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MACEDONIAN LABOUR MARKET AND THE NEW ECONOMY, HOW CLOSE OR FAR THEY ARE?

1. Introduction

Even though the notion 'New economy' has emerged as 'American concept', it has gradually become one of the most heated topics of the world wide scientific debates. It is common opinion that the concept of 'New economy' has been associated to the increased productivity growth in the US economy during the 90' due to the rapid development of information technology and communications. Nowadays, in the era of globalisation we can talk about 'New economy' spill over effect in almost all world economies. The key question concerning the concept of 'New economy' is whether the economy is now functioning differently in some fundamental way? The answer of this question is not unique and it is considered to be a reason for dividing the economist in two camps. In the first camp are those who support the 'New economy' concept, whereas in the second camp are those who are rather sceptical. Furthermore, we can distinguish elements of the 'New economy' in different spheres of the economy such as: employment, skill formation, trade, foreign direct investments etc (see Appendix 1).

Transition countries during the same period of foundation of the 'New economy' concept have undergone dramatic changes in their economic, political and social systems. On the economic arena, particularly significant have been the processes of restructuring and reallocation (Blanchard, 1997). The restructuring process frequently refers to the changes in ownership from state to predominantly private, whereas reallocation refers to the increased development of the consumer oriented service sector relative to the agricultural and manufacturing sectors. Having in mind that the 'New economy' is primarily associated with the reallocation of economic activities from traditional agricultural and manufacturing sectors to the service sector, one can think about the opportunities of transition countries to catch-up with developed world by the adoption and successful implementation of the 'New economy' principles.

However, the process of transition has been characterised by increased unemployment as a consequence of the transitional shock at the beginning of

transition. In the absence of sufficient job creation in the private sector, various adjustment mechanisms have taken place. Particularly, in the South-Eastern European countries (SEECs) non-participation, emigration and informal employment have been relevant factors for alleviation of the unemployment problem. One can think about adjustment mechanisms as indicators of the underutilisation of the human capital. Taking into account the modest penetration of the information technologies and communications in most of transition countries and the large underutilisation of the human capital, we would question the relevance of the concept of 'New economy' in the case of transition.

Following the logic that 'New economy' concept is rather fuzzy and involved in almost all economic spheres, it is not possible to deal with all its aspects in only one paper. Thus, in this paper we pay attention to the employment aspect of the 'New economy' and its labour market consideration for transition countries with reference to Macedonia. In the first section we are going to define the concept of the 'New economy' and its related issues. In the second section, particular attention will be paid to the labour market aspects of the 'New economy', whereas in the third section we are going to explore the Macedonian labour market characteristics in the light of the 'New economy' principles. In the fourth section we will analyse the labour market adjustment mechanisms in Macedonia in order to assess their absorption capacity. Finally, some recommendations for further labour market reforms will be proposed and concluding remarks will be derived.

2. General characteristics of the 'New economy'

It has been generally agreed that there is no single definition for the notion of 'New economy' (Stiroh, 1999). In fact, the term 'New economy' has been first used to refer to the characteristics of the US economy during the second half of 90's. Later on, this term has become a synonym for the principles of functioning of the contemporary world economy by the end of the twentieth and beginning of the twenty first century. This phenomenon has been particularly specific for developed countries such as those who are members of the OECD, but also it is a challenge for most of developing countries that strive to catch-up with economically developed world (Eriksson and Adahl, 2000). In this group of countries we should mention transition countries that in the same time have to undertake two distinguishable processes: first, the transition from centrally planned to market oriented economy and second, transition towards the knowledge-based economy (Piech, 2004).

According to the generally accepted definition, the 'New economy' is characterised by the dramatic improvement in labour productivity due to the widespread adoption of new information and communication technologies

(Daniels, 2004). Most of the 'New economy' analysts agree that there are at least three technical innovations that have induced transition toward the new forms of economic functioning: (i) acceleration in the development of computer hardware, (ii) graphic interface and, (iii) object oriented software network technologies (Klotz, 1999). However, broader definitions of the 'New economy' point out the fundamental changes in the economic functioning that include not only the new information and communication technology, but also new forms of work organisation and new products and services (Bresnahan et al., 2001). Thus, there are various terms that are alternatively used to denote the term 'New economy' each of which focusing on different aspects of the recent economic trends such as: 'Information economy', 'Digital economy', 'Network economy', 'Weightless economy', 'Knowledge economy', 'Intangible economy' and so forth.

From the aforementioned notions, we can intuitively argue that the most important resources in the 'New economy' are information and knowledge, which point out to the increased importance of the human capital (Klotz, 1999). Since more and more of the business output in the 'New economy' takes form of information i.e. is intangible or weightless, it can be easily transferred via communication networks. The 'network effect' that occurs in this cases means that for such products their value increases as they become more common. Moreover, the new organisational forms characteristic for the 'New economy' pays more attention to the flows of information between people rather than to the hierarchy, which is characteristic for traditional forms of organisation (see Appendix I).

However, there are authors that are rather sceptical about the validity of the 'New economy' paradigm. For example, according to Gordon (2000), the acceleration of productivity can be attributed only to the durable manufacturing sector. Moreover, he has found that temporary cyclical effect represents a higher fraction of the productivity growth compared to the permanent trend. Finally, the impact of Internet on productivity growth is also uncertain since it represents a substitution for other form of gathering information.

3. Labour market aspects of the 'New economy'

In the sphere of the labour market the 'New economy' is characterised by the changes in patterns of employment that reflect the aforementioned reallocation of economic activities. One of the most salient features of the so-called 'New labour market' is its increased dynamics. In the era of the 'New economy', the so-called 'creative destruction' can be viewed as a replacement of the jobs in unproductive sectors by knowledge-based jobs (Atkinson and Court, 1998). The high level of job reallocation is in the same time associated

with higher risks to maintain a job. The average length of job tenure in the US has significantly declined by the end of 90's as a direct consequence of increased labour market dynamics (Atkinson, 2001). We can argue that the increased level of labour market dynamics in the US has been associated with weak social protection system, which is not a characteristic of the continental EU countries.

Another frequently cited feature of the 'New economy' is the increased demand for skilled labour as a complement of the increased usage of information technology, new organisation forms and new products and services (Copeland, 2003; Bresnahan et al., 2001). Some authors have found that even though the usage of computers and communication technologies has simplified a lot of the working operations, the amount of work has increased. This can be attributed to the blurring of the limits between the work time and leisure time since computerisation and particularly internet allows workers to work at home more easily (Freeman, 2002).

The changing structure of the demand for labour has its impact on income distribution, which can be generally summarised by increased earnings inequality due to the higher premiums for skilled workers (Copeland, 2003). The source of rising income inequality is not only the difference in levels of education, but also the occupation of workers, since those occupations that are directly involved in the 'New economy' sectors get higher pay (Atkinson and Court, 1998).

At the macroeconomic level, an obvious characteristic of the 'New economy' is declining natural rate of unemployment (or NAIRU¹) particularly in US as a result of the positive technology shocks. There are at least two different theoretical explanations that illustrate the reasons for a declining natural rate of unemployment.

According to Bosworth and Triplett (2001), the NAIRU in US has declined as a direct consequence of improvement in labour productivity. The improvement in labour productivity in turn, is only partly incorporated into the wage setting process, which is transferred into lower unemployment rate with no inflationary pressure. However, from this point of view, the changing pattern of employment has only a temporary effect on NAIRU.

The second explanation of a declining NAIRU pays attention to the improvement in matching technology (Gomme, 1998; Freeman, 2002). Nowadays, by using internet services workers can more easily have contact with employers that offer vacant jobs, which is also true for the other way round. By shortening the time for looking for job as well as by improving the quality of matches between workers and employers, fewer workers remain unemployed or underemployed.

¹ NAIRU stands from Non-Accelerating Inflation Rate of Unemployment

4. Characteristics of the Macedonian labour market

The process of transition in Macedonia has been lasting for more than 15 years having deep consequences for the economic, political and social life. The prolonged transitional recession has had a particular impact on the functioning of labour market

Nowadays, the Macedonian labour market is struggling with high unemployment together with the presence of various other forms of adjustment mechanisms. Having in mind employment trends as well as the trends in real wages, the Macedonian labour market adjustment followed different patterns in two sub-periods of transition. In the first phase (1990-1995), labour market adjustment was conducted both through wage reductions and lay-offs of surplus labour force in state-owned firms. However, in the second phase of transition (1996-2004) labour market adjustment has been closer to the Central Eastern European type of adjustment, conducted mainly through declining employment but increasing productivity, rather than the Soviet type of adjustment which was conducted through declining real wages and pronounced labour hoarding.

The biggest part of Macedonian total employment represents the group of miners, industrial and related workers, followed by the group of agricultural and related workers, which in 2001 survey together accounted for more than half of the labour force. The annual rates of changes of employment across sectors in Macedonia are presented in Table 1.

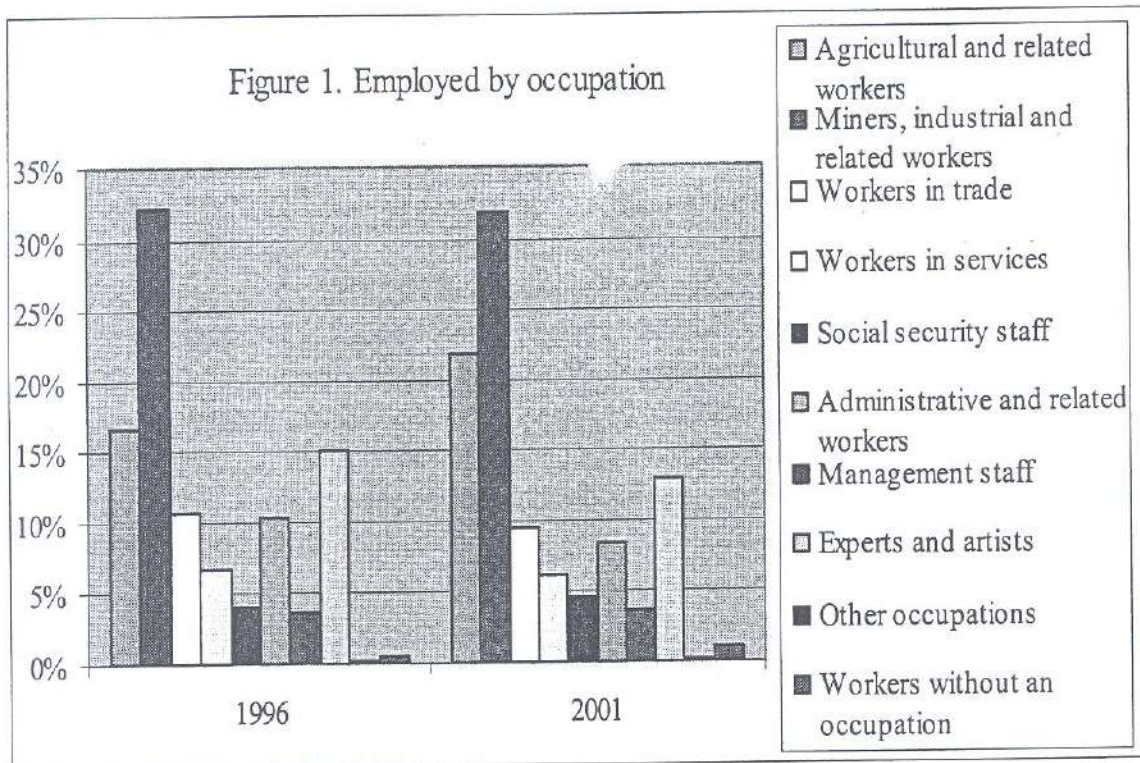
Table 1. Annual rates of changes in employment across sectors

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%

Source: Macedonian Statistical Office

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

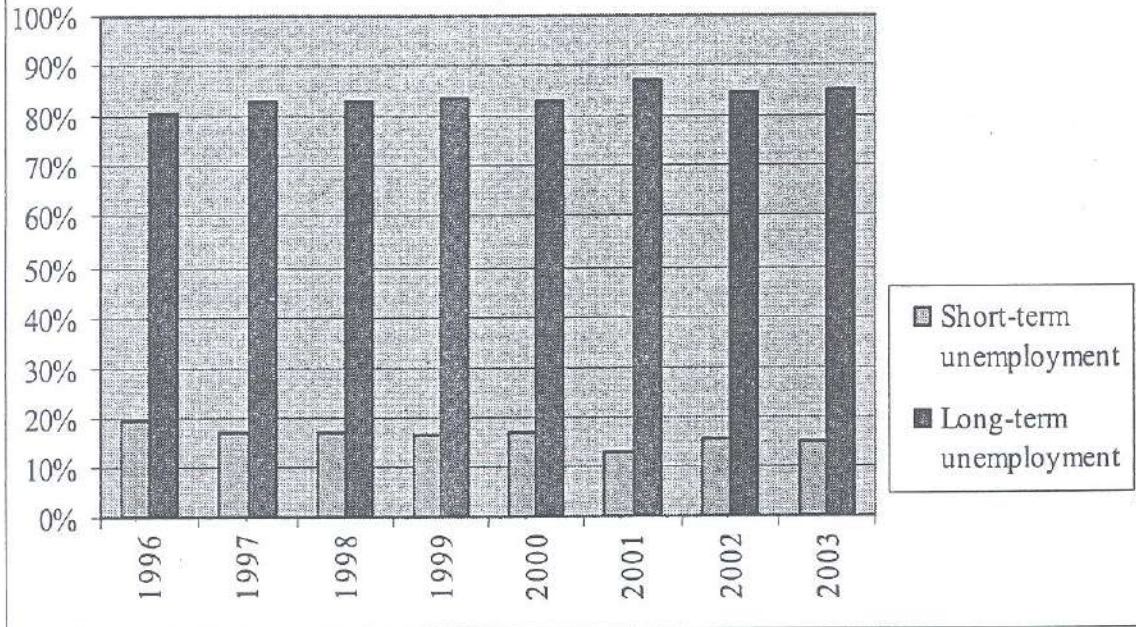
have not occurred. Apart from a modest increase in the share of agricultural workers and, a modest decrease in shares of administrative workers and experts, shares of other occupations have not markedly changed over the period 1996-2001 (see Figure 1).



The unemployment rate in Macedonia during transition is among the highest in transitional countries but close to those in the other South-Eastern European countries. According to the Labour Force Survey, carried out for the first time in 1996, the unemployment rate in Macedonia varies between 30,5 percent and 36,7 percent. The labour market in Macedonia is also affected by strong segmentation, meaning that certain social groups such as: youths, less skilled workers, and women, face a higher risk of unemployment than the rest of the labour force (Cazes and Nesporova, 2003). Concerning the duration of unemployment, the Macedonian labour market is characterised by a relatively stagnant unemployment pool causing a high level of long-term unemployment. For instance, long-term unemployment affects more than 80 percent of the unemployed, while very long-term unemployment² accounts for about two thirds (Figure 2).

² Very long-term unemployment includes those who look for job more than four years

Figure 2. Unemployment duration



Long-term unemployment has significantly contributed to an erosion of skills and motivation of unemployed workers, making them less employable over time. After remaining unemployed for a long period of time, a considerable part of unemployed workers stops looking for jobs and quits the labour force. This is known as phenomenon of 'discouraged workers,' and reflects the situation of low labour demand and poor employment prospects for unemployed workers. Consequently, in the case of Macedonia it is more appropriate to operate with the term 'joblessness' instead of 'unemployment'. The main reason for making this point is because official unemployment statistics fail to record a significant number of workers who are unemployed but do not look for jobs because they believe that no work is available for them (OECD Employment Outlook, 2002). Discouraged workers do not fulfil the requirements of job search as a precondition to be counted as unemployed. On the other hand, they can easily re-enter the labour force if, conditions on the demand side of the labour market improve.

In order to explain the persisting high unemployment and particularly the high long-term unemployment rate in Macedonia, we need to consider the characteristics of the labour market flows. An estimation of transitional matrix for labour market flows in Macedonia based on the 2003 labour force survey is given in the Table 2.

Table 2. Gross labour market flow rates in Macedonia

	Employed 2003	Unemployed 2003	Out-of-labour force 2003
Employed 2002	88,97%	5,80%	5,23%
Unemployed 2002	9,76%	73,42%	16,82%
Out-of-labour force 2002	1,86%	3,82%	94,32%

Source: Macedonian Statistical Office

The analysis of Macedonian labour market flow rates shows that the inflow rate to unemployment from employment even in the later phase of transition is very high, which means that the process of transitional restructuring is still not terminated. On the other hand, the outflow rate from unemployment is very low with approximately a twice-higher probability of the unemployed quitting the unemployment pool to go into non-participation than to employment. Thus, facing poor employment possibilities in the labour market, Macedonian unemployed are more likely to stay in the unemployment pool or to become discouraged workers turning out of labour force than to become employed. In general, the analysis of the labour market flows shows that Macedonian labour market is stagnant, thus confirming the previous assertion about rapid depreciation of the existing human capital (Nikoloski, 2004).

5. The role of labour market adjustment mechanisms

The process of transition in Macedonia has been accompanied with various labour market adjustment mechanisms such as: increased employment in the informal sector, increased emigration and, non-participation. The labour market adjustment mechanisms in transition countries have naturally arisen as a consequence of insufficient job creation in the formal sector. Particularly in the case of South-Eastern European countries labour market adjustment mechanisms have been playing a significant role in cushioning the high social cost of unemployment.

Declining participation rates during the period of transition and rising long-term unemployment represent indicators, which suggest that there exist considerable informal employment. The size of informal economy in Macedonia both, as a percentage share of GDP and as a participation of the labour force in the informal sector compared with other transition countries is relatively high. For instance, Schneider (2002) estimates that average size of the unofficial economy in Macedonia as a percentage of GDP in 2000-01 was 45,1 percent, whereas the percentage of the unofficial labour force was 35,1 percent. The structure of the informal employment in Macedonia by types is presented in Table 3.

Table 3. Informal employment in Macedonia, LFS 2003

Types of informal employment	Main activity	Second job	Total
Contributing family workers	25290 (23,8%)	13925 (65,2%)	39215 (30,7%)
Non-regular employees	30408 (28,6%)	1009 (4,7%)	31417 (24,6%)
Own-account workers	22669 (21,3%)	6416 (30,1%)	29085 (22,8%)
Employers without officially registered enterprises	15792 (14,9%)	-	15792 (12,4%)
Employees who are casual, temporary or seasonal workers	12037 (11,3%)	-	12037 (9,4%)
Total	106196 (100%)	21350 (100%)	127546 (100%)

Source: Macedonian Statistical Office

Nowadays, the level of corporate tax rate in Macedonia compared with other transition countries is relatively low (15%), but the rate of social security contributions paid by the employers is among the highest in the region (32%). One should expect that such combination create incentives in most enterprises to operate formally, but to employ workers on an informal basis in order to avoid paying high social security contributions. The high level of corruption in most of South-Eastern transition countries assessed by the Corruption Perception Index indicates that informal economic activities could also be partly induced by the poor enforcement of the rule of law.

Emigration has been considered as an important labour market adjustment mechanism during transition to adverse economic shocks. The analysis of the causes of emigration in transition countries identifies the high rates of unemployment and the low level of living standard as the main economic 'push' factors that initiate emigration movements. On the other hand, the consequences of emigration are ambiguous, since the positive effects from the remittances and increased level of skills are mixed with the negative effects from the loss of the human capital, also known as a 'brain-drain'. According to Janeska (2003), there exists a high potential for intellectual emigration in Macedonia, which has been considered to have negative impact on the future economic development of the country. However, in the analysis of the impact of emigration on economic development in transition countries we have to separate the effects of the short-term from those of the long-term emigration.

The drop in participation rates is specific to particular groups of workers such as females, young workers and those who are close to the retirement age. The rising non-participation rates have been more specific for the initial phase of transition characterised with generous social program for early retirements and disability pensions. Furthermore, increased non-participation rates have caused a rise in dependency ratios, thus imposing additional fiscal burdens.

In order to assess the absorption capacity of the non-participation as an adjustment mechanism we will adopt an approach developed by Blanchard (1997). The initial transitional shock can be adjusted either through increase of unemployment or increase of non-participation. Let us denote with ΔE , ΔU and ΔO the changes in absolute numbers of workers in each of the basic labour market states with respect to the year, which represents the start of transition. Thus, for the change in the total number of working age population (ΔP) we have:

$$\Delta P = \Delta E + \Delta U + \Delta O \quad \dots (1)$$

In order to determine which of the above adjustment channels dominates in the labour market, we can express the ratio x which is calculated as follows:

$$x = \frac{\Delta U}{\Delta P - \Delta E} = \frac{\Delta U}{\Delta U + \Delta O} \quad \dots (2)$$

This ratio obtains the maximum value 1 if the entire adjustment has been carried out through unemployment rather than non-participation and its value approaches 0 if adjustment has mostly occurred through non-participation. The calculated value of x ratio for Macedonia is presented in Table 4, where as a baseline year is taken 1996 i.e. the year when the LFS has been introduced for the first time.

Table 4. Calculated x ratio for Macedonia

Year	1997	1998	1999	2000	2001	2002	2003	2004
<i>x</i> ratio	0,47	0,50	0,13	0,12	0,21	0,11	0,48	0,33

Source: Macedonian Statistical Office, Labour Force Survey 1996-2004

From Table 4 we can see that the period 1997-1998 is a period of mixed adjustment, followed by the period 1999-2002, where adjustment has been predominantly carried out via increased non-participation. Recently, in 2003 adjustment has again turned into a more balanced path between unemployment and non-participation. These findings correspond to the increase in above-mentioned system dependency ratio. Furthermore, increased non-participation relative to unemployment can indicate the emergence of the phenomenon of 'discouraged workers' with possible consequences of rising informal employment and emigration.

The high non-participation rates imply a possibility that there is an overlap between the non-participation status and other forms of labour market adjustment mechanisms. The existence of the so-called 'shadow inactivity' i.e. a category of workers that declare themselves as non-participants but, in fact are informally employed proves that there is no a strict borderline between the non-participation and informal employment. Furthermore, the size of non-

participation should be reassessed by taking into account the high emigration rates in South-East European countries, since those who have emigrated should not be counted within the working age population of domestic labour market. In order to assess the 'true' level of non-participation it is necessary to adjust the LFS non-participation for the number of 'shadow inactivity' and emigration. One possible way of doing this is by using additional sources of information from other surveys such as Household Budget Survey.

6. A synthesis and policy implications

There are few studies that have aimed to assess the level of computer and internet use in Macedonia. According to these studies, the level of computer and Internet use in Macedonia is far below the standards for developed countries. Among the users, younger and more educated population is particularly dominant (Šopar, 2004). Consequently, we cannot expect that Macedonia will soon reach the required level of saturation, which means nearly half of the households to acquire computer and access to the internet, in order to gain benefits from the 'New economy' (Kolodko, 2001). Concerning the penetration of internet services, it is noticeable a small number of internet sites that operates as intermediates between those who look for jobs and employers who post vacant jobs. For example, the most popular employment site is www.vrabotuvanje.com.mk³ where the number of registered users is about 7000. The assessment of the IT skills in the local government administration shows that these skills are extremely low and need to be improved with the highest priority. This concerns education of basic IT skills for a very large number of employees and elective personnel and moderate/advanced skills for those that have basic IT skills (Gušev, 2004). Moreover, in Macedonia there is no developed ICT strategy even though the responsible public authorities are willing to adopt and apply it in all spheres in the society (Šopar, 2004). The aforementioned facts confirm the low level of IT development in Macedonia, which goes in favour of the assertion that there are no sufficiently developed technical preconditions for adoption of the 'New economy' principles.

In general, the high unemployment coupled with presence of various adjustment mechanisms in Macedonia implies that there are serious frictions in the labour market functioning. The increased number of non-participants indicates that a large fraction of the labour force is idle. On the other hand, employment in the informal sector together with the 'shadow inactivity' is associated with underutilisation of the labour force. Informal activities are mainly concentrated in trade and services, followed by manufacturing comprising small-scale, labour-intensive operations, where workers are low

³ English translation of 'Vrabotuvanje' is 'Employment'

skilled or unskilled (Blunch et al., 2001). Moreover, the emigration of high skilled workers represents substantial loss of human capital. Since, most of the emigrants intend to emigrate on a long-run basis, this high 'brain drain' potential in Macedonia has been considered to have negative impact on the future economic development of the country. As a consequence, in the case of Macedonia as well as for other transition countries is more rational to talk about old problems, rather than about the possibilities of taking advantage from the 'New economy' (Kolodko, 2001). In other words, the reallocation of the labour force has predominantly occurred from declining to expanding sectors in the 'Old economy' rather to the sectors in the 'New economy' (Cazes and Nesporova, 2003).

Having in mind the previous analysis we can conclude that the situation in the Macedonian labour market has not been favourable for facing the challenges of the 'New economy'. However, by encouraging higher computer literacy and greater investment in Internet infrastructure, the competitiveness of enterprises could be considerably strengthened. A primary policy goal in the sphere of ICT should be identification of opportunities to exploit the new technologies. In this context, we should point out the relevance of the 'knowledge gap' rather than lack of capital equipment (Temple, 2002). Thus, the accent should be put on development of skilled labour force that would be eventually employed in those sectors, where Macedonia has comparative advantages in the global market. Passive labour market policy should take into account the widespread presence of the aforementioned adjustment mechanisms in order to balance between providing minimum safety net for the unemployed and sufficient incentives to take jobs in the case of prospective economic recovery.

Along these lines, we can eventually expect decrease of unemployment, as well as improvement of employment prospects of those who are underemployed in the informal sector or have emigrated. Even though adjustment mechanisms have been important in cushioning the unemployment problem, concrete steps should be undertaken in order to reduce them and replace by job creation in the formal sector. In undertaking the suggested recommendations, particular attention has to be paid to the prospective EU membership and possibilities for the Macedonian labour market following integration with the global EU labour market.

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Appendix 1

Characteristics of the Old and New Economies

Issue	Old Economy	New Economy
Economy-Wide Characteristics - Markets - Scope of Competition - Organisational Form	Stable National Hierarchical, Bureaucratic	Dynamic Global Networked
Industry - Organisation of Production - Key Drivers of Growth - Key Technology Driver - Source of Competitive Advantage - Importance of Research/Innovation - Relations With Other Firms	Mass Production Capital/Labour Mechanisation Lowering Costs through Economy of Scale Low/Moderate Go It Alone	Flexible Production Innovation/Knowledge Digitalisation Innovation, Quality, Time-To-Market High Alliances and Collaboration
Workforce - Policy Goal - Skills - Requisite Education - Labour-Management Relations - Nature of Employment	Full Employment Job-Specific Skills A Skill or Degree Adversarial Stable	Higher Real Wages and Income Broad Skills and Cross-Training Lifelong Learning Collaborative Marked By Risk and Opportunity
Government - Business-Government Relations - Regulation	Impose Requirements Command and Control	Encourage Growth Opportunities Market Tools, Flexibility

Source: Progressive Policy Institute