

ECONOMIC POLICY FOR DECREASING THE UNEMPLOYMENT IN MACEDONIA

EKONOMSKA POLITIKA ZA SMANJIVANJE NEZAPOSLENOSTI U MAKEDONIJI

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Abstract: *One of the tenets of sustainable economic development paradigm is reduction of unemployment, which leads to reduction of social inequality and poverty. Having this in mind, the main subject of this paper is an analysis of the unemployment in the Republic of Macedonia. Particularly the current, as well as, the possible economic policy measures for addressing this problem.*

The paper consists of five parts. The first one is an introduction; the second presents the rate of unemployment in Macedonia; the third focuses on the structural features of Macedonian labour market; the fourth part explains the necessary policies for decreasing the unemployment in the Republic of Macedonia; and finally the fifth part of the paper concludes.

Keywords: *unemployment, structural features, policies, measures, reforms*

Sadržaj: *Sastavni deo paradigme održivog ekonomskog razvoja je smanjenje nezaposlenosti, što vodi ka smanjenju društvene nejednakosti i siromaštva. Imajući to u vidu, glavni cilj ovog rada je analiza nezaposlenosti u Republici Makedoniji. Posebno ekonomska politika i mere koje su preduzete, kao i one koje Makedonija treba da preduzme za rešavanje tog složenog problema.*

Rad se sastoji iz pet delova. Prvi deo je uvod koji objašnjava predmet istraživanja, drugi predstavlja stopu nezaposlenosti u Makedoniji; treći deo se fokusira na analizu strukturnih karakteristika tržišta rada u Republici Makedoniji; četvrti deo objašnjava neophodne politike i reforme za smanjenje nezaposlenosti u Republici Makedoniji; i konačno, peti deo je zaključak.

Ključne reči: *nezaposlenost, strukturne karakteristike, politike, mere, reforme*

1. INTRODUCTION

Unemployment is a very serious macroeconomic problem for the Republic of Macedonia. The sluggish pace of economic growth of Macedonian economy during the past 25 years – the period of the transition of the country from the economic system of self-management towards modern market economy – narrowed the economic potential for decreasing the unemployment and poverty [2]. At the same time, the huge unemployment and its harmful social implications (increased poverty, inequality and social exclusion), had negative impact upon the citizens' living standard. The unemployment in Macedonia directly influenced the decline of the so-

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called middle class of citizens, which was the major social class in the society. This was especially apparent in the last ten years. The majority of Macedonian citizens today have huge problems for persisting with their salaries, whereas a small part – the political and business elite – are rich even by European standards. The first group are marginalized, frustrated by their position in the society and have lost the confidence that current economic reforms can alter the situation. The inability of the Macedonian labour market to absorb the unemployed youth, which is often highly educated, leads to “brain drain”. Hence, we think that there is a need for a thorough analysis of the features, policies, and the possible measures (reforms) to improve the situation.

2. TYPE AND RATE OF UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA

The long-term trend of the rate of unemployment in Macedonia is presented on Figure 1.

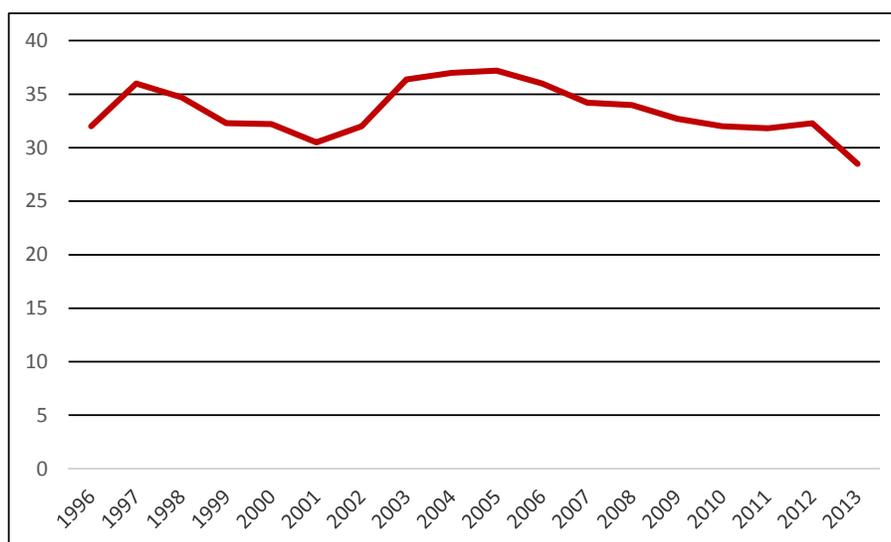


Figure 1. Unemployment Rate in Macedonia 1996 - 2013

Source: Employment Agency of RM

As the Figure shows, the unemployment rate in Macedonia is consistently very high, in fact, on average, almost every third citizen in the country at working age is (formally) unemployed. The fact that the unemployment rate is consistently very high shows that the unemployment in Macedonia is primarily *structural*. Moreover, it also has *cyclic variations*. Yet, the cyclical variations do not emerge out of cycles of economic growth, but rather out of shifts in the economic policy. Specifically, the period from the start of the transition in 1991 until 1998 was an episode of tight monetary policy, as well as of the first wave of privatization which has led to massive workers layoffs. The small decrease of the unemployment from 1998 until 2002 occurred in a period of relaxed monetary policy and creation of increased public debt, which produced short-term effect of business activities' expansion. It was also a period of security crisis in the country. Then in the period from 2002 to 2006, when the unemployment rate in Macedonia reached historic heights, was a phase of tight monetary policy (cutting budget expenditures and settling public debt), post-privatization ownership consolidation and companies' restructuring, again typified by workers layoffs. Finally, the second period of decreased rate of unemployment in Macedonia from 2007 until 2014 is an era of creation of so-called concealed unemployment through coerced employment in the public administration, and of efforts for engineered decrease of the unemployment rate through deleting unemployed persons from official records. This period is portrayed by two additional adjustments: (a) huge

number of the unemployed from the first decade of the transition have reached retirement age – hence now the number of retired persons has expanded to historic heights – which lessens the unemployment burden, but does quite the opposite to the financial sustainability of the state pension insurance fund; and (b) vast number of the youth which have in this period matured to working age migrate abroad, which also lessens the unemployment burden. However, given that the unemployment rate remained extremely high throughout the entire period ascertains that the structural nature of the unemployment in Macedonia has not been resolved.



Vanco Uzunov has experience as university professor and in various consulting, advisory, training and public administration assignments. In the past 12 years he is engaged at the School of Law Univeristy Ss. “Kiril and Metodij” in Skopje, teaching courses on Applied Economics (economic system and economic policy of Macedonia), International economics, Law and Economics. Apart from teaching at undergraduate studies at the University in Skopje, his training experience also includes teaching one course on the Post-graduate studies for Public Administration at the Center for Public Policy and Management of the University of Pittsburgh in Skopje, a course on Community Policies of the EU at the School of Law Univeristy Ss. “Kiril and Metodij” in Skopje, lectures on the Post-graduate studies for Business Administration organized by the Economic Faculty of the University of Ljubljana, Slovenia, in Macedonia, as well as teaching on various seminars.

In his work experience he has also been engaged on large projects and in the managing of the process helping in the establishment of various sets of procedures. As a consultant he was involved in the assistance to the Government in the response to the European Commission Questionnaire, while he was also leading the advisory teams and or participating in the preparation of documents in the EU integration process of Macedonia, such as: Strategy for European Integration, Questionnaire for the EU accession, National Programme for Adoption of Acquis, National Development Plan, Pre-Accession Program, etc. Vanco Uzunov has been involved, as team leader or as researcher, in over 30 research projects.

Vanco Uzunov realized several research and study stays at Universities in Europe (such as LSE and Graz) and in USA (University of California at Berkeley). He is Fulbright alumni, an LSE fellow and member of the LSE South East European Research Network. He has been Advisor of the President of the Republic of Macedonia Branko Crvenkovski on European Integration Issues (June 2003 – November 2005), and a member of the National Entrepreneurship and Competitiveness Council of Macedonia.

3. STRUCTURAL CHARACTERISTICS OF THE LABOUR MARKET IN THE REPUBLIC OF MACEDONIA

Age structure of unemployment (Table 1). One quarter (24.77%) of the unemployed in Macedonia is very young, of age below 29. Additional 20% of them are of age from 29 up to 39. Hence, one half of the unemployed are young, which proves that Macedonian economy is not capable to create sufficient number of new jobs.

Age in years	Number	%
15 - 19	2,406	1.9%
20 - 24	12,441	10.0%
25 - 29	15,842	12.8%
30 - 34	13,012	10.5%
35 - 39	12,430	10.0%
40 - 44	12,615	10.2%
45 - 49	13,239	10.7%
50 - 54	13,539	10.9%
55 - 59	14,239	11.5%
60 +	14,052	11.3%
Total	123,815	100%

Table 1. Unemployment in Macedonia by age, at February 28th 2015
Source: Employment Agency of RM and own calculations

Gender structure of the unemployment (Table 2). The share of unemployed male persons in Macedonia is significantly higher than share of females. This is due to the prevailing traditional features of a part of the population, due to which females often do not even consider regular (official) employment.

	Number	%
Men	71,936	58.1
Women	51,879	41.9
Total	123,815	100

Table 2. Unemployment in Macedonia by gender, at February 28th 2015
Source: Employment Agency of RM and own calculations

Educational structure of the unemployed (Table 3). Unemployment in Macedonia is highly biased towards lower levels of education. The share of people without education and with only primary education in the total number of unemployed is almost 40%, while the share of those with incomplete and/or completed secondary education is almost 45%. In total almost 85% of the unemployed have low skills. It appears that people in the country with lower education are “destined” to unemployment, in contrary to those with higher education. On the other hand, low-skilled workers are far more included in the “gray sector” of the economy. And it is also true that, in recent years, the number of unemployed with university diplomas is also increasing. Today Macedonia has over 15,000 unemployed with university education and 1,000 unemployed persons with master or PhD degree. It serves as another verification that Macedonian economy is not capable to create sufficient number of new jobs.

Level of education (educational attainment)	Number	%
without education and with primary education	49,425	39.9
incomplete secondary education	18,274	14.8
completed secondary education	37,048	29.9
higher education	2,401	1.9
university education	15,651	12.6
master of science	988	0.8
Ph.D.	28	0.02
Total	123,815	100

Table 3. Unemployment in Macedonia by levels of education, at February 28th 2015

Source: Employment Agency of RM and own calculations

Structure of the unemployed by nationality (Table 4). Majority of the unemployed in the Republic of Macedonia are Macedonians, followed by Albanians, Roma, Turks, etc. This structure matches the overall structure of the population by nationality; hence there is no special unemployment bias towards any particular nationality.

Nationality	Number	%
Macedonians	82,439	66.58%
Albanians	26,463	21.37%
Turks	4,137	3.34%
Roma	6,892	5.56%
Serbs	975	0.78%
Vlachs	278	0.22%
Bosniaks	261	0.21%
Other	2,370	1.91%
Total:	123,815	100%

Table 4. Unemployment in Macedonia by nationality, at February 28th 2015

Source: Employment Agency of RM and own calculations

Structure of unemployment by the duration of the status (Table 5). Unemployed persons in Republic of Macedonia retain that status for relatively long period of time. This shows that the unemployment is of structural character – as a mismatch between the qualifications structure of the supply and of the demand for labour – and it also portrays the social dimensions of the problem of unemployment in the country.

Duration of unemployment status	Number	%
Up to 1 month	7,560	6.1%
1 - 5 months	42,209	34.09%
6 - 11 months	15,601	12.6%
12 - 17 months	14,043	11.34%
18 - 23 months	6,593	5.32%
2 years	5,979	4.83%
3 years	7,404	5.98%

4 years	4,597	3.71%
5 - 7 years	6,363	5.14%
over 8 years	13,466	10.87%
Total	123,815	100%

Table 5. Unemployment in Macedonia by duration of status, at February 28th 2015

Source: Employment Agency of RM and own calculations

4. POLICIES FOR REDUCING THE UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA

Unemployment in general, but especially of the scope typical for the Republic of Macedonia, is an economic and social problem which is very hard to overcome or mitigate. Policies for decreasing the unemployment, particularly as voiced in the regular parlance of Macedonian politicians, are and have always been of highest priority. In this context, the *National Employment Strategy* of the Republic of Macedonia envisages policy measures aimed at specific target groups of unemployed, such as: young people; long-term unemployed; and vulnerable groups (elderly, disabled, single mothers, orphans). Additionally, Macedonian government adopted a *National Programme for decent work* for the period 2014-2018 [4], which focuses on: increased scope of young people in programs for self-employment through grants, internships, subsidized employment, and training for advanced IT skills, better integration of women in the labour market; effective social dialogue, and formalization of the informal economy.



Biljana Petrevska was born on 23.12.1983 in Skopje. Primary and secondary education ended in Skopje with continuous great success, which was declared by the award: the best student of the generation. In 2002 she enrolled the Faculty of Economics - University of St. Cyril and Methodius in Skopje, where she completed the studies in June 2006 with an average 9.7 and she has been named as one of the best students in her generation. In October 2006, she enrolled the postgraduate studies in Monetary Economics at the same faculty, where after passing the nine exams with an average 9.9, she successfully defended the thesis topic: "Managing the short term assets and liabilities of the banks", and in June 2009 she gained a scientific degree: Master of Sciences in the field of Monetary Economics. In February 2013, Biljana Petrevska successfully defended the thesis topic: "Risks in the banking sector in the Republic of Macedonia – between the legislation and practice", and she gained a scientific degree: PhD.

In teaching years: 2004/05, 2005/06, 2006/07 Biljana Petrevska worked as a temporary assistant on the subjects: mathematics for business and mathematics for economists and business statistics at the Faculty of Economics - University of St. Cyril and Methodius in

Skopje. Also, in the academic year 2006/07, she worked as a temporary assistant on the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje, on the subjects: Applied Economics and Economics. On 8.6.2007, the teaching council of the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje, selected Biljana Petrevska in the title of Junior assistant of Applied Economics. On 13.11.2009, the teaching council of the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje, selected Biljana Petrevska in the title of Teaching assistant in the area of economic sciences. On 28.6.2013, the teaching council of the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje, selected Biljana Petrevska in the title of Assistant Professor at the department of Business Law.

Today Biljana Petrevska as an Assistant Professor is actively involved in the educational process at the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje, and she participates in the teaching, and also conducting colloquiums and exams in the following subjects: Applied Economics, Economic policy (at the undergraduate studies), Fundamentals of Marketing, Business Environment, Banks, investment funds and stock exchanges, Insurance, Right of settlement systems and execution of commercial transactions (clearing and settlement), Marketing and Media, and Marketing and Public Relations - (at the postgraduate and master studies). Biljana Petrevska is also a Secretary on the Master studies in Business Law on the Faculty of Law "Iustinianus Primus" - University of St. Cyril and Methodius in Skopje.

Moreover, in parallel with the execution of work commitments, Biljana Petrevska continuously expended her knowledge by attending: seminars, conferences, courses and schools in the country and abroad. Biljana Petrevska had actively participated in the preparation of several research papers that are published in national and international books and reviews. Biljana Petrevska has excellent knowledge of English and Serbian language, and has a basic knowledge of French language and also she has knowledge of computer techniques.

Very recently and solely for the need to try to relax the current political crisis, Macedonian government also promoted a project entitled "*Macedonia employs*". It is said that the government expects 150,000 unemployed persons to be able to utilize the measures provided in this project. The measures provide exemption from compulsory social contributions and personal income tax for companies that will employ new workers. [6]

However, tangible results are missing. In this context, henceforth this paper lists and shortly describes the missing policies for reducing the unemployment in the Republic of Macedonia.

1. There is, off course, undisputed unanimity among economic theoreticians and practitioners that vibrant and robust economic growth and development which results with creation of new jobs is most useful for combating unemployment. We agree that the best and healthiest "formula" for reducing unemployment in the Republic of Macedonia is intensification of economic growth and development. However, as much as it is true, it is also a conventional statement which needs further clarifications.

2. Economic growth requires huge investment, both private and public. As for the private investment in the Republic of Macedonia, it is necessary to increase both domestic and foreign investment. Unfortunately this is not the case with the current government – which

has actually been in office for the last nine years – which puts much stronger emphasis on attracting foreign direct investment and, at least implicitly, neglects domestic investors. More to that point, of all the efforts of Macedonian government to attract FDI, the effects on decreasing unemployment are modest, due to several reasons: (a) the amount of inward FDI in the country is not massive, since the country is not a very attractive investment destination, even in regional context; (b) rather small part of the inward FDI in Macedonia is in labour intensive industries; (c) because low labour costs are often the most important reason for attracting foreign investors in the country, the employees in the industrial capacities established in Macedonia by foreign investors have very small wages, even by domestic standards. This contributes to easing the unemployment to a certain extent, but not as much poverty and social inequality. On the other hand, domestic companies in the country are reluctant to invest heavily in new or expansion and modernization of existing companies due to the “political climate” in the country, which is not unstable or lacks security, but is rather not business friendly. This unfriendliness is not due to inadequate business regulation – as a matter of fact Macedonia is among the best performing countries by the WB Doing Business Reports – but rather due to the overwhelming influence and power of the government over the domestic business sector. Hence, apart from lifting its direct influence on the business sector, what the government has to do to increase domestic private investment in Macedonia is to put in place measures for facilitating technological modernization of businesses and for developing management skills, strategies, corporate governance and corporate culture. Measures are also needed for improving the business climate, strengthening rule of law, especially in the area of property rights, reducing the transaction costs for starting and running a business, reforming the judiciary, reducing corruption, and particularly progress in the European integration process.

As for the public investment in Macedonia, two issues with rather small impact upon unemployment are evident: (a) every year the government promotes ambitious plans for huge public investment, but those plans are not realized fully; (b) the government did spend heavily on formation of new monuments and government offices (or their facades), but certainly not as much – especially until very recently – on infrastructure and other productive means. In order to influence the creation of sustainable new jobs (which is different from over employment in the public administration as it is typical for the current Macedonian government) this pattern has to be converted.

3. Small and medium enterprises are very favorable for easing unemployment burden. In Macedonia the government pursues SMEs development policy, but the amount of money spent for that is far lesser than the amount spent on numerous issues of minor importance. Moreover, the government puts huge added burden on SMEs through its policy of heavy penalties and fines for collection of additional budget revenues (the budget deficit is bigger and bigger every year). Then again, in order to influence new employment, Macedonian government has recently devised a set of measures for reducing the costs of new employees in SMEs (social contributions for new employees are exempted for of up to 5 years). But, in order to utilize the full potential of SMEs on decreasing unemployment the government has to strengthen the regional and local centers for support of entrepreneurship, expand the network of SME incubators, and support the functioning of the Euro-info centers. Among other matters this requires allocation of additional funds from the budget for support of SMEs.

4. Macedonia has huge potential for agricultural production, and engagement in agricultural activities has always been a mode for productive employment of excess labour force. However, in order to utilize fully this potential it is necessary to introduce policy measures for

fostering regional development, especially of deprived and rural regions. Macedonian economy is also in desperate need of policies for creation of international (export) competitiveness of the domestic agricultural production. Until now in Macedonia there are very few – so as not to say there are no – food processing companies established by foreign investors which would establish long-term relations with domestic producers of various primary agricultural products. Those ties will add the necessary indemnity for the small domestic producers of primary agricultural products and thus make this activity prosperous for prospective job seekers. The country also has many natural resources which need to be utilized optimally.

5. Macedonia has a huge sector of “grey economy” (informal economic sector) which lessens the unemployment burden – hence in some analyses the unemployment rate is estimated as almost half of its officially registered size – but it has other adverse implications for the overall economy (lower tax revenues, inadequate distributions of social benefits, etc.). It is necessary to exert an objective "cleaning" of the number of unemployed engaged in the informal sector (especially unregistered farmers and providers of urban services), as well as those who are officially registered as unemployed solely for the use of social rights and benefits (right to health care, pension and disability insurance, remuneration etc.). As part of the measures for improving the capacity of the institutional set-up of the labour market it is necessary to modernize the operations of the Employment Agency of the Republic of Macedonia.

6. Last but perhaps the most important policy measure is to increase the investment in education in order to create human capital of higher quality. On average, although the wages are low by any international comparison, due to the even lower labour productivity, Macedonia has expensive labour force. This area requires profound long-term reforms. First priority is the *quality* of regular education and training. Yet, nine years ago Macedonian government commenced a policy of increasing the quantity of apprentices, especially students in universities. Latter on the government started with the introduction of methods for increasing the quality of education, however they turned out to be methods of disciplining the teachers more than anything else. Next, big reforms are also needed in the vocational education, which can provide adequate skills and qualifications for the unemployed graduates. Finally, reforms are needed in the area of life-long learning, for which Macedonia has almost no regulatory and institutional set-up. Anyway, acting through the educational system is very productive in overcoming the structural nature of the unemployment, since highly skilled workforce is a major determinant of economic growth and living standards.

5. CONCLUSION

The employment policy of the Republic of Macedonia should be based on three pillars: (a) boost of investment; (b) rapid economic development; and (c) active labour market policies.

The employment policy should focus on the following: [3]-[4]

- improvement of the business climate and creation of competitiveness;
- increase of private and public investment;
- preventive measures for financial relief in order to reduce the labour costs and social security contributions;
- improving the mechanisms of the labour market, such as wage setting, social security, creating the conditions for adjustment of working with the private life;

- improving the educational system and human resources according to the needs of the labour market;
- effective services in the labour market through further modernization and increasing the quantity and quality of services;
- providing greater security and flexibility of jobs;
- implementation of active labour market policies to strengthen the support for young, long-term unemployed, women, low-skill workers and other vulnerable groups;
- development of set of measures, including institutional, preventive and sanctions, to contribute to facilitating the transition from the informal to the formal sector; and
- development of efficient and functional social dialogue.

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