-employment – has taken on greater significance, serving as a social buffer against growing transformation unemployment. Since the onset of transformation the service sector has shown considerable growth in employment, though not sufficient to absorb the workers displaced from state-owned companies in industry and agriculture and from the civil service.⁸ The lack of job opportunities has led to a sharp rise in informal employment.

Furthermore, the labour markets in most transition countries tend to show increasing segmentation. Apart from the generally assumed duality of the labour market, which breaks down into urban and rural, modern and traditional, and formal and informal sectors, some transition countries demonstrate a far more extensive segmentation. This means a great number of largely independent sectoral labour markets or labour market segments, which are often also characterized by an accumulation of individual segmentation factors. The following section will outline two central manifestations of labour-market segmentation⁹.

Discrimination against women can lead to segmentation of the labour market along gender lines, which clearly disadvantages women, because they have access only to certain types of jobs, are more poorly paid, and are frequently burdened with household and family responsi-

bilities, a factor which negatively affects their long-term job perspectives.¹⁰ Apart from the classic economic reasons for gender disparities (such as limited access to education and qualification or lack of professional experience), gender theories stress cultural factors as the actual cause of segmentation: patriarchal social models, reinforced by religious standards, substantially limit the job opportunities open to women, restricting their activities to the socially sanctioned spheres of family and household. All these factors are increasingly encountered in transition countries as a result of the transformation over the last years.

Another central feature of the segmentation of labour markets consists in their breakdown into a formal sector and an **informal sector**. The (urban) informal sector includes in the main micro- and small enterprises and self-employed persons that rely on family members¹¹ and in some cases hire paid help; these companies and persons are mainly active in the service sector (street vendors, restaurants/snack bars, transportation, etc.) but also in manufacturing (ACTRAV 2000: 5ff.). Because of their precarious legal status and widespread corruption on the one hand and their lack of capital, low productivity, and the limited scope of their markets on the other, such enterprises are unable to mobilize the funds needed to formalize their economic activities.¹² On the one hand, companies in the formal sector have no demand for the great number of insufficiently qualified persons employed in the informal sector, and on the other hand such persons have little chance to remedy, on their own, their deficits in education/training. They are thus forced to make do with the mainly precarious income and job situations (low job security, high underemployment, no social insurance or worker safety provisions) typical of employment in companies in the informal sector (ILO 1972; Somovia 2000a: 18f.).

1.3 Aims of and approaches to employment and labour-market policy

The **objective** of employment and labour-market policy is to anchor in practice the provision of the Universal Declaration of Human Rights stating that “[e]veryone has the right to work, to free choice of employment, to just and favourable conditions of work and protection against unemployment.” (ILO 1964) The intention of this provision is to acknowledge that “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity” (ILO 1964).

7 The reasons for this must be sought on the one hand on the demand side, for instance in the collapse of sales markets, disrupted supplier relationships, and the introduction of rigid budget restrictions at the company level. There are also supply-side factors at work here, for instance insufficient or inadequate labour-force qualifications.

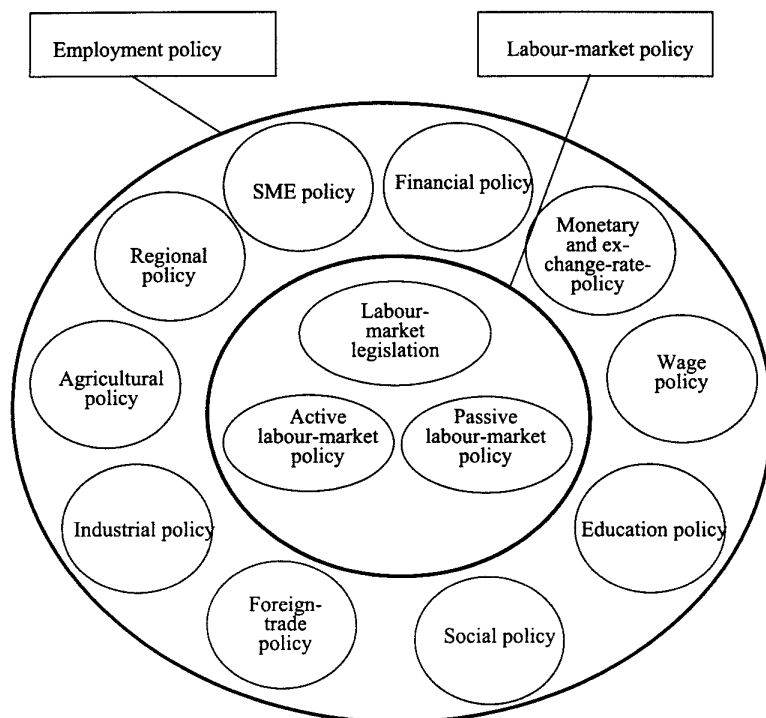
8 In addition, the skills of these displaced workers are often not in line with qualifications demanded in connection with newly created jobs.

9 See the previous section on other forms of segmentation.

10 This issue here is what is known as gender disparities: “Gender refers to the social differences between men and women that are learnt and change over time. These differences vary widely within and between cultures. Gender is a tool to examine the roles, responsibilities, constraints, opportunities and needs of men and women in any context. The term gender does not replace the term sex which refers exclusively to biological differences, for example, when statistical data are broken down by sex” (ILO 2000a; emphasis in original).

11 With an eye to their close links to the household sphere, these firms are often referred to as household enterprises (Charnes 1996).

12 In a number of countries these include on the one hand fees for registering a firm and on the other current costs such as taxes, social contributions, rents, etc.

Diagram: Employment and labour-market policy

In connection with the ongoing debate on the future of work and the changing nature of gainful employment, some countries (above all OECD members) have resolved no longer to anchor the right to work in their national legislation (this having proved to be an unrealistic objective), but instead to legislate a right to (re-)integration in the market. This means enabling unemployed persons to compete again for jobs on equal terms.

Viewed in ethical terms, work is an important step toward human self-realization. In individual economic terms, it is the income earned through employment that enables people to satisfy many needs, including their basic needs. In social terms, work thus provides an important contribution to attaining the goals of freedom and security. A high level of employment therefore has a system-stabilizing function and contributes at the macrolevel to increasing the supply of and the demand for goods, in this way playing a crucial role in improving overall economic welfare.

What follows is an attempt to outline the potential spectrum of employment- and labour-market-related measures and areas of intervention that can be used to reach this goal. It is perhaps best to start out here by discussing employment policy as a cross-sectoral policy field before then going concretely into labour-market policy as a special case of employment policy. Both of these policy fields have a regulative dimension as well as an operational dimension.

Employment policy includes all policy fields that directly or indirectly affect the employment of labour as a factor of production (see the diagram above). This means both aggregate employment (represented as volume of labour, number of persons employed, employment rates, or labour-force participation rates¹³) and the employment opportunities open to individual market participants.

The following policy fields will be highlighted:

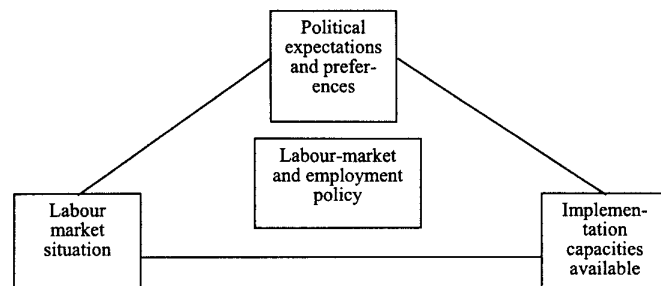
- financial policy (taxes, subsidies, public investment), monetary policy (interest rates, money supply) and exchange-rate policy, wage policy and foreign-trade policy, which are primarily regulative and macroeconomic spheres of economic policy (see Section 2.2);
- the sectoral policy spheres of education/training policy, social policy, trade policy, industrial policy, and agricultural policy, as well as regional policy and promotion policies for small and medium-size enterprises (SME policy).¹⁴

The outcomes of these policies define the framework conditions for national labour markets. They decisively influence the actual situation in these markets: their adaptability and efficiency and thus the climate needed to preserve jobs and/or create new employment. Depending on the problems involved in a country's labour market, the makeup of the **policy mix** best suited to address them may differ substantially. This policy mix is influenced by specific priorities in economic policy, the willingness to undertake reform, and the relative importance a given government attaches to employment. A further factor involves individual institutional capacities, including the political expectations and preferences of the governmental and non-governmental actors involved, which play a decisive role in the orientation, implementation, and the outcomes of employment policy.

The tension created in the interaction of the labour-market situation, policy, and implementation will be illustrated with the following diagram; it should be borne in mind in connection with the general propositions on employment and labour-market policy that follow as well in assessing country and/or project experiences.

¹³ See Section 3.1 on labour market information and statistics.

¹⁴ The following discussion will only touch on these policy fields.

Illustration: Evaluation of the results of employment and labour market policy

Since the above-mentioned areas of employment policy serve mainly other economic goals, a coordinated approach on the part of the actors involved is absolutely essential (see Chapter 4). This is meant to explicitly include **labour-market policy**, which is geared to improving the qualification (in the broadest sense¹⁵) of individuals. The aim of labour-market policy measures is thus to expand the options open to both individual actors in the labour market (employees, employers, self-employed persons) and potential market participants (unemployed persons) with a view to improving the performance of labour markets.

The desired changes can be achieved both in the framework of regulative labour-market policy and with the aid of instruments of operational policy:

- (1) Through **regulative labour market policy**, i.e. by defining a legal framework (e.g. collective bargaining legislation, dismissal protection, minimum-wage regulations, etc.), the legislative can exert considerable influence on individual economic decisions as well as on the employment contracts concluded in the market;
- (2) Using **operational labour-market policy**, political and administrative actors seek to influence the market outcomes resulting from the performance of employment contracts. Operational labour market policy contains both **active** and **passive** components. Payment of earnings-replacement benefits is intended to compensate individual unemployed persons for negative impacts of market outcomes and to cushion phases of temporary unemployment. But earnings-replacement benefits also have a macroeconomic employment effect in that they may help to stabilize aggregate demand and thus employment, at least in part. While passive labour-market policy consequently responds primarily to facts created by the market, active labour-market policy focuses, with as much foresight as it can mobilize, on working to improve the process of reciprocal adjustment between workers and jobs in phases of structural economic change. This approach is the optimal variant of policy-level intervention in the labour market. When the concern is structural and persistent

unemployment, active labour-market policy may also take on a more reactive or compensatory function.¹⁶

Box 1: OECD recommendations on labour-market and employment policy

In connection with a comparative country study, the Organization for Economic Cooperation and Development (OECD) has published a noteworthy catalogue of recommendations on labour-market and employment policy (OECD 1994). What this boils down to is a policy mix consisting of different areas of intervention and instruments; these in turn are geared to macroeconomic and technology- and education/training-related considerations as well as to the definition of an appropriate institutional-legal framework. The set of recommendations is furthermore intended to stimulate, in national economies, a mutual reinforcement of innovativeness and adaptability, in this way promoting conditions best suited to creating new jobs. Since these strategic recommendations have not lost any of their cogency – an observation that applies for OECD countries and developing countries alike (though with some restrictions bound up with given conditions and presuppositions) – they will be set out here point for point. They will at the same time serve as a guideline for the analysis of the framework conditions and areas of intervention of labour-market and employment policy presented in Chapters 3 and 4 as well as for the study's final conclusions; they will also be used to illustrate the country examples discussed in Chapter 5. The OECD recommends:

- (1) orienting macroeconomic policy such that it will both encourage growth and, in conjunction with appropriate structural policies, make it sustainable, i.e. non-inflationary;
- (2) enhancing the creation and diffusion of technological know-how by improving the framework conditions for its development;
- (3) increasing the flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers;
- (4) nurturing an entrepreneurial climate by eliminating impediments to and restrictions on the creation and expansion of enterprise;
- (5) making wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers;
- (6) reforming employment security provisions that inhibit the expansion of employment in the private sector;
- (7) strengthening the emphasis on active labour-market policies and reinforcing their effectiveness;
- (8) improving labour-force skills and qualifications through wide-ranging changes in education and training systems; and
- (9) reforming unemployment and related benefit systems – and their interaction with the tax system – such that fundamental principles of social equity are respected without impinging on the efficient functioning of labour markets.

Depending on the **strategic orientation** given to labour-market policy – i.e. decisions on what priorities to set and how funds are to be spent – it may take on a more social policy function (e.g. priority for passive measures, social security character) or tend more to shade off into economic policy. By funding and promoting mainly active measures, labour-market policy can build bridges between the first and second labour markets,¹⁷ by actively supporting

¹⁵ In this case the term qualification can be used synonymously with the more recent term employability. See the European Union guidelines in Box 5 in Chapter 4.

¹⁶ See Section 3.2. for a more in-depth discussion of the instruments of labour-market policy.

¹⁷ All working persons active in employment covered by labour legislation and – as is often the case – governed by collective bargaining legislation are regarded as part of the first or primary labour market. The second or secondary labour market, on the other hand, consists of government-financed, limited-term employment measures for persons previously without work; such measures may be conducted in public-sector organizations, private firms, or institutions created expressly for the purpose (e.g. employment-promotion companies). The activities involved here are as a rule complementary and of public interest (Kausch et al. 1994: 94).

regional and structural policy measures, thus helping to create new jobs. Moreover, being positioned precisely at the interface between economic, employment, and social policy, labour-market policy has an important moderator function.

While as a rule industrialized countries utilize the entire spectrum of possible labour-market- and employment-policy measures, severe development problems tend to diminish the role played by measures of operational labour-market policy. Many transition countries merely operate a regulative labour-market policy, and this policy is often, in addition, marked by sizeable gaps, inconsistencies, and implementation problems.

Labour-market policy being, so to speak, a subset of the possible interventions open to employment policy, there are a **variety of overlaps** between labour-market measures and employment measures, for instance as concerns earnings-replacement benefits, qualification measures, promotion of new business start ups, or wage-related measures. While synergy effects may be achieved, it is also important to bear in mind possible **goal conflicts** within labour-market and employment policy, for instance, a perpetuation of subsidized jobs implies a conflict between the secondary labour market and the aim of sustainable employment. These goal conflicts can be limited or mitigated by factoring the **transitional character of labour-market measures** into their design and implementation right from the very outset. This means a limited time frame as regards both the overall social situation and the individuals participating in such measures. While greater use of labour-market instruments is called for in times of recessionary development and growing unemployment, the use of such measures can and should be reduced in phases of positive economic development.¹⁸

2 Employment policy: framework conditions and areas of intervention

A key factor influencing the labour-market situation in a national economy is its institutional framework. This includes above all the **political system**, which consists of the state and its institutions as well as society and its organizations. Both act together on the basis of their political preferences and the influence they have, and this gives rise to a social environment marked by certain constellations of power and interests. In addition, a country's institutional framework includes its economic constitution as well as laws, regulations, and social standards.

The **economic environment** also plays a crucial role, and is in turn shaped by business-cycle policy, growth policy, structural policy, and the degree of openness of a country's economy to foreign trade. Even though there are no magic formulas, it is possible to formulate some important political-institutional and economic-policy framework conditions that can be used to create an employment-friendly climate. Within this given framework in turn, it is possible to identify areas of economic intervention that concretely influence the employment picture.

¹⁸ This gives labour-market policy a markedly anticyclical character.

It is important to note that the countries under consideration display a number of disparities, for instance as regards their development level, their specific economic structure, but also their willingness to reform, their economic priorities, and their institutional capacities. In view of this heterogeneity it is necessary to bring the general propositions made here into line with the concrete individual cases. The same goes for funding problems that obstruct implementation of given measures. These provisos are not underlined explicitly in what follows.

2.1 Political and institutional framework conditions

National institutional framework conditions

Market-oriented systems constitute the central framework for the following analysis of employment and labour-market policies¹⁹ – and a country's governing political and economic systems are inseparably intertwined. Underlying this point of departure is the assumption that market-oriented systems are best suited to generate **sustainable employment**. The framework and other conditions required here are as follows:

- a **democratic state based on the rule of law**, and guaranteeing individual freedom and equality, political participation, and checks on the state's monopoly of power;
- a **market-based economic constitution** based on the basic principles of private autonomy, market-determined prices, and competition, and a competent government as a regulative and corrective power;
- responsibility of the central economic policy authorities to maintain the equilibrium of the most important macroeconomic target variables, including employment;²⁰
- legislation and regulations, in particular labour legislation, that are enforced, and recognition of international rules, e.g. the International Labour Organization's (ILO) core labour standards (see Section below).

Unlike the case in goods markets, what is traded in the labour market is not workers but labour and/or services, which are inseparably bound up with individual workers. Due to the central role that work plays in people's lives and means for their quality of life, **labour legislation** may, in some points, supplement or deviate from the above-named institutional framework conditions – the aim being to correct market outcomes or to protect workers. This applies on the one hand to the process of arriving at prices (or wages) in the labour market, a process that should include participation of the collective interests of the parties involved. Moreover, freedom of contract is restricted by regulation where a failure to do so would mean

¹⁹ Some of the following propositions on institutional framework conditions refer to both employment policy and labour-market policy, while Chapter 3 gives separate treatment to institutions and areas of labour-market policy.

²⁰ These include – apart from high employment levels – constant and appropriate economic growth, price stability, and external economic balance. The economic policies of nearly all OECD countries are today bound up with such goal clusters. The fact that these various goals cannot all be attained at one time and to the same degree is a result of the interdependence of the variables involved and the goal conflicts which they generate. This interdependence has been referred to as the **magic square**. (Gabler 1990: 507f.)

that the asymmetrical negotiating position of one side of the market would lead to dependence, manipulation, or exploitation. On the other hand, rules and regulations governing working conditions and occupational health and safety must be in place and enforced. Another important factor must be seen in state-financed training institutions or other state-funded incentives for investment in training. In many countries the overall economic utility of **investment in training** is greater than its utility for individual economic actors, i.e. there would be no investment in training measures for individuals if there were no government incentives to invest.

In order to ensure the existence of a functioning labour market and a high level of effectiveness on the part of employment-related interventions, the following institutions – in the sense of organizations – are of considerable relevance:

- (1) the **central bank** as the authority responsible for monetary and financial policy (maintaining monetary stability);
- (2) the **judicial authorities** responsible for guaranteeing due process and recourse to the law;
- (3) the government **institutions responsible for economic and social policy**, in particular the ministries of finance, labour, social affairs, and education/training, including their lower-level authorities;
- (4) labour unions and employers associations as the government's **social partners** in the task of formulating labour-market and employment policy.

While the highest possible degree of autonomy is regarded as essential for both central bank and judicial authorities (because these are primarily committed to other goals; see above), a consistent labour-market and employment policy calls for a high level of coordination of the measures undertaken by different ministries (see Chapter 4). The prerequisite for such coordination is that government clearly observes its **regulatory function** and that an efficient administration acts as an interface between the citizens and the government. Inclusion of the social partners and interested groups makes possible the participation of groups of central significance and helps form the alliances necessary to attain employment-related goals – at both the national and decentralized levels (see Chapter 4).

The neoclassical school has, for the most part in an undifferentiated manner, tended to see **labour-market regulations and institutions** as brakes on economic development. This is why, in many developing countries, such institutions and regulations have been done away with in connection with structural adjustment programmes. Numerous studies published by the ILO and – now – by the World Bank indicate, however, that these institutions do not necessarily obstruct economic reform, and in fact, depending on their form, may even be helpful in promoting such reform. It can thus be argued that existing labour-market institutions should be maintained, or restructured in such way as to enable a **fair process of negotiation between** necessary macroeconomic stabilization and structural adjustment on the one hand and employment and income goals on the other.²¹ The following box is intended to illustrate the complexity of and interaction between labour-market institutions.

Box 2: The spectrum of labour institutions

- The following overview is taken from an ILO publication. It is based on a very comprehensive understanding of labour-market institutions.
- The nature of employment contracts – the rules, both formal and informal, which govern hiring of workers, firing, working conditions, the length of the working day; the duration of such contracts, the nature of control over work which they imply; the extent of protection and of security. More generally, this fundamental labour institution refers to the nature of jobs, as socially defined entities involving rights, obligations, and social position.
- The mechanisms for controlling and regulating employment contracts – state regulation (administrative or legal) or collective negotiation, or sets of values or norms held by the parties concerned. The nature of the machinery for enforcement and adjudication (such as the labour inspectorate, labour tribunals). This may also include social forms of control, e.g. through indebtedness or the threat of force.
- The organization and representation of labour: trades unions, trade or craft associations, etc., and the areas over which they have control or influence, the ways they are organized and function. This may include whether they are unitary or fragmented, their linkage with other (e.g. political) institutions, the range of their activities.
- The organization and representation of employers: employers associations, business or enterprise associations and the areas over which they have control or influence, the ways they are organized and function.
- The institutions of the labour market itself – the dominant procedures for job search and rules for access to jobs of different types, the systems for information – hiring halls, employment exchanges, newspaper advertisements, or alternatively particularistic networks of contacts and intermediaries. Discrimination, screening and selection procedures and institutional constraints on mobility may come in here.
- The methods by which wages are paid (in cash and in kind, directly or as fringe benefits, piece or time rate, the frequency and reliability of payment, regulated by contract or discretionarily).
- The process of wage fixing: regulatory bodies, procedures, rules to be followed; negotiation and conciliation procedures; reference points and minima, their levels and the processes by which they are determined.
- Training and skill institutions – the mechanisms for the acquisition of skills and credentials for labour market access; thus the formal and informal education and apprenticeship systems. The recognition of skills and qualifications – their acceptability as credentials for job access; and the systems for learning on the job.
- The organization of jobs within the firm – the nature of occupational hierarchies and job progression within internal labour markets, criteria for promotion or for dismissal, the operation of work groups and the division of labour; systems for motivation and the operation of 'corporate culture'; the ways different types of firm organize labour use (small and large, formal and informal).
- The structure of ownership and control over production, and in particular the rules governing the spheres of influence of workers and owners of capital or land: joint decision-making procedures, co-operative or worker-managed organizations, tenancy and the rules governing its functioning.
- The social and state regulation of self-employment – the rules governing conditions of work, access to the means of production and to markets; the prevalence of indirect or hidden wage relationships in self-employment, e.g. in homeworking and other forms of subcontracting (to which the elements of item 1 above may apply). Property institutions are important here, particularly (but not exclusively) in agriculture.
- Social security and income guarantee systems, the institutions for social insurance (health, unemployment ...), the 'social wage' – provided by the State, by the enterprise, through institutionalized private systems, through informal private community or semiformal networks; the conditions imposed for access to benefits. The nature of family or community obligations to support the sick or unemployed.

Source: Rodgers, G. (ed.) (1994): *Workers, Institutions and Economic Growth in Asia*. Geneva, International Institute of Labour Studies, in: van der Geest/van der Hoeven (1999): 25.

21 See the in-depth discussion in van der Geest/van der Hoeven (1999) and the literature cited there.

International institutional framework conditions

The most important **international institutional framework conditions** that influence the course of events in labour markets are:

- the ILO conventions, and here in particular the ILO's core labour standards;
- the rules of free-trade areas and regional economic unions; and
- the rules of the World Trade Organization (WTO).

In a 1998 agreement the ILO summed up and integrated various elements of the conventions signed since the organization's establishment in 1919 (ILO 1998a: 50). **These core labour standards (CLS)** include the following four fields as well as a total of eight conventions:

- **freedom of association and protection of the right to organize:** conventions on the freedom of association and protection of the right to organize (Convention 87, 1948) and the convention on application of the right to organize and the right to collective bargaining (Convention 98, 1949);
- **ban on forced labour:** ban on forced or compulsory labour (Convention 29, 1930), abolition of forced labour (Convention 105, 1957);
- **ban on discrimination:** equal remuneration for men and women workers for work of equal value (Convention 100, 1951), ban on discrimination in respect of employment and occupation (Convention 111, 1958);
- **ban on child labour:** convention concerning minimum age for admission to employment (Convention 138, 1973), convention on the prohibition of and immediate action for the elimination of the worst forms of child labour (Convention 182, 1998).

These core labour standards may be seen as internationally agreed upon **minimum framework conditions for labour markets** in that they call on all members, whether they have ratified the individual conventions or not, "to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights" (ILO 1998: 50, paragraph 2).

The implementation and enforcement of core labour standards has been a highly controversial matter, above all in view of the question of how these standards favour or impede economic development. Empirical studies indicate that there is a statistically **significant correlation between economic development and democratic institutions** (Rodrik 1997: 52; 1999: 53f.; cited by Brown 2000: 44). Democratic institutions are generally seen as including: the rule of law, effective judicial authorities, representative political institutions, free elections, independent labour unions, social partnership, institutionalized representation of minorities, and social security systems. Empowering such institutions to enforce these core labour standards could contribute to economic prosperity and **promote broad-based growth**. Seen not only in terms of human rights but viewed from the economic perspective as well, measures

geared to dismantling existing obstacles to compliance with core labour standards make sense.²²

The discussion on a possible **sanction mechanism** suitable to enforcing core labour standards and minimum social standards is still underway. A link between trade issues and enforcement of core labour standards and minimum social standards is therefore still on the agenda.

2.2 Macroeconomic framework conditions and areas of intervention

Economic policy influences the situation in and development of labour markets in crucial ways. A government's two most fundamental economic goals should consist in establishing and securing growth-friendly macroeconomic framework conditions and formulating an employment-friendly operational policy. In economic theory there are two contrary positions on the best strategy to reach these goals:

- (1) In the **Keynesian view**, insufficient demand for goods is responsible for the occurrence of (cyclical) unemployment. The state responds on the basis of operational policy, using anticyclical fiscal and monetary policy aimed at stabilizing the demand for goods. Purchasing power is underlined as an argument in discussions on wage policy.
- (2) In the **neoclassical view**, the state should concentrate on setting the regulative framework. This minimal government approach, it is claimed, creates a climate conducive to investment, and this in turn solves problems in the labour market. Monetary policy should be exclusively dedicated to stabilizing the price level. According to this view, wage policy should be geared to low rates of wage growth as a means of raising the rate of profit, in this way stimulating job-creating investment.

In their unadulterated form, neither of these strategies holds out much promise of success: experience shows that Keynesian demand management leads to structural budget deficits and tends to trigger inflation. Furthermore, an expansive fiscal policy can counter only the cyclical component of unemployment. On the other hand, the neoclassical supply-side maxim of the self-regulating forces of the market does not bear up in reality, since its deductions and recommendations are based on unwarranted assumptions, especially as far as the labour market is concerned. What therefore appears more reasonable is an **eclectic approach** that, pragmatically oriented, avails itself of elements of both demand and supply side policies. Any sensible use of measures always presupposes an exact analysis of the specific causes of unemployment, since, for instance, the individual policy fields involved in employment policy must respond differently to a temporary decline in aggregate demand than to structural growth problems or regional or industry-specific disequilibria in segments of labour markets.

22 The duty of governments to translate the international labour standards into national legislation does of course not mean that these fundamental workers' rights are actually in effect in individual countries. Aside from its ability to publicize violations in its annual reports, if such violations become known in the first place – and so to trust in the effect of reputation mechanisms – the ILO has no sanctions at its disposal (ILO 1944: 19; ILO 1998: 50).

The **globalization of the economy**, however, increasingly forces governments to take **international macroeconomic framework conditions** into account in defining their economic policies. Their economic leeway is restricted above all by increased international capital mobility. Inflows of foreign portfolio and investment capital can have positive impacts on domestic output and employment and thus increase tax revenues. However, to attract as much foreign capital as possible, countries in transition are forced into an international locational competition that can, for instance, involve a race to lower tax rates. The consequence is that they are then forced either to raise employment-unfriendly taxes and social contributions on the one factor of production, labour, which is largely immobile in international terms, or to cut public-sector spending, and thus cut back on provision of public goods.

This “**race to the bottom**” also poses a threat to working conditions, including wages, in that governments often succumb to the temptation to secure locational advantages by either lowering or cementing social and environmental standards that are inadequate in the first place. Moreover, for these countries high international capital mobility is as a rule linked with extensive loss of sovereignty in monetary and exchange-rate policy, with the consequence that they are subsequently unable to, or restricted in their ability to, use these instruments to actively influence employment.

Summarizing, in defining important areas of employment policy (financial policy, monetary and exchange-rate policy, wage policy, and foreign-trade policy), the governments of transition countries are increasingly forced to take account of both international macroeconomic framework conditions and the influence exerted by international and bilateral donors.

Economic growth as a prerequisite for employment

The **key macroeconomic variable** for a positive development of employment is economic growth. The relatively low – indeed in some cases even negative – growth rates posted by many transition countries clearly indicate that policies aimed at higher growth are a necessary condition for the medium-term improvement of the employment picture. But higher growth is not the only concern here; the quality of growth is also especially important – in other words, what is called for is **broadly effective economic growth**. And this implies that the options for policy formulation and income distribution opened up by economic growth are in fact used to improve the income and employment chances of unemployed and underemployed population groups.

The **sustainability of growth** depends on whether and in what measure both economic sectors and individuals prove structurally adaptable. Positive growth impulses can be achieved by means of an economic policy that provides for favourable economic framework conditions and eliminates barriers to investment. This includes an appropriate formulation of macroeconomic policies, which will be discussed below.

Economic policy interventions and employment effects

The following policy fields are of particular significance in terms of their employment effects. However, a number of restrictions must be noted for the majority of developing and transition countries, and these will also be outlined here.

(1) **Financial policy** should be concerned mainly with sustainably reducing a country's budget deficit. When public budgets are encumbered with high deficits, financial policy cannot be placed in the service of employment policy. But aside from budget consolidation, its primary goal, financial policy can be used to lay the groundwork for an employment-friendly design of a country's system of **taxes and contributions**. The aim should be to formulate a tax policy with an eye to positive employment effects, i.e. to design it in such a way as not to overtax the factor labour.²³ This can be accomplished by focusing taxation more on consumption than on production. It must, however, be noted that indirect taxes may entail negative impacts on distribution and disproportionately burden poor groups of the population.²⁴

Consideration should also be given to targeted tax relief for small earners as a means of creating or saving low-productivity jobs and thus enabling workers to earn sufficient incomes despite low labour costs.²⁵ As an alternative, transition countries might also give some thought to heavier taxes on energy consumption. These revenues could be used to compensate for shortfalls due to lower taxes on the factor labour as well as to boost the ecological efficiency of business enterprises. Here too, however, tax policy should mainly be formulated with an eye to incentive systems (rather than levies). This would allow companies to decide for themselves whether to invest in more ecological technologies, thus lowering their tax burden, or to continue using old approaches.

Seen in terms of employment aspects, **domestic SMEs** play an important role and must be granted tax and customs benefits. Tangible employment effects can, however, be achieved only if these benefits are linked with specific employment targets, for instance temporary tax breaks for new business startups or reduced taxes for the creation of new jobs. Another important factor is the streamlining of administrative and tax-related regulations, so that they can be applied and enforced by an independent judiciary.

The proposed measures for moderating taxes and other contributions are generally seen as entailing positive employment effects. This can, however, run counter to the goal of budget consolidation (including social and transfer systems). Efforts should therefore be focused on the one hand on **broadening the tax base**, i.e. restructuring the budget revenues in favour of more tax income, and on the other hand significantly **improving the efficiency of collection**. The reforms called for offer the chance to accord more attention to employment-relevant as-

23 This is one of the most important and successful recommendations of the OECD and the EU. See Boxes 1 and 3.

24 This effect could be countered by lower taxes on staple foods and higher taxes on luxury goods – though there tends to be less demand for the latter.

25 The concept of the negative income tax must be mentioned in this context. Among other things, a negative income tax attempts to use an integrated system of taxes and transfers to enhance employment incentives.

pects. But the essential condition for success is strengthened administrative competence on the part of tax administrations.

Analysis must also include the expenditure side of the equation. The paramount aim here is to **restructure spending** in favour of both public investment, in particular in infrastructure, and provision of basic social services such as basic education, vocational qualification, and basic health care. But strategic financial planning should not lose sight of the fact that such investments often lead to high (consumption-related) follow-up expenditures. Thought should therefore be given to whether certain tasks should remain concerns of the public sector or whether they could be better fulfilled by private organizations, which as a rule operate more efficiently and can tap sources of funding besides government financing. In looking at government spending, it is important not to lose sight of the fact that the reduction of government activity entails a short-term decline in aggregate demand and thus means job cuts.

(2) **The monetary policy** is another potential control instrument used to influence the labour markets. In formulating monetary policy the central bank is faced with two problems. On the one hand, there is a **goal conflict** between short-term and long-term employment effects. In the short term, when a country's aggregate output potential is underutilized, expansion of the money supply has a positive effect on aggregate employment, since this means lower interest rates, which stimulate household consumption and business investment. At the same time – and as the quantity theory of money holds – expansionary monetary policy tends to raise the inflation rate, endangering overall price stability. Since higher inflation rates, first, impair the allocation function of prices and, second, increase uncertainty in making forward-looking decisions – e.g. on purchases of durable consumer and capital goods – they tend in the long term to give rise to negative employment effects.

On the other hand, the regulation of monetary policy constitutes a **management problem for the central bank** in that it is difficult to predict both the intensity of the ensuing real economic effects and the point of time at which they will occur. Transition countries often have additional difficulties in making such predictions due to a lack of up-to-date and reliable statistics and major imperfections in money and capital markets. These countries should consequently refrain from using monetary policy for labour-policy goals. Instead, their central banks should concentrate solely on maintaining overall price stability. In these countries expansion of the money supply should be oriented to the development of their overall economic output potential.

In addition, if a central bank lacks institutional autonomy, it can make sense for a developing or transition country to abandon national monetary sovereignty and peg a national currency to a key international currency. Nevertheless, time is an important factor here. If a currency remains pegged to a key currency for too long, the country concerned may find itself faced with negative distributional effects.

(3) **Wage policy:** Wage levels and wage differentials are crucial factors influencing the labour market and the way it develops. In general, **wage increases** should be oriented to trends in the development of aggregate productivity. Another factor important for employment is **wage differentiation**, and the existing wage spectrum should be adjusted to sectoral, regional, and qualification-related factors. What is important here is a sufficiently broad span that makes it

possible for lower-qualification workers, with their generally lower labour productivity, to find employment. A levelling wage policy that seeks to favour low-wage groups can prove counterproductive in terms of employment goals. Seen in social-policy terms, it makes more sense to offer lower wage groups disproportionate relief from taxes and contributions (see above) as a means of ensuring that they earn sufficient net incomes.

In transition countries, **labour unions** and **employers associations** tend to have party affiliations; they also differ in terms of their degree of organization. Thus, the role they play in **wage negotiations** is determined, at least in part, by the policies of the ruling government or by the agendas of political parties. The wages of **persons employed in the informal sector**, however, are not considered in many countries. Nevertheless, in countries with a relatively strong formal sector, it can be assumed that wage agreements in the formal sector provide an orientation for workers in the informal sector.

A number of transition countries make use of the **minimum wage** as an instrument of social policy. The aim pursued in setting a lower wage limit is usually to guarantee low-wage workers a minimum, acceptable standard of living. But in cases of an oversupply of labour, this arrangement can prove problematic, with wages losing their function as a mechanism adjusting supply to demand, and it can aggravate unemployment and underemployment.

(4) **Foreign trade policy:** In terms of employment policy, it is essential that governments of transition countries pay attention to both growth and distribution factors. Extensive empirical studies have shown that the positive growth effects that can be achieved by **opening a country's markets to foreign trade** largely depend on design and implementation as well as on flanking micro- and macroeconomic reforms. The most important distributional effect is an improvement of the employment and income situation of poorly qualified workers. What this means for economic policy is that in formulating an external economic policy it is essential not to take into account country-specific factors such as initial per capita income levels, a country's initial endowment with human capital, the sectoral structure, the availability of natural resources, and a country's proximity to an economic centre. If politically undesirable distributional effects are to be avoided, it is as a rule imperative to implement flanking reforms in the fields of education/training and labour-market regulation or in other social areas.

3 Labour-market policy: framework conditions and areas of intervention

3.1 Institutional framework conditions and requirements

There are numerous international conventions and recommendations bearing on labour-market policy interventions. They set out binding guidelines or recommendations for both areas of labour-market policy (regulatory labour-market policy and labour law on the one hand, active and passive labour-market policy on the other) and for the agencies responsible for implementing them. Numerous **ILO conventions and recommendations** bear weight just about worldwide, e.g.: Convention No. 88 and Recommendation No. 83 of 1948 on the organization of public employment services (labour administrations); Convention No. 142 and Recommendation No. 150 of 1975 on vocational counselling and training; Convention No.

181 and Recommendation No. 188 of 1997 on private employment agencies; Convention No. 168 and Recommendation No. 176 of 1988 on employment promotion and protection against unemployment;

In its 1994 Jobs Strategy (OECD 1994; see Box 1) the **OECD** set out some recommendations on employment and labour-market policy for its member countries; the organization monitors and evaluates the application of these recommendations on an ongoing basis. The **European Union** (EU) annually adopts binding employment-policy guidelines for its member states²⁶ and requires them to report on their implementation. Many candidates for accession to the EU are also already adopting this practice. The recommendations of the OECD and the EU cover employment policy in the broader sense, focusing on all policies and implementation practices that could adversely affect employment (e.g. tax policy) as well as on the interrelationships between individual policy fields (e.g. between earnings-replacement benefits, wages, and employment). These recommendations also apply to almost all developing countries and especially to transition countries and are, unlike the ILO conventions, updated and adapted on a regular basis.

However, most developing countries are highly restricted in their ability to formulate and implement labour-market policy, because they lack the institutional and financial wherewithal required for the purpose. In individual cases this may mean: weak labour ministries and often inefficient lower-level administrative units; patchy or inconsistent labour legislation; inadequate funding and information systems; and an institutional landscape that is not diversified enough to implement such measures. This situation is often exacerbated by a lack of experience and insufficient political will to reform, which means that labour-market interventions are either not undertaken in the first place or that their impacts remain limited.

Labour administrations

In many countries, the tasks assigned to government **employment services** tend to be restricted to **core functions**. These principally include placement, information, and counselling for job-seekers and statistical reporting on their own activities.²⁷ The **ineffectiveness** of government employment services usually manifests itself in the following symptoms:

- There is a lack of reliable statistical information on developments in the labour market. This usually means collection and publication of only roughly aggregated stock data (unemployed persons and vacant jobs at the end of a reporting period). Information on movements in the labour markets (entrance and exit statistics, placement figures) is unavailable, as are even simple explanations and analyses of developments in the labour market.
- Qualitative information on labour supply and demand, i.e. qualifications demanded by employers or job-seeker qualifications, is restricted to verifiable qualification certifica-

tions such as the highest achieved level of schooling or vocational training. Since neither the actual qualifications of unemployed persons nor the exact requirements of employers are known, employment services are hard put to place job-seekers or adequately plan advanced training measures.

- Regular contacts to employers, including active acquisition of job vacancies, are much more the exception than the rule.
- The manpower and technical equipment available to employment offices and employment services are often inadequate. Many countries lack not only the technical wherewithal to store placement data and statistical information and to calculate earnings-replacement benefits; they in many cases also lack vocation-related information material for staff members and clients alike.
- Insufficient personnel and lacking staff qualifications lead to bottlenecks in the counselling services offered for both unemployed persons and employers as well as in the implementation of labour-market policy.
- A further deficit is found in the frequent compartmentalization (Taylorization) of services, for instance, services for job-seekers on the one hand and for employers on the other. Employment office staff are familiar with only one side of the market and are therefore unable to effectively present the concerns of their clients to the other market side. The services for individual clients are also divided up among a large number of persons and units, and if they are (able to) to come up with a client-oriented package of services, they are forced to run through a series of duplicate operations.
- Another problem frequently encountered is disputes on jurisdiction between education ministries and labour ministries over vocational counselling for students from schools and institutions of higher education.
- In many cases employment services run up against considerable acceptance problems among the population; these reflect both the above-mentioned technical and manpower deficits and the widespread opinion that government agencies or services are responsible only for problem groups that are especially poorly qualified, lack motivation, and are difficult to place in the labour market. Many people are not even aware that there is a labour administration.

Apart from the causes named above, these deficits also stem from some far-reaching misapprehensions of the role played by government employment services in connection with employment and labour-market policy. Managers and staff members often see themselves more as managers in charge of administering or indeed creating jobs than as service providers whose main task is to mediate between supply and demand. Internal organization and services are often geared more to the needs of supervisors and staff members than to achieving the best possible effects for markets and clients. Furthermore, many countries ignore the fact that employment services cannot operate efficiently and effectively without decentralized decision-making structures.

²⁶ See Box 3 in Chapter 4.

²⁷ The core functions are often seen as including vocational counselling, payment of unemployment benefits, and the implementation of active labour-market measures like qualification and employment promotion.

Box 3: Labour administration reform in Romania

The Rumanian National Employment Agency (NEA), having been separated from the Ministry of Labour and Social Protection (MLSS; since January 2001 Ministry of Labour and Social Solidarity), took up operations on January 1, 1999. The NEA is an independent public corporation responsible for the implementation of labour-market policy in Rumania. The agency is not financially autonomous; it remains accountable to the labour ministry. The NEA's budget is prepared by an administrative council and presented to MLSS for approval. This goes for both the revenues from the unemployment fund administered by the agency and the subsidies it receives from the government budget, which are channelled through the MLSS budget.

The NEA's administrative council, its highest-level organ, consists of representatives of government, labour unions, and employers associations at the national level (tripartite structure). The chairman of the administrative council is at the same time the agency's president – and since January 2001 he has also been an undersecretary in MLSS. The NEA is managed by an executive director-general appointed by the president. The agency's offices at the district level (*Judets*) and in the municipality of Bucharest are run by executive directors who are also appointed by the president. They are supported in their work by an advisory council made up of representatives of the public administration, labour unions, and employers associations at the regional level.

The positive aspects observed in the reform of Rumania's labour administration are, however, qualified by a number of deficits. Lacking any other legislative mandate, the new agency and its operations have centred too much on formal structural issues (organizational development, personnel decisions, awarding individual contracts, decision-making authority of individual units and persons). Too little has been done to improve the quality of services. For instance, the suggestion to formulate an internal operating policy was rejected. Other deficits include the facts that the local labour offices are given too little leeway to conduct labour-market measures specifically tailored to the region and that local initiatives that do develop are not supported or even discouraged.

The new government programme of 2000/01 states that the agency's set of active labour-market instruments are to be further developed in the future and its passive services are to be sharply curtailed. This constitutes a major challenge for the Rumanian labour administration. Some important institutional prerequisites are already in place, though substantial efforts are called for in formulating and improving the effectiveness of measures and implementing them at decentralized levels.

Depending on their functions, mode of operation, and staffing, employment services have the option of using **independent organizations** to carry out individual measures on their behalf. This is a good option in particular for retraining and advanced training measures. It has also proven helpful to outsource some tasks connected, for example, with employment programmes or support for new business start-ups, to other, usually non-governmental organizations. But there are two problems here:

- One controversial point is definition of the tasks that must in any case remain with employment offices, i.e. the issue of how to **define core functions**. In cases in which there is no labour administration or the existing administration proves to be inefficient and/or corrupt, non-governmental partner organizations can and should be permitted to take on core functions as well.
- There is a second problem involving **awarding public funds**. Labour administrations often lack experience in public tendering as well as in correctly awarding and monitoring contracts.

Box 4: Proposals on the modification of Croatia's employment law

Croatia's present employment law was adopted in 1996. In view of recent developments in the labour market – a current unemployment rate of nearly 23 % and a marked shortage of qualified manpower – the labour ministry has initiated a discussion on modifying the law. An additional concern is to factor in important challenges such as lifelong learning and new technological developments and their impacts on the labour market.

The following proposals are under discussion:

- improvement of unemployment insurance protection, in particular for population groups not covered at present, e.g. self-employed persons;
- gradual introduction of a contribution-based unemployment insurance, initially on a voluntary, later on a compulsory basis;
- modification of passive benefits, the aim being to set incentives designed to induce unemployed persons to take up employment (e.g. reduction of the duration of unemployment benefits) as well as to prevent fraudulent benefit claims (e.g. persons receiving unemployment benefits while they are engaged in limited-term employment or working on a fee or commission basis);
- changes in the active instruments of labour-market policy in favour of support for qualification measures;
- abolition of the rule requiring employers to report vacant jobs to the employment office – an important step on the road to enhancing employer acceptance of the labour administration, though a step that will have to be linked with improved service;
- modifications in labour administration activities; and, finally,
- amendment of the law's title, a step aimed at better designating its contents and the responsibilities it covers.

These proposals have addressed a number of important points that are among the most frequently criticized areas of labour legislation in transition countries. It must therefore be assessed as very positive that the labour ministry is prepared to propose changes of its own. The ministry has invited the labour unions, employers, and the sector ministries to participate in a more extensive discussion.

Legal frameworks

Labour law consists of all legal arrangements concerned with dependent labour (labour market constitution); this is a specific component of a country's overall legal system, and contains elements of both private law and public law. In defining a binding legal framework (e.g. minimum wage, protection against unlawful dismissal, worker protection, collective bargaining), the legislative influences the relations between employees and employers. **Employment or employment-promotion legislation** is an element of overall labour or social legislation and constitutes the legal basis of operational labour-market policy.²⁸ It regulates institutional responsibilities, i.e. delegation of responsibilities, funding, and the type and scope of measures, services and benefits provided under labour-market policy. It furthermore defines the groups of persons eligible for such services and benefits.

The majority of **transition countries** lost relatively little time in instituting legal arrangements covering unemployment protection by adopting employment (promotion) laws. These laws often represent the first time that the status of unemployed workers is recognized and defined. Thanks to their lack of experience in dealing with unemployment, the governments of these countries have often simply taken over the legislation in place in market economies

²⁸ See Section 1.3.

without giving due consideration to their own specific conditions. But it has become rapidly apparent that fundamental modifications or revisions of such legislation is necessary to take account of country-specific conditions (see Box 4). Nevertheless, only a few countries have undertaken such steps thus far.

The funding of labour-market policy

In general, it is useful to distinguish between two types of funding for labour-market policy: contribution-based funding via **unemployment insurance** and **tax-based funding**, i.e. funding from the government budget. A combination of both approaches would also be conceivable; in periods of high unemployment and scarce unemployment insurance resources, the financing of active measures could be supplemented by funds from the general budget. Generally, however, this approach involves the danger that benefits and services, in particular active measures, might be cut.

The problem of scarce or unavailable resources to fund labour-market policy is one faced by just about all developing and transition countries and thus constitutes a **major barrier** to the use of policy interventions in the labour market. In contrast to OECD countries, however, this is not only due to an insufficient number of employed contributors. Especially state-owned enterprises in many transition countries do not contribute, and authorities are reluctant to enforce contribution payments. Furthermore, the level of contributions remains low, owing to the huge dimensions of the shadow economy, illegal employment, and underdeclaration of wages and salaries. Often the only source of funding available is the resources provided by bi- and multilateral development cooperation. If labour-market measures are to be sustainable, the countries in question will have to mobilize at least some of their own funds to continue financing them.

Labour market-statistics and information systems

Exact analysis and prognosis of the situation in the labour market is a prerequisite for designing labour-market measures and ensuring their effectiveness. What is required here is: first, unified, comprehensive, and valid statistics on employment development; second, information on important macroeconomic trends; and, third, in-depth qualitative data on job requirements and the qualifications of both employed and unemployed persons.

As far as labour-market statistics and information systems are concerned, the main problems facing developing countries and countries in transition may be outlined as follows:

In **collecting data**, there is a lack of unified parameters and a standard collection system. This factor is mirrored, for instance, in whether or not unemployment statistics include both recipients and nonrecipients of benefits and how job-seekers and youths who have long been without employment or never held a job are dealt with. If these data are collected differently from region to region, the result can be severe distortions in unemployment statistics. In addition, many of the countries under consideration provide insufficient unemployment benefits, or

none at all, and thus there is often no incentive for unemployed persons to register with employment authorities.

Measurement of underemployment generally poses serious problems; these extend from the quantitative measure to the qualitative dimension of underemployment, i.e. underemployment as an expression of incomes below the subsistence level and/or of precarious employment situations. Here the ILO seeks, as indicated in its Resolution concerning the Measurement of Underemployment and Inadequate Employment Situations (ILO 1998b), to use standardization as a means of improving the quality of measuring methods.

In view of the problems outlined above, **direct household surveys** have proven to be an important source of information on employment trends in developing and transition countries. But – depending on survey design – this method too involves the risk of distorting information. Experience also indicates that even these methods are seldom able to document the true dimensions of the problem. The often small samples involved are frequently not large enough to extrapolate to the total number of a country's labour-force. In addition, differences in survey methods make international comparisons a highly questionable proposition.

As noted, data-collection problems usually also lead to problems in **evaluating information**. One important issue here is who is collecting the data. Most countries have national statistics offices that share their data with other government authorities. But a consideration of crucial importance to the collection and evaluation of data, including publicity, is whether decision-makers have the **political will to transparency**.

A further deficit often encountered is an **inadequate exchange of information** among employment services, particularly concerning data on vacant jobs. The reason for this is in part the inadequate technical endowment of labour offices, and in part the fact that successful placement is an important performance indicator used to evaluate employment services, so that “attractive” job vacancies are not handed on to other offices, whether there are any suitable applicants or not.

Apart from statistical information, successful labour-market policy requires that the **impacts** of measures are regularly **monitored** and that management information systems are developed on the basis of these results. This is a task not only for the employment services, but above all for research organizations and policy-advisory institutions.

Nevertheless, in recent years some transition countries have managed to substantially improve their statistical background information. Most countries have the basic information they need to formulate a national employment policy and a national labour-market policy. Whether or not they also have the political will and the expert competence needed to formulate and implement such policies is a different question. The data available to them is not sufficient, however, to formulate individual labour-market-measures (see below).

In compiling the most important variables and setting out precise definitions in its **Key Indicators of the Labour Market** (KILM)(ILO 2001), the ILO has made an important contribu-

tion to improving labour-market-relevant statistics. The proposed indicators break down into eight groups,²⁹ the most important of which are those bearing on employment development and on unemployment and underemployment. The KILM also include indicators that influence supply and demand in the labour market, such as education/training, wages, labour costs, labour productivity, and income distribution. These background indicators mainly serve to take account of important trends in a country's economic and social development and to correlate these trends with developments in labour markets and employment.

Yet the data collected on the basis of KILM are in no way sufficient to design and conduct individual active labour-market measures. First, the data are for the most part not up to date. Second, these data, usually based on surveys, normally contain no flow data. Effective labour-markets measures, i.e. measures aimed at specifically reducing individual qualification or other deficits, can be designed only on the basis of sufficient qualitative and quantitative information, and this information should be available at both the regional and local level. But this presupposes the existence of a modern, client-oriented public labour-market service, since even the tasks of gathering and documenting such information usually require well-trained labour-market experts.

3.2 Areas of labour-market policy intervention

Target groups of labour-market policy

Labour-market measures usually focus on certain target groups or problem groups with **higher risks** as regards the occurrence and the duration of unemployment and underemployment. These persons lack above all vocational qualifications and work experience and are faced with barriers to mobility linked with these deficits; but sometimes health impairments and age also reduce the employment chances of these groups. An accumulation of these factors of course tends to exacerbate the overall problem.

While the general assumption is that unemployed persons not part of a specific target group will be able to find employment directly in the regular labour market, targeted support for problem groups is intended to raise the probability that these persons will also be able to find stable, regular employment, at least in the medium term. OECD studies indicate that such **target-group promotion** can make an important contribution to reducing, especially, structural unemployment (OECD 1993: 68). If problem groups of the labour market are to be supported in an optimal way, however, it is in any case necessary to distinguish clearly between the specific reasons for their unemployment. One reasonable preventive strategy might be to gear measures specifically to **combating youth unemployment**. It would in this way be possible to head off a fatal process consisting of inadequate occupational experience, long-term unemployment, and loss of employability.

29 There are a total of 18 key indicators, which are supplemented by a number of so-called background or framework indicators.

As far as the developing countries and some transition countries concerned, it makes sense to **define target groups** on the basis of existing segments of the labour market. These segments include:

- women, who, thanks to their often lower qualification levels, time restrictions, lack of occupational experience, and their standing in society, have far poorer chances of entering the labour market;
- low-qualified or unqualified young persons; and
- persons employed in the informal sector, who are especially vulnerable to underemployment and correspondingly precarious employment situations.

It is in reality nearly impossible to distinguish unambiguously between these target groups, since members of one group may be part of one or more other groups and, furthermore, half or more of a country's population may be affected.

Instruments of labour-market policy

Labour-market policy makes use of both **passive** and **active instruments**. The passive instruments include all forms of earnings-replacement benefits (unemployment benefits and unemployment assistance as well as severance pay). Active labour-market instruments break down into three areas:

- (5) placement, information, and vocational counselling (including applicant training);
- (6) qualification measures (e.g. training and advanced training, retraining), including qualification for self-employment;
- (7) measures aimed at creating (limited-term) employment or preserving jobs, e.g. wage subsidies, employment programmes, (financial) support for business start-ups, subsidies for the employment of given groups.

(1) In their conventions and recommendations, ILO, OECD, and EU particularly emphasize the connection between the quality of active and passive labour-market policy and the quality of public employment services. More recently emphasis has been placed in particular on the need for close coordination or integration of **placement and counselling services** with active measures and unemployment insurance.³⁰

An efficient labour administration can go some way toward accelerating and improving the quality of "matching" in the labour market. This is a means of reducing both the average length of unemployment and production shortfalls. Placement services of good quality tend to lead to more stable jobs, though the significance of placement goes far beyond these aspects.

30 See the recommendations for action adopted by the labour ministers of the OECD countries in 1997 and the EU Conclusions of the Portuguese Presidency Conference: The European Strategy – What outcome, What Future?

Since this activity is also used to collect information on qualitative “mismatches”³¹ in the labour market as well as on demand trends, placement may be seen as the basis and the precondition for the successful implementation of all other measures.

(2) Vocational **qualification**, i.e. advanced training and retraining for unemployed persons, is a further important instrument of active labour-market policy. Expenditures in this area are an investment in human capital; they boost employment chances and raise the productivity of the factor labour. In developed market economies qualification measures are used for the most part as a means of avoiding structural unemployment and increasing worker mobility. So in these countries the instrument mainly has preventive character. The situation in the labour markets of transition countries, on the other hand, primarily calls for a reactive use of qualification measures. One crucial argument for such measures is that high qualification levels constitute an important locational factor and are therefore a precondition for attracting new companies and creating new jobs.

Problems in using this instrument are bound up above all with the fact that it is very difficult to predict concrete qualification needs. This may lead to inappropriate qualifications and/or an inefficient use of the instrument, a case that can presently be observed in a good number of countries in transition. Important steps required to ensure an improved needs orientation thus include identification of general deficit areas and, building on this point, training geared to key qualifications.³² On the other hand, it is imperative to link qualification measures and regional and/or local economic and structural policy, a task which in turn calls for cooperation between all relevant actors directly associated with the labour market.³³ Fine-tuning qualification measures to target-group needs is another promising approach.

(3) Measures aimed at **preserving and creating jobs (of limited duration)** as well as integrating certain groups of people can, when certain conditions are given, give rise to important impacts that ease the labour market situation. Their aim is to mitigate the effects of the job losses associated with accelerated processes of structural change as well as to counteract the risks posed by a loss of human capital and the social decline of large segments of the population. The contents and organization of such measures differ widely from country to country. These measures should not be used only to create replacement incomes, i.e. they should, as far as possible, be focused on developing material and social infrastructure. Moreover, another promising approach has been to combine employment measures with qualification measures, and to do so with an eye both to supporting necessary processes of structural change and boosting the placement chances of participants in such measures.

In general, though, these measures are vulnerable to the risk of windfall and crowding-out effects. Especially activities of employment-promotion programmes are apt to trigger crowding-out effects in the private sector. There is also a risk that general government tasks, financed through various sources, may be shifted to this sector. Both of these problems can neutralize the original employment effects, the bottom line being that the labour market is in the end not relieved.

Experiences in many countries in transition have also shown that the effectiveness of active measures quickly runs up against its limits, when their aim is to mitigate mass dismissals in regions previously marked by monostructures and if the primarily social character of such measures is not clearly underlined. Macroeconomic evaluations of active measures as a rule indicate no – or no more than limited – effects on aggregate employment. Nor can negative effects be wholly ruled out.

4 The importance of a coordinated approach for an employment-oriented policy

An employment-oriented strategy for combating unemployment and sustainably raising employment levels is possible only if it is based on a coordinated and integrated approach that factors in the institutional and macroeconomic framework conditions discussed above and includes both employment and labour-market policy interventions.

In what follows, this approach is referred to as **policy coordination**. This embraces various levels of action³⁴ and the key actors involved in each. Furthermore, policy coordination can and should have a horizontal and a vertical orientation, i.e. it should include the actors at any one level of action (e.g. within the government or between interest groups and government administrations in a given region) and coordination of local and regional activities with national strategies, and vice versa. The essential condition for successful policy coordination is on the one hand the management competence of governmental actors – i.e. the existence of an effective, transparent, and predictable public administration – and on the other hand policy competence on the part of nongovernmental actors, based on a broad social foundation and the political participation of the population. And both sides must be willing to act together.

Many policy fields generate effects on the labour-market situation in an economy. As far as employment effects are concerned, the activities of various political actors, who as a rule pursue different aims, may run counter to one another, though they may also prove complemen-

31 The focus is here on qualitative information because 1) quantitative data fluctuate rapidly and are thus difficult to document reliably and 2) in the last analysis only qualitative data offer reliable information that can be used for labour-market measures.

32 These include, for instance, both language and computer skills and nonspecialized skills such as problem-solving, team work, and decision-making.

33 Examples include so-called labour-market exchanges organized with the participation of investors, education/training institutions, and municipal administrations.

34 This means mainly the macro and mesolevels. The macrolevel includes the policy fields that directly influence the development of the macroeconomic aggregates of economic growth, inflation rates, unemployment rates, and balance of payments, i.e. principally budgetary and tax policy, monetary and exchange-rate policy, and balance-of-payments policy, as discussed in Section 2.2. It also includes competition policy, overall economic planning (where this is practiced), legal and judicial policy, social policy, and some areas of security policy. The term **mesolevel**, on the other hand, refers to the overall setting, i.e. institutional and policy patterns of private actors (firms, NGOs, interest groups, individuals) which come about through formal and informal cooperative relationships and networking between governmental, nongovernmental, and private actors (Gómez 2001: 1).

tary. One crucial step in the direction of improving the employment picture is therefore to guarantee a comprehensive and intensive **dialogue among all actors** in order to ensure the transparency of relevant information and concrete intentions, and encourage the **coordination and harmonization** of measures and a broad social consensus. The first stage of such integrated coordination is the exchange of information; the next stages involve the conception of joint projects or measures, definition of goals, and joint implementation of these goals. One suitable approach here is to formulate **employment policy guidelines** that define employment targets, which are then implemented with the aid of corresponding action plans at the national as well as the regional and local levels (see the Box below).

Box 5: Employment Guidelines of the European Union (EU)

The EU's Employment Guidelines are based on **four strategic pillars**. These are: employability, entrepreneurship, adaptability, and equal opportunity.

Pillar one (**employability**) is concerned with the supply side of the labour market. It calls for active instead of passive measures and the reduction of qualification deficits (e.g. measures aimed at combating long-term and youth unemployment; an employment-friendly policy as regards social benefits, taxes, and training systems; qualification in the context of lifelong learning; reduction of discrimination; and promotion of social integration through easier access to employment).

Pillar 2 (**entrepreneurship**) is concerned with creating new jobs by reducing costs as well as closing the "service gap" between the US and the EU. This pillar calls for the establishment and good management of firms, promotion of new employment opportunities in the knowledge-based society and in the service sector, and support for regional and local employment initiatives.

Pillar 3 (**adaptability**) is concerned with creating more flexible arrangements for the organization of work and addresses not only the government actors responsible for employment policy but also the social partners. Measures are aimed at modernizing the organization of work and promoting adaptability within firms as components of lifelong learning.

Pillar 4 (**equal opportunity**) is concerned with measures geared to reducing gender-specific differences in the labour market. It calls for activities aimed at alleviating the imbalances between the percentages of men and women in certain occupations and economic areas as well as improvement of the chances of women for career advancement. The measures further call for improved compatibility of work and family life (e.g. family-friendly policy, parental leave arrangements, facilities for children and other people in need of care) as well as an easier return to working life.

One characteristic of European employment policy is that it does not view equal opportunities for men and women as an isolated field of action and instead anchors the principle of gender mainstreaming in its other three fields of action. That is, promotion of **equal opportunities for women** in the labour market is here seen as a **cross-sectoral issue**.

A strong, smoothly functioning **partnership** between workers and employers associations, the chambers of industry and commerce, government, and Nongovernmental Organizations (NGO) can contribute decisively to the implementation of reform measures and also help to quickly identify problems or errors in the concrete formulation of measures. If good cooperation in fact comes about, it is easier, in both political and technical terms, to flexibilize labour markets and enhance their adaptability to changing framework conditions. The relevant actors also include a labour administration whose uppermost goal is to improve – with the help of the labour-market instruments available to it – the functioning of the labour market in general and to enhance the adaptability of individual actors in particular.

The three fields of economic policy most crucial to the development of employment are, as shown in Section 2.2, budgetary policy, monetary policy, and wage policy. Accordingly, dif-

ferent groups function as agents of economic policy: the government, the central bank, and the social partners. These actors can use agreements and **targeted cooperation** to create an employment-friendly environment and avoid conflicts in this triangle. For example, a reliable monetary policy can encourage labour unions to moderate their wage demands, since in this case adjustment for inflation is a factor of less importance.³⁵

As a component of employment policy, labour-market policy has many points of contact with other policy fields, in particular with **structural policy, education/training policy, and social policy**. It is therefore advisable to coordinate measures and goals. In general terms, labour-market measures should harmonize with measures of structural policy. It is likely, however, that coordination between these two fields will produce disproportionately positive results. For instance, a labour-market qualification measure can have a catalyzing effect on a programme geared to structural improvement. Nevertheless, goal conflicts are also possible when, for instance, labour-market activities, as a rule individual in nature, are used to promote mobility, which can run counter to structural goals (attracting industries to economically weak regions).

Apart from dialogue involving all actors, targeted cooperation, and partnership, one other key factor for the success of an employment-oriented policy is having one of the relevant (governmental) actors assume a **coordinative role** in formulating and implementing employment policy. This means instituting the necessary harmonization processes, bringing together different packages of measures and funding sources, providing for regular monitoring, and systematically evaluating experiences and making that information available to both political decision-makers and the interested public. Examples of such coordinating bodies are found in a number of countries, among them the South African National Economic Development and Labour Council (NEDLAC) and the Socioeconomic Council (Sociaal Economische Raad/SER) in the Netherlands.³⁶

Cornerstones of an employment-oriented policy

Numerous country analyses and project experiences in the field of Development Cooperation (DC) alike have led to the definition of the following points as cornerstones of any employment-oriented policy:

- systematic consideration and **coordination of the most important macroeconomic aspects of economic policy** as a means of achieving employment goals;
- definition of both qualitative and – above all – quantitative **employment targets**, including concrete indicators, and a consistent orientation of all policy fields to these targets, for instance in the form of employment guidelines;

35 On the other hand, an expansionary fiscal policy in connection with a wage policy not geared to growth in productivity – i.e. an inflationary policy – can lead to a restrictive monetary policy. The latter works counter to the desired level of domestic demand, and this in turn can entail shock-like effects on growth and employment.

36 For more information on these two country cases and additionally on the German Bündnis für Arbeit see: Addy (2002).

- an intensive and regular **dialogue** as well as coordination and consultation with all important actors with the aim of bringing about a **broad social consensus** on sustainable improvement of the employment picture;
- this all presupposes **management competence** on the part of **governmental agencies**, on the one hand, and **competent employers and workers organizations**, on the other, furthermore an **interested and well-informed public** that is involved in political decision-making processes;
- agreement of the main actors on the establishment a **joint body** responsible for the coordination and implementation of employment policy;
- targeted **investment in education/training** as a means of bolstering necessary processes of structural change;
- **reform of labour legislation** aimed at enhancing worker adaptability and mobility as well as creating incentives geared to raising employment levels in private firms;
- **use of instruments of active labour-market policy** to support and promote employment-related interventions, though these necessarily presuppose the appropriate orientation and competence on the part of labour administrations and/or employment services as well as financial leeway in public budgets.

In other words, what is called for is a **comprehensive approach to policy** that embraces all levels and all actors and is furthermore based on a coordinated sequencing of measures. This will differ from country to country and is highly dependent on specific political and economic givens, reform-mindedness, economic priorities, institutional capacities, and, in particular, the **quality of policy coordination**.

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Albania

Dr. Kosta Barjaba
Chief of Cabinet of the Minister
Ministry of Labour and Social Welfare

1	On the way of economic recovery	37
2	Labour market and unemployment	38
2.1	Some indicators of demographic developments	38
2.2	Causes of unemployment	39
2.3	Some indicators of employment and unemployment	40
2.4	Informal labour market	41
2.5	Migration	42
2.6	Labour market data and statistics	43
3	Labour market policies	44
3.1	Role of the Employment Services	45
3.2	Passive labour market policies	46
3.3	Active labour market policies	47
3.4	Professional formation as a priority of labour market policy	48
4	Conclusions and recommendations	51

1 On the way of economic recovery

Albania has entered the way of economic recovery and development of sustainable reforms aiming at macroeconomic stabilisation, as well as at institutional building. The main indicators of these developments are:

- Application of a tight monetary policy, which stabilises the exchange rate, reduces the inflation, and facilitates the reduction of currency circulation velocity.¹
- Fiscal policies aim to provide a balance between the need to limit the budget deficit and the need to finance essential public expenses. Therefore, the primary deficit fell from about 8 per cent of the GDP in 1997 to 1 per cent of the GDP in 2001.²
- The measured monetary and fiscal policy have a positive influence on the number of remittances from the Albanian emigrants employed outside the country and on the donors' financial support, helping to stabilise the monetary exchange rate and creating a good environment for economic growth.
- The high level of remittances promotes economic growth, especially in the service and construction sectors. The increase of incomes from these sectors has a decisive role in compensating the lack of crediting from the banking sector.
- The donors' financial support, which since 1997 has an average increase of 5 per cent, plays an important role in reducing the internal borrowing and developing the infrastructure needed for economic growth support.

Albania has had a **good macroeconomic trend**³, with an average economic growth of 9 % per year, in the period 1993-1996, and about 7.7 % in the period 2000-2001. The period 1998-2001 can be evaluated as a period of macroeconomic re-stabilisation, progress in structural reforms related to intensification and completion of privatization of small and medium enterprises, as well as compilation of privatization strategy for big enterprises and public services, reforms of the financial sector, privatization of state banks, and introduction of new private banks. The achieved stability and reforms intensification let the GDP again increase and inflation decline⁴. But, despite the improvements in the fiscal balance and current account, they still remain at relatively high negative levels, as shown in the following table.

1 Minimum compulsory deposits were applied for the first time in 1992.

2 That is the difference between the incomes and expenses, excluding the expenses financed by foreign capital and the payment of interests.

3 After the economic decline of year 1997 by - 7 %, we cannot say that the economic growth was sustainable, otherwise Albania is classified in the group of countries with a non-sustainable growth.

4 According to the Bank of Albania, the annual inflation at the end of year 2001 was 1.79 %.

Table 1: Macroeconomic indicators, 1991-2000 (annual average percentage)				
Indicators	1991-1992	1993-1996	1997	1998-2000
Real increase of GDP	- 17.6	9.3	- 7	7.7
Inflation	170.5	17.5	42.1	3.9
Account deficit (% GDP)	- 61.1	- 15.1	- 12.1	- 7.1
Fiscal deficit (% GDP)	- 25.8	- 11.4	- 12.9	- 10.4
Source: Ministry of Finance, Tirana, 2001				

Direct foreign investments are one of the most important factors for the entering of fresh capital, modern technology and western experience in the field of management and marketing. They have played an important role also in the reconstruction of Albanian economy, acceleration of privatization rates, opening of new jobs, increase of export and decrease of commercial balance deficit. From the location point of view, over 90 % of foreign and joint ventures enterprises are located in the western and south-eastern parts of Albania, in Tirana, Shkodra, Durres, Vlora, Gjirokastra, Korça, and Saranda cities.⁵ Furthermore, the data show that the direct foreign investments in Albania, differently from those of Eastern and Central Europe countries, have are coming mainly from neighbouring countries, such as Italy (50 %) and Greece (20 %). With regard to the sector distribution, the direct foreign investments in Albania are concentrated mainly in tourism, light industry, construction, agro-food industry, transport, etc, which account for 80 % of direct foreign investments in Albania.⁶

Foreign investments and finance have been and remain among the most important sources of economic and social development in Albania. The level of foreign investments, as a reflection of the international capital market position versus the political, economic and social stability in country, is evaluated as a synthetic indicator of the transition progress of Albania. Nevertheless, the incomes coming from foreign investments in Albania are relatively limited. In 2000, the level of investments is assessed to be 140 million USD⁷ or three times higher than the input of the year 1999. For 2001, the level of foreign investments in Albania is about 10 % higher than in 2000. The success in improving this indicator, especially during the last two years, has been mainly the result of the privatization process.

2 Labour market and unemployment

2.1 Some indicators of demographic developments

Albania continues to be in the first place in Europe regarding high fertility level and low general mortality level. This is due to the age pyramid of the population. In Albania, the specific

weight of the aged people accounts for about 10 %, whereas in the other Europe countries it is about 2-3 times higher. Currently Albania is in a period of limiting the differences between the fertility and mortality rates, a situation which tends to lead the country towards a stationary situation of population equilibrium.

During the decade 1991-2001, the promoter of the demographic development was the **internal and external emigration** of the population. During this period the emigration rates surpassed the natural population increase rates. Starting from 1992, the gender population structure started to change: the dominance of males started to be replaced by female dominance.

During the period 1990-2001, the population of Albania increased by only 3 %. The low increase is a consequence of the high flux of internal and external emigration, as well as of the decline of **natural increase**. The legalisation of abort, the application of family planning, and the migration movement reduced sensibly the fertility rate, which from 25.2 per thousand in 1990 declined to 18 per thousand in 2000. Meanwhile, the mortality rate has remained almost constant.⁸ The demographic developments in Albania forecast a continuous reduction of the age-group 0-14 years of age as well as the continuous increase of age-group above 60 years of age.

Sensible changes were also noticed in the **population structure** according to the residence. A rapid increase of the city population occurred from 36 % in 1990 up to 47 % in the year 2001, with an intense trend towards further increasing.⁹ Regarding the urban-rural structure of the population, it is forecasted that within the five next years the city population will surpass the village population. While within the second decade of this century, the urban population of Albania is forecasted to be two times higher than the rural population.

Regarding the population of working age, Albania is among the less developed regions related to the general population characteristics, average age relatively high and the third age relatively low.

2.2 Causes of unemployment

The unsustainable economic and political developments have influenced directly the level of unemployment in the country, which has been and remains still on high levels. During the period 1997-2000, the **unemployment rate** has been at about 17-18 per cent. Only during the year 2000, the unemployment started to decline below 15 per cent.¹⁰ The decline occurred as a consequence of the trends towards the normalisation of economic life and increase of investments (foreign and domestic), but it is also a result of the active employment policies and

⁵ Ministry of Economy, Tirana, 2002.

⁶ National Conference "Economic-Social Development of Albanian Provinces and their Regional and World Integration", Tirana, 1999.

⁷ Ministry of Economy, Tirana, 2002

⁸ INSTAT, Tirana, 2001.

⁹ INSTAT, Tirana, 2001.

¹⁰ Ministry of Labour and Social Affairs, Tirana, 2002.

programmes applied during the last years. Actually, the unemployment level is about 13 per cent.¹¹

The closing of production sectors at the beginning of 1990s increased rapidly the unemployment. But the high unemployment level is also explained by the urban-rural structure of the population. In 1989, Albania had about 64 per cent of the population living in villages, and one sixth of the population (around 525 thousand persons) was employed in the agriculture sector (ex-agricultural cooperatives)¹², a big part of which, even formally receiving land from the land privatization reforms, practically became unemployed (**hidden unemployment**). They have to be added to the unemployed that lost their jobs due to the privatization reform in the industry and services sectors.

The difficult living conditions in the village as well as the lack of strategies and programmes for the development of agro-business caused a very high emigration flux of rural areas towards the city. This tendency can only be reduced by influencing directly the increase of unemployment.¹³

2.3 Some indicators of employment and unemployment

Currently, about 2,500 subjects are operating in the **state sector**, where are employed about 192 thousand persons, while about 45 thousand subjects are operating in the **private sector**, in which are employed about 208 thousand persons. Actually in Albania, there are in total in both sectors (state and private) about 400 thousand employees.¹⁴ During the last years, the number of subjects in the state sector is steadily reducing, a phenomenon, which is due to the transformation of the state half budgetary enterprises into private enterprises. The reduction of state subjects is followed by an increase of private subjects. Therefore, during the years 2000-2001, a sensible reduction of the employed in the state sector (about 2 thousand persons) was caused by the **privatization** of some enterprises in different districts of the country, reforms in the public administration, reforms in military, etc.¹⁵

By the end of 2002, the **unemployment rate** in Albania is forecasted to be about 13 %.¹⁶ The unemployment statistics show that almost two thirds of the unemployed are below 34 years of age, half of which have elementary education or less, and the other part has finished the high school. Percentages of the registered unemployed are higher in urban areas than in rural areas, although in rural areas high levels of hidden employment probably exists.

¹¹ Ministry of Labour and Social Affairs, Tirana, 2002.

¹² Statistical Annual Report of Albania, Tirana, 1991.

¹³ REPOBA, preliminary results, INSTAT, Tirana, 2001.

¹⁴ Ministry of Labour and Social Affairs, Tirana, 2002.

¹⁵ Ministry of Labour and Social Affairs, Tirana, 2002.

¹⁶ Ministry of Labour and Social Affairs, Tirana, 2002.

Nevertheless, the unemployment indicators have had and have their refractions and features in the regional and territorial location. These features reflect the reformation of economic and production life of the country, as well as the traditions, characteristics and circumstances of economic and social development in various areas of the territory. Therefore, during the period 1998-2002, the **unemployment enclaves** were mainly in the regions and districts of Shkodra, Berat, Elbasan, Kukes, Puka, Skrapar, Laç, Tropoja etc. By the end of 2002, the unemployment in Albania became the following regional-territory dichotomy: the unemployment rate was steadily decreasing in the southern areas whereby it increased in the central and northern areas of the country. At the beginning of year 2002, according to the districts of the country, the unemployment level according to three areas was as follows:

Central area		North-eastern area		Southern area	
Berat	15.9	Bulqiza	11.3	Delvina	5.3
Durres	9.2	Diber	8.4	Devoll	4.1
Elbasan	19.3	Has	12.7	Kolonja	9.4
Fier	9.7	Kukes	19.5	Korça	9.9
Gramsh	17.3	Laç	42.5	Permet	4.5
Kavaja	18.7	Lezha	15.1	Pogradec	18.1
Kruja	14.4	Librazhd	42.0	Saranda	4.9
Kuçova	38.7	Malesi e Madhe	11.9	Skrapar	18.4
Lushnja	10.5	Mat	13.4	Tepelena	7
Mallakaster	5.6	Mirdita	17.0	Vlora	13.1
Peqin	9.1	Puka	23.7	Gjirokaster	8.5
Tirana	9.0	Shkodra	24.2	Tropoja	25.0

Source: Ministry of Labour and Social Affairs, Tirana, 2002

2.4 Informal labour market

The informal labour market in Albania consists of:

- illegal economic activity;
- economic activity with non-renewed fiscal documentation;
- economic activity undeclared at the Institute of Social Security;
- economic activity undeclared at the State Inspectorate of Labour;
- self-employed, unlicensed of ambulant type;
- self-employed of the free market.

Some of the most **general characteristics** of the informal labour market are:

- The development of unlicensed economic activity: About 28.6 % of the controlled subjects exercise unlicensed illegal activity which has the highest illegal employment figures.
- The increase of social security contribution level, during 2001, negatively influenced as a barrier for increasing the number of licensed subjects.
- The unlicensed activities are mainly exercised in the outskirts of the cities as well as in the rural areas.
- The lack of coordination between the activities of the tax authorities and the State Inspectorate of Labour and Institute of Social Security serves, in many cases, as a factor that feeds the labour market informality. For example, in Tirana district the issuing of tax certificates named "small business" has led to the reduction of judicial persons and the possibility of informal employment by physical persons. Under these circumstances, only 32 % of the employees employed in the small businesses have signed an individual contract with the employer.

2.5 Migration

During the period 1999-2002, about 20-22 per cent of the population is reported to live outside the country.¹⁷ Therefore, the flux of **emigration among Albanians** remains about five times higher than the average emigration flux in the countries under development. Meanwhile, in absolute value, the number of Albanian emigrants is steadily increasing. According to the recent data of domestic and foreign researchers, the communities of new Albanian emigrants are located according to this ranking hierarchy:

Greece→Italy→Germany→USA→other countries.

The policy of the Albanian government for the emigration aim at **widening the legal and organised emigration** channels for Albanians. For this, the implementation of agreements with neighbouring countries for seasonal employment is planned. Currently, Albania has such an agreement with Greece (signed in 1996) and with Italy (signed in 1997). An agreement with Germany for widening the language and professional knowledge of Albanian youth through seasonal employment (signed in 1991) is also in force, but the numbers of participants are increasingly reducing. The government has promoted also the decentralised co-operation between the cross border areas with Greece for the seasonal employment of Albanian citizens, inhabitants of these areas, in the bordering areas of the neighbouring country.

By knowing and considering the problems of Albanian emigrants in the receiving emigration countries, the attention of the Albanian government is concentrated on increasing the state care for the emigrants outside the country, on facilitating the conditions of staying, legalisation and their living through an increase of contacts, exchange of information and co-

operation with the governments of the receiving countries. As a result of this co-operation the ratio of legal and illegal emigrants in Italy and Greece has been sensibly improved in favour of the legal emigrants.

Emigration has started to operate as an important factor of reconstruction and economic and social development of the country. From being mainly a surviving and consumption trend, emigration tends to become more and more **development and progress oriented**. The remittances from emigration are continuously increasing, accounting currently for 15-20 % of the GDP. The remittances from emigrants have helped to finance about 60 % of the country's commercial deficit.¹⁸ According to the data of the Bank of Albania, during the period 1996-2001, the dynamic of remittances from emigration has been as follows:

Year	1996	1997	1998	1999	2000	2001
Value in million USD	499.6	266.9	452.2	368.1	530.8	615

Source: Bank of Albania, Tirana, 2002

According to the Albanian legislation on foreigners (Law "On Foreigners" no. 8492 dated 27.05.1999), **foreign citizens** can be employed freely in the Republic of Albania. When the employment period is more than three months, it is necessary to get a working permission. Foreign citizens in Albania can be employed in three forms: as employees, self-employed, and employers. According to the above law, for different employment status, are issued different working permissions. During the period of February 1996 till December 2002, working permissions have been issued for about 5,000 foreign citizens, who work mainly in the sectors of dental laboratories, construction, trade, services, education etc.

2.6 Labour market data and statistics

Statistics in the employment offices in the districts have as a main source the **periodical report of employers** to the employment offices, an obligation foreseen by the Law on Employment Promotion. The quality of this report is quite different. It is closely related to the awareness of employers for their common interests as well as to the services offered by the employment office, based on the development of mutual understanding and co-operation.

In order to unify and to renew periodically the employment figures, the National Employment Service co-operates at central and local level with the Institute of Social Security, State Inspectorate of Labour. Additionally, periodic monitoring methods are used, such as the monitoring of labour force, **surveys** of living conditions etc. This is because the information coming from administrative sources is partial and for this reason it does not discover the whole dynamics and tendencies of employment and unemployment.

17 Barjaba, K., 2000, From Otranto to Vancouver: Emigration within the Context of Developments in Albania, in Lanni, C. (ed) Albania A Country of Europe, EGA, Torino.

18 Albanian Emigration Study Centre, Tirana, 2002.

In order to improve the statistic indicators of the labour market, in the framework of compilation of the Strategy for Economic Growth and Poverty Reduction the following **indicators** are also being monitored: i) Number of unemployed according to the unemployment period: 3, 6, 9, 12 months; ii) Number of unemployed employed after a 6 month period of unemployment; iii) Number of unemployed that have started a training course after 6 months of unemployment; iv) Number of job seekers after one year; iv) Number of job seekers after completing a training course; vi) Costs for one trained person; vii) Costs for one person employed by the employment promotion projects.

This requires that the employment offices should make necessary changes and improvements in the existing documentation as well as in the method and regulation of employment service operations. For this it can be recommended that due to the lack of the periodical surveys of INSTAT, there should be organised simple surveys in some pilot areas aiming at the verification of the data about employed and unemployed people. This requires the training of the staff and the statistics services in the regional employment directory for applying the new indicators of the labour market, the definition and unification of information sources, and the use of relevant software etc.

In order to reflect better the labour market situation, the National Employment Service uses an **improved statistical programme**. This programme is enriching the information about the labour market; it contributes to more efficiency in the employment services and to the possibility for monitoring the services, at local and central level.

Changes in the structure of unemployment (groups of work seekers unemployed, age-groups, education level etc.) occurred as a result of the adoption of the international statistic indicators, aiming at their unification. The reflection of number of job seekers according to the professional groups, of changes in the increase or decrease of job seekers, the risk of unemployment according to the profession, the situation of newly reported job vacancies, as well as of the level of mediation and qualifications, has been possible for the first time during the year 2001, by applying the new registration method at the employment offices. The improved statistical programme was launched by the specialists of employment offices statistics in May 2001. Currently, the organisation and information exchange at regional level has started to be implemented. The processing of statistics at regional level is limiting the time of processing and reporting the information at all levels.

3 Labour market policies

The increase of employment levels in Albania is done mainly through regulation and adaptation of the demand on labour force than through the regulation of the offer. The adaptation is done through the services that are offered and the programmes that are implemented, which have the following **aims**:

- Meeting the right of all citizens to be trained with services and to be financially supported in their efforts for finding a profitable work, suitable with individual qualities and professional capabilities;

- Efficient administration of the programmes and efforts in the implementation process;
- Development of the labour force through investments for increasing the working and self-working capability, flexibility, mobility, and competing capabilities etc. Meeting these objectives leads to a better adaptation of the labour force to the market requirements.

3.1 Role of the Employment Services

The employment services are mainly responsible for the identification of the job seekers and of new job vacancies created and offered by private businesses and other institutions. **Matching** the demand with the offer, about 5 thousand unemployed persons per year are employed.¹⁹ This indicator is low in proportion to the possibilities and number of employees that operate in these services. This shows that the employment services are not efficient enough and do not respond to the requests of the time. The employees of the public employment service need to be qualified, to react more dynamically and with better results towards the business behaviour in the market, in order to implement better the national employment strategy.

The Albanian government has defined the following **priorities for increasing the role** of the employment services for the year 2002:

- i) Computerisation of employment services. The establishment of a general computerised network for all the services and information of National Employment Service for Tirana district;
- ii) Development of advise services and career development;
- iii) Implementation of programmes for professional advise of the young unemployed persons;
- iv) Implementation of programmes for economic and social rehabilitation of groups in need (long term unemployed, young people, women, incapable persons etc);
- v) Establishment of job clubs as a new method of development and implementation of job seeking methods;
- vi) Unification of methodology for operation of employment services in the whole territory of the country;
- vii) Unification of office documentation and employment services;
- viii) Development and implementation of monitoring indicators, which will reflect the performance of the services;

19 Ministry of Labour and Social Affairs, Tirana, 2002.

- ix) Review and improvement of the relations between the employment services and professional formation.

The establishment of a new local administrative organisation unit (Circuit) is also followed by the reorganisation of the employment and social services at regional and local level. Therefore, it is aimed that all social state services and the employment services will operate on **three levels**: the central level (National Employment Service, State Social Service, Institute of Social Security, State Inspectorate of Labour), the regional level (Regional Employment Directorate, Regional Directorate of Social Services, Regional Directorate of Social Security, Regional Inspectorate of Labour) and the local level (Labour Office, Social Services Office, Agency of Social Security, Labour Inspectorate).

The **decentralisation** of the social and employment services which is part of the complex institutional decentralisation process is accompanied by the **development and modernisation** of their system: creation of new services, strengthening of community based services, increase of participation of the actors of civil society in offering services, widening of social dimension of business, involvement in offering social services of the private operators etc.

3.2 Passive labour market policies

The **unemployment payment** is part of the state policies, which provide income support for the unemployed in the moment of becoming unemployed, aiming at the creation of conditions for their returning onto the labour market. The unemployment payment programme supports the unemployed in two forms:

- Supporting the unemployed with an unemployment payment based on the social security contributions;
- Supporting the unemployed with the full salary of the job of the last year and minimum salary at national level for the duration of one year.

During the years 2001-2002, the **legal acts** for paying unemployment benefits have been reprocessed and improved. Employees that have lost their job due to privatization or partial or total closing of enterprises (employees of coal mines, geological service, Albtelecom, thermal power plants etc.) benefit from a full unemployment payment.

Around 18,000 unemployed benefit every month from the unemployment payment service, out of which 15,000 get the usual payment and 3,000 the full payment. This service is concentrated in some districts, like in Elbasan, Fier, Skrapar, Mirdita, Kruja, Kukes, Tirana, Vlora as a result of privatization of the important economic sectors, such as the textile industry, mineral industry, extraction and diesel processing, reforms in the public administration etc. The **number of persons** who benefit from the unemployment payments during the last years has been reduced in average by about 10 % per year. The profile of the persons, who got the bene-

fits during the year 2002, is as follows: 44 % are women, 33 % have elementary education, 56 % with high school education, and 6.6 % with university degree.²⁰

3.3 Active labour market policies

In order to promote employment, the following programmes were or are being implemented:

The **Public and community works programme** has helped to alleviate the regional and territorial differences in the unemployment level. This programme which was financed by the Albanian government has been implemented during the years 1998-1999. The programme, apart from the improvement of the infrastructure and essential living services mainly in the rural areas, aimed also at the involvement of the community and the unemployed for implementing these projects. In the framework of the Public Works Programme, about 730 projects were implemented, most of which (about two third) in rural areas, and about 50,000 unemployed were temporally employed.²¹

Furthermore, the **Albanian Development Fund** has implemented about 1,000 projects of the small scale socio-economic infrastructure (roads, water supply, schools, health centres, bridges, irrigation systems, public buildings etc.) with a total investment value of about 60 million USD. These projects are spread all over the communities and municipalities of the country. Almost every community has benefited at least from one project. The beneficiaries of these investments are estimated to cover two thirds of the country's population. Following the investments made during the period 1993-2001, the Albanian Development Fund has tried to create about 14,000 new jobs. About 3,200 new jobs were created only during the year 2001.

Currently, the **employment promotion programme** remains the main and the only one for creating new jobs through the public employment services. During the years 2000 and 2001, the state budget has financed about 3 million USD respectively for the implementation of the projects in the framework of this programme. During the year 2001, about 200 projects were implemented, through which 5,000 unemployed were employed, with an average employment period of 7 months. During the year 2002, about 150 projects were implemented in which 4,000 unemployed participated, with an average employment period of 4 months.²² The biggest number of employed persons in the framework of employment promotion programme is evident in the sectors of construction, cities maintenance, leather processing, clothes, food industry etc.

The employment promotion programme is implemented with priority in the areas with high unemployment levels, sharp social problems, and by taking into consideration factors such as

20 Albanian Emigration Study Centre, Tirana, 2002.

21 Ministry of Labour and Social Affairs, Tirana, 2002.

22 Ministry of Labour and Social Affairs, Tirana, 2002.

the possibilities of private subjects for providing maximum possible employment, their operation in priority economy sectors and that ability to adapt to the changes of the labour market.

3.4 Professional formation as a priority of labour market policy

The **professional formation** expresses the ability of the labour force to respond to the demand. Therefore, it includes: the preparation for employment; training; re-training; and professional formation for preventing risks of non adaptation of the labour force to new technologies and other new structures of enterprises.

In Albania, the system of education and professional formation has existed for a long time. During the last years, serious efforts have been undertaken for **restructuring** this system by creating two levels: (I) a three-year training, for preparing qualified labour force, and (II) a five-year training for preparing high qualified technician and managers of economic enterprises. In Albania, actually 43 technical and professional schools are operating.²³

The professional formation system in Albania operates through **public centres**, and an increasing number of **centres of private subjects and NGOs**. Actually 8 public centres of professional formation are in operation in the biggest cities of the country: Vlora, Shkodra, Tirana, Durres, Elbasan, Korça, Tepelena. Short term courses in different specialities such as foreign languages, computing, secretary, auto-service, cosmetics, tailoring, repair of electrical appliances, shoemaking, plumbing, electrician, repairing of radio television, welding, etc., are organised in these centres. The period of courses varies from 6-7 weeks up to three to four months.

The **legal basis** for education and professional formation in Albania is "Law on Education and Professional Formation", which has been approved by the Parliament in March 2002. This law is based on the following **main principles**:

- Respect of principles for developing a democratic society;
- Strengthening of dialogue and increase of collaboration level between the social partners and other actors interested in education and professional formation;
- The right of each person to be educated and formed professionally as well as to select the profession;
- Utilisation of best experiences of Albanian education and professional formation;
- Principle of life long learning;
- Increasing the flexibility of education and professional formation system in order to adopt the system better to the social and economic requirements and the needs of the labour market;
- Increase of decentralisation scale and financial autonomy of education and professional formation institutions;

²³ Ministry of Labour and Social Affairs, Tirana, 2002.

- Respect of all international conventions related to education and professional formation.

During the year 2002, over 7,000 persons have been trained in public training centres, whereas about 3,000 persons in private centres. Apart from the management of public professional formation centres, big importance is given to the development of market offers for professional formation with a wide participation of **private centres**. During the year 2001-2002, the National Employment Service has licensed about 70 private subjects of professional formation, from which one third are NGOs. As a result, there is an increase of the trained contingent through the authorised private centres, which is related to the widening of the private network of professional formation centres. Meanwhile the increase of the contingent trained in the public centres is related to the widening of the activities of the existing centres, the application of short term courses that responds more quickly to the labour market, and the opening of new professional formation centres.

The biggest share of the professional formation courses is concentrated in Tirana. This is related to the better economic development and entering of foreign companies leading to the free movement of unqualified labour forces towards the city. The **most requested courses** are the ones of foreign languages and computing, by considering them as a possibility that facilitates the integration into the labour market. The most requested professions are the ones of tailoring, hairdressing, electrician, and plumbers, professions that are considered as a good possibility for employment and self-employment.

The development of the professional formation system in Albania is currently encountering the following **difficulties**:

- The development of the professional formation system is conditioned by the development of the labour market. But the studies of the labour market still do not give accurate data related to the training needs analysis;
- The relations of the professional formation centres with the social partners (employer, trade unions) and the local power are still weak;
- The standards of professions are missing or are insufficiently developed;
- The structures for developing curricula and almost all the texts and necessary education materials are missing;
- The system of evaluation and certification of course attendees is missing;
- The system of primary and continuous qualification of the instructors is missing or is not very developed and the efforts for their qualification are sporadic.

The experience of employment services operation during the first transition decade, 1991-2001, has shown that the professional formation is not within the right place in the framework of employment services, but it is considered as a non priority service. Taking into consideration the actual unemployment situation, structure and needs of labour market in Albania, the composition and the actual capabilities of the Albanian labour force, qualification and professional training are considered as one of the best ways for **promoting employment** and re-establishing the balance between the requested professions from the private sector compared to the ones offered actually by the labour market. The priority of the professional formation is

one among the most distinguished indicators of moving towards active employment policies. This **priority** is related to the following aspects:

- i) Orientation on professional formation towards the professional and technological preparation of the whole population. This includes also all the former employees in sectors and professions that are not any more demanded (workers and specialists of mines, mineral processing, management of agricultural cooperatives etc).
- ii) Orientation on professional formation towards the professions and sectors which tend to be future priorities of the economic development of the country: construction, services, hotels, tourism, clothes, processing of agriculture products, contemporaneous communication technology, handicrafts, including the traditional handicrafts.
- iii) Increasing the coverage of professional formation for the unemployed people. Actually, it results that the professional formation through the public formation centres "processes" no more than 6 % of the human resources per year currently unemployed.
- iv) Placement of the professional formation on a more complete, coherent and legal basis, as well as its functional and complementary relations with the professional education.
- v) Giving priority to the professional formation also in the framework of projects financed by the donors.
- vi) Promotion of the competition between the public and private services of professional formation.
- vii) Promotion of collaboration between the public formation centres and private business. The tradition for promoting and financing the formation through big business companies operating in the country is not established yet. This tradition is considered to be an important financial potential and institutional capacity. The private and state formation structures suffer from the lack of funding for carrying out their activity, due to the lack of sufficient state funds, as well as to the lack of payment ability among the population interested to be trained.
- viii) Professional formation of social groups in need, through social business. During the year 2001, the first project of social business was implemented in Albania, which aimed at the employment of three children categories: orphans, street children, and incapable children. The implementation of this project is carried out with the funds and based on the co-operation of serious business partners, some important banks of the country, Coca-Cola Company, "Rogner" hotel (Austrian enterprise) and also the well-known cell phone company "Vodafone" which later joined the project.

4 Conclusions and recommendations

The employment services shall take priority in proportion to the services and social care. The professional formation should start to be considered as a service with more priority in the framework of employment service.

The **programme of Economic Assistance**, implemented during the last decade, for supporting the groups of population at or under the poverty level, has influenced easily the alleviation of the economic poverty impacts. But being a standard programme, passive and curing, it has not achieved the proper rehabilitation and motivation of the persons who benefit from this service. Therefore, it does not serve to alleviate social exclusion and to promote social participation. This would require a **better targeting** by taking into consideration the circumstances and regional and territorial refractions of poverty and its direct relations with the employment services. The passive character of the Economic Assistance scheme requires the establishment and consolidation of the mechanisms for promoting the economic and social participation by **being applied complementary** with the employment promotion programmes, professional formation, social services and promotion of community life.

The **role of state institutions** offering social and employment services should decline gradually. Priority should have their role in identification, coordination, monitoring, controlling, and evaluating of the different programmes and private implementing agencies. The **cooperation** of the government institutions with the civil society should be accompanied with responsibility divisions on contractual basis, in order to define clear functions and roles in offering employment and social services.

Currently, the services offered by **private providers** are still in their embryonic phase. Their promotion and development would be a competitive way of providing sustainability, reduction of cost and increase of efficiency of social and employment services, community and state services.

Bosnia and Herzegovina

Prof. Dr. Salih Fočo
Sarajevo University
Faculty of Philosophy

1	Specific features of Bosnia and Herzegovina (BiH)	53
2	Social consequences of war and slow reforms	54
3	Employment and unemployment	55
4	Key problems in the field of employment	56
5	Steps taken towards reforms	58
6	Development strategy and employment policy	58

1 Specific features of Bosnia and Herzegovina (BiH)

The last decade makes BiH specific and different from other countries in transition.

The war broke out, resulting in horrendously tragic consequences. It lasted for almost four years and changed the social and economic picture of the country. Out of 4.4 million pre-war citizens, 250,000 lost their lives, among them mainly men. Around 28 % of the entire population was evicted or displaced as a result of the war. Many generations lost several years of education. Tens of thousands of persons saw the end of the war with various levels of disability. Numerous families remained with one parent only; many children became orphans. The economy and its infrastructure were destroyed; agricultural production was devastated; and the segment of the population which could have become the major pillar of an economic recovery was displaced.

The war came to an end with the Dayton Peace Accords which provided preconditions for peace and reconstruction of the country. The peace and state building processes have been very slow, with an extremely high intensity of **ethnic, social, political and regional conflicts**. Since the war ended in a win-win situation, without a winner or a loser, all latent conflicts and issues which generated the hostilities remained after the end of the war. Hostilities and intolerance were reproduced. It is not possible to resolve a conflict in a climate of **fragile tolerance**, within a short period of time. The political forces who led the country into the war cannot be the forces of changes and tolerance. The Dayton Agreement, although it stopped the war, grew over the past seven years into a narrow framework, ineffective to support strong integration processes within the country and its economic recovery.

Normalisation of lives and economic recovery have been too slow. The formation of institutions at the national level is not yet complete even after seven years. The dominance of entities over the state has been intensified. Instead of progress, the state of temporariness and **lack of confidence** of citizens in all spheres of their lives, from the place of residence to the economic recovery, has been increasing. Such a situation in turn brought about a situation which is characterised by **corruption**, i.e. close connections between the authorities in power and criminal elements preventing in various ways the functioning of economy on the principles of law, but supporting political dominance and unlawful acquisition of capital, as its basis. The consequence of the **absence of a fully functioning state** is the lack of confidence on the part of citizens in the system and its values, in the structures of authority and their intentions. On the other hand, the authorities are shifting their inactivity and lack of will for reforms to the international community and its representatives who have quite a significant share in the state administration.

Returns of refugees and displaced persons are obstructed by diverse actions of both formal and informal nature. Return of citizens to their pre-war homes and places of residence and properties is one of the fundamental rights and responsibilities enshrined in the Dayton Agreement. That right is being denied by the state authorities through various actions of formal nature. The High Representative for BiH has had to intervene on many occasions by imposing laws superseding domestic legislation, with the aim to ensure the possibilities for the people to realise unimpeded returns. Returns are the basis for annulling the outcomes of the war, ethnic cleansing and also a basis for economic recovery and employment. How could so-

someone start a business if he or she does not know where he or she is going to live and if he or she is prevented from using his or her property freely?

Bearable politics or the climate conducive to returns has not yet been established. Political decision-makers are continually working on the destruction of the system and the creation of policy of uncertainty, instead of creating presuppositions for sustainable recovery and clear and transparent transition. The **reform processes** are predominantly initiated by the international representatives and their institutions which exist in parallel to the domestic structures. As a result, the vision of the BiH development is unclear, reforms are slow, while the progress is limited.

2 Social consequences of war and slow reforms

The failure to take efficient reform steps resulted in a constant **increase of poverty**. Extreme poverty which implies income below 1 \$ per day has been alleviated by huge **international aid** provided in different forms, scope and quantities and for diverse purposes. The international community has so far invested around US\$ 5,1 billion in the reconstruction and recovery of BiH. That investment led to an average growth rate in the past five years of around 25 percent. Employment has been halved; inflation has been reduced to some 3 % at the national level; all major damages of infrastructure have been repaired. Despite the great assistance which BiH has received, slow measures taken by fragmented authorities have annulled the effects of aid, directing its major portion to expenditures and maintenance of the administrative structure, instead of the overall development.

Devastated economy and infrastructure and obsolete technology as well as the **loss of working population** complicate the situation even further. As the processes in BiH are linked as communicating vessels reflected in cause-and-effect relationships, the situation is continually dependent on politics and will. Without returns, there will be no qualified labour force in some areas of the country. There will be no working class available for the economy. Returns of only elderly people, above sixty, to some areas do not provide conditions for economic reconstruction and changes of relationships in the economy. The young people find it more difficult to return and restore their lives in their pre-war places of residence, while the authorities are conscientiously generating uncertainty, failing to provide conditions for safe returns and lives of the people who were evicted by force from their homes during the war.

Privatization has been conducted without a clear concept, a unified strategy at the state level and without fresh capital. Instead of fast and well-devised reforms, there is apathy producing various forms of malversation and irregular combinations in the privatization process. The economy was either destroyed or devastated during the war. However, what remained intact was ruined in the post-war period due to the lack of care and vision. In view of the specific features of the BiH economy, which was base and industrial, numerous workers were dismissed as a result of divisions and ill devised privatization concepts, without any support of the authorities to the new processes or employment. The consequence is a very slow reform and economic recovery.

According to IMF estimates, BiH should have reached in the year 2002 the pre-war **GDP per capita**, which was around \$ 2,200 in 1991. As of today, it is around \$ 1,100. According to new projections, the GDP of 1991 will be reached in 2010, under the condition that necessary, clear and decisive reforms are implemented, which has not been practised by the governments in power so far. The presented data show that the population of BiH will lose around 18 years of development, even under the condition of accelerated reforms.

A **high unemployment rate** reaching almost one half of the working population is another result of the war and its aftermath. Although the situation is dramatic, the authorities have managed to minimise the pace of social processes by their political ideas ranging from nationalism to divisions on various options and groups. Low labour force concentration, **fragmentation of the labour market** and extremely limited labour and territorial mobility have contributed to neutralising and marginalising the social consequences. Since a seven year period has brought to surface the difficulties of material and social situation of the population, the authorities have begun to engage themselves more in creating the presuppositions necessary for recovery and improvement of the material situation of the population. Still, the conditions are continually very rigid and restrictive. The absence of a clear concept of reforms is the major obstacle to all measures aimed at bringing changes.

Regardless of the whole series of social measures, great promises by the authorities regarding social rights and security of the workers during unemployment or various modalities of waiting for employment, dismissal due to privatization, disability and so on, many citizens are in a **difficult financial and existential situation**. According to the reliable data, 19 % of the population live below a general poverty line, while 30 % are immediately above that line. Poverty is widespread in BiH and includes different groups of the population. The categories particularly exposed to risks are children, displaced persons and returnees, the unemployed and persons with low qualifications.

3 Employment and unemployment

By the end of June 2002, 610,924 people were employed and 426,670 were unemployed, so that the overall unemployment rate was 41.1 %¹. Among the total number of the unemployed, 46.3 % are women. Almost one third of the unemployed are demobilised soldiers and 4 % are families of killed and disabled war veterans. In late September of 2002, a research was conducted with the aim to show that the unemployment rate is much lower, around 20 %.² The difference accounts for hidden or informal employment on the black market. The research results make clear, however, that there is no appropriate registration of the structure and movement of the labour force.

1 In the Federation, the unemployment rate was 42 % and in the Republika Srpska 39.5 %.

2 In my personal judgement, as the sample included 5,000 citizens in non-representative towns, the results of the research should be taken into account with some reserves.

The **structure of the employed** has changed since 1990. Out of the total number of employees, 27 % work in the public sector. The employment in production has gone from 41 % down to 32 % in 2000. The share of administration has almost doubled (from 5.9 % to 11.6 %), while the share of employment in the trade sector increased by over 30 % (from 9.1 % to 14 %); the share of employment in education increased as well (from 5.8 % to 8.5 %). But the employment situation will become different if we take into account the fact that around 25,000 foreign nationals work in various missions in Bosnia employing around 10,000 local employees.

Another characteristic is related to the **obsolete skills** of the labour force and the lack of harmony of the education system with the new economic requirements. BiH had a base industry, with a low accumulative and educational structure. New technologies require a higher level of education and specialisation of the labour force.

Many displaced persons and returnees are in a difficult situation. They cannot find jobs or start their own business. There are a lot of serious **obstacles to their labour activity** of both formal and informal nature. The problems of employment will increase if we take into account the fragmentation of Bosnia and Herzegovina's market. This diminishes the demand for labour force, reduces mobility and creates market instability of a great magnitude.

Negative trends in employment have resulted in the **brain drain** of the young people from the country. According to one opinion poll, 65 % of the young people said they would wish to leave BiH and seek employment elsewhere. According to various sources, more than 90,000 young people from both entities left Bosnia since 1995.

A certain number of the currently unemployed people, who were employed in the past, are entitled to get the **compensation** amounting to 117 up to 240 KM in the Federation and around 70 KM in the RS. As the funds for that purpose are not available in sufficient quantities, only 3,320 former workers in the Federation and 1,586 persons in the RS receive that form of compensation. The unemployed in both Entities are entitled to health protection under the condition that they are registered as unemployed persons. The funds for the payment of contribution for health insurance in the Federation are provided from contributions paid from the salaries and from the budget of the RS.

As in many other poor societies, the **family** is the major source of social and economic **support**. Social consequences are alleviated by families and relatives. Those who live abroad support their relatives through different measures and activities. Institutional support is almost negligent, as there is no legislation or a financial basis for assistance to families and their members in case of unemployment or difficult material and existential conditions.

4 Key problems in the field of employment

The **system of registration** of the employed and the unemployed is inadequate. There is no single institution which would register unemployed and coordinate employment policy at the national level. Such registration is only done at the Entity level. But the data of the Entities

are not reliable. Most of the international institutions, including the World Bank, have suspicion on the data maintained by the Entity institutions. Since the data on the numbers of the employed and the unemployed are being manipulated for the purpose of presenting the authorities' effectiveness or ineffectiveness, the data are interpreted differently. However, it is encouraging that the law by which a responsible institution will be established at the state level is in the process of being drafted.

There is a high level of employment in the **informal sector** in Bosnia and Herzegovina. Citizens are forced to cope with the situation of unemployment on their own, and they are identifying various means of sustaining life. The authorities have not created a positive or stimulating framework for legal employment. According to the research conducted in that field, there is an extensive gray labour market, i.e. a hidden potential for both individuals and the employment management system. It particularly refers to the situation of privatization and the firms which are being privatised and implementation of agreements with the aim to present a fictitious employment, while the real picture is totally different.

In addition to the gray market, there is also a **widespread black market**, which is specific in BiH. BiH did not have its state border service for almost five years. The borders were completely open and suitable for black economy. Revenues from customs and taxes were localised and levied at the Entity level, which resulted in two separate markets within the same country, within which legal norms were not complied with. Negative trends were stopped with the establishment of the customs system and collection of revenues at the state level. The actions taken will contribute to the establishment of the rule of law and reduction of criminality, corruption and other forms of malversation. The level of employment will increase and facilitate the creation of a single market.

The **low mobility** of workers is a result of serious obstacles to returns to properties and jobs. The mobility is conditioned by poor economy and low level of demand. The Entities and regions are closed and burdened with a high unemployment rate. The development planning is fragmented and done spontaneously, without any major undertakings which would contribute to reducing the unemployment rate and increasing economic growth in the country. In view of such a situation, the chances of the workers trying to increase their salaries and revenues are limited.

The requirements for starting a business are very strict and require lots of funds; that most of the workers decide not to comply with the norms and thus find jobs in gray economy. A huge bureaucratic apparatus, superiority of administration, huge taxes and other **burdens discourage** both domestic workers and foreign **investors**. Many potential investors in BiH opt for giving up investing in the country due to complicated procedures, high taxes and fees. The consequences of this situation are decreased investments and international aid and the loss of confidence on the part of foreign investors in the ability and will of BiH authorities to change the situation and begin fast and effective reforms.

5 Steps taken towards reforms

The **Employment Law** and the **Code of Labour** have been enacted at the Entity level, under a strong pressure of the international institutions. The basic characteristic of these laws is that they are inconsistent, partial and contain many undefined solutions concerning workers' status and rights. Since the field of labour and employment relationships is a part of the entire economic system, both laws will remain abstract and unrealistic without other laws and specific measures. Even good provisions and solutions will lose their sense if they remain **partial and ineffective** in terms of increasing employment, labour rights and economic efficiency.

The Law on Job Placement and Social Security of Unemployed Persons was adopted at the level of Republika Srpska, while the same Law was imposed by the High Representative in the Federation of BiH. But the **institutional structure** established by the laws is not functioning and is disadvantageous rather than advantageous to the workers and the unemployed. The revenues flowing into those institutions are used irrationally and without a specific purpose, thereby weakening further the already weak labour basis and affecting the employment policy. From the above-mentioned information it is clear that no more than 3 % of unemployed persons receive some form of assistance during the period of search for employment, which is still a much lower amount than that of the costs of administration of the institutions in charge of the job placement process.

The agreement on the establishment of an **Economic and Social Council** in the Federation and a similar body in the Republika Srpska was concluded. There are legal and political pre-suppositions for a social dialogue. In reality, the dialogue does not exist; there is the **dominance of the state authority**, without respecting partners, i.e. employers and trade unions. Although it is a new process, rather unknown in Bosnia and Herzegovina, it is obvious that both employers and trade unions and the governments are poorly motivated for a dialogue. The dialogue implies respect for and leaving a monopoly which the state has had in economy and the labour market.

A series of actions have been taken towards the establishment of a **single economic space**. As one state cannot be functioning with several markets existing in parallel or conflicting each other, it was necessary to take a series of measures which would regulate the functioning of one market and the establishment of rules. The measures are a combination of legislative, political and economic measures with the aim to harmonise relations in the field of labour, mobility and security of investment of capital, more transparent privatization and a clearer economic vision of the development of the country.

6 Development strategy and employment policy

It is encouraging that an agreement of all reform forces to start with a **development strategy** for BiH has been achieved. The strategy is a test by which the commitments of the new political forces and authorities in BiH to reforms can be evaluated.

The strategy has the following **priorities**:

1. Establishment of a single economic space;
2. Improvement of the business climate for domestic and foreign investments and completion of the privatization process;
3. The rule of law and the establishment of efficient mechanisms for fighting corruption;
4. Establishment of an adequate system of social and health protection and of an education system;
5. Coming closer to the EU integration through the Agreement on Association and Stabilisation;
6. BiH integration in the world's global economic flows by attracting foreign investments and the BiH membership in the World Trade Organisation (WTO).

Most importantly, the entire strategy is aimed at decreasing the rate of poverty by establishing an adequate economic and educational system and creating new conditions necessary for the functioning of the labour market and eliminating unemployment. But its implementation will require political will and decisiveness, which we, unfortunately, continually lack. Reform initiatives are being mainly generated by the High Representative and the international community and less by the domestic authorities and political forces.

Bulgaria

Vladimir Bojadziev
Economy Advisor of the President of the
Confederation of Labour "Podkrepa"

1	Introductory remarks	61
2	Labour market and employment	62
2.1	Employment situation	62
2.2	Level and structure of unemployment	64
2.3	Labour market statistics	66
3	Employment policy	66
3.1	Main problems	66
3.2	Policy responses	68
4	Education, vocational training and retraining	71
4.1	The situation in education and vocational training	71
4.2	Training and retraining	72
5	Labour market policy	74
5.1	Institutional set-up	74
5.2	Passive labour market policies	75
5.3	Active labour market policy	77
6	Conclusions and recommendations	80

1 Introductory remarks

The Bulgarian economy in spite of the progress after the budgetary and financial stabilization since 1997 so far has not achieved the needed sustainable growth. The **delayed structural reforms**, non-transparent privatization, the lack of investments and the deteriorated export index considerably decrease the competitiveness of the Bulgarian economy. The World Economic Forum's Global Competitiveness Report 2002-2003 marked Bulgaria's **current competitiveness** index is 68 among 80 countries. Bulgaria is still ranking last in GDP per capita between Central and East European Countries (CEECs). In most regions, there are only few economically vital enterprises. The profitability of enterprises deteriorates. They become more and more indebted towards the employees, the budget, the social insurance and providers of raw materials. The private sector, which was supposed to cushion unemployment functions for the most of its part within the scopes of the shadow economy discrediting the whole system of legalized labour relations.

The **economic environment** in the country is unfavourable for production, because of insufficient demand and lack of export possibilities. As a consequence the production facilities and the work force are underemployed. The market-oriented changes of the enterprises have been made with no serious measures for alternative employment. Low domestic and foreign demand was the main reason for the fall of receipts. Bulgaria posted a cumulative biggest trade gap for the last years. In the taxation policy – a very sensitive area of direct interest for the business community and the population – an increase of the taxation burden on the low-income strata of the people has been observed. Although tax liberalization could have created significant potential for the increase of revenues and real preconditions for economic growth, the expectations for 2002 indicate that the purchasing power of the population would decrease and the effect on the businesses would be insignificant.

The **standard of living and incomes** are far below the threshold for decent existence.¹ Nominal incomes have increased but household spending has grown more than 50 % of the incomes which are spent to guarantee the physical survival. There is still no officially declared poverty threshold. The incomes are widely diversified. There is a striking need for relevant socially just income policy. Restricted incomes have negative effect on internal demand while they could be a key factor for economic growth. However, the **grey-market economy** represents an additional 30 percent of the economy, according to the last Bulgarian National Bank (BNB) calculations, based on 'money demand' methodology.

The **employment** is in direct correlation to the low economic growth in most regions, where entire enterprises are closed down and the employment possibilities are significantly reduced. The number of unemployed and partially employed workers increases continuously, especially in the winter period when the seasonal jobs are over. The **youth and women unemployment** emerge as one of the most stable categories of unemployed people on the labour market. The coming up of **long-term unemployment** is also one of the problems with most serious consequences. The minority and mixed demographic population regions are particu-

¹ The official National Statistical Institute (NSI) has informed that per-capita GDP is only \$1,690 in 2001, which is 28 % of the EC 15 countries' average of 100 %.

larly endangered. The **working conditions**, characteristic rather for the beginning of this century and determined by the production machinery state as well as the technology are extremely unfavourable factor exerting influence on the labour productivity as well as directly on the workers health and life. The policy of additional payment for work in unhealthy environment, based psychologically on higher income turn of mind and the prevention policy implementation, instead of investments for labour conditions amelioration brings labour quality degradation and higher mortality rate.

2 Labour market and employment

Bulgarian society is multi-ethnic. According to the 2001 census, the total population of Bulgaria amounts to 7,973,673 inhabitants. 4.6 % of the population identified itself as Roma while 9.5 % (757,499) considered itself Turkish by ethnic origin on. Some experts estimate the total number of Roma in Bulgaria between 700,000 to 800,000. Bulgaria's population has been continuously declining since 1989, with a fall of 8 % between 1989 and 2000. According to last Census data (2001), total population went down by a further 2.2 % down to 7.97 million in 2001.

2.1 Employment situation

The **working age population** (aged 15-64) has been declining by nearly 350,000 (or 6 %) since 1989 and stood at 5.56 million in 2000. The demographic decline is forecasted to last over the next decade with an estimated further fall of 7.6 % for the total population, and of 5 % for the working age population while the number of children under 15 would decrease by more than half by 2012. The **demographic decline** is largely accounted for by the negative natural growth rate but in the early 1990s. Bulgaria also experienced migration outflows towards bordering countries, in particular Turkey. **Migration outflows** amounted to 650,000 people from 1989 until the mid-1990s, decreasing from 215,000 in 1989 to 54,000 in 1995. In addition, there were important internal migrations (during the 1990s, the North-Central and North-East regions were the most affected by migratory outflows towards other regions). Two regions (so called 'planning regions' in terms of EU definition), the South-West – which includes the capital city and its area – and the South-Central concentrate 52 % of the working age population. According to the 2001 Census, 70 % of the total population live in urban areas.

The **participation rate** for those aged 15-64 was 66.5 % at the time of the first Labour Force Survey (LFS) in 1993, down from the high levels from the pre-transition period. After a continuous decline until 2000, down to 60.1 %, it started to rise again in 2001, but at 61.9 %, it was well below the EU average of 69.2 %. The size of the labour force contracted from 3.76 million in 1993 to 3.35 million in 2001. Until 2000, the decline in participation was of the same order for men (from 71.2 % in 1993 to 64.8 % in 2000) and women (from 61.9 % to 55.5 %). In 2001 female participation increased substantially (up to 58.0 %) while men's activity rate continued to decline (to 64.0 %). Again, participation rates for both men and

women are below EU averages (78.1 % for male, 60.2 % for female in 2001). The drop in the activity rate concerned all age groups except the 55-64 for which it was 29 % in 2001, 3.8 points higher than in 1993. In the 25-54 age group the participation rate went down from nearly 88 % in 1993 to 82 % in 2001 (84.2 % for men and 79.2 % for women). The decline was particularly sharp for the younger age group 15-24 (from 43.0 % in 1993 to 31.3 % in 2001) and for young women, in particular (from 43.2 % to 30.4 % in 2001).

The average **educational levels** in the labour force are relatively low: in 2001, according to the LFS, only 23.5 % had post-secondary (higher and semi-higher) education, 55.4 % had secondary education and 21.3 % primary or lower levels of education. Of those with secondary education, 70 % have a secondary vocational and technical education. However, among the prime age groups, vocational education is likely to correspond to skills and occupations which are no longer in demand. Participation in initial education does not show visible improvements in that respect: enrolment rates in higher and semi-higher education appear extremely low by international standards, a substantial share of young people does not continue secondary education and a significant proportion does not even complete basic education.

Employment showed a dramatic decline at the beginning of the transition period. Between 1990 and 1993, total employment decreased by 875,000 or 21.4 %. After a short period of stabilization between 1993 and 1996 it declined again by a further 345,600 or 10.5 % between 1996 and 2001. Since 1990, employment went down by 28.2 % representing a total loss of 1.2 million employed people. Employment appeared to be highly responsive to output variations but only in the early 1990s (1990-1993) when overall employment went down by 9.6 % while real GDP fell by 8.6 %. During the crisis of the mid 1990s (between 1995 and 1997) employment decreased by only 2.6 %, while GDP dropped by 16.5 %. The economic recovery that followed was not sufficient to have a positive impact on employment. Despite a GDP growth of between 2.3 % to 5.4 % between 1998 and 2001, employment continued to decline by a further 9 %.

The restructuring of the economy, in particular towards the services has not yet resulted in a substantial reallocation of jobs between the three main sectors. The share of industry in total employment went down from nearly 45 % in 1990 to 27.6 % in 2001, while the share of agriculture increased from 18 % to 28 % and that of services from around 37 % to 44.6 %. There are **two major trends**:

- First, the importance of agriculture whose share in employment is 6.5 times higher than in the EU (about 4 % in the EU).
- Second, the low contribution of services to employment with a share in total employment of only two thirds of that in the EU (69 %). Bulgaria, unlike most European countries, has not yet succeeded in developing substantially services, and job creation in this sector has obviously not reached the critical size to enable it to compensate for the dramatic job destruction in the industry.

The decline of **public employment** has been continuous but fairly irregular. After a substantial decline in the early years of transition (by 40 % between 1990 and 1993), the pace of decrease slowed down in the mid-1990s (public employment decreased by 25 % between 1993 and 1996) and has since, accelerated again (-54.7 % between 1996 and 2001). In 2001, public

employment was just about a fifth of its level in 1990. Although overall employment was falling, **private employment** grew sharply at the beginning of the transition period albeit from a low starting point. In absolute terms, private employment nearly quadrupled from 241,600 in 1990 to 912,200 in 1993. Thereafter, the growth of private employment continued although at a considerably slower pace. Following the development of a new private sector and the recent acceleration of the privatization process, the overall share of private employment rose from around 6 % in 1990 to 68 % in 2001. Employment is entirely private in agriculture (97.5 % in 2000) while the share of private employment is around 78 % in construction and 77 % in the rest of industry. Apart from a few sectors like trade-repair, hotel-restaurants and financial activities, privatization appears to progress much slower in services, where private employment represented just a half of total employment in 2001.

A view on the **employment status** provides for the following data: From the total employed in the 15-64 age groups in 2001, 85 % are employees, 13 % self-employed and employers, and 1.5 % unpaid family workers; 27 % of the self-employed are themselves employers. The majority of the self-employed and employers are employed in the services sector (47.6 % and 69.4 % respectively). Only 3 % of the employed (15-64) worked part-time in 2001. The difference with the EU is particularly marked for women (3.5 % in Bulgaria, 33.4 % in the EU).

Bulgaria has a sizeable informal sector which employs a significant share of the workforce mainly in precarious and low productivity jobs, without employment protection. The share of Bulgaria's grey economy is 36 % of GDP for the 2000-2001 period. The major issues generating shadow economy is the lack of confidence in the institutions, the corrupt administration, lack of guaranteed ownership rights and high overhead costs. Comparison of the data from the LFS with the ones of the administrative statistics of the Employment Agency (EA) about the registered unemployed for the last years indicates the existence of **informal employment** in the country.² Worrying is the fact that, analysing the data of the last years LFSs, it is found that the value of shadow employment in the Republic of Bulgaria increases. This is confirmed also by the fact that many people register at the Labour Offices in order to be able to get advantage of certain benefits or preferences.

2.2 Level and structure of unemployment

Unemployment peaked in 1993 when according to the LFS there were 814,600 unemployed, representing an **unemployment rate** of 21.4 %. The unemployment rate then started to decrease and was down to 14 % for the period 1996-1998. Since then, the contraction of the labour force has slowed down and came to a halt in 2001 while unemployment has been on a rise again. The unemployment rate reached 19.6 % in 2001, showing a particularly strong increase over the previous year.

2 This method for detection of shadow employment is used in many countries. As per data of the European Commission, the size of the non-announced economy in the EU may be assessed between 7 % and 16 % of the GNP of the EU, to which would correspond between 7 % and 19 % of the total announced employment.

Except for in 1993 and 1995, the **female unemployment rate** has always been similar to or slightly below the male rate. In 2001, the **male unemployment rate** increased more sharply (by 3 percentage points up to 20.9 %) than the female rate (by 2 percentage points to 19.8 %) mainly because of a strong increase in female labour participation. Both, unemployment rates, and the male rate in particular, were substantially higher than the EU averages (6.6 % for men, 8.9 % for women). Since 1993, the unemployment rate of the 15-24 age group has always been about twice as high as the unemployment rate for the 25-54 group. In 2001, it stood at 39.5 %. The situation is similar for young men and women compared to adults. The unemployment rate for the older age group (55-64) has been rising since the end of the 1990s and was 17.2 % in 2001.

Long-term unemployment has been steadily rising in recent years. In 2001, according to the LFS, 62.7 % of the unemployed aged 15-64 (or 12.4 % of the labour force of the same age group) had been unemployed for one year or more. The very long-term unemployed (more than two years) represented more than two thirds of the long-term unemployed. The share of long-term unemployed among the total unemployed is about the same for men and for women; in 2001, the long-term unemployment rate was 12.9 % for men and 11.7 % for women. Long-term unemployment is also high among young unemployed.

Unemployment disproportional affects persons with lower **levels of education** and blue-collar workers in all age groups. In 2001, people with upper-secondary education had an unemployment rate of 8.8 % well below the 19.2 % overall rate for the 15-64 (and the 18.8 % and 32 % for those with secondary education and with primary and lower education respectively. Almost 50 % of the long-term unemployed and 70 % of the young long-term unemployed have educational attainments at primary education or below. The exit rate from unemployment is 17 % for workers with primary education compared with 26-28 % for those with secondary education.

Bulgaria shows sizeable **regional differences** in unemployment. In 2001, only the South-West had an unemployment rate for the 15-64 age groups well below the national average (14.6 % compared to 20 %). It was just under or at the average in the South Central (18.7 %) and North-Central (20 %) regions while the South-East, North-East and in particular the North-West regions had unemployment rates between 23.8 % and 29.7 %. The regional unemployment gap appears to have widened during the last few years. The geographical mobility of the labour force is low.

Systematic data on relative labour-market outcomes for **ethnic minorities** are not available. However, it appears from various sources that both groups, and the Roma in particular, are significantly disadvantaged. According to the background study, unemployment and in particular long-term unemployment is widespread among the Roma population and Bulgarians Muslims. A large number of Roma were laid-off in the early 1990s and in the Roma community, the unemployed are estimated to represent around 80 % of the population of active age. Only around 10 % of the Roma have continued to practise their traditional crafts and 8.5 % own farming land.

The **disabled** also form a significant minority who have difficulty accessing the labour market. The problems of the disabled are very different from those of the minority groups; not

only should they overcome educational and training barriers but physical problems also hamper their access to employment opportunities. Measures are required to assist individuals in overcoming these issues and enabling them to demonstrate their ability to contribute positively to the economic and social development of the country.

Sharp falls in economic activity and a sharp increase in unemployment and poverty accompanied the political and economic reforms initiated in 1990. The social impact of reforms in Bulgaria has been particularly high compared to other CEECs due to frequent political changes, to a lack of taking painful decisions related to the restructuring of the economy and to incoherent macro-economic policies.

2.3 Labour market statistics

Data about unemployment in the country are available from the **administrative statistics** of the Employment Agency – EA (former National Employment Service – NES) and from the Labour force surveys (LFS) of the National Statistic Institute (NSI). Although these two sources cover one and the same indicators, they are not identical but complementing each other: The EA reports the number of persons in active age registered at the Labour Offices, who declare that they are unemployed, that they are active job-seekers and are available to start an appropriate job or to be enrolled in a course for vocational qualification.

The data from the LFS give broader information concerning persons who are looking for a job not only through the Labour Offices, but also by establishing direct contacts with employers, collaboration of relatives, acquaintances etc. The LFS gives information about the job-seekers in broader age range: persons above the age of 15 years, who identify themselves as unemployed whereas the unemployed registered at the Labour Offices are between 18 and 55 or 60 years, for women and men respectively. Within the LFS there are also reported data about the so-called “discouraged workers”, i.e. persons, who are willing to work but are not actively seeking jobs because they think it is impossible for them to find any.

3 Employment policy

3.1 Main problems

Fundamental reforms on the labour market in the past transition years brought substantial changes in the patterns of labour force demand and supply in the country. As a result, in the period 1991-2002 the supply of labour force exceeded the demand thus resulting in the formation of massive number of unemployed labour force. All Bulgarian Governments have undertaken definitive actions for restructuring the Bulgarian economy, facing in their employment policy almost the same following problems:

- The **declining activity rate** combined with the negative demographic evolution has resulted in a contraction of the labour force. The unemployment level in the country is higher than the one observed in most of the CEEC. The principal structural features of

unemployment are: substantial long-term unemployment affecting some 13 % of the labour force in 2001; particularly high unemployment and long-term unemployment among the less educated; and high youth unemployment and wide regional variations. There is also high unemployment among the older citizens resulting from the increase of pension age and the demographic process of population ageing.³ Although down from its peak in 1993, the unemployment rate has remained high.

- The **employment rate is on a downward trend** as a consequence of the negative impact on the labour market of the structural reform-related processes, such as mass lay-offs as a result of privatization, and the reform in defence, education and healthcare systems. The restructuring of the economy has led to a strong decline in industrial employment but has not resulted in a sufficiently high increase in job creation in services. The growth of employment in the private sector has slowed down in recent years. The new private sector in particular, has not yet reached a size sufficient to generate a sustainable growth of employment and to compensate for the job losses in the public sector. There is an insufficient development of small enterprises, which are the main source of job growth indicating serious weaknesses in the business environment.
- The **mismatch between the vocational qualification profile** of the labour force and the labour market needs. Over 60 percent of the unemployed do not have specialty and profession, which requires substantial funds for education and vocational training. The skills level and structure of the labour force is a concern in an immediate and medium-term perspective. The average educational levels appear relatively low; the qualifications held by many workers do not meet the requirements of the new jobs; the participation rate of young people in the education system is very low at tertiary level, a substantial share do not continue beyond basic education.
- The discouraged persons who do not work and do not seek a job will start searching for a job again in case of sustainable economic growth conditions and have to be reintegrated in the labour market. **Deskilling of part of the labour force** that has shifted from industrial employment to subsistence agriculture and services as a survival strategy. There are needs for the reintegration of these workers into formal employment and social insurance system.
- Labour productivity growth and the implementation of modern technologies lead to labour savings and reduction in the number of the employed. Low incomes lead to labour demand on the part of students and pensioners willing to work, and employed persons searching for a second job. **Wage developments** have been driven by attempts to combining increasing the incomes of major groups of the population and inflation control. In recent years, they seem to be in line with productivity growth at a macro level but still **do not sufficiently reflect productivity** differentials by skills, occupations and regions. They do not, therefore, provide appropriate signals for skills acquisition or for regional and occupational mobility.

3 Bulgaria has an ageing population with the population of over-55s representing nearly 28 % of the total population.

3.2 Policy responses

A **new social policy strategy** has been presented in October 2002 from the Government of Bulgaria. The cornerstone of the new concept is the view that social policy should be considered globally, taking into consideration the interrelation of its separate elements and all the trends of overall state policy. In practice, there exists certain disconnection, incoherence and lack of coordination among the various policies. The interrelation between the economic and social development, between the economic and social policy is weak, and often "economic issues" dominate "social issues".

According to the new strategy the high unemployment is one of the most acute problems in Bulgaria. In order to mitigate it a number of activities and measures has been already initiated by the present Government. Among the changes already made was the **division of the financial resources** for unemployment compensation payments and for financing active labour market measures. Till recently, these resources were all together in one fund – the Vocational Training and Unemployment Fund. The National Employment Service (NES) was funded through it and suffered from a permanent deficit that had to be covered by the state. Furthermore, over the last two years, NES operated without an approved budget and this led to a lack of funds for the employment programmes. Together with that, the **unemployment compensation policy** was structured in a way that led to a decrease in the motivation of people receiving compensation payments to start searching for a job. One of the first steps taken by the Government was the amendment of the Employment Promotion Act (EPA). The compensation fund was transferred to National Social Security Institute (NSSI), and for the first time the state is engaged fully in the funding the **active labour market policies** through the state budget. This provided opportunities for the implementation of vocational training programmes, programmes for temporary and permanent employment, and programmes for enhancing the employability.

The **priority actions** will be focused on:

- Development of education and vocational training;
- Carrying out active policy towards increasing the employment; promotion of entrepreneurship; support to the groups with disadvantaged status on the labour market – young people, long-term unemployed, disabled; ethnic minorities, etc.;
- Up-keeping the qualification of the labour force in line with the needs;
- Guaranteeing gender equality in relation to employment;
- Further decentralization/regionalization and social partnership in the initiatives for human resources development;
- Up-to date organization of work;
- Strengthening the administrative capacity on national and regional level for putting into effect the human resources development policy, as well as provision of employment and better conditions for work and life.
- Concluding bilateral agreements in the area of social insurance with a view to guarantee the social insurance rights of many Bulgarian citizens working abroad.

The **main objectives** of the employment policy according to the new social policy are:

1. To ensure an effectively functioning labour market that would guarantee higher level of employment for the economically active population.
2. To implement a new, individual-based approach to each unemployed person.
3. To enhance employability.
4. To encourage entrepreneurship.
5. To create employment for disadvantaged persons.
6. To deliver vocational training and retraining.

The employment policy has to be oriented on the fields that can have an impact on labour-market performance. **Employment policy** should be seen as widely defined – encompassing human resources policies, wage policy, the system of taxes and benefits, and the public employment service (EA) and its active labour market programmes. It seems to be also linked with a number of "horizontal" aspects of policy – regional issues, equality of opportunity, and Bulgaria's preparations for the use of European Social Fund support for employment policy.

Until recently, the employment policy has been guided by the principle of passive social protection. Present Government wants to turn it into an **active social policy** influencing the causes, not the effects, which will facilitate the creation of a just social order. The scope of the new social policy was aimed at the minimum wages, guaranteed minimum income, minimum pension, ensuring compensation and social assistance for the unemployed. The efforts were shifted from providing compensations and benefits to providing employment opportunities. The emphasis now is on the prevention of long-term unemployment so that the already unemployed do not slip into long-term unemployment and therefore need social assistance. Under the existing circumstances of insufficient labour demand the measures are predominantly directed towards sustaining and promoting employment through subsidizing the employers and encouraging entrepreneurship.

Wage setting both in the private and state-owned sector takes place in the framework of the Tripartite Co-operation. Wage determination in the budgetary sector is made by Council of Ministers' regulations. Adjustments are made at least once a year but can be more frequent. Part of the civil servants' wages is individualised on the basis of merit. The increase applies only to the basic component of the wage determined by the position, grade and administration. A slightly different mechanism exists for the agents of public administration who are not civil servants. The state will retain its regulatory functions in the sphere of labour remuneration. The specific parameters should be negotiated between the **social partners** at sector or firm level on the basis of elaborated systems and mechanisms for differentiated approach to labour remuneration and criteria for its matching with labour productivity.

The **minimum wage** is adjusted by a government resolution after consultation with the social partners through the national Tripartite Co-operation. Following the agreement with the IMF in 2002, the minimum wage should be corrected with the growth rate of the average salary in

the public sector for the last reported six months over the previous six months. The ratio between the minimum and the average wage in the last ten years was 35 %. ⁴ The government has mainly considered the minimum wage within the perspective of an income policy. On the other hand, for employers it has become a tool to alleviate tax and social contributions payments. The recent substantial increase in the minimum wage is seen by the government as a possible incentive to reduce this practice but it is unlikely to have much effect if wage developments continue to be erratic.

Against a background of weak social dialogue in the private sector and in SME in particular, private employers tend to copy the wage behaviour of the big state-owned enterprises that are themselves constrained by centralised rules for wage adjustment. Therefore, development of **wages in the private sector** has hardly been related to productivity and economic performance either. Overall, this has also impeded wage bargaining with corresponding implications for employment. Indeed, functioning labour markets would require more decentralised wage bargaining in the public sector and the promotion of autonomous social dialogue at both sectoral and enterprise level. This situation is recognised as unsatisfactory and bi-partite wage bargaining is to be introduced progressively.

Income policy is directly dependent on the government budget policy. The main principle is to limit the redistributive function of the state and therefore people and business to command larger sums of money. That is, the emphasis is not to collect money in the form of taxes and later to give them back as increases or other kinds of compensation, but to lower taxes in order to increase the personal disposable income. To a large extent this is related to the tax policy, but of substantial significance is also the implementation of active labour market policies, ensuring employment for people of working age living on social assistance benefits.

Given the level of economic development in Bulgaria, the tax wedge and the **tax-burden on labour** are high. This represents a major barrier to the creation of jobs, in particular at relatively low wages and a disincentive for the unemployed or inactive to take up such jobs. Moreover, high social contributions and tax-wedge encourage the development of employment in the informal sector. The Government's objective is to reduce the social contributions further and progressively to achieve a 50/50 split between employers' and employees' share by 2007. The 80/20 ratio in 2001 was changed as intended to 75/25 in 2002 and 2003, but the overall contribution rate was left unchanged. In addition to the effective implementation of the measures taken to reduce corporate taxes, Bulgaria should give priority to a review of its payroll taxes, including the tax-system for the self-employed. Enforcing compliance with tax payment is clearly a pre-condition for reducing the tax burden in the medium-term.

In the area of **social assistance** a change is needed in the overall philosophy of social protection for the people. This means re-thinking of the form of social protection through transforming it from direct money assistance to providing employment assistance and delivering professional and specialized social services. The means-tested cash benefit should be paid only after all other alternatives were tried. The amount of the Guaranteed Minimum Income benefit should be substantially increased for the most vulnerable groups, such as lone elderly people,

disabled persons, and lone parents. The amount of the Guaranteed Minimum Income benefit for the unemployed who are eligible for receiving social assistance should not discourage them from seeking employment. The social safety net to date has led to an increase in the number of unemployed persons in working age receiving social assistance benefits, and an increase in the share of the long-term unemployed who have lost working habits, training and motivation for work. The new idea is to direct social assistance towards persons who have lost ability to manage independently or with the help of their relatives. On the other hand, people in working age and in good health will be offered an opportunity to work for their income, to maintain their working habits and to be integrated into the society. This idea will be realized through the new programme "From social welfare to employment".

4 Education, vocational training and retraining

4.1 The situation in education and vocational training

A **reform of education** has to be initiated to ensure the human resources development. The budget for education represented 3.6 % of GDP in 1999, compared with 5.5 % in the EU. The budget for vocational education and training represented 1.25 % of GDP. While there is nearly full **enrolment** in the first stage of basic education (96 % of the 6-10-year olds), enrolment drops to 81 % for the second stage (10-14-year olds) and to 63 % in secondary education (14-16-year olds). Enrolment is low in higher education. The share of secondary education graduates continuing in tertiary education is estimated at 60 % but students in universities and equivalent only represent 23.2 % of the corresponding age groups and in vocational colleges 2.3 %. Drop-out rates (estimated at 6-7 % for the compulsory stage of education) do not provide an accurate measurement of the problem. Enrolment rates indicate that around 20 % of the children do not complete their basic education and nearly 40 % do not continue in secondary education.

Families' poor social and material situation is the main reason for failure to enrol and absence from school. Roma children are particularly disadvantaged in this respect; according to estimates in the mid-1990s, half of those of compulsory schooling age had never been to school. Out of 100 Roma pupils in the first grade of basic education, only five have a chance to complete secondary education. **Imbalances in school provision** may partially explain why participation is so low in secondary education. Most rural villages do not have schools providing secondary education; the lack of transport facilities or their cost could be a serious obstacle for many children. A further factor could be the devaluing of comprehensive schools in favour of grammar school or profile-oriented schools, which are more selective and may discourage average pupils. The rationalization of the general school network in response to the declining number of children may have aggravated the problem.

Vocational training must be adapted to the needs of the labour market. Youth unemployment is high and reflects the depressed situation of the labour market but it tends to be higher for young people having vocational education than for those having secondary general education. Due to restructuring and financial difficulties, the traditional links between vocational schools

4 After the last adjustment of the minimum wage in 2001 it reached nearly 50 Euro.

(VET) and enterprises were broken. There is no longer a direct transition from school to work, and companies do not any longer ensure the practical training. Curricula tailored to companies' needs are no longer appropriate.

A number of measures are being taken to address these problems. Under the Vocational Education and Training Act of July 1999 responsibility for the VET system was decentralised from the central state to the municipalities and to the schools. The objective is to allow for maximum responsiveness of VET to the local labour market needs. While it is important to ensure a link with the local needs, an overly narrow approach should be avoided. The implementation of the decentralization should include a clear definition of responsibilities, consistency in the allocation of resources and appropriate empowerment mechanisms, including the training of municipal and school staff for their new tasks. The revision of vocational curricula has also started recently. The objective is to replace the present specialities inherited from the past, which are no longer relevant to the present needs of the economy, with broader "vocational areas" representing a common framework for various vocations and enabling a modular approach.

A strategy for **higher education** was initiated in 1999. This strategy also envisaged an involvement of social partners in educational programmes and standards, the funding of higher education institutions on demand-driven priorities, a unified examination entrance, the reorganization of the specialities into broader areas, students' loans and a revision of the grant system to widen the attribution criteria, which until now has been based on academic merit. While having a higher education clearly is an advantage with the employment rate of highly skilled individuals being more than twice that of the low-skilled, some tertiary graduates encounter difficulties in finding a job. This appears partly linked to the lack of recognition by employers of non-university higher education but also to the adequacy of higher education curricula and the attractiveness and quality of post-secondary vocational education, which should be explored and enriched with a view to better adapt to the structural changes.

Bulgaria should assess whether its higher education provision is adapted to its needs in the medium-term perspective. There is a need to review the adequacy and the stage of implementation of the strategy and the balance between the various specialities in the light of future developments in the economy and the labour market. In the context of the present debate on participation, there seems to be a need to examine targets for participation in higher education in the light of the skills needs of an economy undergoing restructuring. Educational reforms as outlined above will clearly require a major shift of resources.

4.2 Training and retraining

Adults' education and training is provided by a wide range of **training institutions**, including schools, and the vocational schools, in particular. The Employment Agency (EA) organises training for the unemployed but can also organize it for employees. According to the Eurostat data, in 1999, about 13 % of all employees and 46 % of the total staff of those enterprises that provided training participated in continuing vocational training courses. The participation rate was higher for men than for women (33 % and 20 %). On the whole, only 28 % of the enter-

prises provided continuing training. This is low compared to most EU countries, particularly given that Bulgaria is undergoing a major and continuous restructuring process.

The EA has organised **vocational training for the unemployed** since it has been established. Training measures include skills up-grading, re-training to a new speciality or occupation and initial vocational training. In addition, several active programmes include a training component (for example, Literacy-Qualification-Employment programme, Beautiful Bulgaria, Business Support programmes). The training is sub-contracted to training organizations selected after a tendering procedure. The training must correspond to one of the occupations in demand on the regional labour market, the list of which is endorsed by the EA managing Board. The EA takes over the training costs up to 100 Euro per person.

Training providers must be licensed by the National Agency for Vocational Education and Training (NAVET) to tender. The NAVET, operating since 2000, has developed an accreditation system that applies to all VET institutions. It is also responsible for drafting standards for the assessment of VET and for the national examinations, for the co-ordination of strategies for vocational education and training and for developing research in the field. The unemployed participating in training receive a training compensation the amount of which is set each year in the NEAP. From 1 January 2002 onwards, funding for the training organised by the EA (for unemployed or employed), like the whole active policy, comes from the state budget.

Training for the employees is insufficiently developed. Although 70 % of the collective agreements contain a training clause, enterprises do not consider **employee training** to be a priority. This can be accounted for by several factors: the overall poor financial situation of enterprises and lack of funds to allocate to training; the absence of incentive mechanisms for employers; the fact that employers fail to see training as an investment and a factor for competitiveness. Furthermore, they are often not able to identify training needs. Bulgaria has started developing a **national strategy for Continuing Vocational Training**. The Government expects that the reduction of taxes and social contributions will have an indirect positive impact on companies' investment, and on training investment in particular. There are no measures foreseen to provide more direct incentives. To be meaningful, such a strategy should be developed in close co-operation with the social partners. Fundamental problems such as employers' attitudes towards training, the lack of funding and incentives for employers and workers need to be addressed within this strategy.

The marginal place of training and retraining of unemployed appears mainly explained by the priority given to employment measures in active programmes in a context of limited overall resources for active policy. In the mid-1990s, access to training became limited to those unemployed having a "job guarantee", that is a written application from employers ready to recruit them for at least nine months after the completion of their training. In 1999, this practice had been abandoned. At the moment, both the intensity of and the participation in training are extremely low for the unemployed and the employed. There is an urgent need to make enterprises aware of the importance of training and to develop appropriate incentives. The inequality of access to training for the unemployed has to be addressed with high priority.

5 Labour market policy

5.1 Institutional set-up

The Council of Ministers of the Republic of Bulgaria regulates the government employment policy. The Ministry of Labour and Social Protection (MLSP) has the overall responsibility for developing, co-ordinating and implementing the government policy in the field of employment and labour market, including training for the unemployed and employed. A main principle is the partnership with institutions and non-governmental organizations in the development and implementation of the employment policy. The Ministry as the institution directly responsible for the observation of the labour and social insurance legislation initiates measures for ensuring an environment favourable to the normal development of labour and social insurance relations.

The **Employment Agency** (EA, former NES) is the main implementing body for labour market policies and programmes. The EA was created in 1989 and developed and up-graded continuously with the technical assistance of EU Member-States. Until 2002, its functions included the administration of the Vocational Training and Unemployment Fund that collected the contributions to unemployment insurance and funded both passive and active labour market measures. Since January 2002, the Employment Promotion Act (EPA) established an independent framework for the funding of active policy from the State budget and transformed the EA into an executive agency and budgetary unit of the MLSP, in charge of implementing the government employment policy.

The main national forum for tripartite social dialogue is the **National Council for Tripartite Co-operation**. The dialogue at this level concerns labour relations, social insurance and living standards. Tripartite cooperation is the underlying principle of the legal framework for employment policy and vocational education and training policy. Various tripartite councils operating at national level were established, modified or abolished by the successive laws in the recent years. The last reform (EPA) makes provision for the creation of **several tripartite bodies at national and regional levels**. The National Board for Employment Promotion under the MLSP has been operational since January 2002. Its responsibilities include advising on the design and implementation of employment policy – including the National Employment Action Plan (NEAP), the follow-up of the labour market situation and of the efficiency of active programmes, submitting proposals to the MLSP on labour market measures and legal acts and issuing opinions on all legal acts or agreements in the field of employment policy. At regional levels, social partners will participate in the new Employment Commissions to be set-up under the Regional Development Councils.

There is a tripartite representation on the Board of the EA. It also foresees the creation of Co-operation Councils at the EA regional level in charge of monitoring and supervising the implementation of the regional labour market and employment policy. Social partners are also represented in the management board of the National Agency for Vocational Education and Training (NAVET), and in the near future they will be included in the Advisory Board for Manpower's Vocational Training foreseen by the EPA.

Box 1: Regional policy

Regional policy is fairly recent in Bulgaria. The Regional Development Act from 1999 is the first comprehensive legal framework for regional development. Legal provision for regional employment plans was made in 1998. Thereafter the MLSP endorsed guidelines for their preparation (structure and size), which were submitted to the regional EA Services and territorial administrations. Regional Employment Councils established following the Regional Development Act (1999) at district or at municipality levels are involved in the elaboration and implementation of the plans. The Councils include representatives from local partners, in particular social partners.

The EPA builds on the practice of the Regional Employment Councils and transforms them into permanent or temporary Employment Committees at the Regional Development District Councils. The territorial units of the EA and the social partners' organization continue to be represented on the Committees as well as local authorities (district and municipalities) and non-profit entities working in the area of employment and training. The new Committees remain in charge of preparing the regional employment programmes and of organising the implementation of short- and medium-term programmes for employment development. By ensuring inter-institutional relations at horizontal level, this structure is considered as more appropriate to ensure consistency between active policy and the overall regional development policy. The intention is to use the regional employment programmes as a basis to prepare the HRD component of the regional development plans and the Regional Operational Programme.

Tripartite councils exist at sector/branch level. The government intends to introduce the possibility of extending collective agreements signed by all representative employees' and employers' organizations to all enterprises in their respective sector/branch. This is seen as an important step towards the development of an autonomous bipartite dialogue enabling the state to withdraw from the detailed regulation of labour relations. **Bipartite dialogue** is weak and the government recognises the needs to strengthen it, in particular through improving the framework for collective bargaining. Therefore, bipartite dialogue should contribute to improve the adaptability of firms and their workforce in the face of rapid structural changes in the economy.

5.2 Passive labour market policies

Unemployed registered at local labour offices are entitled to **unemployment benefits** if they have worked for at least nine months during the last 15 months (six months during the previous year in the case of seasonal workers) and are willing to accept a job or a training offered by the EA. Unemployment benefit is paid without a waiting period, on a monthly basis, for a period varying from four to 12 months, depending on the person's previous employment record. The maximum **duration** of 12 months corresponds to 25 years of service. The basic **benefit amount** is 60 % of the average gross earnings during the last nine months of employment insured by social insurance and is subjected to a minimum and a maximum set annually, corresponding to 35 Euro and 65 Euro in 2002. The amount of benefit is defined proportionately for shorter working hours and in this case, can be less than the defined minimum. The unemployment benefit is not subject to personal income tax. For the unemployed who have already been entitled to unemployment benefits during the previous three years, the benefit is limited to four months at the minimum level. People who were dismissed for disciplinary reasons or who voluntarily quitted their job are entitled to the minimum unemployment benefit for maximum four months. Unemployed people who take-up a part-time job

paying less than the minimum wage for at least five days a month continue to receive 50 % of their unemployment benefit.

Social assistance is means-tested and comprises a monthly cash benefit as well as a range of in-kind benefits (free goods or services, access to care system etc), occasional or emergency (one time lump sum) cash assistance. **Eligibility** is determined on the basis of the Guaranteed Minimum Income (GMI) adjusted to the household size and the situation of its members (age, health etc). Currently, the GMI is set at 20 Euro. The amount of the monthly benefit is the difference between the adjusted GMI and the actual income of the family during the previous month for which only 70 % of the work-related income is taken into account.⁵ Only the unemployed who have been registered for six months at the labour office can apply for the general social assistance. In addition, they are obliged to participate for at least five days a month in municipal temporary work programmes for activities of general interest (social services, waste collection, maintenance of public infrastructure etc) without payment.

The **coverage of unemployed by unemployment benefit** is low and it has decreased in the recent years from 31 % in 1997 to 20 % in 2001. There is no clear information on the coverage of unemployed by income support from social assistance. Households including one unemployed member represented nearly 70 % of the total number of households that received social assistance in 2001. It is likely that a substantial share of the unemployed who are not or no longer entitled to unemployment benefit, in particular the long-term unemployed, receive social assistance. The unemployment benefit system has been modified several times since the early 1990s. Reforms have resulted in a tightening of requirements regarding previous employment spell (raised from six to nine months and the reference period from 12 to 15 months) and an increased duration (from six to 12 months). The long-term unemployed are not eligible for unemployment benefits, nor are young people looking for their first job. Together, they represent approximately half of the registered unemployed. The restrictive conditions for those who have experienced recurrent unemployment spells with entitlements to benefits are another factor that may contribute to the low coverage rate.

One of the concerns of the Bulgarian authorities is the **lack of control of recipients' eligibility** for unemployment benefit. Measures were taken within the framework of the recent reforms of social insurance and active policy. Following the last reforms of social insurance and of active policy, the administration and control of unemployment insurance and of unemployment benefits are being transferred from the EA to the National Security Institute (NSSI). The new system will allow for a direct link between the administrative data related to the individual's and employers' situation regarding social security insurance (collected by the NSSI) and those related to the situation of the unemployed. Nevertheless, accurate flows of information between the registration and follow-up data from the EA and those from the NSSI remain a crucial condition for the efficiency of the whole system. The income provided by unemployment and social assistance benefits was low compared with the average wage but high relative to the minimum wage. Both the minimum and the average unemployment benefits were very close to the earnings provided by a job paid at the minimum wage. Since the

⁵ In addition, during the winter season, eligible households receive an electricity allowance (flat amount of 19 Euro currently) and a heating allowance (according to the adjusted GMI).

last reform in spring 2002, the minimum and maximum amounts are no longer linked to the minimum wage but set annually on the basis of the Social security budget act.

The present system of unemployment benefit does not ensure a sufficient coverage of the unemployed and of the most disadvantaged groups in particular. The new organization of unemployment benefits should be used to better control and avoid irregularities. The new system will need to ensure a strong link between benefit administration and the EA with a view to promoting active job search and training. At the same time, the benefit system, in particular social assistance might create disincentives to take up a job or to work in the formal sector. The social assistance system seems to encourage a passive approach rather than an active search for work. The linkage to active measures offering employment opportunities or training needs to be reviewed.

5.3 Active labour market policy

An **effective public employment service** is an important instrument of active labour market policy, particularly in a period of economic transition and re-structuring. The EA has a critical role as a broker between the supply and demand sides of the labour market – supporting and encouraging mobility and flexibility, by helping people find jobs and identify and acquire the skills, attitudes and other attributes that are required in new and developing parts of the economy. The last reform under the Employment Promotion Act provides a framework, which should enable the EA and the local offices in particular, to focus more on the activation of the unemployed. It is worth remembering that only about half of the EA staff is in direct contact with the unemployed – no comparable figure is available regarding the staff in contact with employers. Activation requires early contact with the job seekers and the provision of services, support and active measures adapted to individuals' needs as well as the regular follow-up of their situation throughout their spell of unemployment. To be an active and efficient player on the local labour market, the EA also needs to establish regular contacts with enterprises.

Box 2: Institutional structure of the Employment Agency

Apart from the central administration in Sofia, the Employment Agency comprises nine regional directions – with a territorial range of two to four administrative districts – 121 local labour offices (one out of four covers one municipality, the rest between six and 10 municipalities each) and 145 local branches. In addition, there are around 30 desks established on an ad-hoc basis, in localities hit by mass-dismissals following companies restructuring. The head office has the overall responsibility for the implementation of the employment policy and is in charge of the overall management, co-ordination and control of the EA. Regional directorates are mainly administrative units co-ordinating the activities of local labour offices. Local labour offices implement the employment policies at their level and provide services to the job seekers: registration, job brokerage, information and counselling, support to job search including Job Clubs, organization of training and retraining. Until December 31 of 2003, the administration and payment of unemployment benefits will be administered by them.

The reforms implemented so far, have been focused on administrative re-organization and less on a new approach to job seekers and employers. A change of culture of the EA, from a widely administrative approach to a **client-oriented approach** for both the unemployed and

the employers, in particular at local level, is considered necessary but there is no clear indication of the means, in particular training actions, envisaged to achieve this ambition. The recent reform in the funding and position of the EA represents a first step towards the provision of a modern employment service able to contribute to a more active employment policy. There is a need to ensure **appropriate financial and staff resources**, in particular to the local labour offices partly through a reallocation of staff from administrative tasks to services to the clients – the job seekers and enterprises. There is a need to develop and implement an approach enabling to address the unemployed as early as possible. Active measures should be better adapted to their individual situation and needs.

The **legal framework** for active programmes is the Employment Promotion Act, which came into force in January 2002 and the main operational document, the annual National Employment Action Plan (NEAP), which serves as a basis for the allocation of the budget for active labour market programmes. **Expenditure on active labour market programmes** represented about 50.4 million Euro in 2001 or 0.35 % of GDP in current prices. The actual expenditure was by approximately 15 % below the amount needed to finance the programmes presented in the NEAP for 2001. According to the budget adopted for 2002, active labour market expenditures will raise by 5.6 % up to 53.2 million Euro, leaving their share in GDP stable at 0.35 %. The shift from passive to active spending observed since the beginning of the transition period came to a halt in the last years. After a considerable increase from 7 % in 1991 to 31.2 % in 1998, the share of expenditures for active policy went down to 23.6 % in 2001.

Bulgaria has **numerous active programmes** varying in scope, targeting and importance. The main types of measures used in active programmes are the following:

- Recruitment subsidies,
- Temporary jobs schemes,
- Support for self-employment,
- Training and retraining measures,
- Support for job search including 37 job clubs) and for mobility.

On average over the period 1998-2001, temporary work schemes represented nearly half of the expenditures, subsidies to employment 36 %, support for self-employment 14 % and training less than 1 %. Temporary work schemes and subsidised employment were also the principal measures in terms of participants (around 46 % and 40 % of the total number of participants respectively) while self-employment accounted for 11 % and training for 3 %. In 2001, the total number of participants (excluding job clubs) was estimated at around 107,000, equivalent to 16 % of the registered unemployed.

Temporary employment schemes allow municipalities or enterprises, funded from the local budget, to recruit unemployed for a maximum of five months. The EA pays the wages up to a maximum threshold set annually (50 Euro for 2002) and the employers' corresponding mandatory social contributions. Recruitment subsidies are used in particular for the following target groups: long-term unemployed; unemployed recruited on a part-time contract; young unemployed under 29; and particularly disadvantaged groups. The wage subsidy paid by the EA is the same as for temporary employment schemes. It is paid in general for 12 months maxi-

imum. If the work contract continues, an additional subsidy corresponding only to the social contributions is paid for a maximum of nine months.

Job associations started in 1997 with the main purpose of creating alternative temporary employment (up to 24 months) to workers being laid-off following company restructurings and to re-train them for new occupations. The associations are created for five years and include the local authorities, private companies, financial institutions and social partners. The state budget funds 70 % of the resources. They operate mainly in community work such as road construction or maintenance, waste collection, maintenance of public equipment etc. contracted by the municipalities. Wages and social contributions for the recruited unemployed are paid to the associations by the EA.

Encouraging unemployed to become self-employed mainly consists of financial support. Counselling and training can be provided as well depending on individuals' needs. Once their business plan has been approved by the local employment agency, the unemployed receive their unemployment benefit as a lump-sum payment. Most of the activities thus supported are in agriculture (45 %) and in trade (21 %).

Training and retraining measures⁶ have only a marginal place while unemployment and long-term unemployment is heavily concentrated on the low qualified. Moreover, most of those falling into unemployment due to enterprises restructuring are likely to have qualifications that are inadequate for the needs of the labour market. There is a strong "creaming" effect for training and retraining programmes. The participation of young unemployed in active programmes, in particular training programmes has been decreasing in the recent years. The share of training measures in total active expenditure has continuously decreased from 8 % in 1993 down to less than 1 % in 1998-2001. Given this extremely low level, the amount allocated in 2002 represents a considerable increase. The number of people addressed by training measures should accordingly be eight times higher than in the recent years. By formally removing the "job guarantee" as a condition to benefit from training, the EPA provides a more flexible framework to address the unemployed with training needs.

Mobility grants are a marginal measure. They apply to commuters and unemployed hired for at least six months in a different place and cover relocation and travel costs (including those related to the recruitment interview).

A **number of problems** can be identified in relation to the current active programmes. Both the level of spending in active programmes and the level of participation remain modest given the scale of Bulgaria's unemployment problem and the future restructuring challenges. The provision of active measures is heavily concentrated on temporary employment measures. The Bulgarian authorities are aware that temporary work schemes do not contribute to the longer-term employability of the participants and that a great majority return to unemployment at the end of their work contract.

⁶ See Chapter 4.2 for more details.

Bulgaria has always given **priority** in its active programmes to employment measures, in particular to **temporary work schemes**. In the context of a depressed economy and labour market, which has prevailed since the beginning of the transition these measures were the most immediate way to bring the jobless back to work. This context seems to account largely for the positive evaluation of subsidised employment in Bulgaria, while ALMP evaluations generally reach far less favourable conclusions. Employment measures remain the priority in the policy orientations in 2002 but an effort has been made in the allocation of resources, to achieve a better balance between programmes supporting temporary employment and incentives to employment in the open labour market. The resources allocated to temporary job schemes in 2002 have been reduced to 26 % of the total budget for active programmes, while those for subsidised employment and support to self-employment have been raised to 44 % and 25 % respectively. The number of participants in temporary work scheme should decrease and represent only 23 % of the total number of unemployed addressed by active programmes. Temporary work schemes are considered to be well adapted to seasonal activities requiring low-skilled manual labour, which are still important in Bulgaria. In the case of Bulgaria, temporary work schemes function more as an income support, in particular for long-term unemployed and discouraged workers than as an activation measure. The duration of employment does not qualify for unemployment benefits if participants remain unemployed at the end of the scheme.

The new EPA makes two changes to the **employment incentives**. The first is the removal of the reference to the minimum wage which had been set by the previous reform (Unemployment Protection and Promotion Act of 1997) as the maximum threshold refunded. The second is an increase in the duration of the subsidy (from three to 12 months for the recruitment of long-term unemployed, from six to 12 months in the case of young unemployed).

6 Conclusions and recommendations

Bulgaria experiences a persisting high unemployment. Moreover, the labour market displays a number of structural features: high long-term unemployment, high youth unemployment, very high unemployment among those with lower levels of education and skills, wide regional variations in unemployment, and dramatically high unemployment among the Roma minority. Employment rates are low and continuing restructuring will lead to further reallocation of labour.

Strengthening the ability of the economy to create jobs in the private sector, in the expanding branches of manufacturing and, in particular, in services is a crucial challenge for Bulgaria. Measures to improve the business environment and support to enterprise creation in the formal sector are essential in that respect. High taxes inhibit job creation in the formal private sector and the tax-benefit system needs to encourage more the take-up of jobs within the formal economy. Therefore, Bulgarian decision makers have to examine how to reduce the tax-wedge in order to increase incentives for job creation and take-up. Pursue efforts to reduce the overall tax burden on labour and carry-out targeted reforms of the tax systems, especially with respect to low-wage labour and improve compliance with the payment of taxes.

Increasing and adapting education and training levels is a major issue to ensure that the present and future labour force can re-allocate from the declining to the growing sectors, to avoid skills and regional mismatches and respond to the adaptability required by ongoing restructuring. Bulgaria has to urgently develop a strategy for continuing training in close co-operation with the social partners as well as appropriate incentives for the training of those employed. The inequality of access to training for the unemployed has to be addressed with high priority.

Furthermore, policies to **address and include the Social partners** have to be strengthened because they have to make important contributions to employment policy and labour market adaptability.

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TABLES

Table 1:: Selected economic indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Real GDP growth (year-on-year, percent)	-9.1	-11.7	-7.3	-1.5	1.8	2.9	-10.9	-5.6	4.0	2.3	5.4	4.0	4.5 ⁹⁰
Nominal GDP per capita - USD	2,366	789	1,008	1,279	1,152	1,563	1,179	1,227	1,542	1,577	1,542	1,700	446 ⁹⁰
CPI (December previous year)	n.a.	574	179	164	222	133	412	678.6	101	106.2	111.4	104.8	102.5 ⁹⁰
CPI (year-on-year average)	n.a.	338.4	91.3	72.9	96.0	62.1	123.0	1,158.4	118.7	102.6	110.3	107.4	n.a.
Trade Balance (FOB, as percent of GDP)	n.a.	-0.42	-2.47	-8.17	-0.17	0.94	2.23	3.1	-3.0	-8.4	-9.3	-11.6	n.a.
Foreign Investments (as percent of GDP)	n.a.	0.7	0.5	0.4	1.1	0.8	1.5	4.9	4.2	6.3	7.9	5.1	n.a.
Gross External Debt (as percent of GDP)	n.a.	161.9	161.1	131.0	118.9	78.7	99.1	100.4	85.5	84.2	88.9	78.3	n.a.
Exchange rate against USD (average for year)	n.a.	19.15	23.34	27.59	54.16	67.17	177.89	1,681	1,760	1.84**	2.12	2.18	1.99 ⁹⁰

* All data for 2002 are for the latest available period, quoted in superscript.

** Since 1 July 1999 denominated, 1,000 BGL = 1 BGN

Table 2: Selected Labour Market Indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Population (thousands, end of year)	9,718	9,632	8,540	8,472	8,427	8,385	8,341	8,283	8,230	8,191	8,149	7,891	n.a.
Economically active population - Labour Force (in thousands)	4,162	3,983	3,851	3,809	3,609	3,552	3,576	3,564	3,477	3,388	3,272	3,265	3,388 ⁹⁰
Employed (in thousands)	4,097	3,564	3,274	2,995	2,869	3,032	3,085	3,030	2,921	2,811	2,736	2,628	2,804 ⁹⁰
1. Employees	n.a.	n.a.	n.a.	2,655	2,592	2,695	2,717	2,606	2,531	2,437	2,364	2,263	n.a.
2. Employers	n.a.	n.a.	n.a.	50	47	55	61	59	69	70	68	91	n.a.
3. Self-Employed	n.a.	n.a.	n.a.	243	199	244	263	294	274	296	259	230	n.a.
Youth (15-24 age)	n.a.	n.a.	n.a.	280	264	260	259	248	252	238	218	197	n.a.
Male	n.a.	n.a.	n.a.	1,599	1,532	1,610	1,637	1,616	1,554	1,500	1,453	1,371	1,476 ⁹⁰
Female	n.a.	n.a.	n.a.	1,395	1,336	1,422	1,448	1,414	1,367	1,311	1,282	1,256	1,327 ⁹⁰
Urban	n.a.	n.a.	n.a.	2,219	2,163	2,249	2,306	2,244	2,221	2,137	2,098	2,033	2,132 ⁹⁰
Rural	n.a.	n.a.	n.a.	775	706	783	779	786	700	674	638	594	671 ⁹⁰
Unemployed (LFS, in thousands)	n.a.	n.a.	n.a.	815	740	521	491	534	556	577	537	636.5	584.5 ⁹⁰
Long-term (share)	n.a.	n.a.	n.a.	52	59	65	59	56	53	53	59	63	67 ⁹⁰
Male	n.a.	n.a.	n.a.	421	393	270	258	279	298	313	288	350	323 ⁹⁰
Female	n.a.	n.a.	n.a.	393	348	250	233	255	258	264	249	286	260 ⁹⁰
Urban	n.a.	n.a.	n.a.	538	475	334	338	369	381	389	357	435	411 ⁹⁰
Rural	n.a.	n.a.	n.a.	277	265	187	153	165	176	188	180	201	172 ⁹⁰
Unemployed (Registered in Labour Offices, in thousands)	65.1	419.1	499.6	600.8	537.0	434.6	422.5	536.7	466.4	527.0	693.4	669.6	644.7 ⁹⁰
Average Real Wage (1990=100)	100	52	55	50	39	36	29	24	29	31	32	33	34
Average Real Pension (1990=100)	100	56	48	44	35	30	24	18	25	27	31	32	33

* All data for 2002 are for the latest available period, quoted in superscript.

Croatia

Dr. Predrag Bejaković
Research Fellow
Institute of Public Finance

1	Introductory remarks	85
2	Labour market and employment	85
2.1	Employment trends	86
2.2	Informal economy	88
2.3	Problem of migration	88
2.4	Structure of unemployment	89
2.5	Labour market statistics and information systems	91
3	Employment problems	92
3.1	Insufficient job creation	92
3.2	Impact of privatization	93
3.3	Labour market rigidities	95
4	Employment and labour market policy	96
4.1	Employment strategies	96
4.2	Responsible institutions	96
4.3	Active labour market policy	97
4.4	Unemployment benefit system	99
5	Conclusions and recommendations	101

1 Introductory remarks

Since independence in 1991, **enormous changes** have taken place in the **Croatian labour market**. Employment dropped by about 20 percent between 1991 and 1997. The liquidation and bankruptcy of many companies and the dismissals of large numbers of employed people combined with very limited opportunities to find a new job have resulted in an unemployment explosion in Croatia. Transition has resulted in a significant shift of labour from the formal sector to jobs in agriculture, trade, construction and services, often in the informal sector. Apart from the very large number of unemployed, there is a constant rise in the share of the long-term unemployed, i.e., those who have been waiting for more than two years for a job; almost a third of all unemployed falls within this category. The problem could be summed up in two main groups: (1) reduced opportunities for employment, and (2) a relatively large number of claimants of financial benefits, so that almost all the funds available till recently were used for meeting claims to benefits. As a consequence, there was very little left over to pay for the active labour market measures, such as training, retraining, additional qualifications and so on.

Despite the scale and complexity of the social problems facing the government of Croatia, the evidence suggests that its **economic policies** have been reasonably successful. Between 1990 and 1993 real gross domestic product fell by some 27 %; since then, growth has resumed. Furthermore, there is obvious evidence that industrial output has begun to increase. Tourism grew rapidly in a period after 1997 and, hopefully will continue to grow in future years, although it is not clear how far either employment or earnings in this sector are reflected in official GDP estimates. Also, after suffering from very high inflation in the early 1990s, the government introduced a successful stabilization programme, so in the last seven years inflation has been very low. A GDP estimate for the first three quarters of 2002 indicates that the overall activity rebounded well in 2002, surprisingly strongly to reach around 4.0 % growth on a year-on-year basis. The developments underlying such a **revival of economic activity** could be accounted for by dynamics of individual GDP components, most notably by an increase in personal consumption and investment, supported by a build-up of inventories. However, increased borrowing has had a strong influence on this upturn, casting doubts over the GDP growth sustainability. These developments are expected to continue but at a somewhat slower pace. Real GDP is projected to grow 3.5 % in 2002 and 3.2 % in 2003 (The Institute of Economics, 2002).

2 Labour market and employment

The Republic of Croatia (RC), like many other the Central and Eastern Europe countries (CEECs), in the past 15 years was characterized by U-shaped trends of GDP, strong and persistent declines in employment rates and unemployment pools desperately stagnant in spite of the rapid structural change taking place. In RC there has been a remarkable increase in unemployment (threefold – from 123 thousand in 1986 to 380 thousand in 2001). That was not accompanied by adequate scientific and political attempts to understand the causes of the rise in unemployment that took place, as well as proposals for reduction of unemployment and im-

proving the transfer from unemployment to employment. Also, unfortunately in RC there is a lack of comprehensive data series and surveys, so one can only intuitively estimate the outcome of labour market policy.

2.1 Employment trends

In the period from 1991 to 2000, the **total population** decreased by 150 thousand (3.3 %), but working age population increased by more than 500 thousand (Table 1). Simultaneously, the **activity rate** (active in labour force / working age population) decreased from 65.3 % in 1991, to 50.7 % in 2000. The mentioned decrease was mostly caused by the decrease in the number of persons in paid employment (by 258 thousand or 14.2 %). The biggest decrease of employed person happened in legal entities irrespective of the type of ownership.

Table 1: Demographic structure of Croatia 1991-2000 (in thousands)		
	1991	2000
Total population	4499	4349
Working age population	3125	2989
Labour force	2040	1850
Persons in employment	1811	1553
Unemployed persons	229	298
Inactive population	1711	1139
Source:		
For 1991, <i>Statistical Yearbook of the Republic of Croatia for 1992</i> , Republic of Croatia – Central Bureau of Statistics, Zagreb: Table 4-13: Total and Farming Population in Country, by Age, Employment Status and Sex, 19991 Census, page 78.		
For 2000, <i>Statistical Yearbook of the Republic of Croatia for 2001</i> , Republic of Croatia – Central Bureau of Statistics Zagreb: Table 6-13: Basic Characteristic of Economic Activity of Population, page 131.		

As shown in Table 2, there were **divergent trends in total employment**: while the number of employed in legal entities decreased by almost one fifth, the number of employed in crafts and trades and free-lances increased by three fifth. If one analyzes the civil employment in legal entities, which is the only comparable definition of employment during the whole period, cumulative decrease in comparison to the situation before transition is around 35 %, with visible recovery only in the last years. Women represented around 43 % of total number of employed persons in 1991, and their share constantly increased, so it was 46 % in 2000.

Table 2: Total Number of Employed Persons in Legal Entities, Crafts and Trades and Free-Lancers, Annual Average (in '000)										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<i>Number Of Employed Persons in Legal Entities, Crafts And Trades And Free-Lancers</i>										
Total employed	1 432	1 261	1 238	1 211	1 196	1 195	1 187	1 272	1 263	1 258
<i>Of that women</i>	617	555	553	546	542	543	546	574	571	573
<i>Percentage of women</i>	43	44	45	45	45	45	46	45	45	46
Business sector	1 182	1 027	1 002	976	961	965	-	-	-	-
Non-business sector	250	234	236	235	235	230	-	-	-	-
<i>Employed in Legal Entities Irrespective of Type of Ownership</i>										
Total	1 303	1 138	1 108	1 062	1 027	1 012	995	1 071	1 058	1 053
<i>Of that women</i>	571	511	507	492	478	472	468	489	480	479
<i>Percentage of women</i>	44	45	46	46	47	47	47	46	45	45
Business sector	1 053	904	872	827	792	782	-	-	-	-
Non-business sector	250	234	236	235	235	230	-	-	-	-
<i>Employed in Crafts and Trades and Free-Lances</i>										
Total	129	123	130	149	169	183	192	201	205	205
<i>Of that women</i>	46	44	46	54	64	71	78	85	91	94
<i>Percentage of women</i>	36	36	35	36	38	39	41	42	44	46
<i>Total Number of Employed Persons Indices, 1999=100</i>										
Total	113	100	98	96	95	95	94	101	100	100
<i>Of that women</i>	108	97	97	96	95	95	96	101	100	100
Business sector includes: Agriculture, hunting and forestry; Fishing, Mining and quarrying; Manufacturing; Electricity, gas and water supply; Construction; Wholesale and retail trade; Hotels and restaurants; Transport, storage and communication; Financial intermediation; Real estate, renting and business activities.										
Non-business sector includes: Public administration and defence, compulsory social security; Education; health and social work; Other community, social and personal activities (Activities of membership organizations; Recreational, cultural and sporting activities).										
After 1996 the statistical methodology business/non-business sector is not used anymore.										
Source: <i>Statistical Yearbook of the Republic of Croatia for 2001</i> , Republic of Croatia – Central Bureau of Statistics, Zagreb: Table 6-1, page 115.										

The fall in employment coupled with significant productivity gains reflects what can be called a "productivity catch-up". **Over manning** was common in socially owned firms in Croatia, which was associated with low labour productivity. As the transition progressed enterprises have been subject to an intensified competitive pressure, coming from the developing private sector as well as from foreign competitors, increasingly entering the Croatian market. This has forced firms to reduce costs, cut employment and improve productivity. For many firms, especially the privatized ones, **downsizing** has become a prerequisite for a survival in a more competitive environment. To illustrate this process, an average firm size has almost halved during the transition in Croatia, decreasing from over 22 employees in 1993 to about 12 employees in 2000 (Rutkowski, 2002).

2.2 Informal economy

The Croatian labour market is characterized by relatively low levels of utilization of the labour that is employed. This is confirmed by data on hours of work reported in the Labour Force Survey. Also, there is a **large informal sector**, estimated at around 10 % of GDP¹. Transition has resulted in a significant shift of labour from the formal sector to jobs in agriculture, trade, construction and services, often in the informal sector. While some of this shift has been desirable—in that it has been in response to the pattern of consumer demand—there is little to suggest that it has resulted in improved average labour productivity in the economy as a whole. Furthermore, it has been claimed that jobs in the informal sector in general are paid lower and more irregularly than in the formal sector. Finally, this shift narrows the fiscal base since informal sector employers do not pay payroll taxes, or pay them at minimum rates.

According to Crnković-Požaić (1997) by using the Labour force survey, the level of the unofficial economy in November 1995 was estimated around 25.79 % of total employment. Among the categories, 6.23 % of the population surveyed was engaged in additional business activities, 10.23 % were unpaid family workers, 2.3 % were own-account workers and 7.02 % were housewives, students, retired persons and usually unemployed persons. Lovrinčević *et al* (2002) using among others the labour market method, estimated grey economy deriving from unregistered employment. They believed that the total grey economy in the Republic of Croatia during 1998 came to 8.9 % of GDP and 8.1 % of official GDP in 1999. The authors consider this estimate conservative, that is, only the lower limit of the estimate. According to these results, the dominant form of the grey economy in the Republic of Croatia is income deriving from unreported labour.

One can conclude that informal employment and/or low levels of noncompliance with bad rules might provide a **useful buffer against the negative effects** of the bad (or unnecessary) rules and problems caused by and related to economic transition, but widespread noncompliance can undermine the social fabric and erode political legitimacy, thereby jeopardizing policy credibility, and the fundamental principle of the rule of law.

2.3 Problem of migration

No doubt that migration has an important role in shaping the Croatian labour market. Unfortunately, because of war and recently performed Population census (which data are still not available) we do not have reliable information related to migrations and their role in labour market and unemployment. We could only mention some basic information about protection of displaced persons and refugees.

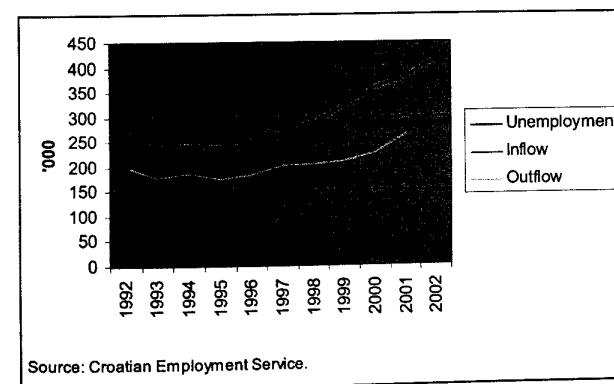
At the end of 1994 (when it was peak) Croatia was taking care of 197,000 displaced persons, and also 183,000 refugees, mostly from Bosnia and Herzegovina and some from Serbia. In other words, in 1994 Croatia was forced to accommodate a total of 380,000 displaced persons

and refugees. The humanitarian assistance provided by UNHCR, the European Union (ECTF) and numerous other international humanitarian organizations did not fully meet the needs, although the situation would be far worse without it. So, there have been allocated approximately 1.3 % of GDP out of the budget to protect these groups. Besides nutrition and accommodation provided for the refugees, the state also covered the costs of health insurance and education. The costs of health insurance for refugees from Bosnia and Herzegovina alone had reached of 350 million kn (50 million Euro) per year in 1994 and 1995. The mentioned situation lasted for some more years but in a smaller scope, and there are still some displaced persons and refugees. That was also an important reason why large share of welfare expenditures were redirected from employment and social policy to the protection of displaced persons and refugees.

2.4 Structure of unemployment

According to the data from Croatian Employment Service, the number of unemployed in the period from 1991 to 2000 increased by more than 100 thousand or 40.6 %. **High unemployment** in RC is not a new event because it is mostly the extension of previous trends. The reduced opportunities for employment due to the cumulative economic problems and stagnation of production in the second part of 1980s influenced the deceleration in employment and increment in unemployment, so around 150 thousands people were jobless, with the unemployment rate (unemployed / employed) around 10 %. In the first part of 1990s, due to the restructuring in the economy, war events and loss of common market, there were many bankruptcies and business closures, which caused redundancy and firing of many workers, an increase in unemployment and further reduction in employment possibilities. A particularly high increase (57.9 %) occurred in 1991, when the number of unemployed reached 253.7 thousand. In 2000 the average of monthly level of the registered unemployed was 357.9 thousand, and their number rose to 395 thousand till the end of 2001.

Figure: The evolution of registered unemployment, 1992 - 2002



¹ According to the Project *The Underground Economy in the Republic of Croatia 1990-2000* by the Institute of Public Finance, Ott, 2002.

After a huge drop of registered vacancies that was above 230 thousand² during some years in 1980s, and only 130 thousand during 1990s, with the lowest level of 79 thousand in 1991, there was a significant increase in 2001, so vacancies amounted to 203 thousand. The increase in registered vacancies did not allow a reduction of unemployed persons, but decelerated the unemployment increment: the yearly rate of 11.2 % in 2000 was almost halved (6.2 % in 2001).

Along with the high level, the unemployment in RC is characterized by very long average duration of registered unemployment that exceeds 2 years. According to CES data around half of the unemployed wait for a job for more than one year and around 30 % is unemployed for more than two years. In 1991, 9 % of unemployed waited more than three years, in year 2000 more than one fifth (21.1 %) of all unemployed experienced the same duration.

The unemployment rates among women are slightly higher than that among men, so in the mentioned period women have always represented more than half of all unemployed. In the first part of the 1990s their share in total unemployment rose from 52 % in 1991, to 56 % in 1993. After that there was a modest increase in the share of men in total unemployment, so at the beginning of the second part of the 1990s the share of men and women was almost equal (women represented 50.1 % all unemployed in 1996). In later years the share of women rose again so in 2000 they represented 53 % of all unemployed. Also, women are more exposed to long-term unemployment, so one third of all women wait for a job for more than two years.

Table 3: Relevant unemployment data in Croatia (in %)

	1996	1997	1998	1999	2000	2001
Unemployment rates according LFS ¹	10.0	9.9	11.4	13.6	16.1	16.3
Men	9.5	9.5	10.9	12.8	15.0	
Women	10.5	10.4	12.0	14.5	17.3	
Registered unemployment rates ¹	15.7	16.5	17.7	19.5	21.3	22.0
Share in total unemployment	49.9	49.2	47.5	47.3	47.0	45.7
Men	50.1	50.8	52.5	52.7	53.0	54.3
Women						
Increase of unemployment	8.5	6.4	3.6	11.9	11.2	6.2
Share of long-term unemployed ³	51.3	49.0	50.4	50.3	52.5	56.1

1. For year 1999 and 2000 average of 6 months rate.

2. *Statistical Yearbook of the Republic of Croatia for 2001*, Republic of Croatia – Central Bureau of Statistics, Zagreb: Table 6-14: Activity Rates and Employment / Population Rates by Age and Sex, page 131.

3. Longer than one year.

2 In the mentioned number it is possible that are included repeated vacancies which in fact refer to the same job opening.

2.5 Labour market statistics and information systems

There are two sources of statistical information about employment and unemployment in Croatia (see Table 3). First, there are **administrative statistics** produced by the Croatian Employment Service (CES). Here are collected and processed all important data and characteristics connected with unemployment and employability (skill, work experience, age, willingness to migrate etc.). Second, the Central Bureau of Statistics has undertaken a **labour force survey (LFS)** that is carried out in compliance with methodological rules and guidelines of the ILO and the European Statistical Office (Eurostat) which ensures methodological comparability with surveys in EU countries.³ It was conducted once in 1996 and once again in 1997, and has been a continuous bi-annual survey since 1998. Interviews take place in the first 2 weeks of each month with the reference period being the last week of the previous month. Each adult in the household is interviewed if present; otherwise data is obtained by proxy from a responsible adult. Response rates are around 85 per cent. Results from the LFS are available to users 6 months after collection, coding and processing.

The number of unemployed according to ILO measure is lower than the number of registered unemployed because these criteria are much more stringent in evaluating the employment than the criteria of registered employed. Due to that, this survey shows much higher number of employed and lower number of unemployed. There is a **difference in unemployment rates** by more 5 %, which was 21.3 % according to the administrative sources, and 16.1 % according to LFS. According to the administrative sources in more than one fifth of total population was unemployed, while LFS directs to easier problems so the average number of unemployed was almost 80 thousands fewer. The reasons are that from the total number of the registered unemployed 136 thousand (or 38.6 %) do not fulfill international unemployed criteria because they are inactive (58.6 %) – they have not actively sought work or are not available for work if they were offered a job – or they work (41.4 %) as they stated in the survey. It is also necessary to mention that among unemployed persons from LFS 56.6 thousand people were not registered by CES. The mentioned difference is decreasing as unemployment according to ILO showed a more dynamic increase from the beginning of 1999.

One could estimate that collecting, processing and publishing of the data about employment and unemployment in RC⁴ are performed with a high quality, although **some improvements** are needed.

3 The LFS uses the standard International Labour Office (ILO) definition of unemployment, whereby a person is unemployed if he/she jointly meets three conditions: (a) does not have a job, (b) is actively looking for a job, and (c) is available for work.

4 See Statistical Yearbook by Central Bureau of Statistics – www.dzs.hr and different publication of Croatian Employment Service – www.hzz.hr.

3 Employment problems

3.1 Insufficient job creation

Certain recovery in economic activities in second part of 1990s (GDP increased 6 % in 1996, and 6.5 % in 1997) was not accompanied by enlarged employment opportunities, so the number of unemployed increased further. Although, it is necessary to stress certain time-lag between increase of GDP and increased employment possibilities, so due to recent increase of registered vacancy, one could expect increased employment possibilities and decrease in unemployment.

Seemingly, the reason behind declining employment and rising unemployment is enterprise restructuring associated with labour shedding and resulting productivity growth. However, further analysis would prove that this is only a part – not the most important one – of the story. At a deeper level the main reason for unfavourable labour market outcomes is **insufficient job creation**. In fact, Croatia has one of the lowest job creation rates among transition economies of Central & Eastern Europe (CEE). Experience shows that enterprise restructuring and rising productivity do not have to entail job losses as long as the economy is able to generate a sufficient number of new jobs. In an efficient economy with a flexible labour market job creation goes hand in hand with job destruction, with new expanding firms absorbing labour released from the old and declining firms. Hence, the relevant question is what limits the job creation potential of the Croatian economy? Why the Croatian economy does not generate a sufficient number of jobs to offset the negative impact of enterprise restructuring?

There are **two prima facie reasons**:

- First, there may be **barriers to entry** by new firms, limiting firm growth and density (number of firms relative to population). Complicated and time-consuming administrative procedures are amongst the most important disincentives to domestic and foreign investment, and can chase investors away in spite of generous incentives and a solid legal environment (Foreign Investment Advisory Service, 2001). So, the main reason for the insufficient pace of new firm formation is high costs of entry in Croatia, one of the highest among transition economies of CEE.⁵ These high costs are bound to significantly slow down the rate of new enterprise growth, with a detrimental effect on employment. Consequently, lowering the costs of firm entry is a condition for faster job creation.
- Second, there may be **barriers to expansion**, encumbering employment growth in existing firms. Although small enterprises' share of employment has risen in Croatia, it is still relatively low. Small enterprises (employing fewer than 50 workers), which are a proxy for the "new sector" account for about 46 percent of total employment. This means that the new sector is still underdeveloped in Croatia, with important implications for economic and employment growth.

⁵ For example Djankov et al. (2000) report that the number of procedures for entry is 14 in Croatia (7 in Latvia, 9 in Slovenia), time for entry is 58 days (26 days in Poland, 35 in Slovenia), and monetary cost is 34 percent of GDP per capita (7 % in Slovenia, 17 % in Bulgaria).

Behind these, there is a number of factors that can inhibit firm entry and expansion, and thereby job creation. They include unfavourable investment climate and poor business environment, labour market rigidities and high labour costs, an inflexible wage structure. In addition, new jobs that are being created are likely to differ in salient characteristics from old jobs that are being destroyed. This may make the transition from old to new jobs costly and may contribute to structural unemployment through **skill and spatial mismatches** (details in Rutkowski, 2002).

In Croatia, as in many other transition economies, there is very **weak relationship between the education system and employment**. So, particular attention should be paid to skills and qualifications, because the labour force is under-skilled or, more properly, inappropriately skilled for the activities that make up a modern industrial economy. This means that the investment upon which economic reconstruction and development depends should be understood to include investment in human as well as in physical capital. The key factors for successful usage of educational possibilities and employment are detailed career counseling and information through personal contact or a range of different brochures and booklets where details about particular programmes and possibilities are explained. For these reasons, it is very important that the best available information about educational possibilities is forwarded to the staff of the employment service, so they can provide detailed and quality information in preparation for education and professional improvement (what is now not always the case). Very often possibilities for education and employment remain unused, because the firms and (un)employed do not have the necessary information.

3.2 Impact of privatization

Although there is a very negative general public attitude towards the privatization process, there is serious lack of surveys about the **effects of privatization** to the economic growth and (un)employment. In the early 2000, when the first balance sheets were prepared of ten years of the privatization project, it was obvious that the negative side effects of this process greatly overshadowed and endangered its economic and social usefulness. As a consequence, they also disrupted the legitimacy and credibility of the privatization policy in the public eye. This is the diagnosis on which there is an agreement among economic analysts, the media, political parties and the general public (Čučković, 2001).

The most common method of privatization in the RC was the management-employee buyout, while as a second measure voucher privatization was applied. In 2000, around 60 % of GDP was produced in the private sector (EBRD, 2001). At least three institutional and legislative framework factors have proved to be decisive in the process of privatization in the RC (Čučković, 1997). The first is the **concept of privatization** chosen, which resulted in the Law on Ownership Transformation of Socially-Owned Property. It was mainly based on methods of selling, on a case-by-case principle with preferential treatment for formerly and currently employed persons. Unfortunately, the inherited economic system with its deep structural flaws and the initial 'transitional depression', later enhanced by the war, were not particularly beneficial to the preferred concept of selling. As time passed, it proved more and more unrealistic with regard both to the income (and employment possibilities) realized through it and the ex-

tent of privatization. The model of privatization had important **negative consequences**, such as the state take-over of a significant part of socially-owned capital and the selection of large buyers according to political loyalty.

The second important factor that contributed to the increase of irregularities was the **concentration of decision-making in the hands of a state agency** which was also in charge of its implementation. The central role of the state in managing the entire process of privatization in Croatia had a series of undesirable side-effects. According to the Law on Ownership Transformation of Socially-Owned Enterprises (1991), although all firms and companies were guaranteed the right to suggest their preferred privatization modes, the final decision on the privatization of a particular company was made by the Agency for Restructuring and Development (later to become the Croatian Privatization Fund, CPF). This in practice meant that it was the Agency that had the final say on who to sell to and at what price, although the companies themselves had the right to propose privatization methods and the potential buyers that suited them best. Corruption and other irregularities were some of the undesirable side effects of the disproportionate role of the state Agency.

The third factor influencing the interconnection of the 'official' and the 'unofficial' economy on one hand, and corruption on the other, was the fact that the **initial legal solution** left many important practical issues undefined and unregulated, leaving them to be solved in practice. This is the reason why the initial legal solution had to be constantly amended in order to legalize some elements that had developed during the implementation of the Law on the Transformation of Socially-Owned Enterprises. The amendments were simply the counter-measure of the lawmakers to the new situation.⁶ The frequent changes and amendments of the original text put the new owners in an unequal position, produced feelings of legal insecurity and created favourable conditions for many forms of grey economy activities.

Consequently, privatization became a hotbed of crime and illegality, corruption and gray economy, and a symbol of all the negative social consequences of the process of transition. The problem of transparency of privatization deal has been also very profound. The slow privatization process favouring insiders, the lack of transparency surrounding some privatization transactions with the privileged treatment of individuals (tycoons) well connected to the political elite, and increasing reports of corruption, raised the concerns of potential investors (World Bank, 2000a). It could be estimated that the applied model and praxis of privatization caused many problems related to dismissals, bankruptcies as well as low level of employment possibilities.

⁶ For example, preferential treatment of the employees and managers in purchasing a company as laid down in the original Law had a discriminatory effect on other interested buyers. Not until the beginning of 1993 was a special government decree passed which restricted the right of preferential treatment to 50 per cent of total company value. The other 50 per cent had to be sold to the best potential investor in soliciting for tenders by the Croatian Privatization Fund.

3.3 Labour market rigidities

All analysis indicates that the labour market in Croatia is characterized by very limited labour and job flows, mainly due to a **rigid labour market**. Labour market rigidities include extremely strict employment protection legislation, which limits labour turnover, and relatively high unit labour costs, which discourage hiring and investment. High unit labour costs reflect a strong bargaining power of insiders – workers with protected jobs – and the predominance of industry level bargaining, which generates wage pressures.

There is little doubt that the labour market in Croatia is extremely rigid: it is mainly ruled by collective contracts; the fixed **costs of hiring and firing** are very high. In comparison to many transitional countries as well as with developed countries, Croatia has one of the longest advanced notice periods, one of the most generous severance pay provisions, a very broad (inclusive) definition of collective redundancies. The risk of hiring is thus extremely high for employers, and very few new jobs get created as a result. Accordingly, costs of enterprise restructuring are very high, so this **limits restructuring** and inhibits productivity growth and thus worsens Croatia's competitive position.

Also, mostly due to unfavourable dependency ratio (active or employed persons vs. pensioners) non-wage labour costs (mainly social security contributions, but also such arcane items as subsidies for public transport, hot meals and annual leave) are on the order of 60–80 % of net wages. This also **limits job creation** and employment growth, and thus contributes to unemployment. Employers are instead encouraged to employ staff under temporary contracts or not to report some of their workers. These hiring practices negatively affect job prospects of the young, women, and well-educated first-time job seekers. The employed workers who are dissatisfied with their current job are also affected because they do not wish to look for new jobs – in which they could well be more productive – out of fear of unemployment. At the same time, because employees stay in the same jobs for years, the capacity of the economy to absorb new know-how and technology is limited.

Temporary (fixed-term) employment is way of circumventing high costs of terminating regular employment contracts. However, the law in Croatia restricts its use by requiring that temporary contracts are signed only on exceptional basis when there is a valid and important reason. Furthermore, the total cumulative duration of temporary employment cannot exceed three years. While many countries impose some restrictions on the use of temporary employment contracts, in Croatia they are stricter than in other countries. For example, in Hungary or Estonia the total duration of temporary contracts can be five years. Another way of lowering employment adjustment cost is through the establishment of so called Temporary Work Agencies. Such agencies operate in most transition and OECD countries; however they do not exist in Croatia because of the lack of adequate regulations. So, a possible source of employment flexibility is missing.

4 Employment and labour market policy

4.1 Employment strategies

In the beginning of 1990s unemployment was becoming an increasingly important issue for the Croatian labour market. This was evident not only in the rise in the number of registered unemployed persons, but also in the recognition of the many structural problems in the labour market. The most significant issues included the following: high proportion of young persons with no work experience; relatively low labour force participation of prime aged men (aged 25-49) and older persons (aged 50 and more); large number of persons with significant work experience but who were unemployed after a wave of bankruptcy procedures; large number of war veterans with inadequate qualifications; low mobility of workers both geographically and functionally; redundancies and inadequate qualifications among the employed labour force and small number of vacancies.

The magnitude of the unemployment problem has prompted the Croatian Parliament to adopt the **National Employment Policy** in February 1998. And the Government adopted a programme of incentives for new job openings in 1998. As a consequence, the Croatian Employment Service (CES) developed five new programmes: Programme of active labour market policy measures; Programme of self-employment promotion; Loans to small and medium-sized enterprises; Programme of public works and Programme of reducing redundancies among employed persons (see 4.3).

The programmes within the National Employment Policy were aimed at achieving a reduction in registered unemployment through creating new job openings, restructuring the economy and bringing about a reduction in both geographical and qualification imbalances between labour demand and supply.

4.2 Responsible institutions

The responsible institutions in the fields of labour market and employment policy are:

- Ministry of Labour and Social Welfare (<http://www.mrss.hr>)
- Croatian Employment Service – www.hzz.hr
- Office of the Government of the Republic of Croatia for Social Partnership (<http://www.socijalno-partnerstvo.hr>).

Here is also active an **Economic and Social Council**, established for purposes of the definition and performance of coordinated activities aimed at the protection and promotion of the economic and social rights and the interests of both employees and employers, in pursuance of coordinated economic, social and development policies, encouragement of entering into and application of collective agreements and their harmonization with economic, social and development policy. Activities of the Economic and Social Council are based on the concept of trilateral cooperation between the Government of RC, trade unions and employers' association, for the purpose of solving economic and social issues and problems. It is hard to make

any reliable estimation about coordination of mentioned bodies, because on the lack of serious scientific surveys and low level of transparency related to the process of decision making.

4.3 Active labour market policy

Because of rising unemployment, the Government announced **new labour market initiatives** early in 2002. According to it, the Croatian Employment Service (CES) subsequently developed a number of active labour market measures, including: self-employment promotion, loans to small and medium-sized enterprises, and public works. The whole programme of active labour market policy measures consists of four other measures: co-financing of employment of young persons (under the age of 30) with no working experience⁷; co-financing of training for vacant jobs and vocational training of new entrants to the job; retraining and additional training for jobs in high demand and co-financed employment of veterans and unemployed children and spouses of killed and missing veterans from the Croatian Homeland War. These initiatives represented a substantial shift away from the traditional bureaucratic delivery of employment services, towards services that are both more customer oriented and more closely integrated into other areas of government activity such as the provision of cash benefits, social services, and regional development.

However, there are certain doubts about the **impact and the targeting** of some of the measures, e.g. the measure for hiring of young and highly educated people. University graduates in Croatia have an above average chance to find a job. According to the CES there are currently about 15,000 jobless with a university education, out of which 5,000 are looking for a job for the first time and belong to the targeted group of the new employment measure. That is only 1.3 percent of the total unemployed. It was announced that about 7,000 people would receive subsidies in 2002. But in 2001, approximately 18,000 persons with a university education found a job, although this number may be underestimated since the CES figures do not cover all who have found employment. One may conclude that the majority of young people coming out of universities do manage to find jobs. Therefore, the new measure can have only a minor impact on boosting employment, while the underlying costs related to it are rather high (HRK 707 million over five years).

Just as in most developed countries, **public works** in Croatia were not oriented towards building large infrastructural objects, but to performing some very useful social activities such as taking care of older persons, clearing land for cultivation, reconstruction and so on. Most of these activities are not profitable and therefore generally not of interest to the profit-oriented enterprises (Dorenbos *et al.*, 2002). As a consequence, agencies of the state and local government entities were principally in charge of these activities. The main benefits that were expected from the public works were not seen in terms of direct economic benefits, but more in the encouraging of those unemployed for whom there is no demand on the labour market to

⁷ Promoting hiring of young and highly educated people is done by subsidizing at least 60 percent of their gross wage for the first year and for an undefined period after. Also, an employer of employees with university education receives a one-off subsidy of EUR 1000 if the employment extends beyond one year and becomes permanent.

rejoin the labour force. Therefore, the programme was dedicated to unemployed persons who at the time did not have other options to become employed. These were persons aged over 40, those with some disability and young unskilled persons.

At the end of 1998 and at the beginning of 1999 the CES encouraged potential employers in public works programme, concentrating on the representatives of local government units, institutions and associations engaged in social security etc. However, due to the procedures related to the public works programme, the number of signed contracts was lower than the number of approved requests. Until the end of 1999 there were 160 contracts signed between the CES and performers, on basis of which 2,064 persons were employed.

The research results about the **evaluation of the mentioned programme** appears to substantiate the conclusion that involvement in the programme does not directly improve the labour perspectives of the participants, but at least does not lower them. When the way in which the public works programme helped the participants is explored further, it shows that almost all participants (96.9 %) admit that it has helped them at least in some way. Most, though, claim that the programme was beneficial in only one way helping them to improve their financial situation. Unfortunately, all other effects (making social contacts, enhancing confidence, acquiring skills) are much less pronounced. These findings imply that participation in the public works programmes in Croatia may (at least) partially be seen as a temporarily opportunity to solve the participant's financial problems.

Other measures of active labour market policy include the **Self-employment programme** started by the CES. The aim of the programme was to legitimize unregistered economic activity which has been identified as being the main source of income for a considerable number of registered unemployed. A large group among the self-employed was engaged in agriculture either as owners of farms or as helping family members. The programme started from the assumption that shadow unregistered businesses lacked both knowledge and the funds necessary for functioning in the legal framework. Above all it was clear that many unemployed lived on the verge of poverty and that the risk of going legitimate could push them deeper into poverty if they proved unsuccessful. There were different stages of the programme: self-selection, selection – first and second round, training, consultancy services, procurement procedures and follow-up and monitoring. Over a period of 1.5 years, 6800 registered unemployed attended the info-seminars. Only 57 % continued on to the following stages of selection and 32 % attended training. 22 % received consultancy services, but only 7.5 % received a loan. 583 persons were self-employed and 494 persons employed in the newly registered firms. The total cost was 56.6 million Kuna or 7.65 million €. Unit costs of the programme per employed person were 7.1 thousand €. The success of the programme in Croatia is comparable with that of similar self-employment programmes in other countries. For the programme to be more successful with respect to costs and to help potential entrepreneurs to make a better estimate of the risk they will be facing, it is necessary to give more complete information at the beginning of the programme, and to have a more rigorous self-selections procedure.

Box: Unemployment benefit system in Croatia

Eligibility condition: work record of at least 9 months in the last 24 month.

Benefit replacement rate: 100 percent of average salary (net of social security contributions) in the last three month preceding unemployment, subject to the minimum of 20 percent of the national average salary, and the maximum determined by the Minister of Labour and approved by the Minister of Finance. Currently the maximum amount of unemployment benefit is Kn 900 (compared to average wage of around Kn 3600). This means that in practice unemployment benefit in Croatia is a *flat rate* benefit, as the fixed amount of the benefit is much below the national average wage.

Benefit duration: The duration of unemployment benefit payment is related to the length of service, with the minimum of 78 days and the maximum of 312 days. However, workers with long years of service (35 for men and 30 for women) are entitled to an open-ended unemployment benefit, i.e. until they find a new job or acquire retirement rights.

The specific schedule is as follows:

Duration of unemployment benefit (days)	Length of service (years)
78	9 months- 2 years
104	2-3
130	3-4
156	4-5
208	6-7
234	7-8
260	8-9
286	9-10
312	more than 10 years
Unlimited	Men: more than 35 years Women: more than 30 years

Source: Law on Employment Mediation and Entitlements during Unemployment, 2002

The newly established special **Fund for development and employment** recently announced the opening of 50.000 new working places (vacancies) in 2003. These will be realized through different projects that are co-financed by the Fund. Most of the programmes are realized through bank loans with favourable conditions and with adequate bank verification. According to the data by the Fund, in co-operation with the Croatian employment office, till the October 31, 2002 were employed 12.755 persons registered as unemployed (Banka, 2002). Although, as an idea, one could support such especial fund, there is reasonable scare that it could be a mean for endangering the transparency of public expenditures, government decision making and only a short-living administrative body.

4.4 Unemployment benefit system

Relatively few unemployed receive unemployment benefit (see details in the following Box). The **benefit coverage rate** (percentage of unemployed who receive benefit) has been below 20 percent since the mid 1990s, reflecting two factors:

- a large proportion of new entrants to the labour market, who do not have an insurance record to qualify for unemployment benefit, and
- a large proportion of long term unemployed, who are no longer eligible for the benefit (with some exceptions, unemployment benefit duration is capped at one year).

The **benefit replacement rate** (i.e. benefit/earnings ratio) is low, as unemployment benefit accounts for only about one-fourth of the average wage. If the benefits were much higher, it could create a negative motivation about job-seeking, and spring an unemployment trap (Ott et al., 2000).

Contributions for employment system are paid from and employees (0.85 % on gross wages) and employers (0.85 % on gross wages). However, these rates are not applied to war veterans that do not have contributions paid by employer.

Decentralization of labour market policy

The reform of employment system and social welfare in Croatia entails also decentralization that could enhance the role and importance of bodies of **local government and self-government**. Here is a crucial significance of willingness of all involved partners, where the impact of central government is very limited, because it is well known that centrally imposed co-ordination structure cannot be successful. Expected positive results could be obtained only by spontaneous co-operation which arises from the willingness of decentralized actors to interact. Successful locally-based co-operation depends on the establishment of links between decentralized government and local firms for the supervision of labour market policy. These relationships and inter-organizational links are a very important factor in the facilitation of mutual understanding and continuing willingness to participate.

Centrally enforced or mandated co-operation could not be successful without the willingness of local implementing actor to interact. If the government wants the existing local public agency to intensify their co-operation, then it must change the constraints (mainly the rules and regulations) imposed upon local agencies and/or improve/change appraisal criteria (the outcome functions) that the governmental agencies are instructed to apply. In other words, the **role of the central government** should be restricted to setting the general framework (what is now not always the case) within which the local authorities acquired greater discretionary power to take their own local measures to combat social disadvantages. According to the positive experience the main arguments behind decentralization and **involvement of the social partners** should be: making labour market policy more flexible and adapted to local needs and increasing the quality of policy by adding the knowledge of the social partners and making them more engaged in the implementation of policy.

Potential problems with decentralization, institutional reform and involvement of the social partners include possible conflicts between national and regional policy priorities (for instance in selecting specific target groups); regional actors may become frustrated in situations where there is a clash between expectations and available resources; decisions involving many actors may become vague or fragmented and lose a coherent strategic perspective.

Further, it is necessary to mention **possible conflicts of competence** between the different actors involved in the planning and implementation of policy; conflicts between the overall national strategy and the different regional strategies; debates over the relevant choice of indicators for policy success at the regional level etc. Current adjustments of this part of the reform are aimed at overcoming these obstacles to a well-functioning formation of a regional labour market policy.

5 Conclusions and recommendations

The labour market as an economic institution has an important role in determining the living standards of the citizens of Croatia, as well as in the amounts and kinds of benefit that are supposed to be provided by the welfare organizations. A **flexible labour market** with as few as possible restrictions relating to the supply of and demand for labour combined with economic development can ensure a **high degree of employment** and a **rise in wages**. This would reduce the pressure on the system of welfare benefits, reduce the number of people who want to take early retirement and so on. An insufficiently flexible labour market and limitations in professional and geographical mobility only exacerbate the problems of poverty and social exclusion, and add to the burden of welfare, which is connected to the economic crisis. As well as increasing opportunities for employment, it is essential to **improve the position of the unemployed** by building up a suitable system of welfare for them.

Through measures of the **active labour market policy** – training, re-training, additional training, professional qualification, the qualification structure of job seekers will be improved, which will increase their occupational mobility and ability to become employed. At the same time, education will help the unemployed to retain the skills and knowledge they acquired earlier, forestall the possible unemployment of the still employed, and additionally coordinate supply and demand in the labour market. Mainly because of the lack of resources, **training programmes** for the employed and unemployed in Croatia till recently were carried out in very low volume, and still there is a serious lack of consistency in their realization.

A greater focus should be put on mobility and flexibility, through the **“upskilling” of the workforce**. Re-training and upskilling of the workforce are becoming increasingly necessary to facilitate changes in economy. This requires actions from companies themselves, and their employees, within a suitable support framework established by the State. Such policy should be under constant review, so as to ensure its efficiency, so that the benefit should be greater than the cost, and the return greater than alternative investment in other purposes. When once the active employment policy comes to life, it is necessary to include in the training and additional training programmes an increasing number of workers and find ways of motivating them to accept new know-how and skills (increase the amount of benefit and/or extend the length of the period of benefit for those willing to undergo training).

Furthermore, it is necessary to re-examine the factors that lay behind the move to work in the unofficial economy. The small number of new jobs in the official economy and moving to work in the grey zone can largely be burden of welfare, which is connected to the economic crisis. As well as increasing opportunities for employment, it is essential to **cut down the contributions** to about 20-25 %, which would correspond to the situation in OECD countries, although this would mean certain reductions of welfare rights for a given period of time. Increased hiring in the official economy, which would mean greater employment and easier to bear the burdens of financing public needs, would palliate the negative consequences of this reduction.

Because of the problem of unemployment in Croatia, and from the experience of other countries in transition, it will be necessary for a certain period to **increase the financial resources** for active measures as well as for passive measures to 2 to 3 per cent of GDP.

In the **field of decentralization**, an **institutional reform** is necessary which leads to an improved correspondence between the labour market policy responsibilities of the local authorities and the financial and institutional resources available to them. This policy could be titled as **social activation** and its aim should be to allow unemployed and socially excluded to be involved in societal useful activities which can help to reduce social isolation and which may act as a starting point for getting people into education programmes and into paid work. The programmes could include the implementation of different experiments at the local level at volunteer work in all sorts of organizations, community work and landscape maintenance activities. To avoid treatment differences of individuals at the local level, the national authorities should have the primary responsibility for carrying out social policies whereas the local authorities should have the responsibility for the execution of societal projects and social activation policies.

Faster job creation, necessary to reduce unemployment, calls for labour market liberalization with the aim of lowering hiring and firing costs. The costs of enterprise restructuring need to be lowered to encourage investment, new entry, job creation and employment growth. However, **labour market reforms** are only one element of a comprehensive reform package; they are a necessary but not a sufficient condition to engender economic growth. In reaching the higher level of labour market dynamic, one could propose the following measures that refer to both labour market and employment policy:

- **Lower barriers to entry** by new small private firms, improving business environment for SME; removal of all obstacles to a greater participation of foreign investors, especially strategic investors, to promote competition and efficiency, transfer of new skills of management, capitalization of knowledge, innovations, state-of-the-art technologies, and the promotion of a new culture of corporate governance and greater financial discipline;
- **Establishing judicial protection** of the ownership rights and all other rights stemming from the contracts regulating various economic transactions among the agents on the market, but on the other efficient protection of workers rights derived from employment relationship;

- **Strengthening of legislative mechanisms** to enable the owners to have direct influence on management and supervision of the company in the interest of financial, organizational, personnel and marketing restructuring of the company, including a radical reorganization of the market with staff downsizing and/or bankruptcy when necessary;
- **Easing of legislation** regulating the company's exit from the market (winding up and bankruptcy) in the case of long-term non liquidity and losses; this can be achieved through a stricter implementation and a certain number of amendments to the present Law on Bankruptcy;
- **Increased financial transparency** and openness to the public regarding the operation of the company, strengthening the informational base for the correct decision on whether to keep or sell the shares of a company, especially when there are a considerable number of small shareholders;
- **Strengthening of financial and capital markets**, especially stock exchanges and security markets as a necessary precondition for efficiency in governance as means of pressure on corporate management in companies with a broad ownership structure; change of legislation regulating the issuing and trading in securities and the work of the institution charged with the implementation of this legislation; this is a crucial factor of further development of a post-privatization ownership structure;
- **Abandoning of the practice of salvaging companies** at the tax payers' expense through subsidies from the budget, writing off of debts to the state, tax breaks, exemption of payment of pension and health insurance contributions, and other forms of behaviour which relieve corporate governance of its responsibility;
- **Liberalize the labour legislation** through amending the Labour Code. Specifically;
 - Lowering costs of individual dismissals by shortening the notice period the statutory severance pay;
 - Relax restrictions on the use of fixed-term and temporary contracts;
 - Institutionalize Temporary Work Agencies;
 - Revise the definition of collective dismissals so as to comply with the EU directive, and restrict special regulations so as to apply only to large firms;
 - Decentralize industrial relations, in particular move away from industry level bargaining toward firm level bargaining
- **Adoption of a comprehensive package of social welfare measures** to solve problems of unemployment owing to bankruptcy; instead of spending money from the budget to save bankrupt private companies, it is necessary to give the employees severance pay, to retrain them, pay them unemployment benefits, etc.; assistance from various international institutions and organizations can be obtained to finance such measures (World Bank, EBRD, European Commission) since these measures are intended to strengthen the competitive capability of the enterprise sector in Croatia;

Parallel to the mentioned measures a **reform of the judicial system** is necessary, especially resolute sanctioning of corruption, violation of ownership rights and other norms in the process of privatization. Furthermore, there should be strengthened business and professional ethics, individual and socio-cultural potential, cooperation and confidence in the institutional organization of the market in combination with an increased level of transparency and openness of the government administration.

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Macedonia

Professor Verica Janeska,
Institute of Economics
University of Macedonia, Skopje

1	Introductory remarks	107
2	Labour market and employment	108
2.1	Situation on the labour market	108
2.2	Employment	109
2.3	Unemployment	110
2.4	Labour market statistics and information systems	113
3	Employment policy	115
3.1	Present situation	115
3.2	Some considerations on the relevant employment policy fields	116
4	Labour market policy	119
4.1	Regulative labour market policy	119
4.2	Operational labour-market policy	120
5	Conclusions and recommendations	122

1 Introductory remarks

Concerning the issues of employment, the Republic of Macedonia is singled out compared to other countries in the South East Europe by its **very high unemployment rate** in the last several decades. Within the former Yugoslav Federation it was an area with highest unemployment rates, which in the seventies and eighties of the last century amounted to one fifth of the total labour force. The Republic of Macedonia entered the transition period with more than 150 thousand unemployed persons and with equal number of over employed persons because of the administrative, but unproductive employment done of the previous period.

Under the influence of the social and economic transformations in the last decade, the economic issues in the Republic of Macedonia are characterized by significant changes. Namely, until the middle of the nineties the **gross domestic product** is registering a decrease, which was especially intensive up until 1993. Since 1996, there is a trend of continued economic growth, which in 2000 culminated with a real GDP growth of 4.6 per cent (see Supplement 1.) This trend was interrupted in 2001 because of the military events in the north-western part of the country, which induced a decrease in the total economic activity and macroeconomic performance.

The basic aim of the **macroeconomic policy** was preserving the price stability. After very high inflation rates in the first several years of the independence, a significant decrease of the inflation rates took place. Since 1996 up until now, an average low inflation rate was achieved (less than 3 per cent up until 1999, and less than 6 per cent in 2000 and 2001). The wage policy served to prevent expenditure inflation and to preserve the macroeconomic stability, by its coordination with the fiscal and monetary policy. With the Law on Wages, the wage growth in the government institutions and in the enterprises with a degree of privatization less than 70 per cent was limited.

As far as other macroeconomic indicators are concerned, it is important to indicate to unfavourable changes in the foreign trade balance and external debt. The foreign trade balance after 1992 is registering a deficit, which, even with some oscillations, does have a tendency of continued increase. The external debt is also registering an increase, especially after 1998.

The transformation of state property plays an important role in the economic restructuring. Until 31.12.2001, 1,678 enterprises or about 95 per cent of legal subjects, employing 229,151 persons were privatised in the Republic of Macedonia¹. Macroeconomic movements and **privatization process** in the Republic of Macedonia during the transition period determined large changes in the labour force structure. They were manifested in sharp decrease of the registered employment, and increase in the unemployment.

¹ Source: Macedonian Privatization Agency.

2 Labour market and employment

2.1 Situation on the labour market

The changes within the total population, working-age population and active population (labour force) in the Republic of Macedonia in the last two decades were of varying volume and intensity. They were influenced by demographic factors (the natural and migratory movement of the population), as well as by socio-economic factors. So, between 1981 and 1994, the growth of the **total population** in the country amounted 7.6 per cent, of the **working-age population** 10.7 per cent, and of the **active population** 3.8 per cent (Table 1). The activity rate was decreased from 41.5 per cent to 40.0 per cent, and the labour force participation rate from 66.6 per cent to 62.5 per cent². The estimate of population and our approximations for the time frame of 1994-2000 show that these tendencies have continued.

Table 1: Demographic structure of the Republic of Macedonia					
	Census data		Labour Force Survey		
	1981	1994	1996	2000	2002
Total population	1 808 217	1 945 932	-	-	-
Working-age population*	1 127,005	1,247,481	1,436,602	1,534,256	1,566,954
Active population	750,416	779,097	789,081	811,557	824,824
Of them:					
At work in an occupation	675,417	579,453	537,591	549,846	561,341
Bankruptcy workers	-	12,955	-	-	-
Not at work in occupation	74,999	186,689	251,489	261,711	263,483
Non-active population**	1,057,801	1,141,875	647,521	722,699	742,129
* Administrative data – persons at the age of 15 up to 59 for women and 64 for men. Labour Force Survey – all the persons between 15 and 80 years of age. ** Labour Force Survey data are for the population over 15 years of age. Source: National (State) Statistical Office of the Republic of Macedonia.					

The **huge disproportion** in the movements of the working-age and the active contingent, whose sizes often mutually correspond, are signalling a decrease in the demographic frame of the labour force supply, and decrease of the growth of the active population. Those changes could be explained with the loss of the part of the labour force induced by intensive migratory movements towards abroad, an increase in the number of retired persons because of different reasons, primarily their premature exclusion from the labour contingent during the transition process, as well as by the changes in the professional occupations of part of the active persons (primarily from the agrarian into non-agrarian professions).

Out of the mentioned causes for such changes, particular attention deserves the migratory movements toward abroad. The contemporary **economic emigration** that has been already intense since the second half of the sixties, during the transition period reached terrifying volume. Our estimate shows that the number of Macedonian citizens abroad today is between 320 and 350 thousand persons, or from 16.1 up to 17.6 per cent of the total population (Verica Janeska, 2001). More than 100 000 persons emigrated from the Republic of Macedonia during the nineties of the last century. Up until now the country permanently loses a significant part of its labour force. It amounted at least up to 17 per cent of the total labour force. There is a trend of especially high emigration among persons with higher degree of education and specialists, as well as among young scientists from some faculties. This implies negative effects in many domains.

One can expect that the **unfavourable demographic trends** will continue, which can be confirmed by the prognoses on the total and working-age population growth in the Republic of Macedonia in the period until 2020. The projections of the population show that after 2010 the average annual growth of the working-age population will have a negative sign³. So, the influence of the demographic factor on the labour force formation will be significantly less in the future. Those trends are to be taken in mind when planning the economic development and creating the particular policies. However, the current changes in the volume and the structure of the labour force will have unfavourable implications in the medium-term because of the huge growth of the number of the unemployed persons, and limited probabilities of their economic activation.

2.2 Employment

In the pre-transition period, the employment in the Republic of Macedonia did have a tendency of continued growth. The largest number of employed persons was registered in 1989 (about 516,500 persons), and then a tendency of its continued decrease begun (Table 2). Under the influence of the problems immanent to the transition processes, as well as other limiting factors (the economic crisis, the refugee crises, the warlike situations), the **employment in the formal sector** in the second part of the nineties was encountering an accelerated decrease. Based on the situation in 2002, it contributes to the decrease of the number of registered employed persons to less than 300 thousand.⁴

In the same time, the **informal sector** was spreading more intensively, together with the number of employed persons in this sector. The expansion of the “Grey” economy of unseen proportion served as a “security valve” in calming the social tensions. In those circumstances,

3 The annual working-age population growth in the Republic of Macedonia, based on the medium projection variant with reduced migrations, is amounting: 5155 (2001-2005); 1954 (2006-2010); -2664 (2011-2015); -4469 (2016-2020) (Elka Dimitrieva, Verica Janeska, 2001, p. 40-53).

4 The administrative data provided by the National Statistical Office do not represent the overall comprehension of the employed persons in the country. For example, according to the Payment Office, the number of persons earning salaries in 2001 amounted 420 thousand.

2 Activity rate – active population /total population.
Labour force participation rate – active population/working-age population.

the problem of realistic deduction of the values in the formal and in the informal sector was dramatic. Several attempts to assess the size of the informal sector were made. The results of this research were characterized by very large deviations in the approximated number of employed persons.

Table 2: Number of employed persons in the Republic of Macedonia

Data sources	1981	1989	1990	1994	1996	1998	2000	2002
Administrative	453,378	516,500	507,324	395,686	339,824	310,213	313,558	280,989*
LF Survey	-	-	-	-	537,591	539,762	549,846	561,341
* I - IX								
Source: National (State) Statistical Office of the Republic of Macedonia								

The solution was sought in the surveys that were carried out starting in 1996. The **Labour Force Survey** data, which encompasses the informal sector and economically active population in the agriculture, show that between 1996 and 2002, the number of employed persons amounted between 537 and 561 thousand. In 2002, about 133 thousand active peasants have been included in the number of employed persons, of which 65 thousand were non-paid family workers.

The data of the mentioned sources show significant differences in the number of employed persons, which imposes the question of credibility of those sources. It is necessary to underline that the Labour Force Survey is providing the information on the demographic and socio-economic characteristics of the employed persons, which reflects the quality of the disposable labour force. This is very important for the purposes of the economic development planning.

2.3 Unemployment

The unemployment in the Republic of Macedonia has been continuously evidenced since 1953. As it was mentioned, even before the transition it was characterized by the comparatively high unemployment rates. Those rates encountered a huge increase during the transition period (1990-2002). Based on the official data from the Employment Office, the **unemployment rates** were varying from about 30 per cent to more than 50 per cent (Table 3).

Unfavourable situation concerning the dimensions of the unemployment is also confirmed by the research based on the surveys, which include the **registered and non-registered unemployment**. Large deviations compared to the registered unemployment arose in large part from the volume of the employed persons in the formal and informal sector, as well as from the active population in the agrarian sector. Even based on the Labour Force Survey, unemployment rates remain extremely high, because one third of the total labour force represents unemployed persons.

Table 3: Number of unemployed persons and unemployment rates in the Republic of Macedonia

Data sources	1981	1989	1990	1994	1996	1998	2000	2002
Unemployed persons								
Administrative	126,645	150,400	156,323	189,906	235,135	275,232	366,211	374,113*
LF Survey	-	-	-	-	251,489	284,064	261,711	263,483
Unemployment rates								
Administrative	22.5	22.5	23.6	32.0	40.9	47.0	53.9	57.1
LF Survey	-	-	-	-	31.9	34.5	32.2	31.9
* as of September								
Source: Employment Office and National (State) Statistical Office of the Republic of Macedonia								

Because of the unreliable data concerning the total employment and unemployment, the degree of activity of the available labour force can be measured by different indicators: a) The ratio between the employed persons and working-age population and b) The ratio between the employed persons and the total active population (labour force). By applying those indicators on the 1994 Census data, the unemployment rates in the Republic of Macedonia are amounting 34.0 per cent and 36.1 per cent, respectively. It is obvious that those numerical values are closer to the values obtained by the Labour Force Survey.

During the transition period, large changes happened in the demographic and socio-economic characteristics of the part of the labour force that is out of the economic activities. So, within the **gender structure** of the unemployed persons, the share of the woman has decreased from 51.9 per cent (1989) to 44.1 per cent (2002), even though its absolute number is growing⁵. It is a result of the growing influx of the men because they increasingly become dismissed.

Unfavourable changes are also registered in the **age structure** of the unemployed persons. In the mentioned period the share of the young persons has decreased while the share of persons over 40 has increased. Based on the administrative data in 2002, the share of the persons under the age of 30 is 39.5 per cent, of persons within the age group of 30-40 26.7 per cent, and within the age group above this age 33.7 per cent⁶. According the Labour Force Survey data the share of the mentioned age groups amounted 25.6 per cent, 46.7 per cent and 27.7 per cent respectively. Even though the results of the Labour Force Survey for the last several years are indicating comparatively better situation, the conclusion about unfavourable structure of the unemployed persons based on the age structure is still valid.

5 According to the Labour Force Survey in 2002 woman represent 39.6 per cent of the total unemployed persons.

6 In 1989 the share of the persons under age of 25 was 53.6 per cent, the share of persons within the age group of 25-40 36.0 per cent and the age group over 40 10.4 per cent.

As for the qualitative characteristics of the unemployment, special attention deserves its structure based on the **degree of education**. The share of the nonqualified and semi-qualified, as well as of the persons with lower education degree is constantly prevailing (50.0 per cent in 1989 and 52.8 per cent in 2002). In the observed years, the share of the qualified and highly qualified persons is on almost equal level (17.2 per cent and 18.1 per cent respectively), as well as of the high school graduated persons (25.8 per cent and 24.0 per cent respectively). As for the persons that graduated on the colleges and universities, in spite of their significant absolute increase (from 10,461 to 18,993 persons), their share in the total number of unemployed persons is decreasing (from 7.0 per cent in 1989 to 5.1 per cent in 2002). Data collected by the Labour Force Survey are confirming the unfavourable situation concerning the structure of the unemployed persons based on the degree of education, besides the manifested differences, especially concerning the high school graduated persons⁷.

The **unemployment duration** shows unfavourable movements that are manifested in high absolute and relative increase of the number of persons that are unemployed for a longer time. So, based on the registered unemployment in 1997, the share of the persons that are seeking for a job for less than a year is only 6.0 per cent; of the persons that are unemployed between one and three years – 27.8 per cent, and over three years – two third of total unemployed persons (66.2 per cent). The share of the persons that are seeking for a job longer than eight years is terrifying and is amounting 27.7 per cent. The Labour Force Survey also confirms the longevity of the unemployment⁸.

From the **regional** point of view, the **unemployment** in the Republic of Macedonia does have a different volume and intensity of changes, influenced by several factors. It is necessary to have in mind the influence of the size of the municipalities⁹. Based on the indicators for 1981 and 1989, nine municipalities did have an unemployment rate of over 30.0 per cent. Having in mind the intensive unemployment increase in the nineties, the unemployment rate is higher than 30.0 per cent in the majority of municipalities. The November 2002 data show that the number of unemployed persons is the largest in: Skopje – 86,727 persons (23.2 per cent), followed by Kumanovo – 30,713 persons (8.2 per cent); Tetovo – 30,477 persons (8.2 per cent); Prilep – 26,347 persons (7.0 per cent), Strumica – 24,973 persons (6.7 per cent) and Bitola – 20,584 persons (5.5 per cent of the total number of unemployed persons). The common share of those municipalities in the total unemployment is reaching 58.8 per cent.

The causes for the **long-lasting unemployment** and its terrifying volume should be primarily sought in the insufficient economic development, the stagnating and even contracting economic growth, and in the discontinued development trends significantly emphasized by the

7 Based on the 2001 data, the share of the mentioned categories of unemployed persons is 40.1 per cent, 14.5 per cent, 37.6 per cent and 7.9 per cent, respectively.

8 Based on those data, in 2001 the share of the persons seeking job up to one year is 13.1 per cent, and over three years 64.8 per cent.

9 The indicators are concerning the old territorial distribution of the municipalities, when 34 municipalities existed in the Republic of Macedonia.

period of transition from one into another socio-economic system. Besides, the employment problem is under the influence of other limiting factors, such as the foreign debt, the problems of structural transformation and structural harmonization, the stabilization etc.

Long-lasting unemployment represents a huge loss for the nation, not only as a flux of the human capital, but also as a loss of most vital part of the population, on whose generic forces, today and in the future, the development of the country should be based. The example of the Republic of Macedonia is confirming, that “the enormous loss of the human resources is a sign of large inefficiency of the economic system and is provoking a deep crisis in the social sphere” (OECD, 1994, p. 9.). The unemployment is one of the basic causes of the **large poverty increase**. According to the latest data, about 25 percent of the total population in the country are poor.

2.4 Labour market statistics and information systems

The large differences between the registered and the approximated employment and unemployment impose the question about the **quality of the data sources**, as well as the possibility to identify its real dimensions. Survey results seem to be closer to reality. But, as for that employment data, the following dilemmas arise:

- How to regard employed persons that do not receive salaries for months. Based on the international standards, they should be treated as unemployed;
- How to get a better approximation of the number of employed persons in the informal sector. There is a very large scope of underemployment which cannot ensure the means for the normal living – personally and for the family;
- About the treatment of the economically active persons in the agriculture, including the unpaid family workers.

Large differences between the registered and approximated unemployment are imposing the issue of its dimensions. In that context, one must have in mind more aspects of the methodological and other nature, which contribute to the **different identification of the volume and intensity of the unemployment**. There is no doubt that the persons from the second and third category are economically active and are realizing some revenue, but all of them do not have social or health insurance. So, part of them is regularly registering themselves in the Employment Offices to obtain the health insurance, or social aid¹⁰.

As for the registered unemployment, it is very important to underline the problem of the consistent application of the “Law on Employment and Insurance during the Unemployment Status”. So, there is no distinction done between the persons that are actively seeking job and those that are registering as unemployed just to materialize some other rights. Part of them are persons that work in the informal sector or are active peasants. Special attention deserves dif-

10 Today, about 82 thousand households are getting the social aid and about 230 thousand unemployed persons are getting the health insurance. Part of those persons are included in the Survey as employed.

ferent categories of persons – bankruptcy persons, seasonal workers, technological excess workers, elderly persons with different work probation, the period for seeking job etc.

As far as the data sources about the situation on the employment and unemployment in the Republic of Macedonia are concerned, one can conclude that the Labour Force Survey gives more realistic diagnosis of the unemployment rate. By including larger number of the demographic and socio-economic characteristics about the employed and unemployed persons, as well as with its intersection, relevant information and better assess of the situation on the labour market is obtained, especially on the volume of the unemployment.

Based on the expressed dilemmas, particularly with regard to the scope of the employed persons, it is necessary to **improve survey research** on the labour force. For that purpose, more attention should be given to some aspects related to more comprehensive and more realistic encompass of the employed and unemployed persons. Those aspects are:

- The issue of the **validity of the applied criteria** in defining the dimensions of employment and unemployment. Primarily the criteria by which employed are all the persons that during the week of the report have worked for money (in cash or in kind) or for profit at least one hour. Questionable is its usage in an insufficiently developed area as it is the Republic of Macedonia, because of the numerous economic and social problems emphasized during the transition period. The ILO criteria that are applied in the developed countries could not be fully applicable in our circumstances without appropriate corrections;
- Questionable is also the issue about the **upper limit of the working-age** contingent defined at the age of 80. In our country, working-age population are persons at the age of 15 up to 59 for women and 64 for men;
- There are also some problems in **extrapolating the results** of the survey on the total number of the country's labour force, especially regarding some categories of the unemployed persons.
- Having in mind that the Labour Force Survey is concerning the situation in the country as a whole, the question is imposed about more realistic **identification** of the number of **employed and unemployed at regional level** or within smaller territorial units.

The solution of the above mentioned problems should be sought in a better organization of the data collection and regular registering of the employed persons as well as by more rigorous control of obtaining and loosing the working status. It imposes the need of enforcement of inspection and revising control. From the point of view of particular areas, the assessments on the total number of employed persons in the informal sector should also be done. In that sense it is necessary to continually update the evidence of the unemployed persons in accordance to the Law.

However, there is no doubt that the number of registered unemployed persons would be significantly reduced if some other mechanisms in materializing the mentioned rights on health insurance and social aid would be found, or if those rights would not be related to the unemployment status. In that case the number of unemployed persons would be closer to the numbers arising from the Labour Force Survey, and more relevant data on the structure of the unemployed persons at the regional level would be obtained.

3 Employment policy

3.1 Present situation

Until now, there is **no employment-oriented strategy** in the Republic of Macedonia, based on a coordinated and integrated approach that include the factors in the institutional and macroeconomic framework, both employment and labour-market policy interventions. Macedonia also does not have a consistent employment policy as a cross-sectoral policy that would include all policy fields, affecting directly or indirectly the employment of labour as a factor of production. Only partial and short-term employment-related measures were used in some policy fields.

Within the regulative and **macroeconomic spheres** of the economic policy there were some employment and labour market-related measures in the **financial policy** (taxes, contributions, subsidies), in the monetary policy (in maintaining monetary stability) and in the **wage policy** (use of the minimum wage as an instrument of social policy). The experience in reducing the employment contributions for new employments that was applied during 1998 can be underlined as a positive one. It did have positive effects on the employment, because quiet large number of unemployed persons was employed. As a prerequisite for the economic development of the country, activities were undertaken in the field of foreign-trade policy. So, several free trade agreements were signed, and very soon Macedonia will become a member of the World Trade Organization.

Promotion of small and medium-size enterprises and social policy exist. During the transition period, in the circumstances of growing unemployment, **social policy** was focused on protecting the social peace in the country. Within the sphere of the **education/training policy**, our government has adopted a strategy for the period up until 2010. It is important to point out that serious reforms are already started in all levels of education. Also, several programmes for training and retraining, as well as education of older persons are going on.

One can conclude that Republic of Macedonia in the past period did not produce a consistent policy in solving the problem of the unemployment. The measures, which were undertaken up

until now in particular fields of the employment policy, could not produce more significant results because of the uncoordinated approach¹¹.

As for the employment related interventions, the **responsible institutions**, in the sense of official organisations, are: the central bank as the authority responsible for monetary and financial policy (maintaining monetary stability); the judicial authorities responsible for guaranteeing due the process and recourse to the law; the government institutions responsible for economic and social policy, in particular the ministries of Labour and Social Affairs, of Economy, of Finance and of Education and Science; the National employment office and local employment offices; local communities; labour unions and employer associations as the social partners to the government.

3.2 Some considerations on the relevant employment policy fields

The analysis of the size and structural characteristics of the unemployment in the Republic of Macedonia shows that it could not be fully framed in the basic unemployment types: frictional, structural and cyclic. Its cause-consequence interrelation is characterising it as the development-structural unemployment. Based on its motives and consequences – the short-term and long-term ones, it is a complex and very severe problem to solve.

The economic development on the world scale, as well as on the national level, is a basic determinant of the employment¹². Having in mind the causes of the continued unemployment growth in the Republic of Macedonia in the last several decades, the development and the **economic growth** are starting presupposition for its gradual alleviation. The role of the government in those circumstances should be steered toward generating adequate conditions for the intensification of development of the market economy. In the same time the social aspects should not be neglected because they are a basis for the success of the economic reform.

Concerning the complexity of the unemployment problem, it is necessary to define a consistent employment policy that will encompass several domains. Thereat, the attention should be focused on two basic presuppositions: in **generating new jobs**, more precisely in providing higher level of labour force demand, as well as in accreting the economic development. Of no less importance is the need to improve the institutional structure of the economy, the conditions and stability of the foreign investment regime, stronger coherence of the measures for the stimulation of the unemployed persons in enlarging or even changing their professional skills etc.

11 For example, when there is no development policy, especially in the industrial and agricultural policy, also when the output is diminishing, the expected positive influence of the concluded free trade agreements and the membership in the World Trade Organization will fail.

12 The research shows that there is a degree of correlation between the changes in the production and employment. For example, the situation in the developed countries shows that the increase of the Gross Domestic Product of 1 per cent is producing an equivalent increase in the employment rate (Eddy Lee, 1995, p. 487).

The huge labour force supply is imposing the question of the utilization of own current potentials, as well as of the external opportunities in generating the suppositions for the enlargement of the economic activities and in generating new jobs. Those opportunities should be sought in finishing the process of ownership transformation of the enterprises with the social capital, in the restructuring of the economy and of the development orientation, in the new investments based on foreign capital, in the inclusion in the global labour force supply, etc. (Elka Dimitrieva, Verica Janeska, 2000, p. 189).

When the **privatization** is preceding the restructuring of the economy and not vice versa, then in the absence of development strategy in the country, as well as when the institutional presuppositions were not completed, the private capital could not be more interested in its orientation toward the economic activities, especially in the production sector. So, the prevailing orientation toward the trade and hosting could not significantly contribute to the decrease of the unemployment.

Such considerations refer to the need of the **development strategy** of the Republic of Macedonia, where the industry should retain the role of basic development promoter, because in our circumstances its generic forces and power are not yet exhausted. The solution of the unemployment problem is without alternative imposing the need of the existence of **industrial policy**. In that sense, during the restructuring of the existing industrial capacities, the possibilities of its steering toward work-intensive, and primarily export oriented production, should be maximally utilized. The industrial production should be oriented toward the branches of processing industry, toward a production with higher degree of finalization by utilizing the domestic resources, as well as by taking part in the production of components devoted to the global production of foreign companies. As for the broadening of the possibilities for new employment in the industry, the attention should be given to the development of **new industrial service economy** (opening the jobs that are of service character – design, marketing, distribution, management, financial planning etc.). There, highly educated and creative labour force will be engaged.

Today, the Republic of Macedonia could become a part of the developed world only in the production of components devoted to the global production in the developed countries. The fact that Macedonia was not until now more significantly included in such a kind of production is underlining the need to initiate such a kind of cooperation linkage, which would enable the involvement of the disposable labour force.

The agrarian activity should also obtain adequate treatment, so that the natural conditions and available production capacities would be utilized. The development of the **agrarian sector** means interconnection of the primary agrarian production with the processing capacities, so that the possibilities for new jobs would be significantly broadened. In the last decade, the interest of the displaced workers to return to the agrarian properties as a means to secure its existence has significantly increased. So, the corresponding agrarian policy that will steer and support the agrarian production is necessary.

By not denying the significance of the **service sector**, as a means to engage the labour force, several limiting factors influencing the volume of its absorption ability should be taken in mind. Because of the development level of the Republic of Macedonia, it is necessary to break down the illusion that this sector could have a leading role in solving the unemployment problem. The experience of the developed countries illustratively shows that more intense development of the services activities and its need for labour force are happening on the higher development level, more precisely, those are the post-industrial or so-called information societies (Manuel Castells et Yoko Aoyama, 1994, p. 5-36).

Having in mind the **advantages of small and medium enterprises** – SME, as well as its possibility in the absorption of the labour force, investments in those entities should be steered toward the production areas, especially export-oriented production¹³. In the circumstances of limited investment capital (domestic and foreign), those enterprises should get a government support. Thereat, the effects of broadening the possibilities for new jobs would be significantly higher if the small businesses would be linked with large enterprises.

By concluding the **free trade agreements**, the limiting circumstances of the small absorption capability of the Macedonian market can be overcome. The Republic of Macedonia should adjust its production toward the needs of the countries with which it concluded the free trade agreements, as well as toward its gradual inclusion into the markets of the developed countries.

The **qualitative characteristics of the labour force** are increasingly becoming the important precondition for the modern organized production. It is very important to know in which direction and kind of **education** should be invested, so that it would be in a function of the economic development. The changes in the education system in Macedonia should largely be coordinated with the development orientation of the country. In the short-term, the coordination between the labour force supply and demand, from the point of view of the education and professional structure, should be done “in motion”, by applying different kinds of skill enlargement and change, as well as with permanent education. In fulfilling such an approach and in the provision of a market economy, the government support is essential, as well as the interest of the private enterprises in obtaining adequate qualified labour force that will be engaged in a long-term.

As for the considerable number of non-qualified unemployed persons, and having in mind their social status, they should obtain an adequate treatment. Part of them, especially younger persons, should be included in the education and retraining processes, so that the presuppositions for their economic activation would be created. As for the other part of this contingent of unemployed persons, it is important to make their differentiation to determine the opportunities for their employment or pension insurance. The employment opportunities of part of

¹³ The number of SME is still not of such a volume to be possible to induce larger shifts in its number and a share in the total employment. They are oriented toward the activities that do not have larger influence on the stimulation of the economic growth (trade, hosting, etc.) and larger labour force absorption.

this category of unemployed persons, having in mind their own estate, should be sought in instigation of the individual agrarian production.

4 Labour market policy

As for the labour market policy, substantial changes were done in the framework of regulative labour market policy. The development level and the limited possibilities for larger labour force demand in the transition period profoundly disrupted the normal functioning of the labour market. So, undertaken activities and passive measures for the unemployed within the operational labour-market policy show that the share of the funds spent on the active measures is significantly lower compared to the funds for the passive measures.

4.1 Regulative labour market policy

During the transition period, the regulation of the labour market in the Republic of Macedonia was set-up on a new basis. The Constitution and the **Law on the Labour Relations**, which was enacted in 1993, basically regulate the functioning of the labour market. Up until today it is harmonized with the content of 66 conventions of the International Labour Organization. Also, within the dialogue between the social partners, two general collective accords were signed, first one for the real sector and the second one for the so-called public sector as well as about 30 collective accords for particular sectors of the economy. In 1996, the Agreement for the formation of the **Economic-Social Council**, as a tripartite body consisting of nine members was signed, three of them representing the Government, the Syndicate and the employers.

The process of social and economic transformation in the Republic of Macedonia was carried out in unpleasant conditions, which also induced large changes on the labour market. Such a situation imposed the need to continually follow the situation and to undertake the measures and activities in the normative sphere in the area of labour and labour relations. The main activities were steered toward the **Project on Structural Reforms** of the Public Sector and the Labour Market, whose realization begun in 1997 with the financial support of the international institutions.

The **aim of those reforms** was to improve the labour market flexibility, to increase the demand of new workers, to adapt the availability and duration of the benefits based on the unemployment status, improvement of its payoff, improvement of the organization and technology implementation in the institutions where those benefits are effectuated (Stojan Trajanov, 2002, p.19-22). In this context, two laws were brought into force: the Law on the Employment and Insurance during the Unemployment Status and the Law on the Social Protection.

Except for the mentioned laws, particular issues from the labour area were arranged by other special laws, such as: the Law on the Public Servants, the Law on Protection during the Work Process, the Law on the Strike. Even though the efforts have been done to introduce the principles harmonized with the international legislation, those principles are not fully implemented.

In accordance with the intention of the Republic of Macedonia to become a member of the European Union¹⁴, in the last years several preparatory activities were undertaken to **harmonize the legislation** in the area of labour relations with the legislation of the European Union. So, within the CONSENSUS programme which is a part of the PHARE programme, the assess of the harmonization of articles of the Law on the Labour Relations, the Law on the Social Protection and the Law on the Protection During the Work Process was done. The analyses showed that the current legislative on the labour relations and working provisions have largely included the provisions that are concerning the rights and obligations of the employees and employed.

4.2 Operational labour-market policy

Active labour market instruments were first of all focused on **qualification measures** (training and advanced training, retraining). In a lesser extent represented were the **measures aimed at creating employment** or preserving jobs, e.g. wage subsidies, employment programmes, financial support for business start-ups, subsidies for the employment of particular groups. Besides that, **special programmes** for particular risky groups on the labour market, such as the young persons seeking for job for a longer time, the persons with higher and high education, persons with lower education level, persons belonging to adult groups seeking for a job etc., were not prepared.

Within the framework of the active policies on the labour market, the **project PRiZma**, which is carried out since 1999 should be mentioned. It is a programme for the adaptation of the labour force, the enterprises and communities in the Republic of Macedonia. This is a project of the U.S. Labour Department, consisting of **four components**:

- A fast reaction for the adaptation of the labour force for the purposes of planning, organizing and enabling the transition of the workers toward new jobs;
- Economic development of the communities for the stimulation of the development on the local level and new jobs creation in the areas where the enterprise restructuring has occurred;
- Enterprise competitiveness for reinforcement of the good enterprises and job preservation and
- The financial resources to finance the first three components.

¹⁴ On April 2001, the Stabilization and Association Agreement between the European Union and the Republic of Macedonia was signed.

During the PRiZma activities, funds have been secured by the U.S. Labour Department, and then by the Macedonian sources. This project is taking place under the motto "Let's Macedonia work again". Up until 2001, by this project 1,100 jobs were preserved, about 1,000 jobs were created, and several hundred workers were included in a prompt and efficient training, based on the labour market needs.

As far as the **passive measures** on the labour market are concerned, significant amounts of funds are directed toward the **health insurance** of the unemployed persons, toward the various compensations for the **social aid** etc. Even though the **system of insurance** during the unemployment is changed with the version of the Law from 1997, the amount of expenditures still remains very high and is defined depending on the salary level. For example, during 1999, total expenditures based on the unemployment status, amounted 5 million EURO a month.

Activities in the field of the employment policy and labour market policy were up until now financed by **contribution-based funding and tax-based funding**, i.e. funding from the government budget and other, primarily foreign sources (foreign financial institutions, PHARE-programmes, grants etc.). By contribution-based funding via the employment contribution, which is amounting 1.6 percent of the gross salary, around 22 percent of the expenses are financed. The foreign funds, inflowing by the various sources, are not too large, but having in mind the financial situation of the country, they cannot be neglected. So, the greatest part of the activities in the field of the employment and labour market policy was financed from the government Budget.

Concerning the labour market policy the **Employment Office** deserves particular attention. This institution does have broad competences in regulating the issues of the labour exchange, the rights and obligations of employers, the unemployed persons and the government. Because of many limiting subjective and objective factors in the current circumstances, its adequate acting is under question. Having in mind a huge gap between the labour supply and demand, determined by the intensity of the economic development, the objective factors could not be overcome in a short-term. It is necessary to remove the subjective factors as fast as possible. They are concerned with the issues of definite identification of the total unemployment by the differentiation of the persons that are actively seeking for a job and those that are registering themselves as unemployed just to materialize some rights, as mentioned above. The Employment Office should be transformed and should become a **more active factor** in stimulating the labour market.

5 Conclusions and recommendations

During the transition period, the development of the labour market in the Republic of Macedonia faces a **number of problems**. Some of them should be outlined as being most important.

- As first and most important problem should be mentioned the unemployment. As the result of the registered employment decrease and the high labour force participation compared with the low labour demand, the Macedonian labour market faces **very high unemployment rates and significant long-term unemployment**.
- The second problem concerns the **lack of job creation**. In the last decade, the privatization process, the economic reforms and the restructuring of the economy, as well as poor investment, have led to a continuous job destruction instead of job creation.
- The third problem is related to the **lack of employment policy** and relatively small participation of the active labour-market policies.
- The next problem results from the **unclear division of responsibilities** between different levels of governmental structures and civil society in establishment, implementation, management and monitoring of labour market activities.
- Particular problem is **lack of valid labour market statistics and information system** on employment development as prerequisite for good prognosis of the true dimensions of the unemployment problem.

Having in mind the size and the character of unemployment in the Republic of Macedonia, a basic presupposition for its decrease is the **development and economic growth**. In that context, within the development strategy of the country special care should be taken to the development of the industrial and agrarian sector. Because of insufficient economic development, opening new jobs will primarily be under the influence of the new investments – domestic and foreign. In that sense, the government would primarily have to generate the conditions to stimulate the development of the market economy and the investment activities in the country.

Concerning the complexity of the unemployment problem, the Republic of Macedonia would have to build an **employment-oriented strategy** as soon as possible. It should be funded on a coordinated and integrated approach that the factors in the institutional and macroeconomic framework include both employment and labour-market policy interventions.

Macedonia needs a consistent **employment policy**. Concerning the sectoral policy spheres of the employment policy particular attention should be devoted to the regional, industrial and agricultural policy. Within the regulative and macroeconomic spheres of the economic policy adequate employment and labour market-related measures in the financial policy (taxes, contributions, subsidies), similar of those from 1998, should be taken. Also, adequate measures in the monetary policy (for further preserving maintaining monetary stability) and in the wage policy (use of the minimum wage as an instrument of social policy) should be taken.

Today very frequently is stressed the **importance of small businesses**. We think that in our circumstances those would have more significant influence in mitigating the unemployment

problem only if they are oriented toward production activities and unless they are linked with large enterprises.

As for the **foreign-trade policy** the limiting circumstances of the small absorption capability of the Macedonian market can be overcome by free trade agreements with several countries. In the future, the Republic of Macedonia should adjust its production toward the needs of the countries with which it concluded the free trade agreements, as well as toward its gradual inclusion on the markets of the developed countries.

The qualitative characteristics of the labour force are increasingly becoming the important precondition for the modern organized production. The **changes in the education system** in Macedonia should largely be coordinated with the development orientation of the country. So, within the education policy particular attention should be devoted to the professional orientation and the permanent education.

The **labour market policies** should primarily be oriented toward **active measures** and programmes. In the future, the projects similar to the PriZMa project would be applied, by which new jobs would be created, and the existing jobs would be preserved during the restructuring of the enterprises. As already have been noted, the activities concerning the training and re-training of the unemployed persons should be done “in motion” and in accordance with the needs of the labour market.

As for the **passive measures** on the labour market, the need of its more sizeable use will also remain in the medium term. It will be influenced by the size of the current unemployment, by the solution of the problem of the enterprises-loser, by the pressure that is expected from the liberalization of the labour market, as well as by the inflow of new job seeking persons.

In Macedonia **valid labour market statistics and information system** on employment development are necessary for good analysis and prognosis of the true dimensions of the unemployment problem. In the same time this is a prerequisite for creating an employment-oriented policy and labour market policy, as well as for special programmes for particular risky groups on the labour market (young persons seeking for job for a longer time, the persons with higher and high education, persons with lower education level, persons belonging to adult groups seeking for job etc.).

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Annex

Basic macroeconomic indicators

Annual data for the Republic of Macedonia

		1993	1994	1995	1996	1997	1998	1999	2000	2001
Real GDP	%	-9.1	-1.8	-1.2	0.8	1.5	3.4	4.3	4.6*	-4.1*
Inflation (average)	%	362	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5
Inflation (end of period)				8.8	-0.7	2.7	-2.4	2.4	6.1	3.7
Implicit deflator	%	442.1	151.9	17.1	2.9	3.4	1.4	2.7	8.2*	4.2*
Budget balance (central budget and funds)	% GDP	-13.4	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	2.5*	-5.7*
Exchange rate (average)	DEN/1 USD	23.6	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1
Exchange rate (end of period)	DEN/1 USD	44.6	40.6	38.0	41.4	55.4	51.8	60.3	65.3	69.2
Export (C.I.F.)	USD bill.	1.06	1.08	1.20	1.15	1.20	1.31	1.19	1.32*	1.16*
Import (F.O.B.)	USD bill.	1.01	1.27	1.42	1.46	1.59	1.91	1.78	2.08*	1.68*
Trade balance	USD bill.	0.05	-0.19	-0.22	-0.31	-0.39	-0.60	-0.59	-0.76	-0.52
Current account balance	USD bill.	0.02	-0.16	-0.22	-0.28	-0.27	-0.31	-0.11	-0.11*	-0.35*
As % of GDP	%	0.8	-4.7	-4.9	-6.3	-7.2	-8.7	-3.0	-3.1*	-10.1*
Foreign exchange reserves	USD bill.	0.12	0.16	0.27	0.27	0.28	0.33	0.48	0.71	0.79
Import coverage (reserves/import)	months	1.4	1.6	2.3	2.2	1.9	2.1	3.2	4.1	4.9
External debt ¹⁾	USD bill.	1.14	1.26	1.44	1.17	1.13	1.44	1.49	1.49*	1.44*
As % of GDP	%	45.5	37.2	32.3	26.5	30.3	40.1	40.6	41.5*	41.5*

¹⁾ Since 1998, according to the new methodology suggested by the World Bank, total foreign debt comprises short, medium and long term credits.

* Estimate on preliminary data.

Source: National (State) Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia.

Montenegro

Professor Bozidar Sisević,
Faculty of Economy
University of Montenegro, Podgorica

1	Introduction	127
2	The socio-economic situation in Montenegro	127
3	Evolution and characteristics of employment and unemployment problems	128
3.1	General trends in employment and unemployment	128
3.2	Forms and causes of unemployment and underemployment	130
3.3	Most important characteristics of unemployment	132
3.4	Discrepancies in the use of human resources	136
4	Missing political responses	139
5	Some proposals and measures for solving the unemployment problem	140

1 Introduction

Unemployment has been one of the most serious problems facing Montenegro for a number of years. Unless it is adequately solved, it will not be possible to have a successful economic and social reform or a successful economic and social development. However, unemployment is a serious and complex problem even in countries in which it has not acquired such enormous proportions as in Montenegro, but which have the required material and other conditions for solving it. Hence, in order to be able to cope with the unemployment problem successfully, it is necessary to precisely define its character and nature and the historical circumstances that brought it about, as well as to define the peculiarity of the economic and social development of the country.

2 The socio-economic situation in Montenegro

The problems of **unemployment**, or rather **poverty and (ir-)rational use of labour force** in Montenegro and FR Yugoslavia at large in the past 10-12 years acquired such proportions that elementary human rights – the right to a minimum of economic and social security – have been threatened for a large share of the population. At the same time, the problems of employment and unemployment have acquired such forms that it is not sufficient to just apply the known skills of the employed-unemployed. Namely, there is a **co-existence of several problems**:

- structural unemployment which is typical for developed as well as underdeveloped countries,
- high overt unemployment, hidden-latent unemployment and a low level of employment,
- techno-economic redundancies prevailing the socialist system,
- and workers on forced and unpaid leaves resulting from inconsistent economic restructuring during the transition period which is typical for most of the slower transition countries like Montenegro and the FR Yugoslavia as a whole.

Therefore, the gravity of the mentioned problems should be viewed in the context of the overall socio-economic situation in the country. Namely, the gravity of the unemployment problem becomes even clearer in view of the fact that it co-exists with a number of other **serious socio-economic problems**. In Montenegro, in the past 10-12 years, the overall employment registered a continuing decline and unemployment registered a continuing growth, so that registered unemployment at the end of 2000 amounted to almost 85,000. On the other hand, the average monthly wage at the Republican level amounts to somewhat above Euro 150. Montenegro at present has over 80,000 pensioners and hosts over 30,000 refugees and displaced persons from other former Yugoslav republics and Kosovo. Considerable funds have been set aside for covering the accommodation, food and health insurance costs, and humanitarian assistance is diminishing. The trade deficit ranges from US\$ 300-350 million, and the foreign debt amounts to approximately the same sum.

All of this is happening in a **stagnant economy** in which utilization of production capacity amounts to around 40-50 %, and the output down to 50 % of that in 1989, with a high infla-

tion rate (around 20 %), an unstable political situation and irregular relations at the federal level.

3 Evolution and characteristics of employment and unemployment problems

It is well-known that immediately following World War II Yugoslavia, including Montenegro, opted for the Soviet model of socialism, which implied the adoption of full employment as a basic postulate of the new system. This commitment was enshrined in the Constitution as a **right to work**. Just like in the case of other declaratively expressed rights, this right was never fully operationalized nor even fully clarified what it was supposed to mean. It is a fact that the right to work did not mean a guaranteed employment for all those who wanted to work. So, the principle of full employment under the model of other East European countries was short lasting in Yugoslavia. The official statistics contains the data for 1952 already.

3.1 General trends in employment and unemployment

Trends and gravity of employment and unemployment problems will be presented based on the data from two official sources – on registered employment and unemployment. As of 1995, the data from the Survey on labour force will be added.

Table 1: Trends in Employment in Montenegro (1952-2000)

Year	Total	Social sector	Social sector %	Private sector	Private sector %
1952	30000	30000	100.00	-	-
1964	73201	71928	98.26	1273	1.74
1970	78374	77028	98.28	1346	1.72
1980	128024	126015	98.43	2009	1.57
1989	168510	163351	96.94	5159	3.06
1991	153667	142794	92.92	10873	7.08
1992	145653	133587	91.72	12066	8.28
1993	143657	130948	91.15	12709	8.85
1994	140684	128796	91.55	11888	8.45
1995	137232	125399	91.38	11833	8.62
1996	137743	125194	90.89	12549	9.11
1997	147083	121278	82.46	25805	17.54
1998	147233	118273	80.33	28960	19.67
1999	145571	115328	79.22	30243	20.78
2000	140762	114278	81.19	26484	18.81

Source: Statistics Yearbook of Yugoslavia 2001, p. 96.

In order to understand how the problem arose and evolved, it is necessary to concurrently review and analyse the **changes in employment** over a longer time period. Based on the data in Table 1 it is possible. In the post-World War II period, employment and unemployment in

Montenegro underwent several characteristic stages. (1) During the period of 1952-1964, employment was low but grew very fast and more than doubled. (2) The twenty year period, 1970-1989, was another stage, even though it was not quite unique. It is again characterized by rapid growth of employment. (3) The last, most difficult stage in the field of employment is the 1989-2001 period, when for the first time in the post-war period total employment did not grow but, on the contrary, fell by nearly 30,000 till the end of 2000.

However, according to the data on trends in employment in the Survey on labour force that commenced in 1995, total employment in this period did not decline but on the contrary amounted to 181,762 in 2000 (Table 2). What is noticeable from the data shown in this table is that employment is not on a rise, it amounts to some 180,000 with considerable annual fluctuations that are difficult to explain by economic developments.

Table 2: Employed persons by sector ownership (in thousands)

Specification	1995	1996	1997	1998	1999	2000
TOTAL	178869	183483	178562	180365	184832	181762
Public property	149160	140250	127241	126842	126387	117635
Private property	25601	28490	30801	32588	40556	42157
Collective property	4107	14743	20520	20935	17899	21970
Public sector (%)	83.39	76.44	71.26	70.33	68.38	64.72
Private sector (%)	14.31	15.53	17.25	18.07	21.94	23.19
Collective property (%)	2.30	8.04	11.49	11.61	9.68	12.09

Source: Labour force survey from 1994 to 1999, p. 9 and for 2000, p. 8.

The quantitative difference between the two sources is, nevertheless, not very big because the difference in the number of the employed under the Survey is accounted for by workers from socially-owned companies which they had to leave. A considerable number of them is seeking jobs that are beyond their skills. There is, however, a positive change in employment in this period. **Private sector employment** has experienced a considerable growth.

For various reasons, on the sides of both supply and demand, **unemployment** grew fast in early 1980's up to 46,451 in 1989. In only 3 years (1990-1992), registered unemployment grew by as many as 16,000 and reached nearly 64,000 at the end of 1992. Registered unemployment continued to grow and reached its maximum in 2000, when it amounted to 84,000. In 2001 and 2002 registered unemployment gradually declines and is around 80,000. The data on unemployment under the Survey on labour force does not differ much from the data on registered unemployment (Table 3). As a consequence of the negative trends in the labour market, the **unemployment rate is extremely high** regardless of the mode of calculation. According to the data on registered unemployment, it ranges between 30 % and 40 %, and if calculated according to the data from the Survey on labour force, it varies between 20 % and 30 %.

Table 3: Unemployment and rate of unemployment 1990-2000

Specification	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Registered unemployed (in thousands)	53744	61415	63753	60663	56890	56614	60730	64478	68923	79800	84061
Unemployment rate (in %)	25	29	32	31	30	31	32	34	36	41	42.4
Unemployed according to LSF (in thousands)					68072	80612	71131	75334	77621	70978	80089
Unemployment rate (in %)					28	31	29	29.6	30	27.7	30.5

Source: Statistics Yearbook of the Republic of Montenegro from 1994, p.89; 1999, p.81 and 2001, p.81, Podgorica; Labour force survey 1994, 1995, 1996, 1997, 1998, 1999 and 2000. p. 4. .

3.2 Forms and causes of unemployment and underemployment

Techno-economic redundancies

In the economic theory, it is common knowledge that all socialist countries, including Yugoslavia, and Montenegro, suffered from latent or hidden unemployment. It is very difficult to reliably establish the number of the so-called **techno-economic redundancies** in Montenegro. The reason is that the transformation of ownership, management and production of companies has not yet been carried out and that the economy still suffers from the consequences of sanctions and lost markets. It is not known with any reliability to what extent sanctions have contributed to underutilization of capacities and poor performance, or what is the effect of other factors. However, the fact that in mid 1995 some 25,000 workers were on forced, paid and unpaid leaves (see below), and that no sharp cut was made to "clear" the redundancies in the economic sector is indicative of the fact that there are considerable techno-economic redundancies and that they are not just a temporary phenomenon caused by sanctions only.

The largest number of workers of this category, with the exception of a small percentage that succeeded in penetrating the higher levels of "grey economy", suffers both from **underemployment and insufficient income** and is not adequately protected from other consequences and frauds. As a result of social disorganization, most of them feel disoriented, live in constant uncertainty and fear, have lost work habits and a part of their technical and professional abilities.

Hidden unemployment in agriculture

Unemployment of low income and underutilization of labour force is also highly manifested in a large number of agricultural households/holdings, namely those with hidden unemployment or so-called agrarian unemployment. Despite the fact that agricultural sector, as a whole, suffers from a shortage of labour force, in a considerable number of households, due to a small average farm size and a larger number of active household members, **full engagement**

of all family members is **not possible**, leading to another form of hidden unemployment. Since there is still a large number of holdings in this category, the reserve labour force that is willing to leave agriculture if offered employment outside the sector is also considerable. This category of labour force is not registered as unemployed labour, but is ready to be rapidly transformed into non-agricultural labour force supply.

Underemployment caused by low income

One of the main functions of employment is to provide the employed persons a level of wages sufficient to cover basic subsistence. If regular wages cannot provide for such a minimum and if it is necessary to work extra in order to earn for basic means of support or to, otherwise, live below the poverty line, such employment, regardless of the extent to which the job is socially beneficial and individually attractive, cannot be considered to be full employment, namely it is **underemployment**. There are **several sub-groups** in this category of workers. They are all workers formally considered employed but essentially, according to the wages earned or efforts made, they are underemployed or partly employed. The first category of these workers includes those that are threatened the most, who come to work regularly and do work, but do not receive wages¹ for months and years. Very close to this category of underemployed are so called workers on forced leave and those on unpaid leave. These workers are in a somewhat better position than those in the previous category, because they do not have to go to work and thus may become engaged in additional activities. The difference within this category is that workers on forced leave receive a minimum of compensation, and others, as the name says, do not receive anything (unpaid leave).²

Unregistered and unprotected workers in grey economy

Unregistered and unprotected workers in the private sector are a specific category of labour force with considerable problems and are thus noteworthy. Namely, during the past 10-12 years the private sector experienced a considerable development and thus as well a considerable growth of labour force, especially in its trade and services components. Apart from their own engagement and engagement of their family members, private entrepreneurs also engage additional labour force. Since most jobs in trade and services do not require special expertise and training, and considering that there is a big supply of labour force of these profiles and for these jobs in the market, many private employers take advantage of the situation and **abuse the engaged labour force** in various ways, e.g. the workers are not registered as full time workers, meaning that they do not enjoy social security or a registered period of service, they are often at a higher risk to be fired and do not receive adequate remuneration; they are not entitled to annual vacation or paid sick leave, work longer hours and perform jobs that are not

1 According to the data supplied by Independent Unions of Montenegro, as many as 8,000 workers have not receive wages since 1997.

2 According to the data from the Survey on Labour Force, in 1995 in Montenegro 21,025 workers were on forced leave and 1,372 on unpaid leave; in 1996, 10,521 workers were on forced leave and 2,349 on unpaid leave. Statistics Yearbook of Yugoslavia, 1995, pp. 87 and 93.

in their job description, and do not receive other benefits that are enjoyed by workers employed in the formal sector. Possibilities for protecting this category of workers are limited, because they are not organized or union members, they do not request their rights or report abuses because they are afraid of lay-offs.

This, certainly, does not mean that all employers behave in the same manner and that all workers in this sector are at risk to the same extent and on the same grounds. Nevertheless, most private entrepreneurs are engaged in some form of irregular business, either by inadequately paying their dues or by inadequately paying their workers.

Summarizing, in view of the above facts and trends, there is no doubt that the problem of unemployment and more broadly, socio-economic problems of labour force in Montenegro in the past 10-12 years, have become extremely unfavourable and, what is especially alarming, that the negative trends continue without any visible signs and indications of when they will end.

3.3 Most important characteristics of unemployment

The magnitude of the problem of unemployment in a country is measured not only by the number of unemployed persons. Other **important indicators** are: rates of employment and unemployment, employment trends, i.e. the pace and scope of new job opportunities, the pace of economic development, the level of income per capita, the length of waiting for the job, etc. Thus, it is important to consider in this paper also the structure of the unemployed and, using the above mentioned and other indicators, to even further highlight this problem. Only an analysis of the structure can provide a better insight into the essence and complexity of the problem that needs to be solved.

The gravity and essence of unemployment in Montenegro are particularly attested to by some characteristic indicators extending across the stratified **structure of the unemployed** on various grounds. This paper will highlight the most important ones. Table 4 gives the data on main characteristics of registered unemployment in Montenegro in 2001 and on how this problem changed over the past 20 years, because more important changes in the structure are manifested only in the long run.

Apart from the fact that the unemployment problem, measured by the number of unemployed persons and the unemployment rate, has acquired huge proportions, there are also other indicators that the problem is becoming increasingly acute and complex.

An important negative characteristic of unemployment in Montenegro is a very long period of waiting for employment, i.e. **long-term unemployment**. Thus, for instance, in 2001, under standard criteria, only 20 % of the unemployed were ranked in the short-term group, i.e. group of persons seeking jobs for less than 1 year, while as many as 80 % have been seeking jobs for longer than a year. However, the structure of those who have been seeking jobs for years is extremely unfavourable. Those who have been seeking jobs from 1-3 years, which is a milder form of long-term unemployment, account for 25 %. The other two categories that can be treated as a serious form of chronic unemployment account for 30.5 % (those seeking

jobs from 3-8 years) and 24.3 % (those seeking jobs for over 8 years). In developed countries, long-term unemployment rarely exceeds 15-20 %, within which number there is only a small number of those who seek jobs for several years.³

Table 4: Trends and important characteristics of unemployment in Montenegro in 1980-2001								
	1980		1990		1995		2001	
Number of job seekers -Total	22 922	%	53 744	%	56 614	%	79.960	%
- women			30566	56.9	33593	59.3	48277	60.4
1. Age structure								
- under 25	12649	55.2	26648	49.6	17979	31.8	19441	24.3
- aged 25 - 30							17458	21.8
- aged 30 - 40							24075	30.1
- aged 40 - 50							13534	16.9
- over 50							5452	6.8
2. Period of service								
- none	16984	74.1	32537	60.5	35054	61.9	48152	60.2
- some	5938	25.9	21207	39.5	21560	38.1	31808	39.8
3. Period of waiting								
- less than 1 year	13169	57.5	22124	41.2	15784	27.9	16095	20.1
- 1-3 years	6232	27.2	11705	21.8	13752	24.3	20032	25.1
- 3 - 8 years	3521	15.4	16484	30.7	20589	36.4	24371	30.5
- more than 8 years			3431	6.4	6489	11.5	19462	24.3
4. Skills:								
- I and II degrees	9343	40.8	20299	37.8	21985	38.8	31160	38.7
- III and V degrees	4959	21.6	12766	23.8	14748	26.1	21725	27.2
- IV degree	7853	34.3	20679	38.5	19881	35.1	23326	29.2
- VI and VII degree	767	3.3					3749	4.7
Source: Statistical report, monthly bulletin, Employment Bureau of Montenegro, various volumes								

A high share of long-term unemployed shows that there are in the economic sector and society **serious developmental problems and disproportions**. It indicates that there are serious disproportions between supply and demand of labour force, namely, that there is an over-supply of certain profiles, meaning further that enrolment in schools and faculties is not in accordance with actual needs of the economic sector and society.

Long periods of job seeking also mean that unemployment is concentrated above the average in certain groups, further meaning that the burden of job seeking falls on **particular categories of population**. In addition, research has indicated that long periods of waiting for employment are extremely dangerous and harmful both for the mindsets of the unemployed and for society at large. Relatively young people, namely those who enter their forties without

3 OECD Employment Outlook, various volumes.

having jobs often lose will to work and even when offered employment, they are not willing to undergo additional training or re-training, which is in most cases imposed as a minimum prerequisite for employment. They lose self-confidence and faith in society and become discontented. This category of the unemployed therefore acquires characteristics of, as P. Melvyn and D. H. Freedman put it "**the lost generation**", which according to them means that: "... we shall get a middle aged generation without knowledge and skills, without respective work experience and, to make things worse, without a wish to work."⁴

An additional negative side of a long period of waiting for employment is that the acquired competences become obsolete and weakened. Considering that in modern conditions **knowledge becomes outdated** very fast, a long period of waiting for employment, even assuming that unemployed persons have acquired a solid knowledge base means that their knowledge becomes outdated and even when jobs are provided most of them need to undergo refresher courses or additional training programmes, which requires additional resources and time.

Another important characteristic of unemployment is reflected with regard to **professional or working experience**. In that respect, in the past 20 years, big changes happened. Until early 1990s, or to be precise, until 1988, the unemployment problem in Montenegro was almost exclusively the problem of people aged up to 24, most of them first job-seekers. In 1980 they accounted for 74 % of the unemployed. Such a **high share of young people** without previous experience/periods of service mainly resulted from the fact that enterprises were not allowed at that time to lay off any labour force on account of poor performance, coupled with a fall of demand in the domestic and world market, seasonal fluctuations and introduction of technical-technological innovations.

Since 1988, the situation in that respect started to change. With the abandonment of the principle of lifelong guaranteed employment and accumulation of problems in the economic sector, a growing number of workers who became jobless as a result of bankruptcy of enterprises or as redundancies became part of the problem of young unemployed persons. Thus, in 1995 the percentage of unemployed with no work experience fell to around 60 %, and the share of workers with a period of service grew proportionately. The percentage reduction of the number of young people in total unemployment, as stated above, is not, regrettably, the result of reduction of the number of young unemployed persons but solely a consequence of increased number of the unemployed among older workers and workers with periods of service. This proportion has been maintained in the past 5-6 years.

Regarding the **age structure** of the unemployed, even greater changes occurred in the past 25 years. In 1980, persons younger than 25 accounted for 55 % of the unemployed, and in 2001 their share fell to only 25 %. However, these are not unemployed that have now become jobless but, rather, most of them fall in the category of unemployed, who never had jobs. Two factors are decisive in connection with the change in the age structure of the unemployed. Firstly, following 1988 in Montenegro, there was a rapid increase in the number of workers who became jobless, including a large number of aged workers, and secondly, a large number

of unemployed in the category of young persons moved into the category of older persons.⁵ This means that a large number of unemployed young persons grew into the older category, namely that a large number enter their forties without employment and work experience.

The **educational structure** of the unemployed likewise shows that the problem of unemployment is grave and complex, growing ever more complicated in time. Namely, until early 1970s the vast majority of the unemployed (68 %) was accounted for by unskilled workers, the largest number living in rural areas and working in agriculture, who registered themselves as unemployed in order to acquire certain benefits but also to get employment if an opportunity arises. However, in the period of only 10 years the educational structure of the unemployed changed dramatically. The share of those without schooling and skills fell to around 40 % and the share of skilled and educated grew to 60 %. This trend has continued to date.

The educational structure of the unemployed underwent some other changes as well. It is particularly negative that **unemployment of the most highly educated** grows fastest, which is contrary to the process occurring in modern economies, not only developed Western market economies but also an array of newly-industrialized countries. Thus, for example, in 2001 the number of unemployed holders of higher education diploma and degree reached 3,749, which exceeds 4.7 % of the total number of unemployed persons, or almost 8 % in the category of educated persons in broad terms.

Such trends, even though contrary to what is happening in modern economies, are relatively easy to explain in our case. Under the growing demographic pressure of baby boom generations that were motivated on many grounds to receive education but had no job opportunities, education continued further, exerting pressure on schools – first secondary and then higher. Thus, the phenomenon of massive overt unemployment was prolonged and gradually moved upward and was dispersed to higher levels of education. When extended education reached its peak, even though in the past several years graduate studies as the last stage in the formal educational system also experienced expansion, a growing number of highly educated generations appears in the labour market. Predominant among the educated unemployed are profiles of various social sciences and humanities, holders of degrees and diplomas from older higher education institutions of social sciences and humanities. But they are not the only ones. In the past 7-8 years, there has been a rapid increase in the number of unemployed persons holding degrees from the new faculties of technical, engineering and social science departments, faculties that enrolled a small number of students and that have only celebrated their first decade of existence.⁶

4 Peter Melvyn and David H. Freedman: "Youth unemployment: a worsening situation" in: D. H. Freedman (ed.): *Employment: Outlook and Insights*, ILO, Geneva 1979, p 83.

5 For example: the number of formerly young unemployed persons who in the meantime moved into the category of older unemployed persons aged from 25-30 was 19,033 or 32 % of this category in 1995, which equals the number of young people aged up to 24. This data is highlighted here in order to indicate the importance of problems and differences in this respect between our country and the world. Namely, according to the international practice, the age group from 25-30 or 40 has the smallest number of the unemployed, because these are the best creative years and at the same time the years when material needs are the highest. They are the years of getting married, acquiring and equipping apartments, bringing up and schooling children, etc.

6 For example, the Faculty of Civil Engineering in Podgorica has been in existence for only 10 years and in 1995 already 52 civil engineers were registered with the Employment Bureau.

Regardless of the cause of this situation, one thing is certain – a high share of educated persons in the structure of the unemployed indicates that a considerable **social capital** invested in education is **used irrationally**, or rather, is not used. In addition, continuation of this process means at the same time that there is a systemic production of structural unemployment and wasting of funds invested in education.

The problem of unemployment in Montenegro is further aggravated and complicated by its **regional concentration**. Of the total number of officially unemployed persons in 2001, almost half were in Podgorica and Niksic. In view of the fact that a considerable number of unemployed persons in these two towns originate from other municipalities which are, due to the transportation conditions, too far away for the unemployed to be able to travel and do some work in rural areas and agriculture, the issue is obviously predominantly the overt urban-rural unemployment.⁷

3.4 Discrepancies in the use of human resources

The first discrepancy and irrationality in the use of labour force is manifested through the scope of registered unemployment. Despite the fact that a considerable number of unemployed persons registered with the Employment Bureau is engaged in some labour activity – in grey economy, private agricultural sector, petty smuggling and reselling – and thus earn some subsistence, nevertheless the figure of 80,000 registered unemployed persons indicates that Montenegro is not utilising its considerable human potential. Such a situation, actually, indicates that there are **deep structural discrepancies** in the economic sector and society – in remuneration, in social treatment of certain activities and professions, in the educational system, and more broadly, in the overall social-cultural milieu. Here, we shall indicate some of the most important discrepancies.

If various data on supply and demand of labour force are compared, on the assumption that the supply of labour force by all structural characteristics corresponds to its demand, the number of unemployed persons in Montenegro is 4-5 times higher than the demand for labour forces in the formal (registered) sector.⁸ Since the labour force supply is already given, it means that the main problem concerning unemployment in Montenegro is the **shortage job opportunities**, namely the insufficiently rapid pace of creation of new (adequate) jobs which would enable absorption of a larger number of unemployed persons.

However, since in Montenegro there are big differences between the demand structure and actual labour force supply by profession, work experience, and region, discrepancies in em-

ployment are much bigger than the simple arithmetic of supply and demand would indicate. This brings us into the second circle of discrepancy. It is reflected in the fact that concurrently with the high and severe unemployment there is a **relatively large number of job vacancies** in the formal sector which are not filled. There is a registered and precisely structured demand for particular profiles, on the one hand and on the other, there is a large number of registered unemployed which by their characteristics correspond to the demand. This means that there are employment opportunities but the unemployed, for various reasons, are not willing to accept the offered jobs. To increase the paradox, this discrepancy grows as the unemployment problem becomes more acute. Namely, in the past 2 years, when the demand for labour force grew considerably,⁹ when the standard of living was so low and unemployment so high, Montenegro had some 10,000 job vacancies.

In order to be able to take adequate measures, it is necessary to establish what the main causes of this situation are: that is **regional disproportion between supply and demand, professional disproportion, and inadequate payment**. A considerable percentage of job vacancies concern jobs of miners, forest workers, construction workers of certain profiles, difficult and hazardous jobs in the industrial sector, seasonal and full time jobs in agriculture and even tourism. This situation not only aggravates the problem of overt unemployment but industries and businesses also suffer because of such vacancies. This discrepancy, therefore, cannot be resolved just by making the economic sector more dynamic but rather requires special measures to be undertaken.

The third form of discrepancy is reflected in the fact that even though there is a large number of educated people of all profiles, the needs in many fields of life and work are not being met, and when they are met, the level of services is low and the cost of services are too high for our circumstances. At the same time, these are not some economically or socially less valued jobs – physically difficult or life threatening. They mainly concern production craftwork, civil engineering, business services, namely labour intensive activities, knowledge intensive, not attended by major risk and not requiring big capital for starting one's own business. Moreover, there is a large number of unemployed persons with skills in these profiles. It is certain that a number of those unemployed work in grey economy – as independent service providers or as unregistered workers engaged by owners of registered shops. However, proceeding from the costs of services in formal and informal sectors, conclusion is made that the **demand for services by far exceeds the supply**, meaning that employment opportunities are much bigger not only in this but also in a number of other activities.

Another reason why the **number of self-employed** persons is not bigger lies in the fact that a large number of them do not have sufficient funds to buy (or rent) and equip business premises, purchase basic tools, equipment and intermediaries. Another reason is the fact that many young unemployed persons do not have any work experience and, assuming that they have sufficient vocational training for performing the basic activity, they still lack sufficient knowledge (and courage) for running a business – they are afraid of paperwork and documents

7 That this thesis is true is confirmed by the fact that in Montenegro 93,354 persons are engaged in extra work, of which 9,392 are unemployed and 14,654 are occasionally active. (Survey on Labour Force, May 1996. The Official Gazette of Yugoslavia, 1996, p. 90).

8 This and other conclusions concerning discrepancies between supply and demand are rough estimates obtained by crossing various data – the data on employment obtained from the Employment Bureau, the data from the Survey on the required labour force conducted by the Bureau regularly for 5-6 years and the data on submitted application on vacancies and job taken.

9 The actual difference occurs because the final figure is obtained by adding up the data for each month, so that jobs that are announced several times over a year are included in the calculation as many times as they are announced in the open competition.

required for business registration, bookkeeping, procurement of raw materials and intermediaries, employment of labour force, etc. Many, therefore, resort to work in grey economy until they acquire some experience and minimum funds for an independent business.

Another form of discrepancy, by manifestation rather than content, is similar to the above mentioned. In this case, too, there are job vacancies and the demand for services and a large number of unemployed persons of similar profiles. The reason why these vacancies have not been filled or why services are not provided better arises from the fact that the **available competences** of unemployed persons are **inadequate and insufficiently specialized** to allow a successful performance of particular jobs and provision of services. This refers to two kinds of jobs – maintenance and servicing of modern equipment and facilities (computers, printers, scanners, photocopying machines, fax machines and other modern equipment and facilities in the economic and non-economic sectors) and the so called corpus of jobs in the field of businesses and intellectual services – all kinds of managers, the sphere of labour and business law, modern banking operations, stock exchange transactions, statistics, accounting, due diligence and evaluation of firms, various auditing activities, a broad spectrum of consultancy services, research and development, modern marketing, etc.

The number of jobs for these profiles is not very big, but they are extremely important for efficiency of certain enterprises, for the economic sector and functioning of society at large. The only way for ensuring the provision of these services and on that basis increasing employment, i.e. reducing unemployment, is to retrain a number of employed persons. For that purposes, it is also necessary to organize special programmes for imparting certain skills or additional skills, or for specialized or advanced training. For most of these occupational profiles and professions, it is difficult to provide adequate schooling and training, which further aggravates the problem. Solution, therefore, has to be sought through **specialized training programmes** to be organized in cooperation with other market economy countries and international institutions. In addition, those who possess the required competences but are not able to finance their own businesses like in the previous case would need to be assisted through various loan arrangements.

A special category of personnel shortage is entrepreneurs for establishing and running small and medium enterprises.

A special problem of labour force in Montenegro is its quality, both of the unemployed and of the employed. Due to ideologization of the education system, its extensiveness and small possibilities for professional training and acquisition of practical experience, long job seeking periods and the resulting outdated knowledge and skills, and inadequate training system and the failure to update knowledge and skills of the employed, the **quality of labour force**, generally speaking, is **very low**. This is adversely reflected in the overall development of the economy and society and thus, as well, employment. But, even if there were possibilities for re-training and employment on “lower-ranking” jobs, many would not accept it. The reasons for such a behaviour cannot be explained by economic motives but rather lie in the broader socio-cultural matrix of society. Namely, there is in Montenegro an unmatched highly manifested causal link between “human dignity” and formal education.

4 Missing political responses

There is an **absence of a comprehensive social programme** that would enable a real insight into social problems and social needs in the country. This programme would also allow the economic sector to rid itself of redundant workers who would be accommodated through social and other employment and self-employment programmes; the burden of the economic crisis and problems ensuing from the economic reform would be more evenly distributed and the minimum of social safety for all would be provided.

Despite major changes in the political system, reflected in the creation of a multi-party system that provides the opportunity to use employment and unemployment issues in election campaigns as an important argument in coming to power, the above mentioned was not done. The political scene was dominated by non-economic issues, while the problem of unemployment was not a priority. Since employment and mitigation of unemployment were not imposed as the main objective of development and economic policy, other policies that directly or indirectly contribute to employment do not go in that direction either. **Insufficient appreciation** of importance of problems of **employment and unemployment** was accordingly attended by the failure of the state to introduce adequate programmes and to develop the institutional infrastructure through which programmes would be successfully implemented.

Montenegro attempted in a somewhat organized manner to cope with unemployment problems. Programmes of self-employment, purchase of additional years of service and some other minor programmes were introduced through the Employment Bureau, the Development Fund, the Secretariat for Development, and the Ministry of Agriculture. Since 1992, considerable funds have been earmarked for these purposes – over DM 30 million. However, one of the key problems is that the **programmes and measures** are not implemented in a way to deal in an organized and well targeted manner with the problem.

Conditions have not been met for major investments in the economy. Problems exist both on the side of investment fund raising and on the side of implementation and rational use of such funds. The unstable political situation and big risk are the main reason for the failure to attract foreign capital. The **undeveloped tax policy and discouraging investment policy** even more encourage spending than savings and investment. Enterprises that work regularly are burdened with taxes, contributions and other fees, but due to the lost confidence in the banking system, household savings cannot be made functional. In addition, a major portion of investment funds are invested irrationally – in luxury buildings and capital intensive projects – sports halls, the Sozina tunnel, bridges.

Privatization is proceeding slowly and its process has not provided major investment funds. In addition, other expected positive effects of privatization have not been sufficiently attained – increased labour productivity, efficiency of operation and increase of profit that would be invested in the expansion of capacities, modernization and increase in employment.

The **import policy**, which at one point of time had low customs duties in order to provide for low-cost procurement of basic necessities, has been turned into an indiscriminate policy not protecting the domestic production. Due to disloyal competition, some labour intensive branches such as textile industry, agriculture, wood processing and furniture industry, leather and

and footwear industry, electrical engineering industry and machine-building industry that used to employ considerable labour force have literally disappeared and many jobs along with them.

Corruption – the collusion of business, government authorities and political power wielders in such a manner that certain individuals did not pay custom duties and taxes, elimination of sound competition and monopoly creation, enabled certain individuals to generate enormous profits that were not reinvested.

Labour laws are too rigid when the engagement-employment of new labour is concerned and even more so in the case of termination of employment. Employers therefore had reservations regarding employment of new labour force, and when they did provide employment, they tended to use unregistered labour force. The situation is similar with other labour regulations such as those on flexible employment, flexible working hours, mobility of labour force within the enterprise, etc.

5 Some proposals and measures for solving the unemployment problem

Regardless of the pace of the privatization process, of production, organizational and management transformation, the unemployment problem remains topical not only for today but also for the coming several years and beyond. Likewise, settlement of the unemployment problem cannot be taken in isolation from overall socio-economic development. Therefore, one of the main prerequisites for successful solution of the unemployment problem in general is to **adopt employment as a priority developmental goal at all levels of society** – the state (government, the assembly), all parties, trade unions, the family, individuals, educational institutions, namely for practically everything that is done in society to be considered from the viewpoint of its impact on employment.

Adoption of the strategy of development that seek to use labour force to the maximum and to achieve full employment means at the same time the adoption and implementation of a strategy to create a **working society** with all positive elements characterising such a society. However, this adoption of strategy must not be only declarative and *ad hoc*, imposed by the difficulties of the moment. It must be a continuing and long-term task like in modern market economies. Therefore, the existing situation and the expected future changes demand organization, fund raising and creation of programmes in order to more adequately respond to the problem of employment.

The next step is to accept at the republican level the concept and development strategy conducive to the maximum level of employment with concurrent attainment of a series of other objectives – rational use of natural resources, balanced regional development, and conservation of environment. The **sustainable development strategy** is a strategy that simultaneously satisfies all of the said objectives.

The most efficient, cost-effective and useful method for solving the unemployment problem is to accelerate the pace of development and to activate the largest possible number of produc-

tion facilities, especially in the small and medium enterprises in all sectors and branches. In order to pursue the **employment policy** as fully as possible, a whole set of other policies is required: regional policy, agricultural policy, industrial policy, international trade policy, social policy, small and medium enterprise policy, financial policy, currency rate policy, payments policy, educational policy.

Since the problem of unemployment in Montenegro is to a large extent of structural nature, it is necessary to pay particular attention to the following **policy interventions**:

- adopt labour legislation that will enable flexibility and dynamism in the labour market,
- provide more funds for labour market active policy measures,
- prepare institutions for successful implementation of these programmes,
- increase the flexibility of working hours (short-term and lifelong), on which employees and employers will decide on voluntary basis,
- encourage entrepreneurial climate by eliminating obstacles and restrictions relating to the establishment and expansion of enterprises,
- make wages and labour costs flexible by removing the obstacles, which will protect wages from effects of local conditions and individual competences, especially when younger workers are concerned,
- promote competences of labour force through a set of changes in the systems of education and training.

When labour force, unemployment and employment affairs are concerned, the role of the state is important and is not getting weaker like other functions of modern economy but, on the contrary, the role of the state is getting stronger. The overall problem of irrational use of labour force in Montenegro is so highly manifested and the problem of unemployment so serious and complex that it would be worth **establishing a special body at the republican level** to deal with this subject matter, to initiate research and discussions, propose measures and action to be taken, to coordinate and supervise the implementation of particular programmes. We believe that it would be meaningful some time soon to establish a **Council for Labour Force, Employment and Unemployment Affairs**.

For the successful implementation of programmes and measures aimed at specific target groups considerable funds are required that would be difficult to earmark from the budget. It is, therefore, necessary to **establish** a special fund, for example a **Training and Employment Fund**, that would be financed from a special fund on luxury goods. Proceeds of this fund would also be used to open the training centres that have already been established by the Employment Bureau together with other social partners.

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Romania

Iulian Oneasca
Consultant

1	Economic context of employment policies	145
2	Labour market and employment	146
3	Employment policy	150
4	Labour market policy	151
4.1	Passive policies	152
4.2	Active policies	152
5	Conclusions and recommendations	156

1 Economic context of employment policies

Elaborated and implemented under pressure, the **economic reform programmes** initiated in Romania so far, have scarcely outlined the features of long-term strategies. The evolution of the Romanian society on the transition path faced notable difficulties. The Romanian evolution could be described as fluctuant, unsustainable and pauperizing. Table 1 presents a few synthetic data concerning the situation and trend of economy and employment, during the last years. The GDP suffered a shock in early nineties, reaching a minimum rate of -12.9 % in 1992. An ascending period followed, with a maximum of 7.1 % GDP rate in 1995. The economical and political profound transformations led to a sudden fall of GDP to -6.1 % in 1997, reduced gradually during the following years.

Table 1: Economy and employment in Romania, 1995-2001							
	1995	1996	1997	1998	1999	2000	2001
GDP rate (%)	7.1	3.9	-6.1	-5.4	-2.3	1.6	4.9
Private sector in GDP (%)	45.3	54.9	60.1	61.4	63.7	65.5	67.1
Inflation rate (%)	27.8	56.9	151.4	40.6	54.8	40.7	30.5
Population (thousand persons)	22681	22608	22546	22503	22458	22435	
Employed population (thousand persons) of whom, by branch %	9493	9379	9023	8813	8420	8629	
Agriculture	33.6	34.6	36.8	37.4	40.6	40.8	
Industry	28.6	29.2	27.2	26.3	24.4	23.2	
Constructions	5.0	5.1	4.9	4.4	4.0	4.1	
Services	32.8	31.1	31.1	31.9	31.0	31.9	
Employees (thousand persons)	6048	5894	5399	5182	4659	4646	4619
Employees (% of employed population)	63.7	62.8	59.8	58.8	55.3	53.8	
Unemployment rate, registered (%)	9.5	6.6	8.9	10.4	11.8	10.5	8.6
Unemployment rate, ILO (%)	-	6.7	6.0	6.3	6.8	7.1	6.6

Source: Romanian Statistical Yearbook, 2001

In 2000, the governmental action has made considerable progress in liberalizing market, trade and foreign exchange systems. Beginning with year 2000 an **economic recovery** is perceived and the GDP rate reached 1.6 %, followed by 4.9 % in 2001 and an estimated 4.7 % in 2002.

The percentage of the **private sector** in the GDP had a positive evolution, increasing from 16.4 % in 1990 to 35 % in 1993 and more than 67 % in 2001. By sector, agriculture had acquired a better share during this period, as opposed to industry and service. Correspondingly, private ownership share renewed since 1993. In 1999 the agricultural sector registered 97 % of private ownership, construction 78 %, services 73 % and industry only 49 %. Marked by a descending economic evolution as a background, the privatization process hesitated.

During this period the **population** decreased in number, the unemployment grew and the active population diminished. Significant mutations have been registered. The employed population shifted from industry, with a share of 28.6 % in 1995 and only 23.2 % in 2000, toward agriculture, with a share of 33.6 % in 1995 and 40.8 % in 2000. The unemployment rate has been maintained under control, in broad lines, reaching a maximum of only 11.8 % in 1999.

In the nineties, the **labour force employment** changed substantially. The market machinery gradually replaced the centralized labour market regularization. Labour market institutions appeared and partnership, decentralization, collective negotiations became current principles of the labour market. But the labour market devolved as a tensioned market. The capacity of the economy to generate employment was severely contracting; the private sector and the small and medium size enterprises had a limited capacity to absorb the unemployed labour force. More over, during the years 1997 and 1998 even the small and medium sized enterprises started to generate unemployment. The unemployment rate grew to up to 11.5 % in 1999 and than dropped under 9 % and occasionally below that level during 2000 and 2001, but recovered to over 13 % in early 2002 due to the introduction of the means-tested minimum income guarantee. The share of women in the total number of the unemployed decreased from 55.2 % in 1995 to 46.8 % in 2000. The proportion in the total of the young unemployed, aged under 25, registered 38.3 % in 1998 and decreased to 30.4 % by 2000.

Central and Eastern European countries and especially Romania currently face a **difficult challenge**, in their efforts to catch-up with the rich EU countries in a relatively short period of time. The integration into the EU provides motivation and support, but not solutions for economic catching-up. Coherent and long-term development strategies are needed, combining well-known recipes with country-specific considerations.

2 Labour market and employment

Beginning with 1990, the **employment structure** in Romania has continuously and dramatically altered. The employed civilian population decreased by 20 % up to 2001, respectively with one forth of the working resources. Accordingly, the wage earners diminished in number with over 40 % up to 2001.

Table 2 presents the evolution of employment and unemployment between the years 1996 – 2001. The economic activity rate diminished continuously during this period, especially due to the activity rate in urban areas, dropping with 4.4 percentage points, and to men's activity rate, reduced with 2.1 points. In rural areas the activity rate increased with 2.1 percentage points. A similar trend registered the employment rate, with the difference that in the rural areas it remained relatively constant.

Table 2: Indicators of employment and unemployment in Romania						
	1996	1997	1998	1999	2000	2001
Economic activity rate* of which:	64.8	64.8	63.6	63.4	63.2	
By residence						
Urban	60.5	59.3	57.7	56.7	56.1	
Rural	69.9	71.5	70.8	71.7	72.0	
By gender						
Male	72.7	72.5	71.4	70.9	70.6	
Female	57.4	57.7	56.3	56.4	56.4	
Employment rate ^{*)} of which:	60.4	60.9	59.6	59.1	58.8	
By area						
Urban	55.0	54.3	52.3	50.8	49.8	
Rural	66.9	68.9	68.4	69.2	69.8	
By gender						
Male	68.1	68.3	66.8	65.7	65.1	
Female	53.2	54.0	52.9	52.9	52.8	
Unemployment rate (registered)** of which:	6.6	8.9	10.4	11.8	10.5	8.6
Female	7.5	9.3	10.4	11.6	10.1	
Unemployment rate ILO*** of which:	6.7	6.0	6.3	6.8	7.1	6.6
By area						
Urban	9.2	8.5	9.2	10.3	11.2	10.4
Rural	4.3	3.6	3.5	3.5	3.1	2.8
By gender						
Male	6.3	5.7	6.5	7.4	7.7	7.1
Female	7.3	6.4	6.1	6.2	6.4	5.9
Total expenses with unemployment services in the overall budget (%)	1.7	3.5	3.8	3.7	3.4	12.6
*) Calculated as percentage of total population aged 15 years and over						
**) By the end of the year						
***) According to criteria of the International Labour Office (ILO)						
Source: Romanian Statistical Yearbook, 2001						

The **registered unemployment rate** increased from 6.6 % in 1996 up to 11.8 % in 1999. By gender, the unemployment grew more rapidly for men. The estimated unemployment, according to ILO definition, had a different evolution, as compared to the registered one. The differences between the registered and estimated unemployment rates increased in time from -0.1 percentage points at the end of 1996, to +5 points in 1999, with even higher differences dur-

ing the years. This is due to the influences generated by the development of the social assistance system. The introduction of social benefits or of the recently minimum income guarantee are supplying the registered unemployed with income support, only under the condition of registering as job seekers, with the National Agency for Employment (NAE). The increased number of claimants, induced by the new regulations, had no impact what so ever over the labour market situation, as shown by the ILO estimated rate of unemployment.

Table 3 shows the break down of the **unemployment rate by counties** of Romania as of 31.12.2000. It can be observed that the unemployment rate is higher in the eastern part of the country and less prominent in the western one. Within a range of 6 points around the average unemployment rate (10.5 %), we identify the maximum rate of 16.6 % in the Neamt County (NE) and the minimum rate of 4.5 % in the Satu Mare County (NW).

Table 3. Unemployment rate by regions and counties as of 31.12.2000 (%)

	Region County	Unemploy- ment rate	Of which: Female			Region County	Unemploy- ment rate	Of which: Female
A	B	1	2		A	B	1	2
1.	North-east	13,2	12,3		5.	West	10,4	10,4
	Bacau	9,5	8,4			Arad	8,4	7,4
	Botosani	16,7	14,1			Caras-Severin	9,7	10,8
	Iasi	10,9	10,1			Hunedoara	16,4	17,5
	Neamt	16,6	16,9			Timis	7,6	7,2
	Suceava	12,2	12,4					
	Vaslui	15,4	12,8					
2.	South-east	11,4	11,3		6.	North-west	8,5	7,9
	Braila	15,3	11,9			Bihor	4,6	3,6
	Buzau	12,7	11,2			Bistrita-Nasaud	12,7	12,3
	Constanta	10,0	12,5			Cluj	11,3	11,3
	Galati	12,6	14,3			Maramures	9,2	8,5
	Tulcea	11,4	10,7			Satu-Mare	4,5	3,4
	Vrancea	6,1	4,5			Salaj	10,0	9,6
3.	South	10,4	9,7		7.	Center	10,3	10,7
	Arges	7,0	6,8			Alba	12,9	15,2
	Calarasi	11,9	8,1			Brasov	11,4	13,2
	Dambovita	10,8	10,1			Covasna	11,2	10,4
	Giurgiu	8,0	6,4			Harghita	9,9	8,7
	Ialomita	13,1	11,0			Mures	7,1	6,4
	Prahova	13,5	14,3			Sibiu	10,3	9,8
	Teleorman	9,0	8,4					
4.	South-west	11,6	10,8		8.	Bucharest	5,8	6,7
	Dolj	12,3	11,2			Ilfov	6,2	6,1
	Gorj	12,8	12,6			Bucharest Mu- nicipality	5,7	6,8
	Mehedinti	10,3	8,8					
	Olt	9,5	8,1					
	Valcea	12,5	12,7					

Source: National Agency for Employment

The transition in Romania was accompanied by an explosive **increase in poverty**. In 1989, an estimated 7 % of the population was poor. By 1994, the poverty ranged between 22 % and 39 %, and from 1997-2001 the poverty rate has increased to over 42 %. The poverty concentration areas are the North and Northeast areas, as well as the South and Southeast areas. In these regions, real compact poverty areas are outlined, mainly because of economic factors (employment-unemployment, budgetary resources).

The evolution of unemployment was influenced by behaviour modifications of population, on account of economic stimulus. Consequently, one could observe

- the development of a parallel economy, supported by the voluntarily unemployed or assisted, and
- the emergence and growth of a dependence upon the social safety net,

as adapting forms of the population to market economy conditions, answers to the decreasing employment opportunities and to the degradation of living standards.

While the poverty was partly inherited and partly induced by economic hardships of transition, there is no doubt that the numerous legislative gaps and political errors (under-regulation) contributed to a large extent to the emergence of the **informal sector**. Politicians were overloaded with information, facing unforeseen situations, very few of them being experienced elsewhere. Errors in judgements and decisions were to be expected. However, correcting those errors should not have taken so much time¹. It is estimated that the parallel economy covers an important share of the GDP, diminishing over the last few years.

The weak economic performance in domestic and foreign activities had a strong impact on the human development and on the social climate. The economic, political and social transformation processes have tended to exacerbate basic human deprivations. Under these conditions, people in Romania have developed survival strategies to cope with the lack of basic human needs such as food, shelter, education and health². Clear examples are **migration and emigration**. The migration from rural to urban area constantly decreased (from a rate per 1000 inhabitants of 9.4 in 1992 to 3.9 in 2000), while the flows from urban to rural areas increased (3.8 to 8.1 over the same period), despite the poverty concentration in the rural localities. The emigration is following a similar trend. In spite of the increasing poverty in Romania, the number of emigrants is decreasing each year (25675 persons in 1995 and only 14753 in 2000).

The rapid development of the private sector could not absorb the unemployed, in a growing number. The percentage of underemployed persons dropped and is stabilized now at 0.5 % of the active population. The **underemployment rate** of women is low below the total average. On the other hand, the proportion of discouraged persons is increasing, going around 3 % of

1 As an example, according to the Employment Promotion Law adopted in January 2002, the unemployed are defined as persons "...looking for work from the age of minimum 16 years and until meeting the retirement conditions...". Consequently, Romania has no legally defined unemployed.

2 National Human Development Report, Romania 2001-2002, UNDP.

the total active population. Unlike the case of underemployed persons, the rate of discouraged females is greater compared to the national average or to the male person's average (3.9 % women).

So far, the main obstacle in designing adequate programmes to the existing problems is, beside the insufficiently trained human factor, the lack of pertinent information on results and the lack of transparency. The main information accessible is the one provided by the National Institute of Statistics, periodically published. Few, if any, other sources are available for the large public or even for researchers. Comparisons are not handy, information is not always coherent and liable. However, the **labour market information** system in Romania is on a good path. The Employment Promotion Law adopted in 2002 created the premises for transparent and pertinent information on the labour market situation, evolutions and actions. The NAE has to make public the information on its actions and results, regularly. Labour market analyses will be financed through the unemployment fund. Annual reports have to be published in the Official Bulletin. At the same time, a recently adopted law on the access to information makes clear that information of public interest has to be disclosed at request. Unfortunately, no penalties have been foreseen.

3 Employment policy

The **Ministry of Labour and Social Solidarity** (MoLSS) was, so far, the highest governmental body in charge with the promotion of employment policies. The programmes of active and passive measures of the labour market are administrated and implemented by the **National Agency for Employment** (NAE) (See next section). NAE has been set up beginning with the 1 of January 1999, taking over from the MoLSS its activities and specialized county structures. NAE is composed of a central unit and 42 county agencies with over 200 branches. A tripartite council, chaired by a president, state secretary with the MoLSS, administrates the NAE. At county level, the tripartite councils have a consultative role. The annual budget of the NAE is forwarded by the MoLSS and approved by the parliament, as part of the overall state budget.

During the years of transition, Romania's employment policy was the ambiguous result of the economic policies. Its visible initiative laid on social protection measures. As result, the design and implementation of labour market policies resulted in an increasing burden for the financing situation of the whole country. After some bad experiences with insufficient annual budgets, exhausted by poorly justified severance payments, beginning with the year 2002, employment promotion principles became part of the unemployment insurance system against unemployment. The **employment policy reform** registered an important stimulus provided by the revised Law on unemployment insurance, No.76/2002. The law came into force beginning with March 2002. It created conditions for the development of an employment policy. The law establishes the National Commission for Employment Promotion, chaired by the minister of labour and composed of state secretaries with the main ministries and agencies, presidents of representative trade union confederations and employers' associations. The law also regroups all major laws in the field, puts aside severance payments, sets an accent on pro-

active measures, as way to fight unemployment, and, through a re-designed benefit system, motivates unemployed to seek work. It also provides non-discriminating support to preserve jobs and prevent mass layoffs.

A **National Action Plan for Employment** (NAPE) was for the first time adopted in 2002, with the assistance of the EU "PHARE" initiative. It is seen as the main instrument to build up an employment strategy, endorsed by experts. For now, the NAPE is an implementing and monitoring exercise, grouping specific actions that would have been taken anyway, which matures for the EU integration purposes.

More importantly, with longer than one-year perspective is the **MoLSS' employment strategy**, encompassing the years 2002 up to 2004. It embraces political commitment, even though experts could challenge it. The strategy is based mainly on the Unemployment Fund and sets milestones for the NAE's activity. An example is the increase of the expenses for active measures, from 12 % in 2001 to 22.5 % in 2002 (1.3 % of GDP), within the total unemployment expenses. Furthermore, there are specific programmes, aiming at improving employment prospects, that are parts of the NAE' annual plan of operations:

- The Program 180 – grouping 140 localities in disadvantaged areas and other 40 in industrial and monoindustrial areas,
- The Jiu Valley Program – referring to a wide mining region.

4 Labour market policy

Labour market policy in Romania is unitarily conceived and centralized administrated by the NAE. NAE's activity is based on the **unemployment fund**, fed by the contributions on the wage bill paid by employers (5 %) and employees (1 %). Romania is divided in 42 administrative regions, called judet (county). Programmes of active and passive measures, promoting employment and preventing and fighting unemployment, are developed at county level. The **share of the unemployment services** in the overall budget expenditure increased from 1.7 % in 1996 to around 3.5 % in 1997-2000. The increase in expenditure is generally due to the ascent of payments, as result of the rise of:

- Average unemployment benefit, as compared to net average earnings (ratio of 29.6 % in 1996 shifted to 39.3 % in 1997),
- Proportion of recipients of severance payments (3.4 % of registered unemployed in 1999 to 5.3 % in 2000).

During the same period, the active measures benefited of less than 2.7 % of the total unemployment expenditure, meaning less than 0.1 % of the overall budget expenditure, far below the European routine. The range of active measures available for all unemployed was relatively poor. Special measures have been adopted for the companies or sectors facing mass dismissals. Accordingly, special funds, internal and external ones, have been identified and awarded.

Employment services providers have matured based on international assistance and finance. But competition among them is weak and not encouraged. Furthermore, private employment services have been created. The ILO convention No.181, not recognized by Romania, is ignored. The unemployed persons are paying fees to be registered with the private agencies. Placement services are demand oriented.

4.1 Passive policies

Passive policies have been well represented on the labour market. Most of them have been introduced in early nineties:

- To replace the work related income (unemployment benefit, support allowance), or
- To compensate a disadvantaged position on the labour market (benefit for integration into the labour force – for the school leavers; severance payments – for the workers collectively laid off, introduced in 1997).

According to the Employment Promotion Law No 76/2002, the **unemployment benefit** represents 75 % of the minimum wage for all unemployed. According to the number of years of contribution to the Fund, unemployed persons are entitled to get benefits between minimum 6 months up to 12 months. As a follow-up, the reduced benefit is replaced by the minimum income guarantee, which is means tested.

Special regulations abolished by the new law, granted **severance payments** and dismissal services. Persons with working contracts collectively terminated as a result of restructuring, reorganizing, operational shutdown, privatization and liquidation processes received a compensatory payment. The severance payment was a non-taxable amount, equal to a multiple of 6 to 12 average net wage at company level, registered during the month prior to the layoff, depending on service seniority. The personnel collectively laid off also benefited of unemployment aid and of other rights specified for the unemployed, after the severance payments were exhausted.

The **minimum income guarantee** has been introduced beginning with the year 2002 (Law 416/2001). It replaces the reduced unemployment benefit (support allowance) and comprises a number of means-tested social benefits for income support, heating, burial, emergencies, as well as child allowances. The government provides some 80 % of the funds. The benefits may include, apart from cash, goods and services. Applicants have to work 72 hours in community service each month.

4.2 Active policies

The main active policies, meant to support the (re-)integration of the jobless into the labour market, are based on a set of measures, insufficiently detailed, as follows:

- Subsidizing the employment of disadvantaged groups on the labour market;
- Granting soft credits for employment generation and reintegration of the unemployed;

- Providing employment and consulting services;
- Training and retraining;
- Motivating competition and mobility of the unemployed.

Subsidizing the employment of disadvantaged groups on the labour market

Three different subsidies have been designed and targeted accordingly:

- Subsidizing the employment of the jobless in public works and social services organized under the authority of the local administrations – 70 % of the minimum wage is granted to employers for each unemployed hired for a period of up to 12 months;
- Subsidizing the employment of the jobless, solely providing for their families or having over 45 years of age – a minimum wage is granted to employers for 12 months; the employer is compelled to maintain the working relationship for at least two years;
- Subsidizing the employment of school graduates – a minimum wage is granted to employers for 12 months. Further funds are released for training, at the employer's request. The employer is compelled to maintain the working relationship for at least three years; the subsidy and its spell are increased by 50 % for handicapped school leavers.

In Romania, the employment creation schemes did seem to have **no visible impact** in re-absorbing unemployed onto the labour market, despite financing and intervention of international development assistance. The same is true for the subsidies granted to employers with the aim to hire school leavers. The measure does not differentiate between school leavers, areas they are coming from or are hired to, and occupations. Nevertheless, starting with the year 2002 all unemployed are eligible for such schemes, based on the Unemployment Fund.

Granting soft credits for employment creation

Employment generation and the development of enterprises of small and medium size is promoted through loans with soft interest rates. Yearly, an important part of the unemployment fund is detached and utilized as an investment fund. The credits are granted for up to three years, including a grace period of 6 to 12 months, proportionally with the number of new jobs created. The interest rate is subsidized with 50 % of the National Bank's official rate. The employer is compelled to hire jobless for 50 % of the newly created jobs and to preserve the open-ended employment contracts concluded with the unemployed for at least three years. The subsidies have recently been differentiated, favouring the high unemployment areas.

This measure has also only a **reduced impact** on the labour market. Every year, a reduced number of unemployed was hired on newly created jobs. Even though the dedicated funds have never been exhausted, they have been increased every year. Between 1997 and 2000, there were hired 1390 to 1763 jobless. In 2001, the funds were increased 11 folds, but the number of hired unemployed increased only 5.3 folds (up to 9473). The measure is of a local economic development nature, without any priorities related to sectors, areas or characteristics

of the unemployed. Furthermore, the Unemployment Fund is a privileged position in the competition with the banking and investment funds.

Providing employment and consulting services

The NAE has a modern, adequate concept of services. Its utilization depends on the management and staff capacity to perform. NAE offers the following types of employment services:

- Information;
- Job brokerage, job referral interviews and placement;
- Professional counselling;
- Promoting entrepreneurship;
- Other services, such as labour exchange, job club, and training in job search techniques.

The employment services are in an **ongoing transformation process**. The activities are consolidated alongside the financial flows, collection of the contributions to the unemployment fund and payment of the benefits. The main deficits are the lack of quantitative and qualitative objectives, the relative large number of unemployed per employment agent (over 400) and the lack of a staff training system, contribute to the subsistence of a misleading system, with pronounced social features. But the year 2001 has brought important changes in the delivery of employment services. The first quantitative objectives, detailed at branch agency levels, have been introduced. The development and transformation of these objectives from political targets to professional performance recommendations are still needed. The furtherance of this process, detailing norms, operations and corresponding resources, accompanied by a staff training system, would allow NAE, within few years, to provide employment services similarly to the advanced East European countries. It is very important to develop and extend the job search assistance in order to promote its specific weight in the overall services, to reduce costs and to improve effectiveness.

Promoting entrepreneurship through consulting services is a new service provided on the labour market. There is no information available concerning its effectiveness. Special services designed for workers collectively laid off have been experimented through financing and intervention of international development assistance.

Training and retraining

The training is one of the main measures in (re)-integrating the jobless into the labour market. The access is opened to all unemployed, based on their initiative at employment agents' recommendations. Training aims at helping new entrants to the labour force and redeployed workers to accumulate and diversify skills that enable them to compete for jobs. Each year, a significant number of unemployed was attending vocational training. In time, the enthusiasm

of the specialized bodies within the NAE to organize **training** paid for by the unemployment fund, **decreased**, due to administrative pressures to orient training toward job-guaranteed courses. Therefore, a reduced number of courses was organized. The training for the entrepreneurship promotion ceased to be financed. Beginning with the year 2000 the training became more result oriented. Mostly, the immediate needs expressed by employers were answered. But the **quality** of the training continues to be **limited** due to the unhealthy competitive environment among training centres, because the main centres are of public ownership of the NAE, as well as to the lack of unitary criteria for the certification of training.

Table 4 presents the evolution of the participation of jobless in training courses organized by NAE. It can be noticed that between 1995 and 1999 the number of participants increased by 75 %, while the unemployed by only 34 %. The year 2000 records a change in previous trends. The unemployed weight in the total number of participants is diminishing, from over 50 % in 1995 to 30.3 % in 2000. Another issue to notice is the **decrease** of the weight of **persons employed in activity** compared to the total graduates number, from 18,6 % in 1995 to 12,3 % in 1999 and to 10,5 % in 2000.

Table 4: Persons who attended qualification and requalification courses, 1995 - 2000

	Persons attending training courses (of whom: employed in activity)					
	1995	1996	1997	1998	1999	2000
0	1	2	3	4	5	6
Total	45298	49074	61479	70763	79295	87018
Of whom, unemployed	22794	20409	23575	27157	30559	26410
Accomplished their training in organized courses:	32403 (6030)	34515 (6975)	40391 (5357)	46045 (4853)	56103 (6935)	61889 (6539)
At the request of economic units	8074 (2469)	10099 (2403)	11323 (1952)	10773 (1350)	14553 (2138)	18799 (1622)
On the basis of researches and programmes of perspective on the labour market	5214 (559)	5263 (1899)	7372 (1229)	10650 (1612)	11733 (2276)	10269 (2465)
At the request of interested persons	19115 (3002)	19153 (2673)	21696 (2176)	24622 (1891)	29817 (2521)	32794 (2452)
Under training (on going courses))	10512	14441	21046	24672	23192	20159

Source: National Agency for Employment

Motivating competition and mobility of unemployed

Special incentives have been deployed to promote geographical mobility of the unemployed persons and to encourage an early employment. The mobility promotion can be beneficial. Early employment incentives are favoring the dynamic labour markets with low unemployment. Encouraging the employment on inferior wages, in industrial areas, could have justified

the incentive. The unemployed receiving unemployment benefit taking a job can preserve a monthly incentive of 30 % of their benefit for the rest of the entitlement period.

5 Conclusions and recommendations

The programmes of **active measures** are based on a wide set of concerted policies targeted or with a wide covering, meant to prevent and mitigate unemployment. They are part of a general strategy of economic and social development. The **prevention component** is more and more part of the current activity of modern Public Employment Services (PES). The range of measures has to be sufficiently wide to influence the behaviour of any group of people facing difficulties in re-absorption onto the labour market.

The core elements of the active measures are the **employment services**. They are a measure of the quality and overall effectiveness of the PES, because they are most efficient, with low costs, easy accessible and usable. They offer good results on markets with employment opportunities and mature actors, with a rational behaviour. They provide the main job search assistance for those who are employable, save time and generate fluidity on the labour market.

The active measures, others than employment services, are meant for persons who cannot manage on their own or have reduced employability. The **combination of measures** should produce those stimuli the target groups are most receptive at. Generally, the target groups are non-homogeneous and have different behaviours on different markets. The selection of groups and their mediation to the most efficient measures can be done only through detailed studies. On such basis one establishes priorities and develops efficient programmes, updated periodically.

In Romania, the **analysis and reporting activities** are insufficiently developed at county and branch agency levels and the assessment of the success or failure of programs is troublesome. It is recommended to strengthen these activities. Few European countries give incentives to their staff for successful actions and none apply sanctions. In Romania the rule is denied. Furthermore, it is recommended that each newly designed active measure benefits of a testing and evaluation period before being widely spread. The continuity of the evaluation process is the base for improving the information flows, finding and correcting the errors of action, training and motivating the staff.

Development of local objectives, derived from the national ones is an annual routine in Romania, exercised in time by the central planning system. The transition to norms and local policies, different of the national ones calls for a qualitative pace, equivalent to defeating existing obstruction for the progress of the system. Shifting the decision-making centers toward the county agencies and ensuring an increased transparency of achievements are needed to initiate a **competitive management system**. At the moment, the national objectives are either minimal or average targets and are not mobilizing. A mechanical approach of the activities' objectives leads to a formal treatment of consequences and invites to misleading reporting.

At the level of the EU, the decentralization of the decision making process and the development of local policies are constantly promoted as means to approach, effectively and efficiently, economic and social development matters. As a consequence, the programmes to fight unemployment are based on local policies, objectives and resources, distinct of the national ones. The **coherence of the Romanian labour market policies**, seen through the measures' range and degree of refinement as well as through a regional approach, is the main line of actions recommended for the improvement of Public Employment Services' impact.

Serbia

Dr. Mihail Arandarenko
Director of the Centre for Education
G17 Institute Belgrade

1	Introductory remarks	159
2	Labour market and employment situation	159
3	Employment policy	163
3.1	Macroeconomic and structural reform programme	163
3.2	Poverty reduction and employment promotion	164
4	Labour market policy	167
4.1	Responsible institutions	167
4.2	Legal framework and new labour code	168
4.3	Active labour market programmes	170
4.4	Unemployment benefits	172
5	Conclusions and recommendations	173

1 Introductory remarks

Unlike most other post-communist countries, Serbia has a **long history of high unemployment**, shared only with other republics of former Yugoslavia. In the last dozen of years marked by wars, economic sanctions, two hyperinflation episodes and sharp decline of GDP, and eventually with the start of a real market-oriented restructuring of the economy, the rate of open unemployment as registered by statistical offices has almost doubled, reaching and slightly surpassing the 30 per cent threshold in 2002.

Labour force surveys, conducted mostly on annual basis since 1994, offer somewhat more favourable overall picture, but even the unemployment rate based on ILO-definition as revealed by LFS remains well within the double-digit territory. Furthermore, ILO definition does not fully capture the **phenomenon of underemployment**, extremely important for the understanding of labour market situation in Serbia.

After the fall of Milosevic regime in October 2000 and subsequent change in Serbian government Yugoslavia rejoined the international financial organizations and started a **comprehensive programme of reforms**. The transition of Serbian economy is one of the last post-communist transitions in Europe. Privatization law of 2001, the backbone of transition, is predominantly based on the methods of auctions and negotiated sales. It has been anticipated that the frequency of open unemployment would further increase as privatised firms begin absolute separations.

It can be expected with certainty that the **structure and dynamics of Yugoslav labour market** will change significantly in the next couple of years. The data for 2001 and even more so preliminary data for 2002, confirm this assumption. It is clear that the policymakers in the domain of employment and labour market policy are facing a **great challenge to design proper policies** which would facilitate transformation in a socially responsible and acceptable way.

This paper attempts to provide basic information about the main features of Serbian labour market and to give a brief overview and a very preliminary assessment of strategies, policies and measures which are supposed to be implemented in the domain of employment and labour market policy during the process of economic restructuring.

2 Labour market and employment situation

Below are listed some **stylised facts** about the labour market in Serbia between 1990 and 2002 (based on existing macro labour statistics):

- **high and persistent registered unemployment**, with the number of registered unemployed rising from around 700,000 to 900,000 in the last three years¹,

¹ See Table 1 in Annex.

- **slow but steady decline in registered employment** between 1990-2002 by 30 per cent cumulatively; rise in private sector employment is smaller than drop in public sector employment in absolute numbers; total officially registered employment in Yugoslavia stagnates at around 2,100,000 persons on average in 2000-2002; not more than a third of the labour force is employed in private sector²;
- **labour hoarding in state and socially owned enterprises**, which is usually estimated at 30-40 per cent of employed labour force in social/public sector³; employment in state and social enterprises still comprises more than two thirds of total registered employment;
- **stagnant unemployment and employment pools**, with the following structural consequences: the structure of unemployment is dominated by long-term, young, qualified, first-time job seekers, and the employed labour force is aging and often under-qualified,
- **relatively low average wages and widespread wage arrears**, which became less common only in the last two years – wage structure is asymmetric, with more than two thirds of employed receiving less than average wage,
- **large inter-industry wage differentials** as a consequence of a specific combination of monopolistic product market structure and intermediate (industry-based) bargaining structure,
- **widespread existence of irregular, black and grey labour market**, with the estimated full time equivalent of over 1 million people employed in grey economy⁴,
- **continuous and growing human capital loss**, both in terms of those hundreds of thousands who literally left the country during the last twelve years, and in terms of skills lost and qualifications that become obsolete during the years of idleness.

The **Labour Force Survey (LFS)** from October 2000, conveniently conducted at the start of post-Milosevic economic transition, puts the total number of employed in Serbia (including informal economy, army and police, excluding farmers) at 2,114,000, the number of unemployed – active job seekers at 475,000, and the number of those 'temporarily active' at 265,000. However, if counted together, the second and third category closely corresponds to the unemployment figures as registered by the Labour Market Bureau (LMB).

Regardless of almost insurmountable problems with the reliability and relevance of various statistical sources as far as the absolute numbers are concerned, the trends of **gradual worsening of all basic labour market indicators during the nineties** are confirmed both by LMB and by LFS statistics. It would be too optimistic to say that the favourable structural changes typical for transition (e.g. higher educational wage premiums, steep increase of private sector employment etc) have already been taking place in the last two years. Still, in

2001 and 2002 some of the most striking unfavourable trends have been stopped and some even reversed.

Table: Population of working age, Republic of Serbia, by economic activity* (in %)

	October 1997	October 1998	October 1999	October 2000
Total	100.0	100.0	100.0	100.0
Economically active – total	57.5	57.8	57.5	57.0
Employees	34.3	34.3	34.0	34.8
Farmers	8.1	8.5	8.3	7.9
Helpers	3.3	3.2	2.6	2.5
Other economically active	0.5	0.4	0.7	0.6
Unemployed	7.0	7.4	7.6	6.9
Periodically active	4.2	3.9	4.3	4.3
Economically inactive	42.5	42.2	42.5	43.0
Income recipients	21.6	21.6	22.2	22.4
Pensioners	21.0	21.0	21.6	21.8
Other income recipients	0.6	0.6	0.6	0.6
Dependants	20.9	20.6	20.3	20.6
Housewives	10.4	9.5	9.9	10.3
Pupils and students	7.7	7.7	7.4	7.6
Incapable to work	2.2	2.4	2.2	1.9
Other	0.7	1.0	0.9	0.8

* Without data for Kosovo and Metohia
Source: Survey on Labour Force

In 2001 a decrease in total number of employed in Serbia was stopped and has stabilized since then at the level of around 2,050,000. There has been a continuous decrease in social and public sector employment for around 350,000 persons between March 1997 and March 2002, almost fully compensated by an **increase in private sector employment** and employment in small firms. In the same five year period employment in small firms rose from 133,000 to 220,000, while private sector employment grew from 275,000 to 378,000.⁵

The **official unemployment rate** in Serbia without Kosovo and Metohija in the second half of 2002 reached 30 %, and the total number of unemployed approached 900,000 and slightly surpassed that number in December 2002, according to preliminary LMB data. It represents an increase by 4.6 % compared to unemployment rate in December 2000.

5 See Table 3 in Annex.

2 See Table 1 in Annex.

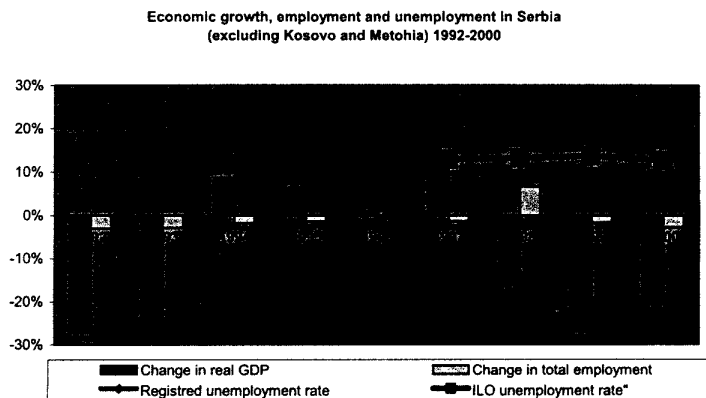
3 Miroslav Dinkic, 2002, Job creation and poverty reduction in Serbia, G17 Institute.

4 Gorana Krstic, 2001, Reintegration of grey economy and improvement of business climate in Serbia, 2001, Economics Institute, <http://www.ecinst.org.yu/PDF/6-paper-sr.pdf>.

The **problem of data reliability** exists both for the official registers of unemployed and for the labour force surveys. Registered unemployment includes many who actually have jobs in the informal sector. Furthermore, the official unemployment rate is further overestimated by using only non-agricultural registered employment in the denominator. The supposedly ILO-consistent unemployment rate based on the Labour Force Survey data is much lower. Still, LFS is not fully able to capture all specific characteristics of unemployment, such as labour hoarding or, for certain categories of the population, informal activities. Furthermore, serious shortcomings in the sampling, organization and coverage of the LFS, dissemination and presentation of the survey make it of limited use to policymakers.

The rate of unemployment obtained through the labour force surveys, conducted annually since 1994, shows stagnation rather than rise, and its percentages oscillate around low teens, rather than high twenties, as shown in the Figure below.

Figure: Unemployment dynamics in Serbia



At present, the labour market situation in Yugoslavia still resembles very much to the third world labour market structure – it is very hard to draw a clear borderline between the various states that individuals can occupy in the labour market. Most people, some of them counted as employed and others as unemployed are actually **underemployed**. If the economic situation is constantly worsening, and majority of population lives at the brink of poverty, than it may cause more people to try to help their families make ends meet. If a breadwinner loses his job (or his wage, which used to be more common until very recently), it may induce both his wife and his teen-age son, for example, to start an **informal labour market activity**. In effect, labour force survey will notify an improvement in employment and in labour force participation rate as well, while the official statistics will either register nothing (in cases of wage arrears and/or unpaid leaves) or decline in employment.

A number of surveys has been conducted in 2002 which assessed the unemployment situation, the most ambitious being the **Household Consumption Survey** from May/June 2002, done on the sample of around 6,000 households, with the focus on poverty issues. First preliminary results indicate the unemployment rate as low as 9.4 per cent, using ILO definition. The results are surprising and maybe reflect the paradox described in the previous passage.

On a more optimistic note, the number of **vacant posts** is increasing as well as the number of **new placements**⁶. Out of total number of registered vacancies in 2001, in 78 % cases they were filled through initiating permanent employment. The share of total number of vacancies in the industrial sector have been increasing since 1997, reaching 73.4 % in 2001, while in the non-economic sector there is a downward trend of 26.6 %. The same trend is present at initiating permanent employment. Thus, in 2001, out of total number of initiated permanent employment, 76 % was made in the economic sector and 24 % in the non-economic sector.

The structure of employment still points to **rigidity of the labour market**. Job-to-job transition in Serbia amounted on the average 30 % of the total number of persons that initiated employment in 2001 and 2002, while the rest of 70 % of newly employed were the previously unemployed persons registered at the Republic Bureau of the Labour Market. According to the experience of the countries advanced in transition process, it is likely that the **fluctuation share** (job-to-job transition) in total initiated employment will increase simultaneously with the implementation of structural microeconomic reforms, privatization and with entry of foreign capital in the country. It is also expected that after setting stricter criteria for the system of pecuniary compensation and monitoring of the recipients of unemployment benefits, the outflow from unemployment will increase.

3 Employment policy

3.1 Macroeconomic and structural reform programme

Following the democratic revolution of October 5, 2000, Serbia (as a part of FRY) embarked on an ambitious programme for macroeconomic and structural reform. This programme was drafted in close cooperation with the IMF, the World Bank and other international organizations, and has been elaborated in a series of published 'Memoranda of Economic and Financial Policies' and other documents.

Recent reform initiatives in Serbia can be divided into **four main categories**.⁷

- First set of measures targets **rapid liberalization and foreign trade**, including the liberalization of most prices, a schedule for increasing energy prices to cost-recovery levels, the removal of most quantitative restrictions on foreign trade and the general lowering of import tariffs.

⁶ See Table 2 in Annex.

⁷ FRY – Economic Assessment, OECD Economic Surveys 2001-2002, Box 2, p.20.

- A second set of measures aims at **establishing effective institutions of macroeconomic policy**: consolidation of fiscal and quasi-fiscal financial flows into single federal, republican and local budgets; rationalisation of the tax system; creation of the treasury and modern payment systems.; and removal of the central bank and state bodies (other than finance ministries) from fiscal and quasi-fiscal activities.
- A third group of measures, associated closely with the IMF Stand-By Arrangement (and subsequent Extended Structural Adjustment Facility), concerns the **conduct of macroeconomic policy**: stabilization of prices and the exchange rate; reduction or elimination of budgetary arrears; strict wage policies, and restoration of relations with international creditors.
- A final set of measures is devoted to a number of **structural reforms**, most notably privatization, the labour market, competition policy, bank restructuring, pension and social policy reform, public administration, and the judicial system.

The 2001 **privatization** law allows for four methods of privatization: tender sales (envisaged for attractive, strategic and large companies); public auctions (for less attractive and medium size companies); out-of court asset sales and corporate divisions, and asset sales after bankruptcy; and public offerings. Most of its features resemble to the Hungarian model of privatization; still, a lip service is paid to the voucher privatization allowing that up to 30 % of privatised assets could be distributed to the citizens free of charge, but only after the actual sales transaction is accomplished.

However, the economic structure inherited from the Serbian self-management communist past, and even more importantly, the developments in the last dozen of years of irregular and mostly aborted transition, would influence to a large degree the ability of the economy to successfully privatise and subsequently integrate itself into the world economy.

Despite the high and growing unemployment, and widespread recognition of the need to improve employment chances of the unemployed and discouraged inactive members of working age population, there has been **no concerted effort to set up a consistent employment strategy** for Serbia (or FRY). The underlying logic could perhaps be labelled as neo-liberal: if macro-stabilisation, liberalisation and privatization work well, then labour market situation as well as indicators will inevitably improve.

3.2 Poverty reduction and employment promotion

There is, however, another important avenue open for establishment of a comprehensive employment promotion strategy, which appears to be a key ingredient of **Poverty Reduction Strategy Programme**, again driven by the World Bank and IMF. Practical work on addressing the issues of poverty and conceptualising a poverty reduction strategy has started soon after the democratic changes in October 2000. In the first full statement of reform produced by the Government of Serbia entitled 'A Reform Agenda for Serbia', prepared for the first donor conference in June 2001, **three main priorities** have been stressed:

- the establishment of a modern state based on the rule of law including fight against corruption and reform of public administration,
- revitalization of the economy, and
- fighting poverty and the improvement of the social protection system for vulnerable groups.

The Ministry of International Economic Relations is tasked to **coordinate work** on developing PRSP, with the main inputs expected to come from Ministries of Social Affairs, Labour and Employment, Economy and Finance, Privatization and Economic Restructuring, Education and Sport, and Local Administration and Self-Governance.

The preparation of an **interim poverty reduction strategy paper** – a key step toward the full-fledged PRSP, as requested by the World Bank – started in April 2002. The I-PRSP was made public in July 2002. It is based on a **modern approach** to fighting poverty which stresses importance of promoting development and economic growth in such a way that the poor and the near poor gain full access to economic opportunities and participate fully in the distribution of the anticipated benefits from future economic development.

Recognizing the multidimensional nature of poverty, the Government of Serbia will through a **participatory process** develop, strengthen and put in place pro-poor policies aimed at:

- promoting social inclusion and empowerment,
- Developing equal access to markets, assets, opportunities and public services like health, education, water etc.
- Improving and protecting the rights of the poor and the vulnerable.

The government intends to develop policies and priorities which are conducive to and aligned with **international efforts** defined by International Development Targets, Millennium Development Goals, UNDP, WHO, UNICEF, WB, OECD, and IMF. It also sees the fight against poverty as 'an important part of bringing Serbia into mainstream **European development and integration**. Hence the PRSP must take into account processes linked to the EU's stabilization and association agreement, WTO accession, relationship with Montenegro and the federal level, etc'.⁸

The government intends to **fight poverty** by: giving high priority to the restructuring of the economy and the creation of new jobs; developing new products and services resulting in better wages and higher profits; widening the net of SME and creating many new employment and income opportunities. This should also lead to an improved fiscal situation which would in turn make it possible for the government to improve public and social services.⁹

I-PRSP suggests that the full-fledged poverty reduction strategy should be based on a three-pronged approach targeting different social and economic groups. The first two components

⁸ FRY, I-PRSP, July 2002, pp. 28-29.

⁹ FRY, I-PRSP, July 2002, p. 26.

of this approach could be interpreted as broadly **outlining the main elements of employment strategy** during the process of transition. However, specific employment-related targets and objectives will hopefully be set in the final version of Poverty Reduction Strategy Paper, which is due in June 2003.

- The first component will be based on policies that **create new productive jobs and promote economic growth**. It will be a general policy but will have a special focus on individuals that have become unemployed or have fallen into the low income group either during 90s or more recently as victims of the ongoing transition process. The objective will be to empower these groups to help themselves get out of poverty, through specific policy actions such as retraining programmes, assistance in job search and establishing micro and small businesses.
- The second component will be aimed at **poverty prevention of potentially redundant workers** in socially and state owned enterprises. A carefully thought out sequence of reforms and policies should be put in place in order to ensure that this large and socially powerful group of at least 500,000 does not fall below the poverty line. Preventive measures will include the creation of spin-offs and other SME prior to or concurrently with the privatization process and the provision of severance packages that would include technical retraining and acquisition of basic business and management skills, etc.
- The third component will be based on **classical social policies and instruments**, targeting the 'regular poor' and especially vulnerable groups through better social assistance, education and health services that will prevent social exclusion and through basic job creation measures like micro credits, SME support etc.

It has been admitted in the I-PRSP that the implementation of PRSP implies **higher public expenditure**: first, for classic (passive) measures targeting the 'regular poor' and dependent categories; second, for financing the Social Programme aimed at poverty prevention, for a large number of redundant workers in the large socially-owned enterprises that will be privatised through a process of restructuring; third, for supporting the Republic Employment Bureau in creating job opportunities, through active measures for newly unemployed persons without regular incomes.

Bearing in mind that the fiscal burden is already too high for the economy, and that fiscal deficit is already to a large extent financed by concessional loans, there are only two ways for **financing the full PRSP implementation**: first, through improving the revenue and expenditure structure of the budget and by improving public expenditure management; second, by additional foreign funds, mainly through grants. It is essential that the full PRSP clearly delineates all priorities, however it is also evident that some trade offs will have to be made.¹⁰

10 I-PRSP, p. 35.

4 Labour market policy

4.1 Responsible institutions

The **Ministry of Labour and Employment** has been established as a separate ministry with a recent organizational change in January 2001, by the Amendment Act of the Government Ministries Law of the Republic of Serbia. The former Ministry of Labour, Veterans' and Social Welfare was divided into two separate Ministries, Ministry of Labour and Employment and Ministry of Social Welfare. In a rather short period, the Ministry multiplied its personnel to more than 300 employees.

The Ministry sees its **priorities** in the period of transition as follows:

- solving the problem of unemployment,
- harmonization of labour legislation with European standards and ILO conventions,
- harmonization of qualification structure of employees with international standards,
- improvement of working conditions,
- improvement of Labour Inspection Department,
- suppression of illegal labour market, i.e. grey labour market.

The Ministry consists of **three main departments**: Labour Department, Employment Department and Labour Inspection Department. The scope of work of the **Labour Department** includes legislation drafting in the field of labour, labour relations and collective agreements. Labour Department cares about the implementation of ILO conventions in the field of labour relations, trade union freedoms, collective bargaining and protection at work. It also participates in the preparation and negotiation of collective agreements for public enterprises and public services financed from the budget of Republic of Serbia, as well as in negotiations of agreements on minimum wage.

The scope of work of **Department of Employment** includes legislation drafting in the field of employment promotion, training and employment of disabled persons, implementation of international conventions in the field of employment, implementation of active labour market measures and policies, special programmes for redundant workers during the period of transition and privatization, surveying the changes on labour market, monitoring the work of Labour Market Bureau of Serbia. The Department set the following **priorities in 2002**:

- preparation and implementation of the new Law on employment and unemployment insurance, as well as regulation of unemployment;
- preparation and implementation of the new Law on training and employment of disabled people and people with special needs, as well as financing the salaries of disabled workers in companies for training and employment of disabled people;
- development and realization of 24 projects prepared in the field of employment;
- realization of social programmes for redundant workers during the period of transition and privatization;

- establishment of vocational education and training centres for unemployed people.

The scope of work of the **Labour Inspection Department** includes: administrative-regulatory, i.e. inspection work in the field of labour relations and health and safety protection (regular and verification inspection; investigation on fatal, serious and collective injuries on work); monitoring the compliance for registration of enterprises and businesses; inspection of work of authorized enterprises for health and safety protection; administrative work, incl. licensing; normative-legal matters (participating in preparation of legal acts in the field of labour relations, safety at work and collective agreements); analytical work in the field of health and safety at work; tasks in connection with citizens' complaints and applications; and other duties affirmed by laws and other legal acts.

The **Labour Market Bureau (LMB)** is the implementing agency in the field of labour market policy. The official name of the bureau (Labour Market Bureau) is a pompous misnomer inherited from the early nineties. Its mission is to 'follow the movements on the labour market of the Republic of Serbia and to undertake the measures for solving the problems in the domain of employment'. LMB has **two main functions**: to create conditions for employment and to care about the protection of unemployed persons.

LMB is an **autonomous public institution** closely monitored and strategically managed by the Government through, in the first place, Ministry of Labour and Employment. Its business policy is set by the Managerial Board, consisting of 15 members representing the Government, employers, unions, unemployed and the LMB. President and members of the Board are appointed by the Government. Operative managerial functions are borne by the Director of the Bureau. LMB has 24 **regional offices**, replicating the administrative structure of Serbia. Its structure is still rather centralized and only recently there have been the efforts to give more responsibilities with regard to creation of appropriate labour market programmes to branch offices. LMB has staff of some 1,000, mostly university educated employees, which gives a rather unfavourable ratio of one LMB employee per 900 unemployed, and one counsellor directly working with the unemployed per 1,300 unemployed.

Following the initiative by the Ministry of Labour and Employment, the Employment Council of the Republic of Serbia was established in fall 2001. The Council's role is to propose a national employment policy and strategy; legal reform in the field of employment and harmonization with international legislation and standards; labour market reforms and active employment policies and programmes. However, the Council has been inactive and had only two meetings in more than a year of its existence.

4.2 Legal framework and new labour code

During the nineties, the incumbent workers were institutionally and especially in practice over-protected. Political economy considerations have played an even more important role than legal obstacles in the policy, dominant throughout the nineties, of retaining the surplus labour in the troublesome enterprises. The right of managers to fire workers for disciplinary reasons has been more widely exercised toward the end of Milosevic's rule, serving almost exclusively as political disciplinary device. Extremely low wages and widespread use of

(mostly paid) forced leaves, as socially and politically more acceptable equivalent for lay-off practice, made the **excessive level of employment protection** relatively easy to sustain. With the advent of the reform process this is no more the case.

The **right to work** is constitutionally acknowledged, and regulated by the federal Law on Fundamentals of Labour Relations and its republican counterparts. Until very recently, labour laws reflected the policy framework and values of a socialist economy in which social welfare function was to a great extent performed by the enterprises. The new, more modern Serbian Labour Code was passed in the National Assembly in December 2001.

Box 1: Social programme

The Social programme of March 2002 issued by the Ministry for Labour and Employment and the Labour Market Bureau, further specifies the procedure **for handling surplus labour**. It is a non-binding document, from a legal point of view. However as it has received the official endorsement of the Government, it is highly unlikely that managers of firms in the privatization process would be willing to ignore its content, at least without a silent approval from the Government.

According to the Programme, the Ministry for Economy and Privatization and the Privatization Agency are obliged to identify enterprises entering the restructuring, privatization, bankruptcy and liquidation processes and to decide on the dynamics of the restructuring process and necessary preparations for the privatization, bankruptcy and liquidation of these enterprises.

A relevant firm is required to undertake the **following measures**:

- 1) to prepare a programme of measures for solving the surplus labour problem in accordance with the law,
- 2) on the basis of the consolidation programme and economic and technological indicators, the firm must decide the optimal number of workers and consequently the number of surplus workers,
- 3) to look for the possibility to use currently unused or underused resources in order to internally re-employ surplus workers,
- 4) to identify unused business space to be offered to surplus workers to start their own business,
- 5) to assess the possibilities for separating parts of the firm in order to employ surplus workers,
- 6) to prepare a restructuring programme in cooperation with the Labour Market Bureau.

The social programme of the firms covered by these provisions should be aligned with Article 114 of the Labour Code and the more specific requirements of the **Labour Ministry's Social Programme**, containing:

- a) the skill structure of the employees,
- b) the age structure of the employees,
- c) the structure of the employees according to work experience,
- d) an analysis of working and health capabilities of the workers and an assessment of their motivation to work;
- e) the 'social card' of the employees,
- f) an estimate of the 'necessary' number of employees,
- g) an estimate of the surplus number of employees,
- h) a proposed method for handling the surplus labour,
- i) an estimate of the resources for solving the socio-economic status of the surplus labour.

The new **Labour Code** promotes flexibility in labour relations and deregulation of labour market. The law introduced **three significant changes** to labour legislation: it increased the scope for employers to dismiss employees; it introduced a set of rules for structuring a redundancy programme, and it specifically recognized the role of so called 'atypical' forms of job contracts, such as short term and temporary work.

The **provisions relating to dismissals** caused the biggest controversy amid the fears of mass layoffs. An employer may dismiss an employee if he finds that the employee is incapable of doing his job or not showing a satisfactory performance, or abusing the right to sick leave. In the **case of redundancies**, the employer intending to dismiss more than 10 per cent of labour force in a year needs to announce it in advance to the company union but cannot be prevented of downsizing the firm employment. **Obligatory severance pay** is put to up to 5 months. Employers now have the right to dismiss employees for 'non-performance', or as a result of 'technical, economic or organizational change'. Firms with fewer than 50 employees are exempted from the obligation to prepare a **social programme** which may include the transfer of redundant workers to another part of the firm.

Atypical forms of employment (fixed-term and part-time employment, work at home etc) now can be used with very little restrictions. No public advertisements are necessary for employing staff.

4.3 Active labour market programmes

The Labour Market Bureau provides, free of charge, a **full range of standard active measures** to the unemployed. In the last two years, there has been a considerable effort to modernize the programmes and make them more effective and tailor-made toward the real needs of beneficiaries. However, the hitherto results could be described as modest at best. Typically, while gross effects of active programmes seem to be large, and frequently advertised by the officials at various effects, their **net effects** are much more problematic, especially if put in macro perspective of growing unemployment. However, no serious attempt has been made to conduct an evaluation of any specific active programme.

Recent or announced active labour market measures include a number of interesting innovations. For example, in 2002 it has been announced the introduction of a **pilot programme 'Job Clubs'**, with an objective to motivate unemployed to look for the job with more enthusiasm and skills. The idea is to help unemployed better psychologically cope with the rejections and improve self-confidence and self-esteem; exchange experiences with each other in job search activities; develop specific job-searching skills, such as CV drafting, interview communication and presentation skills etc.

Aiming at efficient liaising of the employers and the unemployed, LMB has established in 2002 an electronic facility called **Job Bourse**. The idea is to provide information services to the beneficiaries around the clock and to facilitate direct contact between employers and their potential employees.

Box 2: Labour restructuring in an industrial town – Zastava group in Kragujevac

Zastava used to be a **typical socialist-era giant enterprise**, best known as the producer of national automobiles, such as Yugo, which had even been exported to the USA in late 80s. Zastava was the principal vehicle of industrial development in the entire Sumadija region and the town of Kragujevac, transforming a huge number of peasants into industrial workers, each driving a Zastava car, on the model set by Henry Ford long time ago. Zastava had a wide network of car-part suppliers throughout the former Yugoslavia, which made it very vulnerable after the dissolution of Yugoslavia.

In the 90s, with the loss of suppliers and markets and sharply reduced purchasing power, the production of cars dwindled. Kragujevac impoverished accordingly. The final blow came in 1999, when the main factories were bombed by NATO. With the production of cars of mere couple of thousand, and with the workforce of 30,000, Zastava entered the third millennium.

In order to make Zastava more attractive to foreign buyers interested primarily in a well protected national car market, in 2001 Serbian Government embarked on a **comprehensive programme of resolving the problem of surplus labour**. It was also hoped that it would set a positive model for other similar cases. The Government provided generous budgetary resources for this programme.

Some 14,000 people found themselves on the 'surplus' list. They were offered a menu with the **following options**:

1. To join the new enterprise, more precisely a training facility called 'Zastava Employment and Education'. The employees will get a new 'job' there for a period of 4 years, but if the term expires without a position offered the enterprise would not be allowed to discharge them. Employees are provided with 45 % of the salary they would earn if they had stayed at their former posts.
2. To quit their jobs and to apply at the LMB, with the rights of unemployed persons according to the current rules.
3. To accept a severance pay in national currency equivalent of around 100 EUR for each year of service.

In addition, the Government promised to provide a sum equivalent to 2.5 million EUR in form of **favourable credits for the development of small business** in the Kragujevac region. All employees of 'Zastava Group' identified as redundant had equal rights to be granted a credit. The government also promised basic investments in fixed assets and working capital in order to maintain a minimum level of productivity until a new private partner appears.

Some two thirds of redundant workers opted for severance pay and one third joined 'Zastava Employment and Education', the remaining option attracting hardly anyone. The three groups of Zastava workers (those who remained Zastava employees, those who joined the new ZEE enterprise, and those who opted for separation packages), still **face difficult times**. Production of cars still depends on the suppliers which are mostly on the brink of bankruptcy; the training facility functions as a fig leaf for social assistance; and severance pays are already spent, typically to repair household appliances, pay long time unpaid electricity bills, and other personal debts.

One and a half year after the realization of the restructuring programme, it is still hard to conclude whether the restructuring programme will eventually pay off. It crucially depends on the appearance of a **strategic buyer**, which is not in sight yet.

Another pilot programme is called '**Employers**'. Target groups consist of the employers in small and medium enterprises. The programme aims at informing employers about the services provided by the LMB; interacting with employers in order to get full and precise picture about the human resources needs of the employers; organizing on-the-job training for the unemployed tailored toward the needs of employers etc. In 2003 it is expected that the programme will cover around 4,000 employers.

A separate programme has been designed for **disabled persons**. LMB will support the employment of the disabled by organizing special training programmes, assisting in provision of special equipment for working places for the disabled, and providing job subsidies.

International agencies have been very active in promoting employment in specific underdeveloped areas, especially those with ethnic-related tensions. For example, EAR and UNDP have a **Rapid Employment Programme** in South-Eastern Serbia (area populated by Serbs and Albanians), providing temporary employment in local public works to the long term unemployed.

4.4 Unemployment benefits

Unemployment benefits system has been based on **insurance principle**. Total payroll insurance contributions, split evenly between employers and employees, varied in recent years between 1.6 and 2.4 per cent. As of 2001 they are reduced to 1.1 per cent (0.55 per cent for both employee and employer), comparatively a very low share and furthermore counter-indicative with regard to increasing risk of unemployment during transition. As a consequence, more than two thirds of the resources needed to finance the functioning and the activities of LMB in 2001 and 2002 were channelled directly through **budgetary transfers**.

Until the changes in spring 2001, the system of **unemployment benefits** was **highly unbalanced and over-generous**. Together with the employment protection rules, it was designed to protect incumbent workers, giving a high premium to seniority. In the nineties both the replacement ratio (benefit-to-wage ratio) and the benefit duration rules were comparatively excessively generous. Minimum level of benefit was half of average monthly wage in the republic, while there was no upper limit – beneficiaries were entitled to 70 per cent of their last salary, plus 2 per cent per year of working experience. The duration of benefits was between 3 and 24 months, for beneficiaries with more than 10 years of working experience ranging from 9 to 24 month of eligibility. In an extreme case of perverse incentives, workers with more than 30 years of experience were entitled to full benefit package until their eligibility for full pension, which gave them up to 10 years of benefit entitlements.

Changes in the Law on Employment and Unemployment Insurance in 2001 **reduced the benefit-to-wage ratio** to 60 per cent of last salary and introduced the benefit ceiling at the level of average wage. The new Law on Employment and Unemployment Insurance, expected to be passed by the Parliament early in 2003, further cuts the benefits. A **decreasing compensation rule** will be introduced, with the financial compensation of 60 % of last six-month salary average of the unemployed for the first 3 months of unemployment spell; for the remaining period the compensation is reduced to 50 % of previous wage. The ceiling for the compen-

compensation will be set at 80 % of the average monthly salary per employee realized in the Republic, while the floor will be set at the level of the minimum wage, except for those receiving minimum wage while employed, who will receive compensation of 80 per cent of minimum wage. Only employees with over 20 years of work experience will be entitled to receive compensation for more than a year, while the maximum of 24 month duration of financial compensation reserved for those older than 55 years and with work experience over 25 years.

Until recently the system was sustainable despite the relatively low insurance contributions because only a minor share (around 5 per cent) of unemployed was entitled to benefits. This has changed rapidly with mass layoffs affecting employees with longer work experience. The strategy of government so far has been to provide the severance payments to those laid-off directly from budgetary funds (in turn, being partially provided by foreign donations).

As restructuring and privatization advance, the number of beneficiaries is rapidly growing, averaging 80,000 in the last quarter of 2002, compared with 55,000 at the beginning of 2002. **Significant arrears** in payment of unemployment benefits started in 2002, and currently the payments are lagging for 5 months. Only a third of the total amount of unemployment benefits can be financed through insurance, while the rest comes directly from the budget. Recent official estimates¹¹ for 2003 are as high as 126,000 beneficiaries per month on average, which can only worsen the situation with arrears. Some 80 per cent of total funds at the disposal of Republican LMB have been dedicated to passive measures in 2002, and it is expected to rise to 85 per cent in 2003. The **total budget of LMB** in 2003 is projected at 11.95 billion dinars (YUM), or slightly less than EUR 200 million, reaching some 1.4 per cent of projected GDP.

5 Conclusions and recommendations

Labour market restructuring in Serbia is still in its early phase, however, judging by recent trends its pace is accelerating as privatization progresses. **High and growing officially recorded unemployment**, with the number of unemployed approaching an important psychological threshold of 1 million, calls for a balanced and very cautious approach in dealing with the problem of surplus labour.

'**Classical**' **active labour market policy measures**, such as vocational and professional training, job subsidies, improvement of information base etc., however important and welcome, are of limited usefulness and, as past experience shows, have rather modest net effects. If they are to become more efficient, **major modernization of Labour Market Bureau** and its additional staffing with business advisors are required.

Although there has been no concerted effort to set up a consistent **employment strategy** for Serbia (or FRY), its main features are outlined **within the Poverty Reduction Strategy Pro-**

11 Novosti daily, January 4, 2003

gramme, to be finalized by mid 2003 and implemented since. However, in the Interim PRSP the goals are still too general and insufficiently quantified.

Serbian **reform process** is at a very sensitive point at the beginning of 2003, marking at the same time the start of third year of transition. Macroeconomic reforms are almost complete, however institutional and sectoral reforms are lagging behind. In addition, **political instability** makes Serbia less attractive to foreign investors than initially expected. It would be very dangerous for social stability if the pace of labour shedding continues to speed up, with less re-employment options for surplus workers due to lack of investment. This could lead to a general transitional recession.

One important and so far under-utilized way to deal with this risk would be to try to **reach a comprehensive social pact** between the Government, trade unions and employers. The pact should be a modern document, **focusing on growth and competitiveness** during the transition, rather than on standard wage and industrial relations regulations. Its duration should be at least three years, introducing a very important element of stability and predictability, sending thus favourable signals to potential investors.

Annex

Table 1: Employment and Unemployment in Serbia, LMB Data, January 2000 – October 2002

	Serbia					
	Employed			Unemployed	rate	Employed total
	Social and Public Sector	Private Sector	Small Firms			
January/00	1,622,908	293,817	190,972	700,568	24.95 %	2,107,697
June/00	1,600,994	304,243	193,413	720,105	25.55 %	2,098,650
December/00	1,579,559	317,814	185,957	731,320	25.98 %	2,083,330
January/01	1,576,909	317,814	185,957	738,148	26.19 %	2,080,680
June/01	1,559,610	340,958	193,969	763,530	26.71 %	2,094,537
December/01	1,524,963	357,933	197,848	780,541	27.28 %	2,080,744
January/02	1,513,986	357,933	197,848	792,035	27.68 %	2,069,767
June/02	1,462,811	378,381	220,794	819,844	28.45 %	2,061,986
July/02	1,450,228	378,381	220,794	833,259	28.91 %	2,049,403
August/02	1,438,543	378,381	220,794	877,644	30.10 %	2,037,718
October/02	1,422,525	401,395	246,406	891,882	30.11 %	2,070,326

Table 2: Beneficiaries of unemployment benefits, Vacancies and Job Placements, Serbia without Kosovo, 1999 - 2002

	Unemployment benefits (beneficiaries)					Vacancies	Job placements
	Unem- ployed	Total number of beneficiaries	Declared surplus	Firm's bankruptcy	Other		
01/99	665,602	39,133	10,184	18,900	10,049	31,736	21,589
06/99	687,835	46,917	14,473	18,605	13,839	22,699	15,366
12/99	694,485	44,804	18,795	17,617	8,392	33,538	33,595
01/00	700,568	44,762	19,622	16,420	8,720	26,688	19,943
06/00	720,105	48,224	23,063	17,011	8,150	39,363	28,881
12/00	731,320	45,916	24,417	13,984	7,515	35,128	27,966
01/01	738,148	44,735	24,251	12,851	7,633	40,512	32,371
06/01	763,530	56,613	29,972	15,040	11,601	56,166	33,592
12/01	780,541	53,804	29,739	15,240	8,825	38,202	17,966
01/02	792,035	55,124	30,297	15,501	9,326	37,067	30,487
06/02	819,844	69,716	37,351	22,384	9,981	32,860	24,077
09/02	885,742	75,155	40,877	24,838	9,440	44,260	26,683

Table 3: Structure of Employment by Ownership and Size, 1997-2002

	Social Sector	Private sector	Small firms	Total	Social Sector (%)	Private Sector (%)	Small Firms (%)
March 1997	1,781,629	274,675	133,161	2,189,465	81.37	12.55	6.08
September 1997	1,761,648	282,159	143,670	2,187,477	80.53	12.90	6.57
March 1998	1,736,495	283,061	179,051	2,198,607	78.98	12.87	8.14
September 1998	1,715,087	292,490	177,765	2,185,342	78.48	13.38	8.13
March 1999	1,703,314	290,794	188,420	2,182,528	78.04	13.32	8.63
September 1999	1,638,418	293,817	190,972	2,123,207	77.17	13.84	8.99
March 2000	1,606,697	304,243	193,413	2,104,353	76.35	14.46	9.19
September 2000	1,586,294	317,814	185,957	2,090,065	75.90	15.21	8.90
March 2001	1,571,394	340,958	193,969	2,106,321	74.60	16.19	9.21
September 2001	1,541,317	357,933	197,848	2,097,098	73.50	17.07	9.43
March 2002	1,487,983	378,381	220,794	2,087,158	71.29	18.13	10.58

Slovenia

Borut Rončević
Research fellow
Faculty of Social Sciences
University of Ljubljana

1	Introductory remarks	179
2	Labour market and employment	180
2.1	Sources of data on labour market in Slovenia	180
2.2	Situation on the labour market	180
2.3	Structural changes on the labour market	182
2.4	Structural unemployment and inflexibility	183
2.5	Informal economy	184
2.6	Regional dimension of unemployment	185
2.7	Migration and labour markets	186
3	Employment policy	187
3.1	Some framework conditions for sustainable employment	187
3.2	Some specific policies	188
3.3	Coordination as the crucial issue	192
4	Labour market policy	193
4.1	Starting points and institutional set-up	193
4.2	Unemployment insurance	194
4.3	Labour market programmes	195
4.4	Assessment of labour market policies	197
5	Conclusions and recommendations	198

1 Introductory remarks

More than a decade since the processes of post-socialist transition officially commenced we can say that Slovenia is one of the countries that have managed them quite successfully, both in terms of economic development and social situation of its population. A variety of indicators point to the conclusion that the **developmental performance of Slovenia** is closer to that of less developed members of the European Union such as Portugal, Greece or even Spain, than to that of other post-socialist countries. First, its GDP is almost as high as that of Portugal or Greece and approximately two times as high as that of some other most advanced East European countries like Czech Republic, Hungary, or Poland. This difference is astonishing if we compare it with countries from Southeast Europe. Human Development Index (UNDP, 2002), which also includes proxy sub-indexes of population's general health and education, shows similar situation. Not least, various reports on countries' competitiveness, like *World Competitiveness Yearbook* or *Global Competitiveness Report* show that Slovenia is **one of more competitive post-socialist countries** in spite of 'stubborn' reluctance to any radical liberalisation, privatization, or implement some imported recipes for shock therapies.

This relatively favourable outcome was uncertain by the end of the 1980s and beginning of the 1990s, though. The **initial economic shock** was indeed severe. GDP declined quite drastically for three consecutive years. This was to some extent a consequence of a general phenomenon of 'transformational recession' (Kornai, 1995). Nevertheless, due to relatively liberal economic policy – in comparison with other socialist countries, of course – this is perhaps less important than the **consequences of disintegration of Yugoslavia** and, consequently, sudden loss of the traditional markets in the former Yugoslav republics. (Koyama, 2001)¹

However, Slovenia was one of the first transition economies to achieve **positive economic growth** (in 1993) and averaging at about 4 % since then. More successful enterprises adapted to the loss of markets and reoriented quite successfully to domestic market, which required more and more **entrepreneurial spirit and competitiveness** due to gradual opening and liberalisation policies. They were also forced to compete in western markets due to small size of domestic market. In spite of its small size and low profile (episodes in which Slovenia is mistaken for Slovakia or even Slavonia are already proverbial) even external observers have sometimes mentioned it as a specific 'affluent enclave' (Standing, 1996: 225). After a certain period this transition episode seemed successful enough for some politicians and even some economists to describe Slovenia as a 'success story'.

However, transition has a Janus face; there are also less favourable aspects of this process that should be mentioned to offer more comprehensive image. It cannot be ignored that it has certainly taken its toll, impacting the everyday lives of some segments of its population. Bankruptcies of numerous enterprises, economic restructuring of over-industrialised economy and related massive layoffs, cuts in welfare spending, increases in poverty and social inequality... Slovenia could not avoid these processes. However, there is an important difference in intensity of these **unfavourable trends**, especially in comparison with countries from Southeast

¹ Other republics of former Yugoslavia accounted for almost 25 % of all sales of Slovenian enterprises in 1990 (Mencinger, 1997: 210).

Europe. Slovenia is not a typical country with rapidly emerging phenomena like 'welfare gap' (Svetlik, 1993) or 'torn safety nets' (Standing, 1996), which are common to many countries in transition.

This was only a short introduction to the situation in post-socialist Slovenia and it is not the author's ambition to analyse all aspects of such a complex phenomenon. However, issues related with labour markets and employment are undoubtedly important elements of any analysis of these processes. First, they are related with the social outcome due to certain shift from welfare system where personal social security is provided by the state to welfare system where it is provided through one's successful participation on the labour market – in spite of a number of welfare programmes. Second, it deals – at least indirectly – with policies and processes that strongly impact developmental dynamics and options of these countries.

2 Labour market and employment

2.1 Sources of data on labour market in Slovenia

Like in most countries, we can draw on two sources of data to assess the situation on the labour market. These are the **official data from the National Employment Office (NEO)** and **survey data from Labour Force Survey**. Other survey sources exist, but are of lesser relevance and less reliable. These data are easily available as they are published in various rapid reports, communicated monthly to general public through media and also published online (homepages of NEO and Statistical Office). More comprehensive overview is published in annual **Statistical Yearbook of the Republic Slovenia** and in NEO's annual report, both online and printed version. One can also access basic information regarding methodology. Acknowledging some well-known deficiencies of the aforementioned sources, mostly related with definitions of various categories within these information systems, one can say that they provide relatively good, albeit not perfect, assessment of the situation on the labour market, especially if we triangulate them with other data.

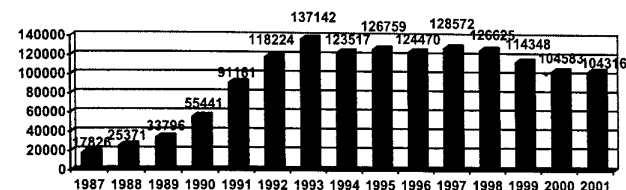
2.2 Situation on the labour market

The right to work was constitutionally guaranteed to anyone in the **socialist system**. Employment on the individual level was not related to one's performance on the workplace. On the micro-economic level, it was not related to company's position in the market. And on the macro-economic level, unemployment rates were not related to functioning of the national economy, i.e. its position in the international division of labour. Consequently, workers were not motivated to increase their performance on the workplace, survival rates of companies were held artificially high (and birth rates were very low). Finally, **allocation of labour** was inappropriate beyond any acceptable levels. For example, while registered unemployment was only some 2 % in 1988, the rate of hidden unemployment was 13,5 % (Mencinger, 1989).

At the end of the 1980s, hidden unemployment started to transform to open unemployment. The results are clearly visible in Chart 1. **Growth in registered unemployment** was espe-

cially rapid at the beginning of the 1990s and peaked in 1993. After this period it decreased slightly and has been rather stagnant for a while. Only in 1999, sustained GDP growth has started to reduce registered unemployment. In the middle of 2001 it fell below 100.000 for the first time since 1992, due to seasonal influences. Before that period GDP increase was mostly transformed into increase in productivity and did not generate significantly more jobs than were lost (NEO, 1998).

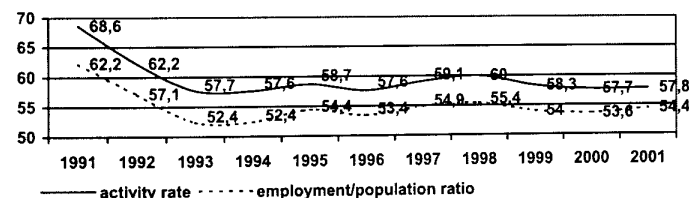
Chart 1: Number of registered unemployed 31.12.



Source: *Statistical Yearbook 2002*

Consequently, activity rate and employment-population ratio also fell quite rapidly in the period until 1993. In this period **active population decreased** by over 200 thousand in the period between 1988 and 1998. It remained rather stagnant since, irrespective of relatively favourable macro-economic indicators.

Chart 2: Activity rate and employment/population ratio

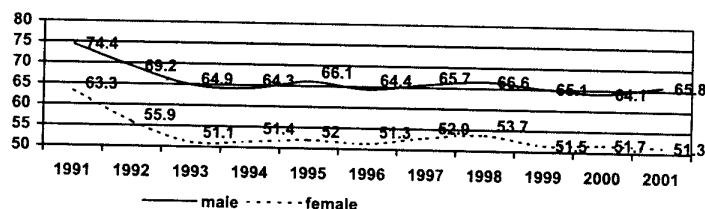


Source: *Statistical Yearbook 2002*; Labour Force Survey data

It should be noted that transition on the labour market has been equally unfriendly to male and female participants. Certain differences in the activity rate between male and female activity and employment/population rates exist. However, LFS data shows that it has, in fact, been reduced slightly in the past decade. Even though the fall in activity rate was quite rapid, we can emphasise that at least for the female part of the population activity rate continues to be among the highest in Europe. Only Scandinavian states Denmark, Sweden and Norway, with traditionally **high rates of female participation** in the labour market, have considerably higher female participation in the labour force. But there are certain indications that this could be

be changing, even though it is too early to judge. The share of female unemployed as a percentage of all unemployed has increased since 1988, but they still constituted a bit less than half of all registered unemployed in 1998. Their share of all unemployed exceeded 50 % for the first time in 1999, but is only slightly above. We are aware, of course, that these basic indicators cannot offer full assessment of the situation of women on the labour market.

Chart 3: Activity rate of male and female population



Source: Ignjatović, 2000: 9; Labour Force Survey data

2.3 Structural changes on the labour market

Perhaps the most relevant change on the labour market is its **segmentation into a primary and a secondary market**. Basic characteristics of registered unemployed (see Table 1) clearly evidence that some groups have significantly improved their situation. These are especially **younger generations** (under 26 years), whose percentage of the registered unemployed has decreased by almost one half. The share of first-time job seekers among unemployed is also decreasing. More detailed data would show seasonal variations in unemployment levels which are caused by inflow of young people, which finish their education or training, into labour market and by their subsequent inflow into employment. On the other hand, situation has worsened considerably for **some vulnerable groups**. The share of those above 40 years of age has increased tremendously and in 1998 they constituted almost half of all registered unemployed. Most of them have low or no qualifications. The percentage of semi-skilled or unskilled workers is virtually the same. It is actually lower than ten years ago, but this information does not indicate improvement in the situation of semi-skilled and unskilled workers. It is rather a reflection of the general increase of unemployment.

The difficult situation of workers in the secondary segment of the labour market is most clearly evidenced by the occurrence of **long-term unemployment**, which has also increased substantially. The share of the long-term unemployed (those that have been without work more than one year) almost doubled in the period from 1987 to 1995 and only in 2001 this share decreased somewhat, mostly as a consequence of specific targeting in the framework of

active labour market policies.² Note also that duration of unemployment for university educated people is almost 2.5 times shorter than for unskilled workers (NEO, 2001).

These data show that the segmentation, which is following dismantling of mechanisms that "held the labour market in check" (Oražem in Vodopivec, 1997:894), is quite similar to that in capitalist part of Europe after the Second World War. (Hall, 1997: 213-225) Unlimited job security and egalitarian wage distribution are now commonly held as past distortions, and empirical analyses show that returns to education and experience are increasing. (Oražem in Vodopivec, 1997) On one side, there is an important (growing) proportion of young and relatively well-educated people with considerably good employment opportunities, who are participating in the **primary labour market** with permanent employment contracts and relatively high wages. The share of unemployed with university education was only 2.5 % in 2001 (NEO, 2001), while their share in labour force as a whole is some 10 %. On the other side, we have increasing number of older unskilled or semi-skilled workers, participating on the **secondary labour market**, who are more likely to be made redundant, have lower wages and a temporary employment contract. And when they register as unemployed they are very likely to become long-term unemployed.

Table 1: Structure of the registered unemployed						
Year	Percentage of different categories in the total number of registered unemployed					
	Under 26 years of age	Over 40 years of age	First-time Job-seekers	Long-term unemployed	Female	Semi-skilled and unskilled
1987	50.6	17.0	30.1	33.1	48.8	57.7
1989	51.5	15.0	29.1	42.7	48.9	55.4
1991	47.8	19.0	22.2	41.8	44.7	46.1
1993	37.4	28.2	19.0	54.8	43.8	45.3
1995	32.2	34.0	19.7	59.0	46.7	46.6
1997	29.1	43.0	18.3	59.6	48.8	47.1
1999	25.8	50.5	18.7	62.9	50.6	47.5
2000	23.4	50.7	17.9	61.4	50.7	47.2
2001	24.1	48.9	18.8	54.7	50.8	47.0

Source: NEO, 2001

2.4 Structural unemployment and inflexibility

One should also acknowledge that unemployment is not simply a consequence of lack of jobs. The period of transition is also a period of two shifts. Firstly, post-socialist labour market in

² Difficulty of the situation is further evidenced by the very long term unemployment. Those that have been registered as unemployed for more than three years constitute over a quarter of all registered unemployed. Some ten years ago there was only about 9 percent of very long-term unemployed.

Slovenia is impacted by a steady shift from old over-industrialised structure of the economy to **service economy**, a process that started several decades ago in developed European countries. Secondly, shift towards more **knowledge intensive production processes** has also commenced. This means that demand for poorly qualified labour (majority of the long-term unemployed) for labour-intensive processes is decreasing. Instead highly skilled and flexible personnel is required. Ironically, managers often find it difficult to get qualified engineers on the local labour market (see World Competitiveness Yearbook, 2002).

Thus, **skill mismatch** is a big problem of the Slovenian labour market. Skills that are demanded do not match the actual skills of the unemployed (Ignjatović et al. 2000: 10-11) and this is one of the main reasons for the aforementioned chronic problems with long-term unemployment. Furthermore, this hinders developmental potentials of the specific knowledge-intensive companies and the restructuring of the major part of the economy, which consists of low to medium value added production of services and industrial products. It should be noted that structural inconsistencies exist at the lowest and at the highest educational levels. Data show that the number of semi- and unskilled registered unemployed by far exceeds registered vacancies. On the other hand, there are not enough qualified engineers to meet the demand on the labour market. This is also due to the fact that the bulk of the 'explosion' of tertiary education in the 1990s was more to the benefit of social sciences and management studies and less to the benefit of hard sciences and technology.

The second problem is **inflexible labour force**. Full time employment has been the only existing and meaningful employment for decades. There always existed a certain level of informal economy, moonlighting, but mostly as an additional activity. This has changed in recent years. The only preferred and desirable form of flexible employment is self-employment, which is actively promoted by NEO. In the first years of transition the number of self-employed increased rapidly but later stabilised at 12 %. Contract and cash-in-hand forms of work are less favourable and have increased only to about 3 % of all employed since 1991. Part time employment is also showing some signs of growth but has never exceeded 8,5 % of employed. The least favoured form of work is temporary employment, which has been increasing constantly throughout the 1990s. This type of employment is more in favour of employers because of less difficulties when they want to fire a worker. It got especially bad reputation because it was supposedly used as a way to sack pregnant employees without difficulties.

2.5 Informal economy

Informal economy is less known but undoubtedly important aspect of labour market. One could say that work in the grey economy is the most important **individual strategy against unemployment**. Slovenia provides environment that is favourable for development of informal economy. Increasing taxation, increasing burden of extra labour costs, changes in previously rigid structures of work and time, unemployment trap, poor education and skills of the unemployed population, hyper-institutionalisation and complex procedures of setting up business... (Glas, 1994: 6-8). Kukar et al. (1995) estimated that in 1993 grey economy amounted

to between 16.8 and 21.3 percent of GDP. Activity of grey economy would, according to this research, add additional 85,000 workplaces.

Quite **realistic estimate** of the impact of the informal economy on labour markets can be assessed by comparing official data on registered unemployed and the results of Labour Force Survey. If the registered unemployment rate is quite high (some 12 %), the LFS unemployment rate is much lower with 5.9 % in 2001.³ In the second quarter of 2001 there were 100,000 registered unemployed. However, there were only 57,000 unemployed according to LFS data. Only 48,000 people were both LFS unemployed and registered unemployed. This implies that 43,000 people were registered as unemployed but were not unemployed according to LFS, i.e. active in the grey economy. There is usually a difference of 5 up to 40 % between LFS data according to ILO definition and registered unemployed (Svetlik, 1994: 51). This implies that Slovenia is one of the countries with very high difference.

It should be noted that there are differences between those that are registered as unemployed and work in the grey economy. Qualitative research (semi-structured interviews) showed that for some of them it is just a time-to-time activity, but for others it can be an everyday regular activity. (Zajc, 1999: 32-33) Some even decided to misuse the system and the position of registered unemployed as a way to get additional benefits, while having decent employment or even running legal private business. However, we do not have sufficient information to evaluate the extent of this anomaly.

2.6 Regional dimension of unemployment

When we talk about labour markets and employment strategies we cannot avoid its regional dimension. Ironically, **regional differences** are one of the problem spots of Slovenia in spite of its small size.⁴ This is perhaps also due to chronic underdevelopment, if not complete absence, of regional level in developmental policy making.⁵ Regionalization is practically non-existent, even though there are various practical needs for this.⁶ For the purpose of labour market statistics and policies 'functional planning regions', which are equivalent to NUTS 3

3 This number is lowest since 1994, when it was at 9 %. In period 1996-2000 it was some 7 %. (NEO, 2001)

4 Regionalization was one of more important disputes in negotiations for the EU accession; due to Slovenia's small size proposal to have two or three regions at NUTS 2 level was unacceptable for EU negotiators.

5 One of more important aspects of systemic changes in the 1990s was the complex transition from Slovenia as a regional economy within a larger country to a national economy with fully developed state functions. (Kukar, 1996:45) Hence, there has been no intermediate level between national and municipal level. The experience from Yugoslavia did not provide a 'tacit' knowledge on regional policy, including a comprehensive set of policies tailored to specific needs and advantages of a region. Problems of regional differences were usually approached by means of capital redistribution (investments, soft loans and joint ventures) from more affluent republics to underdeveloped southern regions, especially Kosovo. Regional policies were conducted according to the prevailing Marxist doctrine, which stressed capital investment as the most relevant determinant of development. (ibid: 52) Slovenian economists believed that such regional policy was oriented towards redistributive and not towards comprehensive developmental issues. (Senjur, 1985)

6 Different categories of regionalization exist in Slovenia, depending on specific purposes, with total number of regions ranging from four to eighteen. (see Gajšek, 1992)

classification of the EU, are usually applied. According to this there are twelve regions in Slovenia and this is most often used in statistical representations. The jurisdiction of NEO's branches corresponds with this territorial division. This enables regionally broken unemployment data.

For example, in first half of 1999, when registered unemployment on the national level was 14 %, it was lowest with 8 % in Goriška region (western part of Slovenia) and some 10 % in three other regions. However, in two problem regions of Slovenia, both located in the North-east, registered unemployment reached 19 % (Pomurje region) and 21 % (Podravje region).

One can say that **two types of depressive areas** exist in Slovenia. On one hand, we have several old industrial or coal-mining centres which were influenced by shift from industrial to service economy. The most obvious examples are town of Maribor and Podravje region with energy, vehicles and heavy-equipment production, Gorenjska region with steel mills, obsolete textile and wooden industry and Zasavje region with its coal mines and expensive energy production. On the other hand, we have certain areas which are 'historically' underdeveloped, usually with unfavourable demographic trends,⁷ agriculture as an important share of its employment, Pomurje region being the most obvious example. These are also areas with biggest unemployment problems.

Regional differences in unemployment rates are, of course, a consequence of **underdevelopment** of these areas. GDP of poorest region (Pomurje) is only 60 % of GDP of the wealthiest region around the capital Ljubljana. Other indicators such as income, life expectancy, intellectual capital etc. are equally unfavourable for poor regions, not to mention less tangible aspects such as satisfaction with life (measured with different survey questions). One should add that the system of collective agreements and the institute of minimum wage prevent greater income disparities (Human Development Report Slovenia 1999). Consequently, these regions are in **danger of depopulation** (inter-regional brain drain) which further undermines prospects for their future development and sustainable solution of their employment problems. It should be noted that educational structure of unemployed is much poorer in these regions. **Poor developmental dynamics** is, of course, biggest obstacle to any kind of solution of problems with unemployment. While there is approximately 10 unemployed persons per registered vacancy in Slovenia, this number is as high as 25 for Pomurje! Any long-term solution of unemployment problem can only be a part, not to say a 'lateral consequence' of a successful regional developmental policy.

2.7 Migration and labour markets

Migration has been an important aspect of Slovenian labour market in the past decades. As the most developed Yugoslav republic, it attracted **substantial numbers of migrants** from

⁷ Strong emigration flows abroad, caused by inefficient distribution of land, were unfavourable demographic trends in the past. Low fertility rates and emigration of young people to urban centres caused by lack of jobs are typical unfavourable demographic trends nowadays. Substantial part of Slovenia (with two-thirds of its population), is qualified as demographically endangered area (IMAD, 1999: 58).

other parts. In the second half of 1970s and up to mid-1980s between 8 and 12 thousand workers per year came to Slovenia. This was mostly poorly skilled labour force, employed in construction, industry, mining, agriculture and catering. (Pirher et. al, 1999: 16) This trend slowed down and almost completely stopped in 1990.) Slovenia also experienced wave of **returning immigrant workers** from other parts of Yugoslavia, which started in 1988 and almost completely stopped in 1993. Equally there has been experience of outward migration of Slovenian workers, mostly to Western Europe, where there have been very little non-Yugoslav citizens working in Slovenia.

In the past decade, the structure of the immigrant labour did not change substantially. Foreigners most often seek employment in construction and they are poorly educated: only 5.2 % of working permits owners finished more than secondary education, which is far below the educational structure of the indigenous population.

3 Employment policy

3.1 Some framework conditions for sustainable employment

Reforms of arrangements and policies that are directly or indirectly related with social situation of population or, more specifically, with employment, proceeded relatively slowly, especially in comparison with some other more advanced post socialist countries. Slovenia's privatization, economic liberalisation, industrial policy etc. was different from East-German, Hungarian, Czech, Polish etc. (for overview of these see Stark and Bruszt, 1997). One can reasonably argue that **slow and well-balanced approach** was the only viable if the reforms were to proceed.

Transition processes impact **social situation** of the population and especially subjective perception of social situation. It is quite likely that radical measures and burdening social problems would impede processes of transformation. First, it is quite possible that some opposition political party would take advantage of situation and benefit from the anti-reform stance. This did not happen in Slovenia, while overview proves that this happened in second free elections in many post-socialist countries (see Berend, 1996), also in some countries in Southeast Europe. Second, such reforms would be counter-productive from the perspective of development. They would seriously impact 'social tissue' through increasing poverty, inequality, social exclusion, reduced inter-personal trust and trust in institutions... These intangible factors, which are generally quite scarce in post-socialist countries, are easier to destroy than to create. Having this in mind, one can say that decisions for costly attempts to save some large state-owned enterprises – instead of economically 'rational' choices to simply shut them down – cannot be simplistically evaluated as missed approach. In some cases healthy core of enterprises was saved, sustainable employment was preserved, and knowledge and competencies were not dissolved. These less tangible aspects are perhaps even more important.

A decade since transition officially started it seems that Slovenian political elites and policymakers pursued strategy of compromise between economic development and social responsi-

bility. This approach was recognised as a search for 'a new balance' (Svetlik, 1995: 104) in the field of social policy, but is equally relevant in the field of employment policy. One can be critical and argue that this was an attempt of the elites to maintain their position; such balance would seem the most appropriate way. Nevertheless, it is important as it shows that employment cannot be pursued by a narrow set of policies. Instead, factors of success or failure of employment policies have to be understood more broadly, recognising different tangible and intangible factors as well as direct or indirect input of a variety of institutions. For example, in the case of Slovenia one cannot ignore the role of the central bank and its monetary exchange-rate policy. Namely, central bank ignored continuous recommendations of the IMF to introduce currency board and tie the value of Slovenian Tolar to one of hard currencies. The most important reason is that this would impact economic growth (and consequently employment). Some countries from Southeast Europe accepted this recommendation (e.g. Bulgaria) and experienced severe negative consequences.

This anecdotal evidence does not imply some overwhelming synergy and perfect situation, though. Equally, there are numerous examples of poorly functioning 'background' institutions that have (indirect) negative impact on economic growth and employment. Slovenian judicial system is perhaps the most obvious example. Namely, efficient and equitable **judicial system** is important element of economic growth. Existence of such 'institutionalised distrust' (Luhmann, 1988) gives companies certain assurance that contracts shall be respected and failure to do so shall be sanctioned. However, Slovenian courts are excessively **slow and inefficient**. Even judicial reform attempted in the second part of the 1990s failed to show significant results (Vehovar, 2001). This can have devastating effects for the most dynamic part of Slovenian economy, i.e. small and medium companies, which created most new jobs (Drmovšek, 1999). These companies are very vulnerable due to their limited resources and can in case of insufficient discipline of payment easily go bankrupt. Consequently, they have to be very careful in expansion of their business, which negatively impacts their need for additional labour. Comparative data in *Index of Economic Freedom* shows Slovenia's lag behind countries that the most efficiently guarantee property rights and where efficient judicial system enforces contracts. Indeed, situation is much better than in most post-socialist countries. However, enforcement is lax. The qualitative research of the author of this paper (semi-structured interviews with relevant stakeholders) also showed that this is one of problematic factors and that informal mechanisms (exercise of personal control etc.) sometimes have to amend the formal ones.

3.2 Some specific policies

The contribution of different policies has been quite varied. Some types of policies showed relatively poor performance in terms of their contribution to creation of sustainable development, economic growth, and employment. Others can be evaluated as much better. Due to limited resources we cannot offer a full account of all relevant policies and of all their direct and indirect/contextual influence. However, we shall attempt to outline some positive and negative aspects of different policies.

One very obvious example of poor performance would be **agricultural policy**. Slovenian agricultural sector is in terms of employment not the most important, but cannot be ignored; almost 10 % of labour force is reported to be employed in agriculture (*World Competitiveness Yearbook 2002*). Agricultural policy could have important role in ensuring decent employment for small but nevertheless relevant segment of population. Importantly, a number of these jobs would be located in less favoured, demographically endangered and predominantly agricultural parts of Slovenia with poor industrial infrastructure. Ironically, such jobs could only be provided if substantial reduction of share of population employed in agriculture would take place. This would, of course, be followed by increased overall productivity. Unfortunately, the situation is far from this. Average size of farms in Slovenia is far too small (only few hectares of land) to ensure survival with decent income. For a vast number of 'farmers' work in farm is everyday additional activity, to which they attend after finishing their job, and in many cases it is the only activity of the unemployed from the countryside... This means that their agricultural products are indirectly subsidised through their jobs or other sources, which provide for their basic incomes. Additionally, such 'subsidised' products are competing with those produced by full-time farmers and reduce the potentials for provision of meaningful jobs. Consequently, **productivity in agriculture is low**, even when compared with countries like Czech Republic, Hungary or Poland, which have lower GDP (*World Competitiveness Yearbook 2002*).

Agricultural policies should offer very strong incentives for concentration of land in hands of full-time farmers, e.g. through very high eligibility thresholds for agricultural subsidies. These policies should be accompanied with support for either specialisation (in cases of terms of conventional farming) or integrated ecological farming. Some programmes exist, but are by far insufficient. Unfortunately, the EU accession process, which triggered processes of rationalisation in industry, services, and related policies, did not bring similar results in agriculture and agricultural policies. Possibility of substantial inflow of funds from common agricultural policy rendered other issues irrelevant.

This is just the most obvious direct **relation of agricultural policy and employment policies**. However, its implications go beyond this simple relationship. Obvious inability of agricultural policy to deal with the most obvious distortions directly impacts development of human potential and entrepreneurship. People work in their low-skilled and poorly paid jobs only to ensure survival – which their small farm cannot provide – and are in their free time not motivated to upgrade skills needed in their workplace (Jaklič). Having this in mind, it is clear why agricultural policy is strongly related to employment and regional development policy. These 'spillover' effects on other sectors, especially industry, are perhaps even more important.

Regional policy is also underdeveloped and, it should be noted, not much can currently be said about this. This is very interesting due to immense regional differences and a **need for more 'tailored' approach** in economic policies. Foundations of institutions for regional policies is the positive consequence of the EU accession process because regional policies are necessary precondition for absorption of structural funds, especially European Regional Development Fund, but also other funds and programmes. Currently, national-level agency for regional development has been established and is functioning. Agencies at NUTS 3 level (12

'functional' regions) have also been established, but most of them have just had enough time to finish regional development plan. Many of them have not even been evaluated by the national-level agency for regional development and thus could not have any significant impact or initiatives. Furthermore, the issue of regionalization at NUTS 2 level still has not been resolved... However, it seems that forthcoming accession to the EU shall accelerate formulation of regional policies and **formation of regional developmental coalitions** between local employers, politicians and different initiatives.

The EU accession process also brought important changes to Slovenian **industrial policy**. After entering the EU it shall be strongly influenced by the *acquis communautaire*. In the aforementioned search of balance between economic development and social responsibility this policy was anything but liberal in the past decade. However, it should be mentioned that towards the end of the 1990s certain shift already slowly started to take place. The aforementioned qualitative research showed that even employers, although still very critical with respect to the role of the state in supporting economic development, perceive certain policy shift – and ascribe it at least partly to the EU accession. The most common belief is that the state finally to some extent reoriented from its attempts to save 'losers' towards policies in **support of successful companies**, which have potentials for growth and spill over effects. However, it would be too optimistic to expect that long interventionist tradition shall just stop to impact formulation of policies. Numerous indices show that it is likely to remain interventionist to the extent that it is allowed in the future in certain problematic cases. While interviewing high civil servant from the Ministry for Economy, she stated that "we all have to be aware that the state is losing its role. However, we cannot forget the social aspect. I am not in favour of some American concepts. Not at all."

In the final period some positive examples of policies have been formulated. Perhaps here we should above all mention the project for **support of clustering of small and medium enterprises**, designed to tackle the most obvious weak spot of Slovenian SMEs, their inability to achieve either economy of scale or economy of scope. This inability is not so much due to their small size; lack of resources is a defining feature of all small companies. However, Slovenian enterprises were unable to overcome this through cooperative strategies. This policy attempted to encourage cooperation between enterprises and also transfer of knowledge from universities and public/semi-public research institutes to the economy, through co-financing the formation of joint infrastructure and expert advice.

A very important aspect of employment policies is also policies that impact knowledge (re)production and transfer. One can say that there has been significant progress in the past decade. Funding of **education** increased substantially in the past decade, beginning to repair missed approach of the socialist system. Consequently, enrolment ratios to education started to increase. This increase is especially evident on tertiary level – the number of students almost tripled in the last decade. This increase also delays entrance of younger populations on labour market. However, there are number of weak spots. For example, this **boom of tertiary education** did not have optimal value added in terms of its contribution to development of human potential and competitiveness of the economy and its ability to provide new workplaces. The bulk of this increase was achieved at faculties in the field of arts and social sciences and not enough in the field of hard sciences, i.e. education of skilled engineers. One can

find no real attempt to remedy this situation, although there is a number of possible ways (e.g. targeted state scholarships or subsidies for companies' scholarships, improved conditions of studying at technical faculties etc.) Additionally, **functional literacy** is quite low when compared to most developed countries (OECD, 2000) and excludes substantial proportion of working population from modern working processes where such ability is required. No policy has started to deal successfully with this burning issue, education of the adult.

Migration policy could be important help in upgrade of intellectual capital. However, this was not the case. One has to be very critical and notice that not much has happened in the field of labour migration policy since independence. Certain changes in the second half of the 1990s (strengthening the criteria for work permit) were insignificant in this respect. One has to acknowledge that labour migration policies and knowledge of potential losses and benefits from migration are poorly developed. Basic strategic documents that deal with labour market and employment policies almost completely ignore the issue of migration. Possible losses through '**brain drain**' are poorly researched and the situation left to spontaneous evolution. Even more, possible benefits of '**brain gain**' through active migration policies are total blind spot, with the exception of some general remarks in one more general document (Strategy for the Economic Development of Slovenia 2001-2006).

The role of **foreign trade policy** was more positive. Soon after independence Slovenia started to actively seek ways to join free trade areas and agreements. It became member of the WTO, the EU applicant country, and member of CEFTA. It soon signed a number of free trade agreements. Perhaps even more important is the number of agreements needed to make **foreign investments** to third countries safer. This is important due to Slovenia's semi-peripheral situation, which implies its interest outward FDI to peripheral regions, such as Southeast Europe and countries that belonged to former Soviet Union. Strong delegations of managers of important exporting companies regularly accompany frequent visits of politicians to this part of Europe. Usefulness of this approach was strongly evident in the past few years, when Europe more generally, but especially Germany, Slovenia's most important trading partner, came into recession. Normally, this would reflect strongly on Slovenia's economic growth and employment, especially due to its small size. Indeed, economic growth fell somewhat, but remained above 3 % in the past few years. Growth in unemployment was not critical. This was possible because of increase in trade with countries from Eastern Europe and especially Southeast Europe. Prominent Slovenian economic commentator asserted that "2002 was the year when Slovenia went eastwards".

Social policy also played positive indirect contribution to economic development and employment potentials. Due to '**soft approach**' and absence of very radical cuts in social welfare, social policy not only contributed to inclusion of certain segments of population (keeping people employable) but also contributed to preservation of some less tangible factors of economic development and hence to generation of workplaces. This approach could be defined as costly in the framework of liberal doctrine and if Slovenia would attempt to compete on costs alone. However, these critics forget that Slovenia is not at cost-competitive economy. It is investment-driven economy with some prospects to proceed to the stage of innovation-driven economy (Sočan, 2001). Hence, low costs are not the main factor of Slovenia's economic development and consequently of generation of jobs. Ability to increase efficiency and

to be innovative is crucial determinants of Slovenia's developmental path (Rončević, 2002). Having this – and the available resources – in mind, we can say that social policy generally **positively contributed** to the maintenance of intangible factors.

3.3 Coordination as the crucial issue

This short overview showed that a number of different institutions indirectly or directly affect economic and social development and thus the employment situation: Central Bank, judicial system, and a number of ministries and various governmental agencies. In the future certain regional and sub-regional developmental agencies shall most likely play important role. We should also add business sector, trade unions etc. Having all these stakeholders in mind, one can reasonably argue that improvements in certain policy field can only give satisfactory results if all relevant stakeholders take part. Our own research showed that although a number of factors of developmental performance are weak in Slovenia, **lack of social capital**, i.e. the resource that enables co-operation, is the crucial intangible resource (Adam et al., 2001). Different resources are relatively limited in Slovenia. It is therefore very important that policies, which attempt to deal with employment, are efficient. They have to achieve certain level of synergy. Hence, horizontal and vertical co-ordination between policy actors is the crucial issue.

Two levels of co-ordination are very important in the case of employment strategies. Firstly, substantial progress is needed in co-ordination of strategies and activities of various public institutions. Second, communication between the state and other segments of society needs to be improved substantially: business sector, trade unions, knowledge centres (university, research institutes), civil society...

In the past decades political system played predominant role in shaping employment strategies. In such hierarchical constellations there was not much need for heterarchical co-ordination and communication. Hence, there is a lack of tradition and experience. One can notice that certain attempts at improving situation have been made in the past decade. For example, a number of **strategic documents** that exist in Slovenia have acknowledged the role of democratic and participatory policy process that includes all relevant stakeholders. This is the case in both more specific labour market strategies (*National Employment Action Plan 2000-2001* and *Strategic Goals of Labour Market up to 2006*) and in more general developmental strategic documents with implications for employment (*National Development Plan 2001-2006*, *Strategy for the Economic Development of Slovenia, 2001-2006*). In certain cases even the **institutional framework** for communication of social partners was established.

However, socio-cultural aspects that enable members of a specific society to coordinate their activities is not easily created, certainly not in a few years and with a help of a few strategic blueprints that say that co-operation is necessary. Establishment of formalised institutional framework is also not sufficient condition for **communication of stakeholders**. On the contrary, empirical evidence shows that both levels of communication are relatively poorly developed in Slovenia. For example, in our case study research of the process in which the Strategy for the Economic Development of Slovenia was formulated most of the interviewees agreed that this is the problematic area. Strategies are not taken seriously even by the gov-

ernment who ordered and paid this project. Consequently, the strategies of specific ministries remain unadjusted.

The dialogue between social partners started to develop in the 1990s. It is of relatively recent origin. Economic-Social Council, the institutional framework for **social dialogue**, was established in 1994, on the initiative of trade-unions. (Stanojević et al, 2001) Partners failed to achieve consensus on a few occasions, but sometimes engaged to successful communication. Comparative research showed that this dialogue is institutionally strong but politically weak. It is institutionally strong due to the fact that communication is taking place between strong and well-established organisations and is guided by generally accepted mechanism. It is politically weak first, due to non-existence of independent employers association – this sector is under monolithic control of two Chambers with obligatory memberships (one for artisans and other for all economy) – and second, due to the fact that private employers are not really interested in social dialogue (Draus, 2001; Draus, 2001a).

Developmental consensus is weak or just beginning to be formed. Formulation of such consensus is inevitable if any employment policies are to have sustainable results. Currently it is difficult to say if this is going to happen. Hence, it is questionable if various employment strategies are going to be implemented. It should be noted that most of them (not all) were written because it is a condition that has to be met in order to receive various funds.

4 Labour market policy

4.1 Starting points and institutional set-up

Policy makers were unprepared to the unprecedented situation of rapid unemployment growth in the beginning of the 1990s, even though there were enough indications and warnings (e.g. Mencinger, 1989) that transition from semi-planned economy is going to have such impact. In the situation where GDP was decreasing, employment levels decreased and unemployment exploded, 'crisis management' was implemented to stop these negative trends and avoid even worse situation. At this time **policy of early retirement** was handy and was implemented as the policy measure to prevent excessively high unemployment and social unrest. Policy makers did not learn from mistakes of those who attempted similar remedies for similar problems (i.e. affluent welfare states in Europe). Government in fact actively promoted early retirements. This policy was of course not sustainable even in medium term and soon backfired. The **consequences** were similar as in Western Europe: explosive growth of the retired persons, increasing public expenditures, reducing labour market activity etc. (Esping-Andersen, 1996). Slovenia's expenditures on pensions have been among the highest in transitional economies (Vodopivec, 1996:24). The programme of early retirement was terminated already in 1993. This is the year when registered unemployment reached its peak, but also the year when economy started to grow again.

After the initial period, a whole set of labour market policies was developed. Two institutions are especially responsible for labour market policies (if we define them narrowly). **Ministry for Labour, Family and Social Affairs** is responsible for labour market policies on govern-

mental level. It is one of more prominent ministries and handles substantial proportion of state budget. It has important role in formulation of legislation that deals with rights and responsibilities of employees, working conditions, wage system etc. It also acts on behalf of government in tripartite negotiation between social partners. Pension and disability insurance is also part of this portfolio (but not operationally). **National employment office (NEO)** is responsible for operational part of labour market policies. It is independent public institute and management board consists of thirteen members (four from each social partner and one representative of employees).

However, its activities are funded from the state budget. It should be mentioned that certain amount is collected from unemployment insurance contributions. These contributions are collected from both employers and employees. Employers contribute 0.06 % of worker's gross wage and employees contribute 0.14 %. This means that **unemployment insurance** amounts to only 0.2 % of gross wage. This 'symbolic' contribution is collected as an input to state budget. Collected funds covered 13.6 % of all funds needed for unemployment insurance benefits in 2001 (NEO, 2001). This share has been increasing since 1997 (8.4 %) but is still very small. A bit more than 5 % of state budget is allocated for unemployment benefits and labour market measures. Structure of expenditures of NEO is seen from Table 2.

	1998	1999	2000	2001
Social transfers for the unemployed	52 %	45,8 %	40.9 %	41.9 %
Employment programmes	16.7 %	23.3 %	22.4 %	25.3 %
Governmental scholarships	22.9 %	21.9 %	26.1 %	25.4 %
Subsidised food for students	2.2 %	2.3 %	2.7 %	0.7 %
Costs of NEO	6.2 %	6.7 %	7.9 %	7.3 %

Source: NEO, 1998; NEO, 1999; NEO, 2000; NEO, 2001

We can see that NEO spends available **financial resources for three different purposes**. The first is different financial unemployment benefits, the second are various active labour market programmes. The third, governmental scholarships and subsidised food for students, can also be defined as labour market policy, but has important aspects of educational policy and social policy. Hence, we shall briefly describe the first and offer a more comprehensive description of the second.

4.2 Unemployment insurance

System of unemployment benefits is geared to prevent unemployed individuals from poverty and social exclusion, which would worsen their situation on the labour market and further reduce their ability to participate. The **unemployment insurance scheme** has been operating since 1974. This type of insurance is mandatory for all workers with employment contract (working at least 20 hours per week). The unemployed get either unemployment benefit or unemployment assistance. Strictly speaking, only the first comes from unemployment insurance. Amount and duration of the **unemployment benefit** depends on their previous income and period of contribution into insurance fund, but no longer than 24 months. After they are

no longer eligible for unemployment benefit they can get **unemployment assistance**, which is means-tested. Because this is basically a social security scheme, also unemployed without working and contribution record – the ones who are not eligible for unemployment benefit – can get his type of assistance; because it is designed to work as a protection against deprivation. It is a flat-rate benefit and can be paid for 15 months.⁸ Unemployment insurance scheme also gives the insured person the right to participate in active employment programmes and also the right to pension, disability and health insurance. With time eligibility criteria were set higher due to increasing budgetary pressures.

4.3 Labour market programmes

They can be divided into several groups. Perhaps the most important is a group of **programmes for education and training** of the unemployed. A range of educational and training programmes were developed, which are considered to be the most important in the context of aforementioned skill mismatch in the context of economic restructuring. Especially older and long-term unemployed take part in these programmes. This gives it important psycho-social dimension in terms of activating discouraged and socially isolated people. This programme is also very differentiated, consisting of **different sub-programmes**: for information and motivation, employment workshops, career-goal workshops, programme for psycho-social rehabilitation and personal development, programme for functional education, various programmes of general and vocational education, on-the-workplace training programmes etc.

For more skilled unemployed a programme called **job clubs** was developed. Job clubs are innovative programmes for first-time job-seekers or for those who have been registered as unemployed for at least six months. The programme is designed to keep the unemployed busy⁹ and to provide people with knowledge about job-searching techniques. This programme is quite successful in terms of its participants' subsequent employment.¹⁰ However, this is not a major programme and only those who have appropriate skills (and know what kind of work they are seeking) can participate.

The second quite important programme is **support for self-employment**, which should to some extent make up for the past 'sins'. Private entrepreneurship was not promoted for decades and numerous restrictions blocked the development of entrepreneurial potential and enterprises (Glas, 1997; Glas et al. 1998). Legislation kept them at the level of small craft. Policies are formulated in a way to protect against deficiencies that unemployed focus when trying to set up their own small business. This includes motivation, education and training, advice, financial help.

8 Only those who need less than three years to reach the retirement age are eligible for prolongation.

9 They have to attend meeting four hours a day and are allowed to skip it only if it has to do with job search.

10 1048 unemployed completed this programme in 1998 and 563 of them find employment during duration of programme or within two months after completing the programme (NEO, 1998).

The structure of the unemployed is such that in spite of various aforementioned policies certain categories of the unemployed are really difficult to employ, especially older unskilled workers. **Public works** were introduced as a special category of employment policies as early as in 1991. Their main function is to combat long-term unemployment, to prevent discouragement of the long-term unemployed, their social isolation, maintenance and development of their working habits and even promotion of self-employment, which should be based on experience acquired during participation in public works. Since 1991 this programme has expanded and evolved. In 1991 only some 1200 unemployed participated and in 1999 this number grew to almost 10641. It decreased somewhat (9374 participants in 2001) but remained very important programme. In the past few years almost 10 % of all NEO's funds are spent for these programmes. (NEO, 2001) The most important change implemented since 1999 was transformation of public works programmes from a programme for the unemployed into a specific type of public temporary employment.

Three **programmes** were developed **towards encouraging employers** to hire additional workers or to help them not to dismiss surplus labour. The first is the programme of co-financing to solve the problem of surplus labour. This programme was geared towards employers who are planning to sack the workers whose labour they no longer need. It is indicative that most of these programmes were implemented in enterprises from the old industrial sectors such as iron-works, woods, plastics, textiles etc. The problems of workers who are no longer needed because of introduction of new technology are tackled by means of re-qualification within this programme. The second, reimbursement of employer's contributions, is a selective programme intended to encourage employers to hire older workers, long-term unemployed, or first-time job-seekers. The third programme is co-operation in enterprise restructuring. This programme is a part of wider micro-economic policy of supporting those enterprises that were in need of restructuring. NEO is implementing educational part of this restructuring.

A very important **programme** is developed to **focus on the group of the disabled**. The number of unemployed disabled people has increased from approximately one thousand in 1989 to almost eleven thousand in 1998, when they represented 9.8 % of all unemployed people. They are especially difficult to employ, not least because they are in most cases poorly educated, three quarters of them is above 40 years of age and about the same amount of them has been unemployed for more than 24 months (NEO, 1998). The disabled are offered various types of training and education programmes and financial help to adapt their workplaces to their special need. They are also offered jobs in sheltered workshops, companies that are eligible for exemption from certain taxes and contributions. This helps them to compete successfully on the market.

Programmes for local, regional and employment projects for local initiatives are not as widely implemented as the rest of the programmes. Its purpose is to intervene on the demand side of the market and is designed to take the advantage of local circumstances and initiatives.

Labour funds are a new form of active labour market policy and are intended to help workers who have been made redundant to re-enter labour market. The impact of this programme is difficult to assess because of its recent nature. However, they could in the future play an important role because they are formulated in a way to be able to approach problems on the re-

gional and local level and take the advantage of approaching each problematic case individually.¹¹

4.4 Assessment of labour market policies

Labour market policies should ideally, in addition to the **primary function** of alleviating unemployment, perform **three additional functions**. First, they have to preserve the unemployed from poverty and social exclusion. This would substantially worsen their situation and further reduce their ability to participate on the labour market. Second, they should encourage the shift from the industrial to the service economy by encouraging re-qualification and education of the unemployed. Third, they have to promote flexibility on the labour market, to reduce unproductive rigidities, which contribute to increasing gap between unprotected unemployed 'outsiders' and well protected 'insiders'. (Esping-Andersen, 1996)

Are labour market policies successfully performing these functions? One should be very careful in making such evaluations and simple straightforward answer cannot be given. First, performance may differ with respect to different function. Second, there are a number of factors beyond control of policy-makers. Its impact has to be observed in this context. Such analysis would be too demanding for this limited space. But if we try to give a short evaluation, we could still evaluate their contribution as not perfect, but still relatively positive. However, we should mention three important weak spots.

First, one should mention that **regional approach** of these policies is **poorly developed**. Twelve branch offices are the operational part of NEO, but they are implementing centrally designed programmes. Most policies are not tailored to the specific needs of problem regions. Programme for local, regional and employment projects for local initiatives receive only 0.4 % of all NEO expenditures. To remedy this situation, implementation of certain policies is sometimes adjusted to tackle problems in depressive regions. Such example is public works, where more funding can be allocated to an area with less favourable structure of the unemployed. But this does not solve the fundamental weakness.

Second, **co-operation between various actors** is **relatively weak**. The main part of operative active labour market policies is with the NEO. Other actors are involved only to the extent that their (relatively narrow) interest is served. This should change in the future if utilisation of existing resources is maximised through synergies. *National Employment Action Plan 2000 and 2001* already provided for active involvement of stakeholders. However, at this stage it is too early to judge whether this shall happen. It has to be mentioned that not only the state is to be blamed for this. Employers and even trade unions do not show significant interest in active participation in formulation and implementation of these policies, if we can judge from their low effort. Furthermore, non-profit organisations play very weak role in labour market policies. The state does not try to empower them. In 2001 NGOs that deal with human resource development received only 0.1 % of all NEO expenditures (NEO, 2001).

11 First labour funds were established in 1998 and they all deal either with redundant workers of a special large downsizing and restructuring enterprise (e.g. iron-works plant) or operate at the regional basis.

Third, we have to emphasise the issue of **labour market legislation**. This was perhaps the **most problematic aspect** of labour market arrangements. Firstly, this legislation contributed significantly to substantial rigidity. It was very difficult to fire worker and consequently employers were very careful in employing them. This negatively impacted the flexibility of enterprises and their ability to adjust to demand. Secondly, due to numerous rights and related rigidity it was in certain cases impossible for workers to exercise their rights, especially in problematic companies. In some worst cases workers did not receive their wages for months, but at the same time could not quit because in this case they would not get unemployment benefit. This legislation was therefore not favourable for either trade unions or employers. It was thus relevant that dialogue between social partners was active in solving these issues. *New Labour Relations Law*, which governs individual labour relations, was subject to a long process of negotiations and preparations (seven years) and resulted in consensus. Law was then just passed in parliament (without changes in negotiated version) in April 2002 and entered into force on 1.1.2003.

Currently it seems that both sides are satisfied with the **new legislation**. Workers did indeed lose some of their rights (this loss was not overwhelming), but even trade unions assert that this is a good law for workers as it protects workers **in line with ILO conventions**. It introduces more clarity to relationship between employers and employees. Employers shall find it easier to fire a worker in case of justifiable reason (serious incompetence, market reasons etc.). Interestingly, employees might also find this as an improvement. Under old legislation workers were less protected if employers violated their rights. For example, under new legislation any worker can quit and still receive financial compensation, if his/her rights were violated.

5 Conclusions and recommendations

This paper presented the situation in Slovenia. Shortly, it can be evaluated as relatively positive, especially in comparison with other countries in Southeast Europe. Slovenia managed processes of transition relatively well. This was to an important extent a consequence of **relatively good starting-point**. On the other hand it is also a consequence of decisions for certain necessary policy approaches and re-orientations.

However, after **entering the EU**, this group of highly developed countries shall be the main frame of reference in any kind of evaluations – and this has already been the case in the past few years. The EU shall offer numerous opportunities for some and be a serious threat to others. This will also impact the situation on the Slovenian labour market. The most important question is: what should be done in order for benefits to exceed the costs of joining the EU?

We can see that improvement has to be made in a number of fields and policies that directly or indirectly impact developments on the labour market. Rationalisation and productivity in agricultural sector should increase. Much more attention should be paid to sustainable regional development. Structural problems on the labour market and inflexibility are also serious issues. Informal economy is at relatively high levels. Economic policy just recently

started to change its approach from saving losers towards formulation of more favourable conditions for all. Numerous improvements are also necessary in policies that deal with employment, especially those that deal with transfer of knowledge, informal education (low functional literacy) and profiles of highly educated people. Migration policy is practically non-existent.

However, 'isolated' attempts to improve certain policies are not sufficient. According to the results of our analyses, the most important difference between developed core and Slovenia (Adam et al., 2001) can be found in the levels of social capital, i.e. reflexive trust, co-operation and ability for self-organisation. This impacts the ability to use the existing factors more efficiently. Synergy is lacking. If Slovenia is to become dynamic and propulsive, and to benefit from these integrations, certain improvements have to be made in all aforementioned fields. In some cases indeed a lot of effort has to be invested. But above all, **co-ordination and communication between policy actors and stakeholders** has to be improved rapidly, in order to improve efficient utilisation of these investments.

Hence, while maintaining positive aspects of current policies, projects that require and enhance co-operation and synergy are key factors of future positive trends in the field of employment and labour markets.

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INTERNATIONAL CONFERENCE: EMPLOYMENT AS FACTOR OF STABILITY AND DEVELOPMENT IN SOUTH-EAST-EUROPE

Sofia, November 28-30, 2002

Preliminary remarks

Within the framework of the project on social security and employment in South-East-Europe (SEE), the Friedrich Ebert Stiftung organized an International Employment Conference under the patronage of the Bulgarian President and with the support of the ILO.

The Conference focused on the issue of employment as a major political and social challenge in the countries of the region analyzing the impact of different policy strategies, institutions and instruments on the employment situation. The objectives of the Conference have been defined as follows:

- to contribute to the public awareness about the social dimension of transformation;
- to inform relevant political and social actors in the countries of SEE as well as the international community about major deficits in the development strategies, and the political, economical and social risks related to them;
- to present and analyze experiences with employment and labour market institutions and policies;
- to discuss proposals on strategies for improving the employment situation.

The conference achieved its objectives as far as exchange of information and experiences between the countries of the region are concerned. About 60 high level representatives from Governments, Trade Unions and Employers Organizations discussed the situation on the labour market and of employment in South-East Europe in five panels of the conference. Some of the contributions to the conference are published in this book, being a good supplement to the country reports.

On the basis of the discussions, two German experts prepared the document "Findings and Recommendations", which was mainly supported, but also partly criticized or rejected, in the concluding debate. Anyhow, this document should serve as a basis for further discussions.

The proposal of the Council of Europe to establish a Regional Committee for Employment with participation of the governments and the social partners was generally welcomed.

Belgrade, December 4, 2002

Michael Weichert
Regional Project Social Policy
Friedrich Ebert Stiftung

Social Partnership in the Field of Employment Policy: Position of CITUB

Dr. Jeljazko Hristov

Chairman of the Confederation of the Independent Trade Unions in Bulgaria (CITUB)

(1) Evaluation of partnership in the field of the employment policy in Bulgaria needs a comprehensive approach. The entire activities in development of social partnership, the concrete practice of the State with the social partners, for example the merely formal consultations and superficial discussions, need to be considered.

Partnership in this field began with the Unemployment Protection and Promotion of Employment Act in 1997 and the creation of National Employment Service with tri-partite authorities of administration, which were also in charge of the Professional Qualification and Unemployment Fund. The National Council for Unemployment Protection and Encouragement of Employment and the National Agency for Professional Qualification were created. Later on the Social Investment Fund Act was passed. CITUB initiated this act; representatives of the social partners took part in its preparation. From 1997 to 2001 both achievements and negative results existed the field of employment policy, and the reason for this is the one-sided attitude which was attributed to the partnership. The government elected in 2001 declared the decrease of the unemployment one of its important priorities. These declarations are still on the agenda, even the 2002 draft-budget is called 'budget for employment' by the Minister of Finance. At the same time it should be pointed out that today's Government underestimates the importance of partnership in the sphere of employment. This became clear when the changes in the legislation concerning employment policy were implemented at the end of 2001.

(2) The social and labour legislation, which determines employment policy, underwent a number of changes. It is known that by the end of 2001 the Unemployment Protection and Promotion of Employment Act needed amendments. Amendments went so far that finally a new act was adopted – the Employment Act – as well as amendments in the Code of obligatory social (national) insurance. Yet the amendments did not give sufficient attention to the views of the social partners. In spite of the disagreement of the syndicates, the autonomy of the National Employment Service was abolished, and so was the tri-partite steering principle of the Service. The fund "Professional Qualification and Unemployment" was renamed into "Unemployment Fund" and came under the responsibility of the National Social Security Institute.

(3) In the context of the partnership for employment, including the implementation of the national employment plans, a lot of problems and difficulties are noticed. Part of them is connected with the lack of coordination in the field of employment among the different state institutions – Ministry of Labour and Social Policy and the specialized ministries. One of the critics of the syndicates towards the first National Employment Action plan was connected with the fact that the employment policy is not defined (and respectively is not carried out) as a governmental policy, but as a policy of a given ministry. The various policies, including in the national plans, lack a connection between the actions in the field of labor market on one side and the economical, financial, investment and tax policies, on the other side. They also lack a connection between employment policy and the branch strategies for development. The state

has no idea about the connection between privatization and reconstruction – qualification and re-qualification – redeployment and alternative employment – policy of the labor market as a whole. The Government does not offer enough particular ideas for regional development and employment policy. Mainly seasonal and subsidized employment are encouraged, employment which in fact substitutes social relief, and there are no consistent measures for the unemployed.

At the same time a number of basic documents as the National Plan for Development and the National Plan for Regional Development, Strategy for Staff Resources and the Sector Resources as well as the Strategy for Participation in the Pre-integration Funds of EC were accepted with no or only with quite perfunctory consultations with the social partners.

(4) Other funds in the field of employment policy are the Social Investment Fund, the project for “Social Capital Fund”, and the Guarantee Fund. Yet these funds are isolated from one another.

Partnership in governing of these funds is rather formal, the partners are not given the possibility to really implement their own ideas concerning employment policy. The activity of the Social Investment Fund by now is not directed to specific projects. The activity of the National Council for Unemployment Protection and Promotion of Employment is too formal; there is no coordination between its decisions and the decisions of the authorities governing the funds, through which the employment policy is realized. This also applies to part of the regional structures of partnership in the field of employment.

CITUB has no reason to express satisfaction over the policy concerning the pre-integration of funds and the partnership in this sphere. Here again the lack of coordination between the different institutions is felt, the prevailing notion is that the employment is a priority only of the Ministry of Labor and Social Policy. Between the branch ministries and the social partners not only a partnership does not exist concerning the employment policy, but even communication in this sphere is missing. As a result of this a number of ideas both of the social partners and of the non-governmental organizations concerning the promotion of employment, regional development and the contractive activity can not even be discussed. This is a result of the fact that only MLSP deals with the projects based on the “Phare” Programme in the field of employment, but ideas of establishing new enterprises or re-construction and development of separate branches are not discussed, neither are regional policies. Moreover, ideas and projects put forward by the social partners and the other non-governmental based on the “Phare Programme 2003” at the request of MLSP were taken into consideration, but in the long run the Government, under the pressure of the Ministry of Finance, reduced the number of these projects, thus eliminating important proposals of the social partners.

In conclusion, if employment policy is to be improved, the State has to change fundamentally its visions, its approach to this policy and its attitude to partnership when decisions are to be taken and implemented. The change and the specific results in the improvement of the employment level are possible only with more commitment both of the social partners and of other non-governmental organizations in the field of employment policy. This would be in line with the requirements and recommendations in the regular reports of the European Commission for the advancement of Bulgaria in the process of the integration with the EC.

Participatory Policy Process in Southeast Europe

Borut Rončević
Research fellow
Faculty of Social Sciences
University of Ljubljana

Introduction

Slovenia has a National Employment Action Plan, the first being written for years 2000 and 2001. It is a very fine document indeed. It follows the structure of the EU Employment Guidelines.¹ However, as a good document it does not follow these structures blindly. It is not just a translation, doomed to fail due to incompatibility of guidelines with the specific Slovenian situation. Furthermore, this plan is quite comprehensive in delineation of present situation and identification of key problems. Priority measures are well defined and where needed, existing measures are upgraded and new measures developed. It also provides financial resources for implementation of this strategy. And, perhaps its most important quality, the responsibility for the implementation of this programme is shared among a variety of stakeholders. Namely, a variety of different state institutions – ministries and different public agencies – are assigned the executive role, but other social partners have a role to play as well. The document also provides institutional framework for communication of social partners and a mean to monitor the implementation of this strategic document – a Steering Committee. At the final stage, the government shall, assisted by Steering Committee, Economic-Social Council² and some independent institutions, perform the final monitoring of the implementation.

I should add that Slovenia, like many other countries, has a number of other strategic documents, that either directly or indirectly deal with social situation or employment, like National Development Plan 2001-2006, Anti-Poverty and Social Exclusion Programme, Strategy for the Economic Development of Slovenia, and National Strategy for the Education of the Adult, to name just a few of the most obvious. These are all very fine documents as well. Of course, it is not strange that this is the case. After all, writing of these documents or, most often, preparation of the studies that served as an expert basis supporting these documents has been confined to a variety of teams of experts in the universities and public institutes, most of them the best in their field of expertise in Slovenia. Furthermore, Slovenia is relatively affluent country so a lot of public funds can indeed be spent on these projects.³

1 I am referring to the EU employment guidelines, the outcome of the Luxembourg process, which were first accepted in 1998 and are amended every year.

2 Economic-Social Council is the classical corporatist body where social partners meet formally. It was established in 1994 on the initiative of trade unions.

3 Some 150 researchers participated in preparation of the Strategy for the Economic Development of Slovenia.

Participatory policy process

Strategies and programmes⁴ come from the political system, either national state or the international community.⁵ As such, political system is taking the initiative in formulation of employment policies, but at the same time remaining rather isolated from other segments of society. This implies that policy-makers do not have comprehensive *knowledge* about unemployment, but at best relatively reliable *data and information*. However, "the difference is fundamental" (Zeleny, 2001). Instead of responding to 'action' policy-makers respond to 'description of action', thereby ignoring the specifics of Southeast Europe and specific of individual countries. This can be especially problematic in those countries that are under international protectorate or are obliged to follow recommendations from international financial institutions such as the IMF or the World Bank, as they have to rely on foreign expertise more extensively. This is not problematic only if it is not related to over-simplification and imposition of ready-packed universalistic models, which were usually developed either for well-off societies with long democratic traditions and developed markets, or for completely different cases from Latin America and other Third World Countries. Unfortunately, this is exactly what often happened in this region. (See Williamson, 1997).

The developments of the past decades have taught us that socially acceptable economic development can be achieved neither through exclusively state-led development nor through unleashed market economy. Instead, societies that most successfully combine goals of economic development with social and cultural prosperity are active and learning societies that continuously solve their problems on the basis of organizational and governance pluralism (Messner, 1997).⁶ In the context of this paper this means that employment policies have to be formulated in constant dialogue and inter-linkage – both formal and informal – of all relevant stakeholders. If the results of policy-formulation are to be taken seriously, thereby decreasing the likelihood of passivity or even outright obstruction and increasing the likelihood of successful implementation, this dialogue has to be conducted on an equal basis. The state should not retreat from this process, though. Due to specific circumstances, which shall be analysed later, the state has to take the initiative in most of the Southeast Europe. But its role should not be performed from the position of hierarchical centre. Instead, it should attempt to act as a facilitator, mediator and conciliator.

However, this is not easy to achieve. If it were, most of this part of Europe would not be rightfully termed a crisis region. Participatory policy process is a fragile process in which a number of conditions have to be met if it is to be successful. The problem is that these conditions

4 Here I am referring equally to elaborated strategies – such as those of Slovenia described in the introduction – and to different documents that may guide or influence policies.

5 The role of international community in formulation of employment and development policies is especially evident in the case of Kosovo and in the case of Bosnia and Herzegovina. Its role in other countries is less direct. It comes through the pressure of the World Bank (e.g. Croatia) or through the EU accession process (Bulgaria, Romania, Slovenia).

6 However, I am not trying to imply that markets are irrelevant. On the contrary, Index of Economic Freedom shows that all prosperous countries practice high levels of market freedom. But it is important to note that they do not subscribe to market fundamentalism.

are not so easy to fulfil, as they are of social and cultural character and thus by definition impossible to replicate from the cases of successful countries. This is especially obvious from mounting literature on *social capital* (see Adam and Rončević, 2002), which is most often conceptualized as the intangible resource that enables cooperation and communication. Hence, constructing policy dialogue is a slow process and very often beyond control of policy-makers. Any deliberate attempt to generate social capital (and thus the potential for participatory policy process) puts civil servants into delicate situation, where they have to provide public good that cannot be accessed directly, like in the case of redistribution through means of social policy.⁷ This is especially true in the case of Southeast European countries, due to their unfortunate 'surplus of history'.

Analysis of strategic competence

The crucial question at this stage is to determine major challenges and obstacles in achievement of demanding policy coordination. A useful starting-point is the classical Katzenstein's account of democratic corporatism (Katzenstein, 1985) in post-Second World War Europe. According to this author, democratic corporatism, in its liberal (Netherlands, Belgium, Switzerland) or social (Austria, Sweden, Denmark, Norway) version, is defined by three traits.

- The first is the ideology of social partnership on questions of economic and social policies. It permeates everyday politics and effectively mitigates class conflict between employers and trade unions. This does not mean that all conflicts have been resolved or that they do not exist at all. On the contrary, numerous conflicts exist. However, they are constantly resolved within vague but firmly held notions of the public interest.
- The second is relatively centralized and concentrated system of interest groups in which centralization implies hierarchical control and compliance of its base. Concentration implies inclusiveness, meaning that large numbers of employers and workers are organized.
- The last is voluntary and informal coordination of conflicting objectives through processes of continuous political bargaining between interest groups, state bureaucracies and political parties. These traits make for low voltage politics.

As we know, however, low voltage politics is not so common in countries of Southeast Europe. Which is easily explained by Katzenstein's model: most countries of Southeast Europe do not share those traits. Egalitarian value orientations (as evidenced from World Values Survey 1995 and European Values Survey, 1998) should not be mistaken for ideology of social partnership. Nor should centralization of the state, employer's associations and trade unions be simply interpreted as the evidence of their power. Instead, omnipresence could point to impotence. Coordination through continuous political bargaining is in the context of conflict ridden societies better analysed in terms of patron-client relationships, futile trade-offs and pursuit of particularistic interests, without having in mind even the vaguest notion of public interest. It is therefore easy to assume that when it comes to issues that involve strong interests – e.g. priva-

7 Fukuyama suggests that by not destroying trust/social capital the state already does a lot. (Fukuyama, 2001)

tization of large enterprises – development and employment policies are not in the main focus of the most powerful actors.

On the other hand, we should have in mind that this is a descriptive model based on analysis of highly developed European countries. As such it is, though potentially useful instrument, perhaps not enough sensitive for the analysis of Southeast Europe. What is needed is complementary analysis of strategic competence, with which we can identify deficiencies that hinder participatory policy processes. On a more particular side, this model excessively narrows interest groups to employers and trade unions. Not least, too great emphasis is put to negotiation at central level, leaving out dynamic processes within each actor (state, business sector, trade unions, NGOs...) and inter-level communications.

The analysis of possibility for networked policy has to be extended on the basis of three premises. **First**, when it comes to formulation of economic development and employment policies, it is not sufficient to focus research interest on a small number of organizations (e.g. specific company, public or semi-private R&D institution, specific trade union etc.) or sector (business sector, public sector, intermediary sphere etc.). In employment policy, it would seem especially tempting to focus on the role of the state. We have to acknowledge the potential contribution of a variety of stakeholders. Equally, dynamics of their relationship at multiple levels has to be captured (among specific actors, their associations and emergent systems). Due to the fact that it is practically impossible to generate meaningful employment to large segments of population without sustained economic development, the analysis has to take into account not only the social partners, i.e. political and administrative institutions (the state), the business sector, and trade unions, but also sphere where (re)production of knowledge takes place (universities and public institutes), intermediary incubators (think-tanks, business incubators, technological parks etc.) and, not least, non-governmental organizations.

Second, continuous inter-linkage and institutional empathy does not imply that the boundaries between organizations should dissolve or become too blurred to be distinguishable. Functional differentiation is the basic principle of societal modernization and has to be acknowledged in the model. This is especially relevant in the analysis of post-socialist societies of Southeast Europe, where constant penetration of political subsystem was the main impediment to modernization on a macro level and to micro-economic efficiency and, consequently, contributed to difficult economic and social situation which we witness nowadays. When referring to the issues of trust, norms of solidarity etc., we are referring to the possibilities of increasingly sophisticated forms of societal coordination, needed to neutralize risks that derive from functional differentiation. Therefore, we need to acknowledge the importance of the '*art of separation*' (Walzer, in Willke, 1993). However, it has to be complemented with the '*art of communication*'.

Third, basic condition for participation in decentralized policy networks is sufficient ability of relevant actors and sectors to articulate interests and to coordinate their activities. The ability for articulation of interests is dependent on whether actors possess certain level of *technocratic competence*. This presupposes, first, a certain level of self-referentiality (i.e. knowledge about its own operations, capabilities and limitations) and second, sufficient reflexivity (i.e. its position in the environment and the consequences of its actions upon the environment). However, technocratic competence does not suffice. The ability for coordination above all

requires certain socio-cultural background. In the context of this analysis we are especially interested in the amount and quality of *social capital*. Within this, we should have in mind two distinctions. First is the aforementioned distinction between specific organizations and state institutions (companies, research institutes, developmental agencies etc.) and emergent societal subsystems (business sector, public administration etc.). Second, we have to distinguish between two types of linkages: linkages between organizations or societal subsystems, and linkages within organizations and subsystems themselves, which lead to certain level of integration.

Discussion and conclusion

These premises serve as an analytical framework for comprehensive analysis of the ability of societies to involve to participatory policy process. This implies an analysis of the current situation and pointing to those aspects, which need to be improved in order to get closer to the desired outcome. I cannot offer a full analysis of the situation in countries of Southeast Europe. The reality is too demanding for such an attempt. What I can do, however, is to outline the main obstacles that can be identified.

The most obvious question we should ask at the beginning is whether any substantial devolution at the societal level took place. To put it differently, has there been transferred part of responsibility for employment policies systematically from political system to other actors? The overwhelming importance and centrality of the political institutions was one of the key distortions of socialist arrangements. The political system penetrated economy to the extent that the economies could not achieve efficiency. It effected the functioning of other sectors, which we mentioned as important for development and employment policy. Thus, emancipation of these spheres from political system was perhaps the most important goal of the first phase of institutional reforms. However, as Dahrendorf (1990) timely warned, 'frames of the mind' do not change easily. The influence of political systems on others does depend on formalized institutional arrangements, of course, but perhaps even more on actions of individual actors. And these are definitely guided by internalized norms. So, the question would be if post-socialist reforms substantially influenced the identities and actions of political actors?

We can note that some positive changes did occur. Economy, universities, public institutes etc. emancipated from political subsystem, became internally more integrated, and thereby developed certain capacity of self-reflection (Makarovič, 1996:256). Ironically, the state can retreat from this role much faster than can other systems develop capacities to complement its role. To put it simply, retreat of the state from employment policies can have grievous consequences if the economy is not internationally competitive, if the research and development sector cannot support companies' need for applied research, if trade unions cannot act as competent and internally homogeneous partners, if NGOs in the field of local/regional development and provision of social services are unable to articulate demands etc.

Hence, in the new situation the state is often facing radical contradiction; even though they have or are expected to lose its dominant position, it is constantly called to manage risks that for example the economy cannot match. This is especially evident in cases when large state-owned enterprises or entire sectors are in trouble. One could reasonably argue that only Slo-

venia was able to handle this part of transition to some extent. Other countries faced much greater difficulties and were much less successful. Even in the case of Slovenia as not only the most successful country in this group, but perhaps in all post-socialist Europe, the state had to take much of the responsibility for restructuring the economy and enhancing the potential of other sectors. Thus, we can also argue that the situation was not supporting development of either 'art of separation' or 'art of communication'.

Furthermore, the development of both technocratic competence and social capital are currently important obstacles to participatory policy approach. We should emphasize that we do not have direct systematic evidence for most of the countries from this region. The exception are three EU applicant countries Bulgaria, Romania and Slovenia, which have recently appeared in a number of international reports regarding competitiveness and quality of governance. However, there is a wealth of indirect or proxy indicators, which all point to very unfavourable situation: such as those on low value added, unfavourable position of national economies in international division of labour, high levels of corruption and, not least, very unfavourable data on educational structure of enterprises.

However, lack of social capital seems to be the crucial problem in an attempt to set up a framework for participatory policy process. This lack is evident on various levels. Cooperation between enterprises is very poor or almost nonexistent. Instead of involving to strategic alliances and thus enhance learning processes and their competitiveness, they are at arms' length relationships and tend to increase their operations, if at all, through acquisitions and take-overs. Trade unions see other as competitors instead as partners and are thus not cooperative and often involve to conflicts over different issues. Governmental policies are very often contradictory and unrelated. On a general level, we can say that vast potentials that could come from synergy of efforts are lost. The lack of social capital renders impossible more efficient utilization of resources, which are anyway very scarce. Hence, increase of resources for employment policy cannot yield expected results.

In spite of this gloomy analysis I am not arguing that creating different strategic documents to guide employment policies is a flawed undertaking. On the contrary, due to difficult situation in most of these countries, any attempt to offer conceptual and policy framework is an important contribution in an attempt to trigger development. However, their effect shall be negligible unless these strategies are complemented with competence and trust-building processes, all with a goal to formulate participatory policy process.

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More Active Labour Market Measures – Panacea or Folly?

Reinold Neubauer
Labour Market Policy Consultant

The new strategic goal of the European Union

The new “Lisbon” strategic goal of the European Union (EU), namely “to become the most competitive and dynamic knowledge-based economy in the world”, is a very difficult and ambitious objective for the EU Member States. It is an almost impossible task for a large majority of present and potential future Candidate Countries.⁸

... carries substantial employment implications

This strategic goal has not been set for its own sake. It is seen as a necessity for maintaining and improving living standards throughout the region, and to achieve the Union’s other economic and social objectives. These objectives are regarded as unattainable given present unemployment and employment rates, in particular given the insufficient inclusion of the young, older at female members of societies.

.. and attainment can be measured

And there is little room for manoeuvring, as the attainment of the strategic goal is easily evidenced by quantitative indicators, e.g. by employment rates.

Active labour market policy measures – a panacea for attainment of the EU’s objectives ?

In order to attain these ambitious objectives, the EU assigns, among a very broad range of policy initiatives as outlined in the Employment Policy Guidelines of the European Employment Strategy and in the Broad Economic Policy Guidelines, an important role to so-called active labour market policy measures (ALMPs).

As Candidate Countries lag behind Member States in spending on ALMPs and in activation rates, they are generally urged by the international community to spend more on such measures. For some organizations and experts, ALMPs almost seem to enjoy the role of a “panacea” for more employment and, subsequently, lower unemployment. Sometimes the impression is created that, if only more funds would become available for such measures, unemployment could be eradicated in no time.

⁸ All countries represented here at this Conference are considered potential future members of the EU

Although ALMPs are far from being such a panacea, in principle, I would like to corroborate the unanimous call for more such active measures in Candidate Countries.

What should come first: quality or quantity of active measures ?

Contrary to widespread recommendations, however, I would regard it as much more appropriate for the countries represented at this conference to invest in “quality” of ALMPs rather than in quantity.

Active measures are only a small part of the EU Employment Strategy

Although the EU’s Employment Policy Guidelines may create a different impression to the more superficial reader, the EU is far from seeing ALMPs as an exclusive recipe for higher employment rates. The Employment Policy Guidelines of the European Employment Strategy and the Broad Economic Policy Guidelines do not only go far beyond ALMPs. These represent only a small (although indispensable) part of recommended employment creation policies. And their role in this process is seen as an indirect one.

Impact of ALMPs on individual and aggregate employment is still uncertain – and available evaluation results are unsatisfactory

Our knowledge about the impact of these measures on employment and unemployment is still largely insufficient. Despite an increase in recent years, “real” evaluation of the “net impact” of ALMPs on their participant’s employment opportunities (and earnings) hardly takes place. Whenever such “control-group” studies have been undertaken, results have been “mixed”. On average, participant’s chances to re-enter regular employment or to improve their earnings have not been decisively increased (in comparison with non-participants).

The situation is even more dramatic concerning evaluation of the ALMP’s macro-economic effects, i.e. their effects on the number of jobs (or on the volume of labour) in a country or region. Such evaluations have not been undertaken very often, and if so, they continue to be burdened with methodological problems.

This should not make us, however, ignore the results of these studies, which – on average – show no or sometimes even negative effects on the aggregate number of jobs.

Unfortunately, there is a tendency of blaming the researchers for unsatisfactory results of ALMPs, rather than trying to identify the causes for these results.

Competent Public Employment Services – a pre-condition for effective ALMPs

There are certainly numerous reasons why ALMPs often do not work as expected. One of the most important reasons is insufficient attention to the capacity and performance of public

employment services. Although recommendations of the EU, the OECD, and other international organizations include a reform of public employment services, and although substantial investments have been made into the services of the region, they have been concentrated on "structures" (introduction of tripartite boards, new departments, buildings, computerization, etc.) rather than on "functions" and "services" at the micro-level.

Insufficient attention to micro-organization of public employment services

This is the more regrettable as some rather simple and inexpensive reforms at the micro-level are likely to drastically increase staff competence and performance.

In fact, most employment services of the region seem to have adopted outdated organizational models of "western" services. Such models may have been appropriate for labour markets of the past. They are unlikely to cope, however, with today's labour market challenges, neither in the EU Member States nor in Candidate Countries.

For public employment services and ALMPs to be effective, detailed knowledge of local labour markets is a condition *sine qua non*. This applies to all types of services, from job broking to the design of ALMPs. And yet, public employment services too often lack such knowledge. This is normally not the fault of the staff, and it is only partly due to lack of training. It is the inappropriate internal organization (division) of work, which hampers – or even precludes – the development of labour market competence.

... precludes acquisition of labour market competence

Nowadays, there is usually a strict division of labour between the service workers who register unemployed persons, those who register vacancies and those who deal with service providers for ALMPs (for example training centres).

Since registration workers are focussed on too narrow a task and unaware of what to look for, "registration" of job-seekers remains usually confined to basic "passport type" of information, i.e. to a "copy" of documents and certificates supplied by the client. There is too little assessment of existing qualifications and of ways how to increase employability. And such assessment is almost impossible, as registration workers do not know enough about the other side of the market, the enterprises and vacancies.

On vacancies, data banks of public employment services usually contain little else than the address of the employer, the job title and information on some (but hardly all relevant) working conditions. Information on the job description is frequently missing, as is information on a more detailed skill specification.

Few service workers visit employers to update their knowledge on job requirements, fewer do it regularly, and those doing it regularly do not do it often enough. If enterprises are visited, it is less the small and medium-sized enterprises (SMEs), although almost all of expected future job growth will be found there.

To make things even more complicated, those few service workers who do know more about enterprises and vacancies know the unemployed only from data bases and not from regular interviews. In consequence, they cannot select candidates according to "personality", although this is an increasing factor for securing employment (or not).

The consequences of such "specialization" (or lack of combined knowledge on supply and demand) are that employers are hardly pleased with candidates selected by the public employment services. And as services do not know how to help the unemployed in the best way, these are pushed into standard types of active measures, which remain of little benefit to anybody.

Why could ineffective micro-organization prevail ?

May be such details are regarded as too ordinary or too unimportant. But they are not. Unfortunately, those who do know about their importance, too, often have no say on the micro-organization within public employment services, or they do not mind because they prefer an inefficient division of work for other reasons than optimality. In this way, one of the most systemic causes for unsatisfactory ALMPs could prevail in many countries around the globe.

As long as micro-organization of public employment services remains sub-optimal, an expansion of ALMPs would carry the same risk like adding more floors to a building with foundations already too weak to carry the existing ones.

Thus, instead of unconditionally increasing spending on active measures, I would rather urge governments represented here to severely increase investments into the "functional" re-organization of their public employment services.

The way forward

In consequence, the way to improve the quality of ALMPs will have to be tackled through an improvement of public employment services:

- As a pre-condition, unemployment benefit aspects should be simplified in order to make more staff available for helping job-seekers to return to the labour market,
- ... and to help enterprises (in particular SMEs) to deal with human resources aspects.
- The main basic services for job-seekers like registration for benefits, registration for job broking (or for participation in ALMPs), provision of information and advice on how to find a job or to participate in ALMPs, should be integrated and provided by one and the same employment worker. He/she also should decide if the client is (or remains) eligible for benefits (or not)⁹.

9 Calculation, administration, and payment of benefits should be effected by different units (in general "invisible" to the client).

- Those who provide integrated services for job-seekers should also work with the other side of the market, the employers and vacancies, in particular with SMEs.
- In order to not to over-burden employment workers with too much knowledge requirements, specialization on market segments should be allowed. These segments should be defined by qualifications rather than by geographical or personal criteria. And the segments should be “vertical” rather than “horizontal”, as most job-seekers will have to undergo continuous training or upgrading in order to become more employable (life-long-learning).

An internal organization, as sketched out above, will slowly but surely develop (and automatically maintain) labour market competence, which employment workers need for all types of competent services, from job broking to design of ALMPs.

In other words, this would stabilize the foundations of our labour market policy house, so that we can try to add some new storeys of additional, better-targeted, and more effective active measures. There are plenty of people who are likely to need the new storeys.

Employment Policy in South Eastern Europe: Resetting the Priorities

Dr. Alfred Pfaller
Managing Editor
“International Politics and Society”
Friedrich-Ebert-Stiftung

The elusive goal of full employment

All countries and quasi-countries in South Eastern Europe, with the notable exception of Slovenia, are experiencing high to very high unemployment. In some countries the official unemployment rate exceeds thirty percent. But these statistics portray only part of the South Eastern European labour-market reality. The key to the full picture is provided by the proportion of employed persons out of the number of persons of working age (18 to 65 years of age). According to – rather unreliable – official statistics, this is at the low level of around sixty percent throughout the region.

The fact is that after the demise of the old socialist system South Eastern Europe has been left with far too little market-proof productive capacity that can provide jobs for the region's labour force. This is the result of three adverse effects:

- 1) the de-industrialization which accompanied the collapse of the former socialist market networks;
- 2) the need of enterprises, for the sake of international competitiveness, to significantly raise labour productivity and hence to shed personnel;
- 3) the destruction caused by the Yugoslav wars of secession.

True, appropriate labour-market, exchange-rate, and other policies could most likely help to get more persons working with the existing capital stock – but only to a certain extent. Beyond that, the capital stock must be extended to provide more jobs. In other words, economic growth is needed that surpasses the rate of productivity growth. And since productivity is bound to grow rapidly in the years to come – due to still significant, but non-sustainable labour hoarding in many companies – economic growth rates will have to be pretty high if they are to make full employment as we understand it, and as we remember it from the good times in OECD countries, feasible within a reasonable time.

Now, while rapid and sustained economic growth must not be regarded as an entirely unrealistic prospect for the region, it is an unlikely one. The region is being integrated, through the dismantling of trade barriers as well as other measures within EU association policy, into the larger European economy. National development early East Asian style, resorting to skilfully managed trade with the rest of the world, does not constitute a viable option nowadays for the South Eastern European countries. Their economic development will crucially depend on

their ability to attract European production. In this they will be competing with other countries quite a number of which belong in the low-wage category. Within the context of the European economy, the South Eastern production sites are, so to speak, on the extreme periphery. For the region as a whole, the odds are highly unfavourable for a rapid catch-up process. Moreover, the one condition that most immediately favours economic growth on the periphery, a booming centre, is – for the time being – conspicuously absent in Europe. The continental economy as a whole has been growing rather slowly over the past two decades.

In general, the chances of boosting employment in South Eastern Europe through rapid economic growth should be considered slim. We should expect the number of jobs offered by enterprises (and non-profit organizations) for a long time to fall far short of what is needed to absorb the region's labour force. A large labour surplus will continue to characterize the South Eastern European economies. As already mentioned, this condition sets relatively narrow limits for labour-market policies that aim to achieve a better match between labour supply and demand, and to make production more labour intensive. If well designed and implemented, labour-market policies will undoubtedly do some good to some target groups. But they will still leave large parts of the working-age population both without a job and without much hope of getting one. A sizeable segment of the population will remain, for a long time to come, marginalized from the formal economy and its labour market.

Under such circumstances policy will have to go beyond the "classical" labour-market paradigm as it was formed in the highly developed countries in the course of their industrialization. It will have to focus on helping people in their personal economic survival strategies. To understand what that means, we must look at the economic dynamics in South Eastern Europe beyond the jobs-dominated labour market.

Survival strategies: The dynamics of the informal economy

Only a minority of those working-age people who do not have a formal job are, economically speaking, idle – only a minority can afford to be. Throughout the region, income replacement in the form of unemployment benefits or, more generally, "welfare" is tied to conditions which many jobless persons do not meet. Most notably, newcomers to the labour force do not qualify for unemployment benefits. Moreover, in many cases, what is handed out in cash or kind by the various welfare schemes is plainly insufficient for subsistence. As a consequence, many are forced to look for something to sell if they are to survive and if they prefer – for moral or other reasons – not to steal. This applies also to many formally employed persons whose pay does not cover subsistence and who have to leave their formal job unattended. Those who must organize their economic survival in the informal economy cannot simply signal their willingness to work and see that they get hired by an employer; for the formal labour market, where firms hire their personnel, is saturated. Those who try to carve out an informal subsistence must link their work to a product that they sell themselves. This product might be a service, such as house-cleaning, private mathematics lessons, making deliveries, shoe-shining, or sexual favours. It also can be goods, if the seller can produce them (for example, home-grown foodstuffs) or get hold of them otherwise.

For the informal workers, it is imperative to find buyers because personal or family survival depends on it. Therefore, they have to behave like entrepreneurs, like mini-firms. They must seek market niches and adjust to feedback. If necessary, they must switch to different products or different locations or lower their prices. Unlike in the formal labour market, demand in these markets tends to follow supply; that is to say, those who adopt such survival strategies because they are "rejected" by the formal labour market, must take the initiative and offer their products. If they are lucky – and skilful – demand will be forthcoming. As in any market, there are pioneers who have a successful selling idea and followers who copy it.

This is a rudimentary process of small-scale economic growth, without capital accumulation, generated by informal mini-entrepreneurs. Nevertheless, those who fight for their economic survival in the so-called "informal sector" add to the amount of goods and services produced in the country. In general, this type of production is integrated into the larger economy, for the products are sold in large part to those who earn their income in the "formal" sector. The exchange relation between the informal and the formal sector is generally of a highly unequal kind. It is the sellers' precarious situation which makes cheap services available on the market – to the advantage of the buyers. Many such services are taken up only because they are so cheap; that is to say, buyers attach only a low utility to them.

Supplying cheap products of marginal utility to the formal sector of the economy is one means of "informal" survival. Another structural outcome is the emergence of a parallel, lower-tier market where the members of the "marginalized class" exchange amongst each other; their survival strategies include the effort to find cheap supplies for their own consumption. As money earned from informal selling generally does not buy much in the formal economy, buying from one's fellow informal producers/sellers might increase one's purchasing power. Ideally, one could model this structural variant of "informality" as a parallel economy with its own division of labour, through which the "marginalized class" organizes part of its collective subsistence. We shall return to this idea later on when we consider policy options.

In a way, the markets created by those who have to fight for their survival are pure textbook markets, where supply and demand adjust to each other without external regulation. But they are also markets without protection. Success attracts predators. Most successful are the organized predators who do not simply steal or rob occasionally from the producers/sellers but who "tax" them, extracting protection money and keeping competitors away from "their" producers/sellers. In other words, where state regulation is absent, mafia-type regulation is liable to take over. Selling rights are thus turned into sources of rent income – not for the sellers, but for their "protectors". The "protection" and control business itself becomes a source of employment, outside the formal labour market, but nevertheless not all that "informal".

Mafia domination characterizes parts of the state-free "informal sector" in South Eastern European countries and quasi-countries. But, of course, more important for the emergence and the thriving of mafia structures are economic activities that are heavily regulated by the state and where rents can be derived from manipulating and/or avoiding regulation, often in collusion with state officials. The mafia is in general absent from those large segments of the informal economy where the chances of making good money are low.

The picture of the informal sector would be incomplete if we failed to mention the quasi-formal segment of it that consists of enterprises with employees who are not registered with the tax authorities or social security system. This segment, which is supposedly quite large, is often the focus of attention in discussions of the so-called "grey economy". For this segment, "informality" is basically a form of tax avoidance. From an economic point of view, persons employed here do have a job and have not dropped out of the labour market proper.

The various segments of what is normally referred to as the "informal sector" are shown synoptically in the following Figure.

Figure: Structure of the informal sector of the economy					
Jobs in firms		Survival strategies			
formal	informal (untaxed)	services	simple goods	pre-datory behaviour	subsistence agriculture
		- exchange with formal sector (unfavourable terms of trade)			
		- exchange within informal sector (parallel economy)			
legal activities		illegal activities	unregulated	criminal regulation (rent economy)	unregulated
formal sector		informal sector			

Policy priorities: Supporting survival strategies

The limits to employment and labour-market policies

The undercapitalized labour-surplus economy that characterizes almost all South Eastern European countries sets the stage for policies destined to enhance people's chances of earning a "decent" income in the market. Such policies cannot focus exclusively, or even predominantly, on the labour market as we ordinarily understand that term. They would have to orient themselves in terms of the fact that at present the demand for hired labour that can realistically be expected is far too small to provide remunerated employment for all members of the labour force – no matter how flexible labour-market regulations might be. Improving the way the labour market functions is a worthwhile policy objective also in South Eastern Europe. I will return to this point. However, it is not a means of overcoming the limitations of a grossly

insufficient business base for hiring personnel. If dependent employment is to provide the main source of income for most of the labour force,

- economic policy must achieve a high rate of economic growth, sustained over many years;
- or employment must somehow be rationed so as to let all "working-class" households have access to realistically available wage incomes.

The first strategy is attractive, but unlikely to be successful in most countries, for the reasons already mentioned.

The second strategy, rationing employment and corresponding wage incomes, is often denounced as wasteful because it "condemns" productive potential (incorporated in able-bodied and more or less educated grown-up persons) to economic idleness. Nevertheless, it could be justified as an emergency measure if the alternative was large-scale social exclusion, with employment only for "insiders". Employment rationing can take the form of extra-short working time, early retirement, or protracted education and compulsory (not necessarily military) service periods. It can also take the form of – collectively agreed or officially mandated – overstaffing of plants and offices, as was the case in socialist times. Of course, in order to be economically viable, this would have to go hand in hand with reduced wages. However, it seems that in times of severe economic austerity, which also affects the employed labour force, there is little political will favouring such income-sharing formulae.

A regulative set-up in support of the informal economy

This pushes an entirely different policy approach to center-stage. For a long time to come, the solution to what appears to be an "employment problem" unfortunately cannot be the provision of more jobs via labour-market and employment policies. Public policy must support the private solutions people attempt beyond the labour market in order to secure their economic survival. Such support has a resource dimension and a regulative dimension. Public resources in the form of small-scale credit, overhead services, organizational support and advice can help extend individual capacities to engage successfully in economic activities on one's own account. However, more important is the regulative dimension. The very term "informal" indicates that activities are going on beyond the regulative restrictions of the so-called formal sector. To a considerable extent, informality unfolds at the margin – or in the shadow – of the law. This constitutes a double handicap:

- 1) The scope for informal economic activities is restricted by the requirement of the law to abide by the rules of "formality". When an informal business achieves a certain size or visibility it faces the threat of being persecuted as unlawful.
- 2) Rights in the informal economy are not protected by the law. This refers to property rights as well as to contracts. Therefore, informal activities run the constant risk of being disrupted by fraudulent and predatory behaviour.

Both handicaps together tend to keep informal activities from acquiring an accumulative dynamic – in large part they are bound to remain at the level of individual survival strategies. If

the state accepted informal economic activities and acted on their behalf in the same way as it acts on behalf of the formal economy, providing a dependable frame of legal support, the survival strategies of jobless individuals would have a better chance of becoming the nucleus of an expanding grassroots economy.

This is not to say that an informal grassroots dynamic should become the backbone of national development strategies. In order to elevate per-capita income to the levels of more developed countries, large-scale investment in state-of-the-art productive capacity, oriented towards the markets of today's and tomorrow's integrated international economies, is indispensable. But a distinction must be made between what is desirable for the future and what is currently feasible for the benefit of those now living. Low-capital and – mostly – low-tech grassroots production of goods and services is needed precisely because the capital stock is grossly insufficient to provide income-yielding jobs for today's (and tomorrow's) work-force. Accepting and promoting informal activities means making use of the available modest and in a way "pre-modern" resources until the "modern", comparatively capital-intensive sector is large enough to obliterate this low-productivity, lower-tier economy.

To some extent, the informal economy is a closed parallel economy in its own right. This is the case insofar as informal products (services and goods) are sold to other members of the informal "producers' community", who mostly cannot afford to buy formal products anyway. Such a mutual exchange of products in an informal parallel market would be stimulated if a market place were expressly set up. For a market, as a real or virtual place where supply and demand meet at reasonable transaction costs, is not something that exists automatically; it is an institution that has to be created and nurtured. The state could act as a market-maker for the informal economy. One proven means, among others, in this connection is the issue of a special currency to serve as a medium of exchange and a unit of account for those markets where the suppliers of informal services and goods buy from each other. Such a formal market framework for the informal economy could act as an incentive for further production and, thus, for a sort of economic growth.

The formality–informality trade-off

A core problem with a strategy of active support for the informal economy lies in its repercussions for the formal economy. To some extent, informality is tantamount to tax avoidance and neglect of workers' rights. Thus, accepting informality could mean renouncing tax revenues and workers' protection. The argument that untaxed activity is better than no activity at all and unprotected work is better than no work (and also no adequate substitute income) at all, does not settle the issue if the consequence of an informality-friendly policy is that significant parts of the formal economy cross over to informality. There is no clear-cut solution to this problem. But several considerations could support an informality-friendly policy stance:

- In order to defend the state's tax revenues, one could concentrate on taxing those segments of the economy (businesses, incomes, consumption) that by their very nature cannot easily escape into informality. Basically, that would be all those productive activities that depend on a certain amount of installed capital and/or the coordinated cooperation of a large enough number of people in the same place at the same time (as is typi-

cal of production plants and offices). This would include large-scale manufacturing, as well as financial institutions and other business services.

- In the context of large-scale marginalization, workers' rights for those in jobs constitute a privilege for the "insiders" of the formal economy. Those who are worse off in any case, because they have neither rights nor income, are the "outsiders". Policies that improve their situation by enhancing their chances of earning a living should have priority, even if it is at the expense of the workers already employed in the formal economy. This consideration would stipulate a policy that reduces the insider–outsider rights gap and facilitates the transition from precarious informal work to better remunerated formal employment. In other words, allowing some "informalization" of the formal economy (that is, freeing hiring and firing from some regulative binds) would increase the supply of formal – though then no longer all that formal – jobs.
- Some parts of what is subsumed under workers' protection can be detached from the job and be reorganized as citizens' protection. This applies to health insurance and provision for old age and to public goods such as education, subsidized meals, and so on. Financing would be provided by the government's general tax revenues rather than by the specific taxes levied on the formal work contract. Such a scheme of citizens' rather than workers' protection has a double advantage. It renders formally employed labour cheaper, thus reducing the temptation for employers and workers alike to escape into informality. In addition, it makes for much wider coverage and hence for a considerable increase in justice compared to a scheme that covers only those privileged members of the workforce who do find formal employment. A disadvantage is that there is no link between contributions and entitlements, a deficiency that provides a strong incentive for free riding. However, this – generally valid – argument has little weight if, in the absence of enforcement, employers and employees tend to avoid contributions anyway, as is the case in most of South Eastern Europe. A protection scheme that would better address this problem is a combination of tax-financed universal basic entitlements and voluntary, strictly contribution-dependent supplementary entitlements. It would then be up to the individual (maybe encouraged by tax incentives) to buy such supplementary protection. Or else organized labour in the privileged segments of the labour market can negotiate (company-specific) employers' contributions to supplementary insurances.

In general, the fear that a greater tolerance – and to some extent, even encouragement – of informal economic activity will erode the proper functioning of the formal economy is – in the context of South Eastern Europe – exaggerated. It worries about the lesser evil. An economic policy that is geared predominantly towards the formal economy takes an idealistic model – taken from the wrong textbook – for reality. In almost all South Eastern European countries it is more important to support the informal economy than to protect the formal economy against creeping "informalization". The informal economy is the only place where a large part of the population has a chance of procuring its survival. Moreover, it is the informal economy where nascent entrepreneurship has a chance of emerging – carving, with modest means, niches into the depressed formal markets, and with a bit of luck eventually growing into a veritable business. Premature formalization is likely to suffocate the initiatives that could broaden the basis of future economic dynamism. At the present stage, the priority is not

to regulate but to encourage activities and to protect informal markets against the extra-legal regulators of Mafioso provenance.

No-regret policies

A decisive reorientation of employment policy towards a strengthening of the informal economy does not preclude an equally decisive policy aiming to create and maintain a work force whose minimum level of qualifications is in line with the requirements of the formal economy. The objective has to be to give every member of the work force a chance to find one of the rare formal jobs. As a side effect, a permanent qualifications offensive would itself create jobs and enhance the country's chances in the global (or European) market of industrial locations, itself the most promising avenue of expanding formal employment.

Combating Long-term Unemployment and Poverty

Predrag Bejaković, Ph.D.

Institute of Public Finance

The role of active labour market policy

Many Central and Eastern Europe countries (CEECs) in transition, in the past 15 years were characterized by U-shaped trends of GDP, strong and persistent declines in employment rates and unemployment pools desperately stagnant in spite of the rapid structural change taking place. The liquidation and bankruptcy of many companies and the dismissals of large numbers of employed people combined with very limited opportunities to find a new job have resulted in an unemployment explosion what directly influenced the poverty and inequality. In most of these countries – apart from the very large number of unemployed – there is a constant rise in the share of the long-term unemployed, i.e., those who have been waiting for more than two years for a job; almost a third of all unemployed fall within this category.

Research on unemployment around the world has identified a number of plausible determinants of unemployment situations and rates. Among others these factors include: unemployment insurance, active labour-market policy, product market competition, taxes, systems of wage bargaining, employment protection regulation, working time, etc. A relatively new and important area of research is the political economy of unemployment and employment policy (Calmfors and Holmlund, 2000). The key idea in this strand of research is that persistent unemployment may be explained by political mechanisms that prevent labour-market reforms. A successful strategy to fight unemployment must, according to this view, also recognize the prevailing political restrictions and offer proposals that can overcome them.

It is almost not necessary to mention that most of the time the labour market is not perfect, so unemployment and unfilled demand co-exist. This implies that, particularly in transitional countries with high current unemployment, there is room for improved functioning of the labour market by bringing unemployment nearer to the minimum of labour demand and labour supply, thus reducing both unemployment and vacancy. Active labour market policy (ALMP) can help to reduce the friction between supply and demand primarily by diminishing occupational and spatial mismatch between supply and demand, and by making the labour market more transparent. The most obvious ALPM instruments for improving matching are training, information and advice with respect to job search and recruitments on one side, and job brokering on the other.

ALMP could redistribute job opportunities so that fewer people become long-term unemployment and/or social assistance recipients. When total employment and total labour supply are given, this would imply distributing the unemployment burden among more people (assuming that not the same people are experiencing more unemployment spells as a result of the policy intervention). Clearly, an increase in total employment as a result of ALMP would be preferable to a redistribution of unemployment amount a greater number of people. The

economic theory states that ALMP hardly affects total employment directly. But when ALMP succeeds in reintegrating long-term unemployed (LTU) or social assistance recipients, the effective labour supply increases. Therefore, reintegrating the long-term unemployed and preventing long-time unemployment is certainly worthwhile. There are other meaningful activities in addition to paid employment which can be a source of social integration and individual fulfilment. Nevertheless, the preventing of long-term and recurring unemployment would be a major contribution towards combating poverty and social exclusion and/or social assistance recipients.

Successful combat against long-term unemployment and social exclusion requires the creation of institutions which provide one or more of the following: work organizations which enable people to combine labour market with other productive activities; income arrangements which combine wages or salaries with other income sources like transfers or savings; entitlements or social rights which allow choices to be made between different employment statuses according to shifting preferences or circumstances; and policy provisions which allow the multiple use of social insurance funds, especially the use of income maintenance programmes (for example, unemployment insurance) for financing measures that enhance employability.

While the introduction of such measures may increase the likelihood of displacement of employment in competing firms or substitution of programme participants for other employees, this is acceptable risk if the overall effect is to reduce the average duration of unemployment. Perhaps the most important implication of ALMP is that displacement and substitution effects become more tolerable if they increase employment opportunities for the long-term unemployed and/or social assistance recipients and thus combat social exclusion.

Of course, one has to be aware of the negative side of ALMP while its positive effect on the employment chances of participants may be at the expense of non-participants, without having any real effect on the aggregate level. In the reverse situation, it is also possible to have no measurable effect on participants but positive effect on a macro-level. When, for example, unemployed people with good labour market prospects are trained in occupations in which a shortage exists, their job chances may not increase, but other unemployed may benefit from their transition to other labour market segments. Calmfors and Holmlund (2000) analyzing unemployment and economic growth mentioned positive employment implications of ALMP and stressed the difficulties in assessing outcomes of job creation and training programmes. There is a number of mechanisms that work in opposite directions. Wage pressure may be reduced if the programmes enhance the competitiveness of the long-term unemployed in the labour market. This would also happen if training programmes can facilitate the reallocation of workers from sectors with weak to sectors with strong demand for labour.

There are also plausible negative effects on regular employment. There may be direct crowding-out effects of job creation programmes on regular employment as employers have incentives to replace regular with subsidized labour. Such programmes may also increase wage pressure by effectively reducing the costs of unemployment. This is presumably especially relevant if the programmes are used as a means to allow the long-term unemployed to renew their benefit entitlement.

Effects and impacts

Layard et al. (1991) analyse the possible aggregate effects of ALMP and divide them into direct and indirect effects. Direct effects are: an increase in total employment and reduction in both total unemployment and unfilled demands due to a more efficient matching process; a redistribution of employment opportunities among groups on the labour market; an increase in effective labour supply because unemployed persons are made employable; an increase in employment and a decrease in unemployment due to creation of subsidized jobs.

Indirect effects comprise an increase in effective labour supply that will make easier recruitment and therefore has a positive effect on employment. When more people become available on the labour market, wages are also affected because with decrease in total unemployment, expenditures for insurance will be reduced and labour will be cheaper. However, not all possible effects are positive. Due to displacement and substitution effects, job creation need not have a positive effect on total employment. For example, participation in ALMP measures may increase reservation wages, thereby delaying the transition to regular jobs instead of speeding up the process. ALMP is likely to have an effect on public expenditures since expenditures on ALMP and possible savings on unemployment benefit do not usually break even.

The labour market can be divided into a large number of sub-markets to which a minimum of conditions broadly applies, and the very aim of ALMP is to ease the mobility of workers between sub-markets. It is not an easy task to measure the efficiency of ALMP implementation but it could be done in a two-step approach. In the first step, one can connect ALMP output to labour market outcomes; and in the second step one can relate implementation to ALMP output. It is important to investigate separately the effects of ALMP on the transition from unemployment to employment for short-term and long-term unemployed. Unemployment generally becomes a social problem when people remain in it for long periods of time. Since long-term unemployment often leads to social exclusion, reintegrating the long-term unemployed may also contribute to their social reintegration.

According to recent literature (Schmid, Speckesser and Hilbert, 2001) training and education are considered to be most effective for the "short" long-term unemployed (that wait for job till two years), while wage subsidies are expected to prove more effective for the very long-term unemployed (that wait for job longer than two years). When the economy is improving, training appears to be especially effective in preventing "structuralization" (the strongest among the stock of unemployed will be selected for hiring and the weakest will remain unemployed) and in speeding up reduction of long-term employment. Also, training measures will be more effective when they take place over a short period of time, while temporary public jobs and wage subsidies will be more effective with a longer duration and in carefully selected cases. In general, employment and training programmes have had their greatest impacts and largest social returns for those who have had the least previous labour market experience and are the most disadvantaged.

To avoid disappointing results, active labour market policies have to adjust to changing economic circumstances and focus on the longer-term supply enhancing aspects like labour force participation and qualifications, as well as flexibility and adaptability. Regarding consistency,

it is particularly important that labour market policy and social policy be co-ordinated so as to become mutually reinforcing. Income protection and unemployment benefits as well as employment protection legislation should create incentives for labour market integration and efficiency. Co-ordination is, of course, desirable, but is often difficult to achieve. Labour market policy tends to be short-term and action oriented while social policy is more long-term, and culturally and socially oriented. There will probably always be some tensions between these different types of policies and the cultures they relate to. Complexities and interrelationships among labour market policy and social policy explain why the calls for cohesion, integration and co-ordination have become legion.

ALMP programmes done wrongly can be wasteful, inefficient, displacing and counterproductive. On the other hand, programmes done carefully seems to be able to increase employment, keep displacement at low level, produce genuinely valuable output and may effectively raise the earnings of low skilled workers. There are some golden rules and critical trade-offs in any programme: jobs more likely to increase future earnings also tend to be more expensive and difficult to implement; and jobs which are more like "real" jobs seem to impart greater value to the community, but also carry a greater tendency to displace public workers. It is necessary to plan or implement small work programmes whose experience may help to implement larger programs better in the future. Further, broad training programmes aimed at large groups of the unemployed have seldom proved a good investment, whether for society or for the programme participants. Careful targeting will pay dividends.

With optimally targeted activities, the welfare gains should probably outweigh the net fiscal burden, i.e., the payments of wages and the costs of organising ALMP (including public works and/or workfare) will be less than the amount of unemployment and social benefit being paid now. Moreover, creating jobs through different programmes enables the direct combating of long-term unemployment. As it well known, it is essential for unemployed persons not to lose work experience as well as links to the labour market. To offer jobs for them in different programmes like public work and/or workfare may outperform measures such as training and professional education.

In many former socialist countries active labour market policies have often been used to reduce unemployment temporarily (e.g. by means of employment subsidies and public works), rather than to provide unemployed people with the skills and information required for finding work. A more targeted approach is necessary, so that such policies are designed to meet specific labour market needs and are focused on specific groups with particular requirements. Regarding the implementation of active policy on local level it is necessary to establish and/or improve co-operation between Public Employment Service (PES) and local ALMP initiatives, especially for the long-term employed and social assistance recipients. We could propose two major types of employment opportunities: regular employment in job-creation measure (real employment contract) where work must be additional and of benefit to the community; and work for social assistance recipients without employment contract (workfare) which is compensated only in form of small supplement to social assistance to cover additional expenses. In that process and organization it is necessary to use "Best Practice" approach where quite successful measures are performed by different bodies of local government and self-government.

A work test of the 'workfare' type, with benefit paid only to those who have done – or say they are willing to do – public works, could also reduce the possibility for benefit fraud. The idea is that the truly needy households will 'self target' as a result. For example, the Hungarian unemployment assistance (UA) scheme has now gone down this road. Since summer 2000 a UA claimant must be prepared to work a month on a public works scheme before benefit is paid (although they may not be called upon to do so). Like UA itself the public work is administered by local governments. Evidence on the pattern of claims around the time of the change suggests that the introduction of this work test had a considerable impact: the number of claims dropped by about a quarter.

For further development and co-operation, the management of local measures could be located in a centre for social work, where it will be necessary to organize an autonomous help-to-work department. This department's activities could cover the whole range of counselling and placement services for social assistance recipients, including recommendation of measures as well as direct placement in regular employment. The service would be an intensive one where the counsellors would spend time in persuading employers to take on long term unemployed, on working with the individual beneficiaries and in ensuring that the persons placed in jobs do actually go to work regularly. This works better if there are sufficient jobs to do it. It is still worth trying even if the jobs are thin on the ground. We should include some evaluation to make some sort of cost benefit analysis of the service. It could be tried in areas of higher unemployment and then tried in other parts of the country. For any future activity of such departments, it is very important to establish a controlling system and participants' database which could be accessed from various locations. In many bodies of local government and self-government there are active Councils or Committees for Social Policy that could also participate in employment and/or work of social assistance recipient. A local committee should decide on what work would be useful to the community. This local committee could then be used to decide what jobs would be used for "workfare". This committee should include representatives from the unemployed people who will be affected by the decisions. Implementation of the measure could be handed by the municipalities, which could conclude co-operation agreements with regional CES board.

Conclusion

With reference to the wider notion of social exclusion, it is generally believed that employment and education policy should relieve people from destitution linked with long-term unemployment, poverty and welfare dependency. Many unemployment problems probably could be lessened by active labour market policy. Of course, there is a permanent question as to whether this a success or only a way to disguise employment problems? To evaluate possible benefit of ALMP is not an easy task, for several reasons. There are striking differences in results between different micro-studies of ALMP, and it is far from clear why those differences appear. Such studies evaluate different programmes by inspecting differences in outcome which can be measured at various points in time. However, observed differences do not necessarily originate from programmes, but can be caused by procedures of choosing participants for a programme. Thus the finding that in future period programme participants are not doing better than the unemployed does not necessary mean failure of programme, but can be

actually used as an argument for the opinion that the measure has been well used, as it is targeted to those in most need. Also, even if activating labour market policy fails to reduce aggregate levels of unemployment, one could argue that it contributes to increasing mobility into and out of unemployment. Of course, there may be good arguments for preferring an open society where the burden of unemployment is shared between many people for a short period of time to a society with an underclass of long-term unemployed people. For people on social assistance or receiving unemployment benefit the probability of acquiring paid (permanent or flexible) job is extremely low. The longer people stay in social assistance and/or unemployment, the lower the likelihood into entering into employment and escaping from poverty.

For the most of long-term unemployed it is very hard to escape from poverty and related social exclusion, so they are forced on persistent stay in social assistance. The threat of rising long-term unemployment and poverty among people dependent on welfare and social security in a period of economic recovery and boom gives a strong impetus for social policy exclusion and to decrease social cohesion and solidarity. Successful employment policy and high level of employment are essential factors in fight against poverty and social exclusion for two reasons. First, high levels of employment are the best way to ensure a satisfactory standard of living for the mass of the population, so recent developments suggest that an increasing proportion of the population may find itself under threat. Second, since it is from the earnings of those employed that the authorities acquire the resources they use to provide social assistance, a decline implies that either less will be available—or that the burden on the employed will increase. It is, therefore of some importance to reverse this trend and this is a primary objective of national employment policy.

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Findings and Recommendations

Social Partnership

Social partnership is indispensable for employment policy:

- It enhances the legitimacy of policies;
- It enlists the cooperation of important actors (facilitating consensus on controversial issues);
- It enhances the probability that policy decisions are well taken;
- It increases the likelihood that policies do not place excessive burdens on specific groups.

But it can also make policy implementation more difficult because more actors (and the interests they represent) are involved. To facilitate meaningful social partnership in formulating and implementing employment policies it is of primary importance that:

- Trade unions and employers' associations overcome their current fragmentation;
- Trade unions and employers' associations develop the capacity to balance the present domination of the state;
- The state provides an adequate legislative framework on the local, regional and national levels as well as on enterprise and branch levels.

It is also highly desirable that social partners are involved in related policy areas such as education, vocational training, social security and the policy of economic development (sectoral and macroeconomic policies).

Labour market institutions

Better designed labour market institutions improve the employment situation – even under adverse economic conditions. Three aspects merit particular attention:

(1) Information basis and concepts underlying labour market data

Adequate categories are needed to capture the various forms of employment, unemployment, underemployment, self-employment, unpaid family work etc. This implies that labor market statistics have to be adjusted.

(2) Public employment services

PES should be made more client-oriented:

- Only one official takes care of all needs of the individual jobseeker,
- Officials are specialized in market segments, demand and supply side, not in separate service activities, such as registration, benefit accounting, etc.).

They should give special attention to all qualification attributes of job-seekers and vacancies.

(3) Combining labour market flexibility with economic security for employees

- Make hiring and firing more flexible, thus facilitating new hiring and shortening duration of unemployment;
- Providing financial incentives to laid-off employees to pick up new work quickly;
- Partly liberating the individual employer, esp. the small and medium one, from the burden of providing for employees' economic security, with the state, i.e. the tax payer, picking up responsibilities (e.g. pension, health insurance, sick payments, payment during maternity leave, child care facilities, etc.);
- Alternatively, employers set up collective (maybe state-subsidized) insurance schemes which take over the financial burden as need arises.

Employment policy and informal economy

Under the economic conditions that will apply to almost all of South-East Europe for a long time to come, companies in the formal sector of the economy cannot provide employment for the whole labour force. That means that many people will have no other chance but to earn a living in the informal economy. Employment policy should:

- Adopt a supportive policy stance towards small enterprises and self-employed persons in the so-called grey economy;
- Provide tax reduction or exemption in a way that facilitates a smooth transition from informality to formality;
- Protect persons and small enterprises in the informal economy against mafia-type harassment and domination;
- Device social security protection for informal workers.

Long-term unemployment

Against long-term unemployment, which is wide-spread in South-East Europe, employment and labour market policy should:

- Maintain/improve employability;
- Promote life-long learning;
- Provide special job mediation for the long-term unemployed;
- Provide special incentives for firms to employ long-term unemployed;
- Link these incentives to training;
- Offer special work opportunities to the long-term unemployed;
- Link benefits to participation in active labour market programs;

- Encourage social engagement of the unemployed.

Work-fare and similar active labour market programs risk to replace regular jobs through subsidized ones and to reinforce a dependency culture. Avoiding these undesirable effects depends on careful fine-tuning of the programs (look for best practice)

Making long-term unemployed and other disadvantaged groups more employable implies more competition on the labour market if the number of jobs cannot be increased significantly. The state and the trade unions should accept the ensuing redistribution of employment chances.

Dr. Irina Kausch

Dr. Alfred Pfaller