

DEMOGRAPHIC CHANGES IN THE LABOUR MARKETS IN
TRANSITIONAL COUNTRIES WITH REFERENCE TO
MACEDONIA

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Abstract

One of the most salient effects of transitional recession on the labour market performance is the weak demand for labour which results in declining participation rates and in persistent high unemployment. In the former socialist countries, the labour market was not formally existing and all issues concerning labour allocation were centrally planned by the state. However, Yugoslavia as a former socialist country, was an exception because labour allocation was different from the rest of the socialist block. For the initial period of transition, it is important to notice the negative trend in labour force participation and employment rates, while the unemployment rate was increasing steadily. On the other hand, the second period is characterised by broad stabilisation in all three rates of labour force participation, employment and unemployment. Gender participation rates in the pre-transitional period were similar in most of the CEECs with a tendency for this gap to widen during transition in favour of the men's participation. The employment rates during the first phase of transition in almost all transitional countries, similar to the labour force participation rates experienced a rapid fall while, in the second phase of transition, the employment rates have stabilised. Taking the gender specifics of the employment structure, it is obvious that the percentage share of unpaid family workers is much higher among women than among men. On the other hand, the percentage share of self-employed is much higher among men than among women. During the first period of transition, the unemployment rates in almost all transitional countries showed a marked sharp increase. Gender unemployment rate trends are the reverse of those for employment rates i.e. the female unemployment rate is higher than the male unemployment rate. Labour markets in transitional countries are affected by striking segmentation, meaning that certain social groups such as: youths, less skilled workers, and women, face higher risk of unemployment than the rest of the labour force.

Key words: Transition, Labour markets, Labour force, Employment, Unemployment

1. Introduction

One of the most important development goals of every economic policy is the goal of full, productive and sustainable employment, i.e. employment for all those who are able to work, wish to be employed and actively look for a job. This commitment becomes even more pronounced in the case of transitional economies where declining economic trends have disastrous effects on the level of employment.

Among transitional countries we can distinguish the groups of Central-Eastern European countries, Balkan countries and Former Soviet Union countries which have faced different patterns in their labour markets development during transition. One of the most salient effects of transitional recession on the labour market performance is the weak demand for labour which results in declining participation rates and in persistent high unemployment. This negative effect of transition on the labour markets must be viewed in the general context of transition of the economy as a whole. Demand for labour can recover only when national economies are able to generate and sustain sufficiently high growth rates.

2. Labour market peculiarities in pre-transitional period

The market concept in former socialist countries did not exist and it was ideologically considered as characteristic of the western economy. As in other domains of economy, the labour market was not formally existing and all issues concerning labour allocation were centrally planned by the state. In addition, labour market institutions did not exist or existed in only a partial manner, failing to accomplish the basic role of improving the effectiveness of labour allocation.

Considering the issue of labour allocation in the pre-transitional era, we should point out the fact that former socialist countries did not recognise existence of the concept of open unemployment (Svejnar, 1999). Classical centrally planned socialist economies tried to suppress the existence of unemployment by forcing overemployment in the state-owned enterprises. The primary goals of unemployment suppression were: (i) alleviation of the social tensions engendered by the problem of unemployment and (ii), presentation of the socialist regime as a superior form of organisation of the society. This policy had a considerable negative effect on the level of productivity, which made socialist firms less competitive in world markets. Furthermore, real wages were continuously decreasing prior to market reforms and wage compression prevented adequate rewarding of workers with different levels of education and skills.

However, a careful analysis should lead us to the conclusion that former Yugoslavia as a socialist country, was an exception because labour allocation was different from the rest of the socialist block (Slaveski, 2001). The concept of self-management and the decentralised nature of the Yugoslavian economy contributed to more liberalised relations on the labour market on both the supply and demand sides. The demand for labour was freely created by the firms, while hiring was conducted mainly through the local state employment offices. Consequently, open unemployment, as a form of failure of labour market functioning, has occurred immediately after promotion of self-management in Yugoslavia and persisted during the whole period of its existence. There are some critiques that emphasise a limited form of existence of open unemployment in Yugoslavia because of political interventionism in the employment policy of the country (Boeri, 1997).

Former Yugoslavia, during long period of its socialist regime suffered of relatively high double-digit rate of unemployment. Besides its high rate of unemployment the Yugoslavian economy experienced a huge regional diversity in the level of employment. Traditionally, the more developed North, including Slovenia and Croatia, had higher rates of economic growth which induced higher employment. On the other hand, the country has known the phenomenon of the *poor South* which comprised of the south of Serbia and Macedonia with significantly lower rates of economic growth and employment. In addition to the high level of labour force mobility inside the country, a considerable number of workers have tried to escape persistent joblessness by emigration to the more developed western countries. The deep economic and political recession at the end of 80's aggravated the problem of unemployment and directly contributed to the bad performance of the Yugoslavian economic, social, and political system. The epilogue of the late 80's economic and political recession in Yugoslavia was the well-known separation of the newly created independent states.

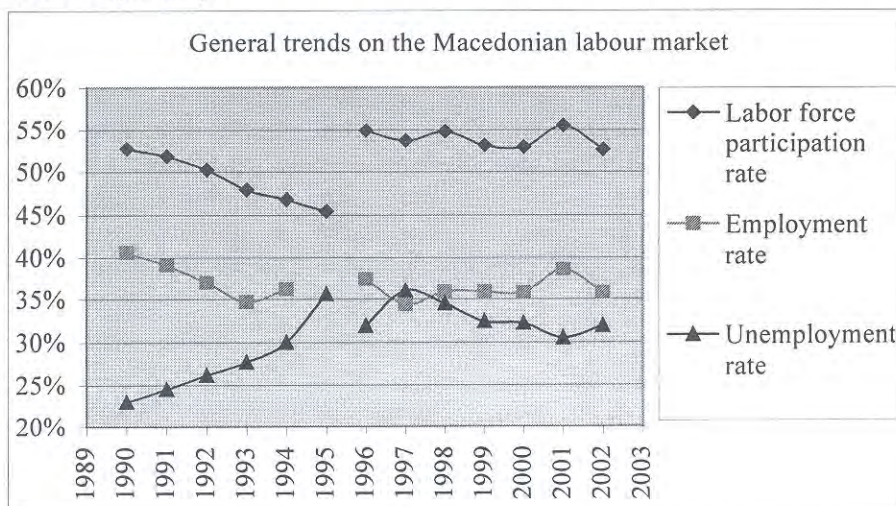
3. Labour market trends during transition with particular reference to Macedonia

The separation of Yugoslavia leading to the creation of five new countries coincided with the start of the transitional process from centrally planned to market oriented economy. Since the proclamation of independence, the transitional process has affected all domains of the political, economic, and social life. Transition is a multidimensional phenomenon which can be defined as a complexity of structural changes in the society, resulting in transformation from one into another economic, political, and social system.

The process of transition, consisting of two main driving forces: restructuring and reallocation (Blanchard, 1997), has implied a large-scale transformation of the state owned firms into privatised ones and, a reallocation of the substantial part of the labour force from the manufacturing and agricultural sectors toward expanding service sector and more productive industries. Thus, reallocation and restructuring are related to a significant job turnover marked mainly by the slow creation of new jobs in the small private businesses and a initially a more rapid destruction of old jobs in the large state-owned firms.

In order to investigate the characteristics of the Macedonian labour market during transition, it is appropriate to divide the transitional period in two sub-periods: 1990-1995 and 1996-2002. This distinction in the analysis is necessary for two reasons: First, there is a natural difference in the development of transitional processes in the first phase of initial shock and subsequent phase of stabilisation. The second reason is more technical and concerns availability of data. Namely, the first labour force survey in Macedonia was conducted in 1996, and since then we have detailed data concerning the labour market trends. The Labour Force Survey (LFS) is one of the most valuable sources of information regarding the trends in the labour market. The goal of the survey is to provide data concerning the size and the structure of the active population according to the international standards.

There are two main sources of inconsistency between data of registered number of workers and data taken from LFS: (i) Considerable number of workers register as unemployed in order to take advantage of various social transfers but do not effectively look for job, thus they can not be counted as unemployed and (ii), Considerable number of workers are registered as employed but do not receive salaries for a long period of time, thus they can not be counted as employed. Consequently, because of the data incompatibility between the two periods, it is necessarily to analyse these trends separately.



For the initial period of transition, it is important to notice the negative trend in labour force participation and employment rates, while the unemployment rate was increasing steadily. On the other hand, the second period is characterised by broad stabilisation in all three rates of labour force participation, employment and unemployment (see Figure above).

These trends of the Macedonian labour market are in line with the general labour market patterns in the CEECs showing declining employment under the initial shock of recession and, subsequent persistence of sluggish demand for labour (see Table 1 in the Annex). Concerning these general trends of the Macedonian labour market, it is important to draw a note of caution because of the incompatibility of the data for the two periods. Namely, official statistics lacks detailed data for the first period which makes it impossible to present a detailed analysis of the social and demographic structure of the labour force.

4. Participation rates and labour force structure

Generally speaking, labour force participation rates in the former socialist countries were significantly higher than those of the OECD countries. Labour force participation was encouraged by generous economic incentives such as: providing health insurance, child care subsidies, and various types of social insurance for labour force participants (Boeri and Terrell, 2002). As, all these benefits have been reduced since the beginning of transition, labour force participation rate started decreasing.

Gender participation rates in the pre-transitional period were similar in most of the CEECs with a tendency for this gap to widen during transition in favour of the men's participation. The main reasons for extension of this difference in the gender participation rates are the restrictions in maternity benefits, child allowances, and other benefits, which particularly influenced women to leave labour force in order to take care of their children. In contrast, it seems that the gap in gender participation rates in Macedonia was considerably wide even in the pre-transitional period (see Table 2 in the Annex).

Age is another factor which is important in determining a person's status in the labour market. One of the obvious trends is the steady decrease in the participation rate of young workers (age between 15 and 24). The main reason for this phenomenon is the longer duration of full-time education of young people which is primarily induced by the trend of increasing employment requirements from the part of employers. Another

reason for the diminishing trend of the participation rate of young workers is the reduction in eligibility of this group of workers for unemployment benefits, which discourages young population to enter the labour force. On the other hand, an increase in the participation rate of workers close to retirement (age between 50 and 64) is evident. This phenomenon can be explained by the reduction in generosity of early retirement schemes for older workers which were characteristic for the first phase of transition.

Concerning the educational structure of the labour force significant changes during transition have occurred. In the previous socialist period, from the individual point of view, the most valuable form of education was the vocational secondary education (Boeri and Terrell, 2002). In contrast, during the transition, general secondary and high education have become more prestigious because they increase the worker's employment prospects since employers' requirements for newly created jobs have become more demanding regarding the skills owned by the workers.

5. Demographic characteristics of employment

The employment rates during the first phase of transition in almost all transitional countries, similar to the labour force participation rates experienced a rapid fall. However, in the second phase of transition, the employment rates have stabilised.

The level of education is considered to be one of the most important characteristics of the employed population. The share of workers with secondary education is the dominant one, followed by those with only primary education and, workers with higher education. During the period 1996-2002, what is apparent is a slight increase in the shares of workers with secondary and high education and slight decrease in the shares of workers with primary and less than primary education. Taking into account that higher education is rewarded better than lower education, this change in the educational level of the Macedonian employed population is in line with the trend of increasing productivity in the second phase of transition.

Concerning employment status, it is convenient to distinguish the following categories: employee, employer, self-employed and unpaid family worker, which are also basic categories according to Macedonian Labour Force Survey. Comparing percentage shares of these categories, the dominant part of the Macedonian total employment are the employees. The general trend of the employment structure, presented in the table below, is the reduction of the share of employees and the increase in the share of employers and unpaid family workers (see Table 3 in the Annex).

These trends of development of the employment structure are in line with changes in ownership structure, reflecting the emergence of a private

sector where small businesses represent the predominant part. It is a little bit surprising that the percentage share of the self-employed did not change significantly over the period 1996-2002. The emerging private sector in Macedonia, as well as in other transition countries has confirmed its role as a generator of new jobs. However, it is worth mentioning that its effect on the total employment has not been significant, first, because the growth of private sector employment has not compensated for the job losses in the public sector, and second, because most of the new jobs in the private sector have been filled by workers which were previously employed in the state sector, rather than by workers coming from the pool of unemployed. Consequently, the growth of the private sector is important as a stabiliser of the economy, but in the case of Macedonia, its extent is not sufficient to absorb additional unemployed from the declining state sector.

At a glance, taking the gender specifics of the employment structure, it is obvious that the percentage of unpaid family workers is much higher among women than among men. On the other hand, the percentage of self-employed is much higher among men than among women.

According to the Labour Force Survey, occupations are divided into following categories: agricultural and related workers, miners, industrial and related workers, workers in trade, workers in services, social security staff, administrative and related workers, management staff, experts and artists.

If we track the changes in the percentage shares of different types of occupations in total employment, we can conclude that, compared to the rest of transitional countries, in Macedonia significant sectoral shifts during transition have not occurred. Apart from a modest increase in the share of agricultural workers and, a modest decrease in shares of administrative workers and experts, shares of other occupations have not markedly changed over the period 1996-2001. Annual rates of change of employment across sectors for the period 1997-2001 are given in the Table 4 in the Annex.

Having in mind these trends in the occupational structure of the Macedonian employed population, it is necessary to make a note of caution that in Macedonia, new jobs are not predominantly created in the more productive industries and service sector, but rather in the agriculture and manufacturing industries. This increase of employment in agriculture in relative terms, shows that this sector has become a buffer for existence of many people who have lost their jobs in the state-owned industrial enterprises.

Employment in the informal sector is another characteristic of transitional economies. In the case of the very poor prospects for employment in the Macedonian formal labour market, various types of informal employment have emerged. The percentage share of informal

sector in total employment is estimated to be among the highest in the Central and Eastern European Countries, reaching a level of 35,1% (Schneider, 2002). Informal employment takes various forms including both performing undeclared economic activity as a main economic activity or, having undeclared second job. Thus, high level of informal economy explains the stagnant percentage share of self-employment which is partly performed in the informal way. The importance of the informal sector as a buffer for escaping poverty has become more pronounced since wages and other social transfers have declined.

6. Demographic characteristics of unemployment

During the first period of transition, the unemployment rates in almost all transitional countries showed a marked sharp increase. The unemployment rates, based on the registered number of unemployed for the second period is even higher than unemployment rates estimated from Labour Force Survey. This fact suggests that a considerable number of workers who are informally employed register themselves as unemployed in order to benefit from health insurance, unemployment benefits, and other social transfers which target unemployed and disadvantaged people.

Gender unemployment rate trends are the reverse of those for employment rates i.e. the female unemployment rate is higher than the male unemployment rate.

Considering the level of education, it is remarkable that the major part of the unemployed population are those with secondary education qualifications, followed by those with primary education and, those with higher education. Like in other transitional countries, we can conclude that in Macedonia, the unemployed are mostly people with a lower level of education. Overspecialisation of the workers with secondary vocational schools has reduced the flexibility of the labour force, resulting in significantly high unemployment rate. The lower percentage of unemployed with higher education is somewhat expected, having in mind that new jobs are created in more productive industries, where skills and general education requirements are higher.

If we compare the unemployment rates of different age groups of workers, we can conclude that the highest unemployment rate is that of young workers (age between 15 and 24), followed by the unemployment rate of prime age workers (age between 25 and 49) and finally, the unemployment rate of workers close to retirement (age between 50 and 64). High youth unemployment is a characteristic of almost all transitional countries, because most of the young people entering the labour force are without appropriate level of education and experience which are required for

the new created jobs in the highly productive industries. Having in mind the high rate of youth unemployment, it is necessary that both active and passive unemployment policies to be more oriented and adapted to the younger unemployed population.

One of the most important characteristics of unemployment is its duration, this indicates the dynamics of the labour market. Highly dynamic labour markets are characterised by intensive flows of labour force from unemployment to employment that induces a low level of long-term unemployment. Having in mind the two driving forces: restructuring and reallocation, we can expect that transitional labour markets are highly dynamic. However, the Macedonian labour market is characterised by a relatively stagnant unemployment pool causing high level of long-term unemployment (see Table 5 in the Annex). Concerning gender characteristics of unemployment duration, it is worth mentioning that, there is no significant difference in unemployment duration between male and female unemployed population.

Long-term unemployment has significantly contributed to an erosion of skills and motivation of unemployed workers, making them less employable over time. This deterioration of skills is the main reason for diminishing labour force participation rate. After remaining unemployed for a long period of time, a considerable part of unemployed workers stops looking for jobs and quit the labour force. This phenomenon is known as phenomenon of "discouraged workers," and reflects the situation of low labour demand and poor employment prospects of unemployed workers.

7. Conclusion

Having in mind the above-mentioned characteristics of transitional labour market, we can conclude that the labour markets in transitional countries are affected by striking segmentation, meaning that certain social groups such as: youths, less skilled workers, and women, face higher risk of unemployment than the rest of the labour force (Blanchflower, 2001).

Looking back, in order to evaluate the outcomes of the transition during the last decade, it is obvious that the most salient transitional shock has occurred in the sphere of the labour market. The high unemployment rate has generated enormous social tensions in the country. Unemployment results in the degradation and dehumanisation of individuals in the society. Long spells of unemployment among certain groups such as youths and less educated become a huge problem for the future development of the country. Consequently, the problem of unemployment is not only a personal problem of unemployed people, but it has become a problem for the nation as a whole.

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Annex
Table 1

Year	Labour force participation rate	Employment rate	Unemployment rate
1990	52.7%	40.6%	23.0%
1991	51.8%	39.1%	24.5%
1992	50.2%	37.0%	26.2%
1993	47.9%	34.7%	27.7%
1994	46.7%	36.2%	30.0%
1995	45.4%	-	35.6%
1996	54.9%	37.4%	31.9%
1997	53.7%	34.4%	36.0%
1998	54.8%	35.9%	34.5%
1999	53.1%	35.9%	32.4%
2000	52.9%	35.8%	32.2%
2001	55.5%	38.6%	30.5%
2002	52.6%	35.8%	31.9%

Table 2

Year	Labour force participation rate	Men Participation rate	Women Participation rate
1996	54.9%	66.9%	42.9%
1997	53.7%	66.5%	41.2%
1998	54.8%	67.4%	42.2%
1999	53.1%	65.5%	40.8%
2000	52.9%	64.4%	41.7%
2001	55.5%	65.6%	45.5%
2002	52.6%	63.7%	41.5%

Table 3

Year	Employee	Employer	Self-employed	Unpaid family workers
1996	78.9%	2.9%	11.2%	7.0%
1997	78.5%	3.3%	13.0%	4.9%
1998	77.4%	3.5%	10.7%	8.3%
1999	74.5%	8.0%	7.3%	10.3%
2000	74.3%	4.3%	10.5%	10.9%
2001	70.1%	6.4%	9.2%	14.4%
2002	70.7%	6.8%	10.3%	12.2%

Table 4

Year	Agricultural and related workers	Miners, industrial and related workers	Workers in trade	Workers in services	Social security staff	Administrative and related workers	Management staff	Experts and artists	Other occupations	Workers without an occupation
1997	-0.2%	-0.2%	-0.8%	0.1%	-0.1%	-0.2%	0.0%	1.3%	0.0%	0.2%
1998	1.2%	0.2%	0.5%	-0.2%	-0.1%	-0.6%	-0.1%	-1.0%	0.1%	0.0%
1999	1.0%	-2.5%	-1.3%	-0.2%	-0.1%	-0.5%	1.2%	-0.4%	-0.1%	2.8%
2000	1.1%	1.0%	-0.3%	-0.3%	0.2%	0.3%	0.1%	0.1%	0.1%	-2.1%
2001	2.2%	1.1%	0.7%	0.0%	0.7%	-1.0%	-1.3%	-2.2%	0.0%	-0.3%

Table 5

Year	up to 1 month	2-5 months	6-11 months	12-17 months	18-23 months	2 years	3 years	4 years and more
1996	3.2%	5.2%	10.9%	7.9%	8.2%	11.7%	8.4%	44.5%
1997	2.4%	5.4%	9.1%	7.3%	8.6%	14.1%	9.6%	43.6%
1998	1.8%	6.0%	9.3%	5.9%	7.9%	1.5%	12.2%	55.4%
1999	4.4%	4.2%	7.6%	5.2%	7.5%	0.9%	10.9%	59.3%
2000	4.8%	4.7%	7.2%	4.6%	7.8%	1.2%	9.3%	60.4%
2001	3.4%	4.4%	5.3%	5.9%	5.3%	0.9%	10.0%	64.8%
2002	2.3%	5.8%	7.4%	4.1%	5.9%	1.2%	10.5%	62.8%