THE LABOUR MARKET ATTACHMENT IN POST-TRANSITIONAL COUNTRIES – THE CASE STUDY OF MACEDONIA

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Abstract
During the two last decades Macedonian economy has gone through the process of transition which has affected all spheres in the society including the labour market performance. Nowadays, Macedonian labour market is characterised with high and persistent unemployment, significant proportion of long-term unemployment, low job creation in the formal sector, striking labour market segmentation and increased role of the alternative labour market adjustment mechanisms such as employment in the informal sector, inactivity and emigration. Taking into account depressed labour market characteristics, the labour market attachment of unemployed becomes weaker, i.e. significant proportion of workers turns into category of discouraged workers. Hence, when labour market is depressed the classification of workers into basic labour market states is problematic and needs to be revised. In this case, a number of marginally attached workers who declare themselves as unemployed and do not search for job have to be considered as de facto out of labour force. The aim of this paper is to explore the extent of labour market attachment among registered unemployed workers in Macedonia. In this context, we will analyse the socio-demographic characteristics of marginally attached workers, as well as their linkages with the alternative labour market adjustment mechanisms. We expect this analysis to clarify the factors that influence the labour market attachment and after estimating the proportion of discouraged workers among unemployed to adjust the unemployment and participation rates. Finally, we intend to design policy recommendations that will assist an appropriate delineation of workers among the basic labour market states.
Key words: transition, labour market, unemployment, discouraged workers

1. Introduction

The past two decades Macedonia has gone through the process of transition which is still shaping the social, political and economic ambience in the country. As a part of South-Eastern Europe, the Macedonian economic growth is constrained by the general regional predispositions, which amongst other things are determined by the political instability of the region. Hence, the economic performance of the South-Eastern European countries (SEECs) has not been strong enough compared to Central-Eastern Europe countries (CEECs), which already take part of the European Union. In this sense, Macedonia and other SEECs, are known as 'lagging reformers' with regard to completion of the reforms in all spheres of the society. The transitional process as a multidimensional phenomenon has affected every domain of the political, economic, and social life in the country. In the economic sphere, transition has been characterised by a change in the ownership of capital, liberalisation of goods and capital markets, liberalisation of the foreign economic relations, radical change in the role of the state in the economy, and the creation of a less regulated labour market. In the sphere of social life, transition has led to rising poverty and income inequality, a weakening of the middle class and social exclusion of vulnerable social groups. Politically, the transition has been accompanied by the creation of a democratic society, differentiation of power into legislative, executive and judicial branches, the creation of a pluralistic political system and implementation of public and democratic elections (Pechijareski and Rocheska, 1998).The initial transitional recession has *inter alia* manifested salient effects on the labour market performance. Generally, the transitional reforms initially had negative effects on labour markets, which were manifested in declining participation rates and in persistent high unemployment. The processes of ownership restructuring and sectoral reallocation assumed a large-scale transformation of state owned firms into privatised ones and, a reallocation of a substantial part of the labour force from the manufacturing and agricultural sectors towards the expanding service sector (Blanchard, 1997). The experience in almost all transition countries, including Macedonia shows that the creation of new jobs in

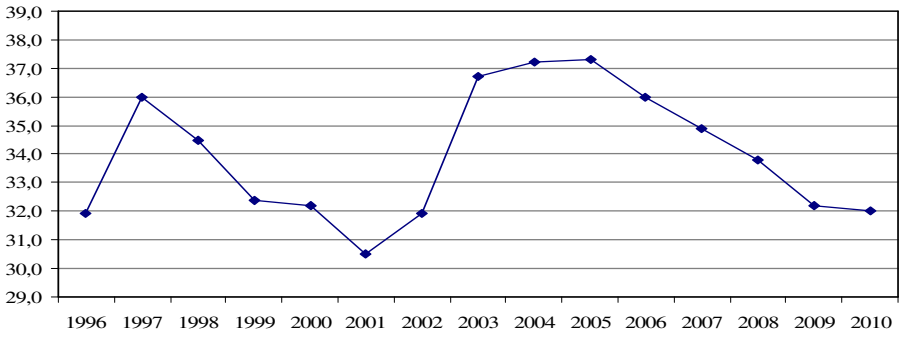
the emerging private sector was not initially strong enough to absorb the mass of workers laid-off from the restructured state-owned firms. At the same time, the mismatch between the skill requirements of newly created jobs and effective skills owned by the workers has become a substantial problem (Svejnar, 2002). Consequently, the labour markets in early transition became less dynamic with a relatively stagnant unemployment pool leading to increases in unemployment and especially long-term unemployment (Cazes and Nesporova, 2003). The initial 'transitional unemployment' differed in several aspects from other types of unemployment in that it was characterised by pronounced labour market segmentation, long average duration of unemployment and a low probability of exiting unemployment into employment (Nikoloski, 2004).

The aim of this paper is to revisit the concept of labour market attachment in the post-transitional countries and particularly to investigate the case of Macedonia. More precisely, in this paper we will attempt to estimate the extent of labour market attachment based on a survey of registered unemployed workers. To our knowledge this is the first study addressing this issue in Macedonia that will shed light on the sources of discrepancy between the narrow and broad definition of unemployment. In this context, in section 2 we first present the general labour market trends in Macedonia. Next, in section 3 we will formulate the concept of labour market attachment and will argue that the state of marginally attached workers is distinct from other labour market states. The empirical assessment of the labour market attachment of registered unemployed workers in Macedonia will be subject in section 4. Finally, in section 5 we will conclude and formulate suitable labour market policies that target marginally attached workers.

2. Macedonian labour market performance

In order to investigate the features of the Macedonian labour market during transition, it is appropriate to divide the transitional period into two sub-periods. The first period encompasses the transformational recession from 1990 to 1995, with the second period starting immediately thereafter and lasting until the present. The changes of the unemployment rate in relative terms during the business cycle are rather small, which reflects the depressed characteristics of the Macedonian labour market (Nikoloski, 2004). The dynamics of the unemployment rate in Macedonia for the period 1996-2010 is shown on Figure 1.

Figure 1. Unemployment rate in Macedonia



Source: Macedonian Statistical Office, Labour Force Survey

The first Labour Force Survey (LFS) in Macedonia was conducted in 1996, and since then we have detailed data concerning labour market trends. During the period 1996-2003, the Macedonian LFS was conducted on a yearly basis, whereas since 2004 it is conducted as a continuous survey throughout the year with quarterly processing of data. For the period prior to 1996 we can explore labour market trends based on the number of registered unemployed workers. According to both sources of data we can generally distinguish several features of Macedonian labour market presented as follows.

First, during the initial phase of transition, the labour force participation and employment rates fell for most of this period, while the unemployment rate steadily increased. These trends are in line with the normal labour market patterns found in the CEECs *i.e.* declining employment under the initial shock of recession and subsequent persistence of sluggish demand for labour.

Second, the mature phase of transition is characterised by broad stability in all three rates. However, we can observe recessions in 2001 (primarily caused by the already mentioned political instability) and in 2009 due to the global economic crisis. The downward trend in the unemployment rate was broken and unexpectedly remained high for several years due to the lack of job creation in the formal part of the economy (Micevska, 2008). Only recently, there are some positive signs of a slow recovery and the possibility of renewed decreases in unemployment.

Third, the Macedonian labour market is affected by strong segmentation, meaning that certain social groups such as youths, less skilled workers, and women, face a higher risk of unemployment and inactivity than the rest of the labour force. As a consequence, the high Macedonian unemployment rate has enormous social implications such as rising poverty, income inequality and social exclusion of deprived social segments (Nikoloski, 2011).

Fourth, long-term unemployment prevails over the short-term unemployment implying likelihood of possible 'discouraged workers' phenomenon. For instance, long-term unemployment accounts for almost 80 percent of total unemployment (OECD, 2002). Long-term unemployment has significantly contributed to an erosion of skills and motivation of unemployed workers, making them less employable over time (Gregg and Manning, 1996). The deterioration of skills further reduces the attractiveness of the labour force and contributes to a blurring of the difference between the states of unemployment and inactivity. After remaining unemployed for a long period of time, a considerable part of unemployed workers stops looking for jobs and quits the labour force.

Fifth, the sectoral reallocation of labour has been characterised by a significant increase of subsistence agriculture and other non-standard forms of employment at the expense of rapid shrink of employment in industry. These trends in employment by sectors indicate that in Macedonia new jobs are not predominantly created in the more productive industries and service sector, but rather in agriculture and low productivity services. The increase in the share of employment in agriculture suggests that this sector has become a buffer for some people who have lost their jobs in the state-owned industrial enterprises (Nikoloski, 2009). Finally, given the rigidities in the standard adjustment through employment and wages, less traditional (in the western context) labour market adjustment mechanisms may play a more significant role. Among the alternative labour market adjustment mechanisms in SEEC we particularly distinguish the non-participation, emigration and employment in the informal sector of the economy.

3. The concept of labour market attachment

The two main indicators of the unemployment level in an economy are the Labour Force Survey (LFS) and registered unemployment. The latter is based upon the registration status of a person at the Employment State Agency (ESA), which depends on the eligibility as well as the willingness for registration (European Commission, 1999). Thus, the number of unemployed estimated from the LFS data will not in general coincide with the number of registered unemployed.

The LFS is conducted according the methodology recommended by the International Labour Office (ILO) ratified at the 13th International Conference of Labour Statistician in October, 1982 (ILO, 1990) and the recommendations of the European Statistical Bureau (Eurostat). The goal of the LFS is to provide comparable data concerning the size and the structure of the active population according to international standards. Units under observation in the LFS are the households and all the persons in them. A person is classified as unemployed if during the reference period of the survey he/she is without work, currently available for work, and seeking work.

However, there are also some limitations related to the LFS methodology that any researcher should take into account when using this source of data. First, LFS criteria do not pay attention to the institutional or legal provisions such as unemployment benefits or the registration with employment state offices. Second, LFS categories refer only to a person's particular activities during a specific reference period.

Third, due to a small sample size in some cases LFS data are unable to accurately capture specific information on structural and regional issues (European Commission, 1999). Finally, in less developed transition countries, such as Macedonia, the lack of experience and the required skills, initially caused sampling and statistical problems concerning the reliability of LFS data.

In order to define the concept of labour market attachment we first revise the standard labour markets indicators. The labour force statistics divide the adult population into three mutually exclusive groups or labour market states: the employed, the unemployed and the inactive[97]. The employed consist of all workers who during a reference period reported to be in paid employment. The unemployed comprise those persons who satisfy the following three conditions: (i) without work, (ii) immediately available to start work, and (iii) actively look for a job during the preceding four weeks. Those who are neither employed nor unemployed are considered inactive and are excluded from the labour force.

The above categorisation has been proven useful for analysing labour market development in different countries. However, within each of the standard labour force categories might be significant heterogeneity. The unemployment in a given country is traditionally measured by the unemployment rate calculated as a proportion of unemployed in the labour force. Although the unemployment rate is regarded as a key indicator of labour market performance, it does not capture all forms of labour market slack (OECD, 2002). When unemployment is high and stagnant, there exist a considerable number of workers on the borderline between unemployment and non-participation. Moreover, depressed labour markets are often characterised by non-standard forms of employment that may also co-exist with the officially declared unemployment status of respondents. Therefore, the officially calculated unemployment rate may vary with respect to whether these borderline categories are included or not in the total number of unemployed (Brown et al., 2006).

On the other hand, population out of the labour force is a composite aggregate, which can be further divided in relation to the degree of labour market attachment. According to Brandolini et al. (2004) at least three sub-groups can be identified:

– Job seekers whose last search action occurred more than four weeks before the interview. These persons and the unemployed differ only as to the time passed after the last action. We call them "potential labour force" to emphasise their similarity to the unemployed.

– Individuals who are not searching for a job, but who would be willing to start one if offered. They are typically called "discouraged workers".

– People neither searching nor willing to work. This group of inactive population is referred to as "unattached" or "non-attached" to the labour market.

Hence, within the out of the labour force state we can distinguish marginally attached and non-attached. Marginal attachment to the labour force is defined as having expressed desire for work, although not currently searching. The marginally attached workers are viewed as distinct labour market state lying between the non-attached and the unemployed (Jones and Riddell, 1998). Furthermore, Kingdon and Knight (2000) provide two different interpretations of the lack of job-search among the persons claiming to be unemployed. One is called "taste for unemployment" hypothesis, whereas the other is "discouraged worker" hypothesis. According to the taste for unemployment hypothesis, given the possibility of redistribution within the household, higher household income may lower search effort among its unemployed members. Under this interpretation, it might be justifiable to exclude non-searching persons from the count of the unemployed. On the other hand, the alternative interpretation states that at high unemployment rates, unemployed persons may stop actively searching for work because they are discouraged by the high prevailing rate of unemployment or the long duration of their own unemployment. In this case, it may be misleading to use the job-search criterion for identifying the unemployed. Some authors argue that "discouraged worker effect" is particularly evident during recessions, when participation rate is expected to decrease due to the decreased likelihood of finding employment. This is opposed to the "additional worker theory" arguing that, due to the higher

[97] Sometimes the inactive state is called the out-of-labour force.

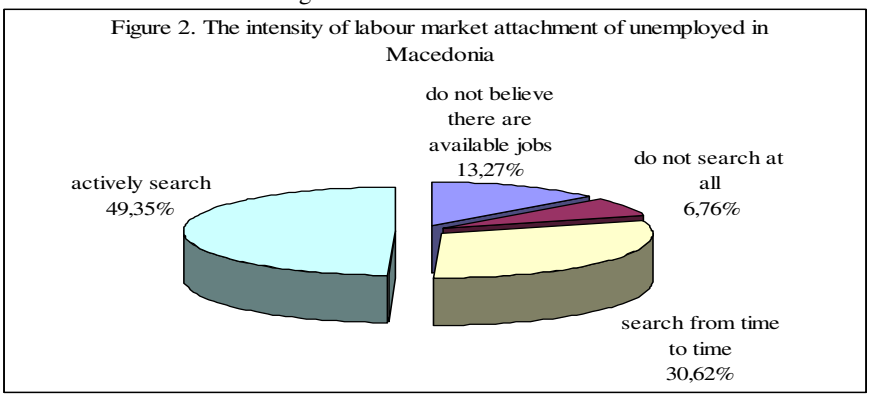
unemployment probability of the breadwinner, other family members will enter the labour force to supplement family income and thereby increase labour force participation. A number of empirical studies found that discouraged worker effect dominates the number of added workers in periods of recession, thus considering the "discouraged worker effect" as a stylised fact (Elliott and Dockery, 2006).

4. Empirical assessment of the labour market attachment in Macedonia

We focus our empirical analysis on the labour market attachment of registered unemployed workers. Taking into account the above mentioned shortcomings of the LFS in transition countries, we further justify the use of registration criterion for our sampling procedure. The simplest way for comparing the LFS and registered measures of unemployment is by using the ratio between them. In the case of Macedonia the total number of unemployed estimated from the LFS in the 2nd quarter of 2011 was 293,448, while the total number of registered unemployed was 307,057. Thus the LFS/R ratio for Macedonia is approximately 0.96, which means that registered unemployment figure is only slightly inflated over the corresponding LFS figure.

In order to assess the labour market attachment, we have carried out a survey on a representative sample of 1154 registered unemployed. The survey was conducted during a reference period from mid October to mid November 2011. Among other questions the respondents were asked about the intensity of their search efforts with possibility to chose among four alternative answers: (i) Do not believe there are available jobs, (ii) Do not search for job at all, (iii) Search for job temporarily (from time to time), and (iv) Search for job actively. The first category comprises discouraged workers since the lack of search effort in this case is related to the labour market situation, such as the belief that no suitable job is presently available in the area. The second category consists of workers who do not search for job at all and may be related to personal factors, such as the belief that they lack qualifications or that employers think they are not suitable. The remaining two categories comprises unemployed who search for job with various degree of search intensity. The intensity of labour market attachment among registered unemployed workers in Macedonia is shown on Figure 2.

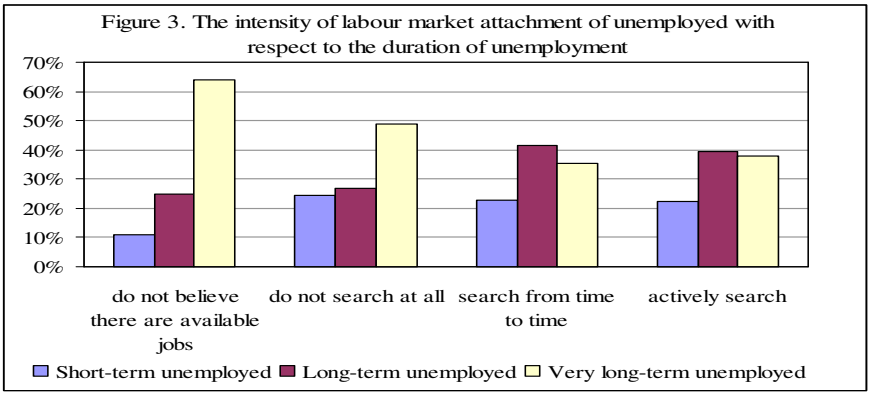
Figure 2. The intensity of labour market attachment of unemployed in Macedonia



From Figure 2 it is evident that the share of discouraged workers among registered unemployed who do not believe there are available jobs is 13,27%, whereas 6,76% of unemployed do not search for other reasons. These two figures together represent about 20% of the unemployed who can be considered as completely detached from the labour market. Having in mind that for the same period the number of employed in Macedonia estimated from the LFS is 642.809 and by lowering the number of unemployed for 20% we can further adjust the unemployment rate. Consequently, the adjusted unemployment rate due to exclusion of unemployed who do not search for job is about 5 percentage point lower than the officially published unemployment rate in Macedonia.

With respect to the duration of unemployment, the share of long-term and very long-term unemployed is expectedly the highest among discouraged workers[98]. This is consistent with the theoretical assumption that the search effort of an unemployed worker decrease as duration of his unemployment increase eventually leading to discouragement. However, given the depressed characteristics of the Macedonian labour market, it is not unexpected that the long-term unemployment constitutes a significant portion among those who search for job as well temporarily or actively. The share of short-term and long-term unemployment among unemployed with various intensity of labour market attachment in Macedonia is depicted on Figure 3.

Figure 3. The intensity of labour market attachment of unemployed with respect to the duration of unemployment



In order to assess the factors that influence the labour market attachment in Macedonia furthermore we estimate a Logit model, where the dependent variable takes value zero if the person does not believe there are available jobs or does not look for job. In the opposite case where the unemployed worker search either temporarily or actively, the dependent variable takes value one. We divide the possible determinants in four groups: Personal traits, household characteristics, services from the ESA and the alternative labour market adjustment mechanisms. The results from the estimated Logit model are presented in Annex 1.

According to the obtained results, among the personal traits of the unemployed worker, only the age appears to be statistically significant determinant of job search. In this context, for any additional year, an unemployed worker is 4% less likely to look for job. Moreover, the coefficient of the squared age is positive and statistically significant which means that the distribution of the search effort throughout the working life has convex form.

Considering the household characteristics, the total number of members and number of employed members in the household significantly influence the search efforts, though in opposite direction. Hence, an unemployed worker on average will be 16.4% less likely to look for job for any additional member in the household. However, an additional employed member in the household on average will increase the probability for job search about 52.2%. This results are somewhat expected since an increase of employed members in the household is often associated with decrease of the number of dependants, which in turn makes room for an unemployed member to devote more time on job search.

With respect to the labour market policies, only participation in the active programmes appears to have positive impact on the intensity of job search, whereas passive programmes which include unemployment benefits and health insurance are not statistically significant determinants. In this context, an unemployed worker who participates in active programmes is about 60.7% more likely to look for job opposed to those who do not participate in such types of programmes.

Finally, according to our estimated model we find out that alternative adjustment mechanisms such as emigration and employment in the informal sector are particularly significant determinants of the job

[98] As very long-term unemployed we consider those who look for job more than four years.

search efforts in Macedonia. In this context, those who have emigrated family members have about 40% lower probability to look job, whereas those who have intention to emigrate are about 90% more likely to look for job. The employment in the informal sector exerts a job search effect in the same direction. Namely, if the person is engaged in informal activities the probability for job search is increased about 39.2%. Therefore, we conclude that remittances might play crucial role as disincentive for job search efforts, while the intention to emigrate and engagement in informal economic activities can be considered as indicators of the entrepreneurial endeavours and lead to strengthened search effort.

1. Conclusions and policy recommendations

Nowadays, the labour market attachment represents an issues that is subject to various debates among academics and policy makers. According to the ILO criteria, the unemployed is a person who is without work, available to start work and actively searching job. However, the job-search criterion might not be always satisfied and consequently the unemployment may be defined in narrower or broader context. The existence of significant number of unemployed who do not search for job because they do not believe there are available jobs may considerably alter the unemployment rate and the overall impression about the labour market performance in a given country.The concept of labour market attachment is particularly relevant in the context of post-transition countries in the region of South-East Europe that are characterised by depressed labour market conditions. In this countries prevails the long-term unemployment, increased inactivity and insufficient job creation in the formal part of the economy. This is one of the most important reasons for unemployed to cease looking for job and become discouraged workers. Moreover, in these countries is particularly emphasised the role of the alternative labour market adjustment mechanisms that may additionally create disincentives among unemployed to look for job.

For our case study of the intensity of labour market attachment in Macedonia we used results from the survey carried on a representative sample of 1154 registered unemployed workers. We found that about one fifth of the unemployed do not search for job either because they do not believe there are available jobs or for other personal reasons. Therefore, according to the narrow definition of unemployment the unemployment rate should be about 5 percentage points lower compared with the officially published unemployment rate. Besides the personal traits and household characteristics that may influence the search effort of an unemployed worker, we revealed that alternative labour market adjustment mechanisms such as intention to emigrate and engagement in informal employment significantly increase the search incentives. On the other hand, remittances received from the emigrated relatives appeared to have significant disincentive effect on the job search efforts. With respect to this, governments in SEECs should pay attention to programmes that will channel the entrepreneurial spirit of unemployed workers into formal job creation. Among the alternative labour market policies, we mainly encourage application of the active labour market programmes, since those who participate in such types of programmes manifest significantly higher labour market attachment.

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Annex 1

Estimated Logit model for the labour market attachment of registered unemployed

Variable	Coefficient	Standard error	t-value
Intercept	2.0440862	0.52871534	3.8661***
Personal traits			
Male	0.0220532	0.16344812	0.1349
Age	-0.0376930	0.01106697	-3.4059***
Age square	0.0001115	0.00004481	2.4885**
Married	0.0234862	0.20569569	0.1141
Urban	0.2021829	0.18750259	1.0782
Long-term unemployed	-0.0859374	0.22104148	-0.3887
Household characteristics			
Total number of members	-0.1792511	0.09111259	-1.9673**
No. of employed members	0.4197404	0.11543456	3.6361***
No. of dependants	-0.0126345	0.09622202	-0.1313
Another unemployed member	0.2558903	0.17247136	1.4836
Services from the ESA			
Health insurance beneficiary	0.1979288	0.16655632	1.1883
Unemployment benefit	-0.4319017	0.29609636	-1.4586
Participation in active programmes	0.4745741	0.28617432	1.6583*
Alternative adjustment mechanisms			
Have retired member(s)	0.1279711	0.18710806	0.6839
Social assistance beneficiary	-0.2450214	0.27189733	-0.9011
Have emigrated member(s)	-0.5041571	0.23512663	-2.1441**
Intention to emigrate	0.6444275	0.16612801	3.8791***
Informal economic activities	0.3310619	0.16581318	1.9965**

Note: *, ** and *** represent statistical significance at the 10%, 5% and 1% levels respectively.