

# Labor market flexibility in transition countries: a case study of North Macedonia

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## Abstract

The aim of this study is to provide a critical overview of labor market performance in North Macedonia. The findings suggest that the differences of labor markets in transition and advanced economies are shrinking over time and labor market flexibility is significantly affecting the unemployment rate. The findings confirm that North Macedonia suffers from a rigid labor market with several structural imbalances: high and persistent structural unemployment, skill shortages, skill mismatches, brain drain, persistent discrimination in the labor market, high informal economy, and inadequate labor taxation. Specifically, low skilled workers, especially, women, youth, older workers, ethnic minorities, and people in less developed regions are among others suffering high rates of unemployment. The findings suggest that high and persistent level of unemployment in Macedonia may arise due to the insufficient level of capital to employ the labor force, the stagnant structural reforms to address macroeconomic imbalances and still unfinished transition characterized by poor economic growth. We recommend to policy makers to implement structural reforms that would address current structural imbalances and increase labor market efficiency and would in turn result in higher potential for economic growth in North Macedonia.

**Keywords:** labor market, labor market institutions, North Macedonia, structural reforms, unemployment

## **Introduction**

Transition countries despite their differences share many similarities, generally in terms of economic development and labor market outcomes. Most of transition countries have successfully implemented market-oriented reforms and achieved macroeconomic stability; however, transition countries, especially North Macedonian economy being an outlier, still suffer from high and persistent unemployment rate. The aim of this research is to provide a detailed overview of labor market developments in North Macedonia and to provide possible explanation for labor market outcomes in the North Macedonian economy. This research contributes to the literature by providing a critical overview on the effectiveness of labor market, emphasizing the main problems in the labor market, and providing recommendation useful to the policymakers in North Macedonia.

The rest of the paper is organized as follows: the first section provides a comparative analysis of labor market in transition countries versus advanced economies; the second section provides a detailed description of labor market in North Macedonia in the third section an explanation of possible causes of labor market outcomes in North Macedonia is provided and the final section provides the concluding remarks.

### **1. Labor market in transition countries vs. advanced economies**

There are considerable differences in the evolution of labor markets between transition countries. Countries that performed well in terms of economic growth are also characterized by more functional labor markets. Specifically, they have implemented labor market institutions like advanced economies and have managed to significantly decrease the unemployment rate (Lehmann and Muravyev, 2012). The divergent labor market outcomes in transition countries can be attributed to different initial circumstances and different privatization processes (Bah and Brada, 2014). The initial stage of transition had similar consequences in terms of labor market developments in all transition countries: the initial decline of output was accompanied by very high unemployment rate in the early 1990s. As

transition advanced there was a decline of unemployment rates after 2000 in most CEE countries, but the unemployment rate worsened during the financial crisis (however, the effect was short lived). In the first phase of transition, most countries started developing previously missing labor market institutions and policies and therefore trying to increase labor markets functionality and effectiveness. In terms of labor market institutions, the first stage of transition in all countries has been characterized by high levels of unionization and lack of employment protection (Cazes, 2002). In the first stage of transition, CEE countries implemented generous unemployment benefits schemes mainly for political reasons, even though high levels of unemployment prevailed. Later, due to budget discipline struggles in these countries, unemployment benefits were subject to cuts (Svejnar, 2002).

Relatively little research has been done so far to explore labor market developments in CEE, due to the low quality of data, especially from the early stages of the transformation process. Most of the existing studies for transition economies focus only on some institutions/policies. Studies that use the whole range of labor market institutions (LMI) are mostly descriptive studies or supplement data from a few transition countries with data from EU member states or OECD economies (Cazes and Nesporova, 2004; Fialova and Schneider, 2009). Evidence on the link between institutions, policies and labor market outcomes in transition countries is very limited. Yet such evidence as there is, suggests that some labor market institutions are important in explaining labor market outcomes in transition countries. Several studies suggest that employment protection and active labor market policies are significant determinants of labor market outcomes in the transition countries (Cazes, 2002). The Lehman and Murahvey (2012) study of the labor market institutions in transition countries suggests a robust negative effect of stricter employment protection on employment and a significant increase on youth unemployment, whereas active labor market policies do not affect employment in general, but do significantly lower youth unemployment, while other institutions do not seem to determine labor market outcomes in a significant way. Tax wedges and the duration of unemployment benefits appear to significantly explain poor labor market performance (Behar, 2009). However, the study of Commander and Heitmueller (2007) suggests that the generosity of unemployment benefits does not significantly affect unemployment rates in transition countries. Feldmann (2005) suggests that restrictive hiring and

firing regulations as well as powerful unions have negative effects on employment especially among young and low skilled workers.

Several studies compare the evolution of labor market institutions in transition countries with developed economies suggesting that, in general, LMI are similar in both group of countries (Cazes, 2002; Feldmann, 2005). Unemployment benefits are below the EU-15 average (Romih and Festic, 2008). Unionization rates have declined throughout the region, trade unions have little power, and are more common in public sector (Myant, 2010). Overall collective bargaining coverage in most transition countries is very low (Kohl, 2008). Most transition countries switched to a flat personal income tax and introduced other several tax reforms, however, still the tax burden on labor has remained rather high in CEE countries than the old EU countries. Although active labor market programs have been introduced throughout the region, their share in GDP has been lower compared to the old EU members (Lehman and Murahvey, 2012).

The general picture regarding the evolution of labor market institutions points to a liberalization of labor markets in transition countries and the empirical evidence suggests that the deregulation of labor markets improved their performance (Lehman and Murahvey, 2012). Despite several differences of labor market institutions among transition countries, in general, most of the selected transition countries (mainly the CEE countries) have adopted a set of labor market institutions that on average are like those in the EU countries (Cazes and Nepresova, 2004).

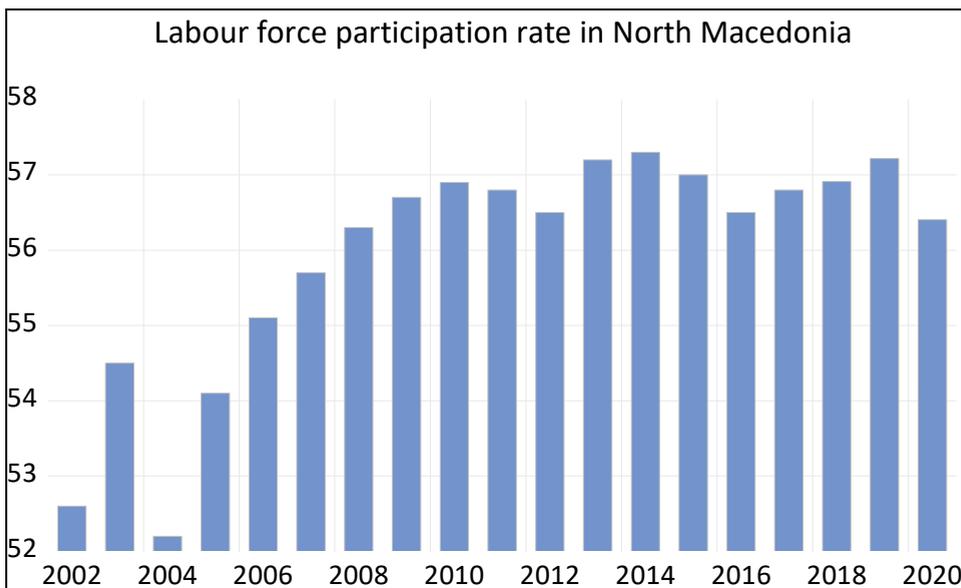
## **2. Labor market in North Macedonia**

North Macedonia was the poorest of the Yugoslav republics, contributing only 5% of the Yugoslavian GDP with an economic structure focused on primary production and a 20% unemployment rate even at the beginning of transition (Domadenik *et al.* 2003; Kostadinov, 2009). The early phase of transition to a market economy was characterized by a significant loss in GDP, an increasing trend of unemployment that continued until 2006, and hyperinflation. Despite this unfavorable initial position, North Macedonia was relatively successful in implementing initial reforms regarding price stability, trade, and foreign exchange system liberalization, as well as small scale privatization, and managed to maintain a stable macroeconomic environment and price stability through prudent fiscal and monetary policy. However, compared to CEE transition economies or SEE

countries the process of completing transition has been prolonged, the country resumed its pre-transition output of 1990s only in 2006, while labor market performance still lagged output adjustment (Mojsovska-Blazevski et al, 2009). The prolonged decline of GDP and employment can be attributed among other factors to unfavorable external shocks: disruption to its payment system and business transactions with the former Yugoslav Republics; trade sanctions against Serbia and Montenegro in 1992, which accounted for 60% of total North Macedonian exports prior to the disintegration of ex-Yugoslavia, and trade sanctions imposed by Greece, due to the conflict about the name and the symbols of the country.

The North Macedonian labor market compared to other SEE transition countries can be considered as an outlier characterized by low activity, low employment rates, high unemployment and mismatch between supplied labor and demanded skills. Moreover, this poor performance cannot entirely be attributed to constraints on the demand or supply side of the labor market (Mojsovska -Blazevski et al., 2009; IMF Country report, 2009).

**Fig. 1:** Labor force participation rate for the population aged 15-64



Source: State statistics office of North Macedonia, LFS reports

The labor force participation rate was stable during transition, mostly reflecting increased unemployment, reaching 55.9 % in the fourth quarter

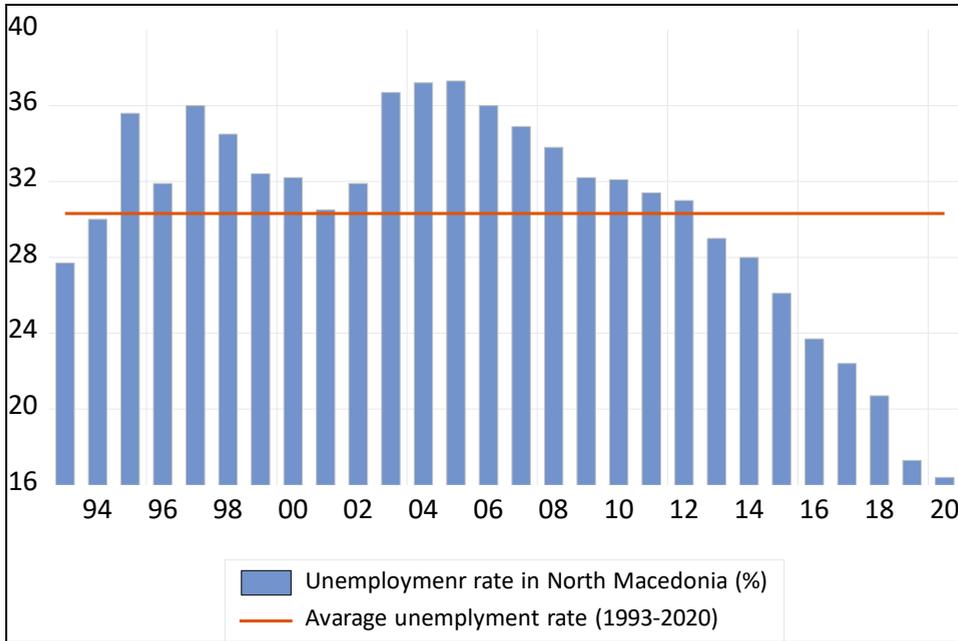
of 2020, which is very low compared to other SEE countries. The Mojsovska-Blazevski et al, (2009) study suggests that the low activity rate is due to the following factors: sizeable net inflows of remittances from abroad; the provision of free health insurance; and low participation of females in the labor market. The activity rate of different categories is mainly determined by their age, gender, ethnicity, and education; hence the most inactive groups are usually young persons, people from rural regions, especially females and members of ethnic minorities with a low level of education. The participation rate for young workers is only 33.9% in 2020. This low rate can be explained by the low employment possibilities in Macedonia or the incentive to continue their education due to increasing returns to education (Mojsovska-Blazevski and Kurtishi, 2012). Additionally, employers are usually reluctant to employ this category of inexperienced workers and bear the cost of their training given available experienced unemployed candidates. Nepresova (2002) study confirms a significant skill mismatch in transition countries between the skills demanded by employers and skills provided by the education system, which might be another factor contributing to the low activity of young workers. Female participation in labor market is low being only 45.7 % in 2020. However, the gender gap in participation rates decreases with higher levels of education (Mojsovska-Blazevski et al, 2009). Angel-Urdinola (2008) and the World Bank and ETF study (2008) findings suggest that the low participation rate of woman can be attributed to tradition and cultural habits and a high level of labor market discrimination against females. Additionally, the availability and cost of childcare services or other dependents is an important determinant of the participation rate of women in the labor market.

The employment rate in North Macedonia has been almost stagnant during transition, being among the lowest in the Western Balkan region, except Kosovo, reaching 47.2% in 2020. This implies a low level of utilization of labor resources, hence lower level of output and economic welfare. The gender gap in employment is relatively high and persistent compared to EU countries (Mojsovska-Blazevski et al, 2009). The youth employment is relatively low, reaching only 19.05% in 2020. The level of education is the main determinant of the employment of potential workers. Hence, highly educated individuals benefit from higher returns of education in terms of the possibility of finding a job, i.e., easier transition from unemployed to employment, and higher wages compared to others

with a lower level of education (Mojsoska, 2005; Urdinola and Macias, 2008). The labor market in North Macedonia is considered as non-inclusive especially for categories such as young or old workers from ethnic minorities. The European Training Foundation report (2007-a) suggests that the non-inclusiveness of these groups into the labor market is due to the following factors: tiered market structure in which formal job opportunities are rare; difficult access for young people and other labor market entrants; discriminatory tendencies on the grounds of ethnicity; disparities in educational achievement; institutional influences; and absence of a lifecycle approach to work.

The share of self-employment in total employment of around 10% in 2020 is low and its structure suggests that it is mostly disguised wage-employment rather than entrepreneurship with high-productivity activity, therefore cannot be effective in reducing unemployment in the North Macedonian low job-creation labor market. The use of part-time employment in North Macedonia is much lower than in the EU countries and part-time work was used mostly by females and young workers. Part-time work was relatively expensive until 2009 due to a regulatory barrier that required payment of social contributions the health insurance contribution, based on full-time employment, i.e., regular 40-hours working week, irrespective of actual worker's working hours. From 2009, the legislation was amended and now health insurance is calculated on a per hour basis, in line with the other two categories of social contributions. The anecdotal evidence suggests that use of Civil law contracts i.e. wages are subject only to personal income tax, increased during transition in North Macedonia, however there is no available data to confirm this trend (Mojsoska-Blazevski et al, 2009).

**Fig. 2:** Unemployment rate in North Macedonia for period 1993-2020

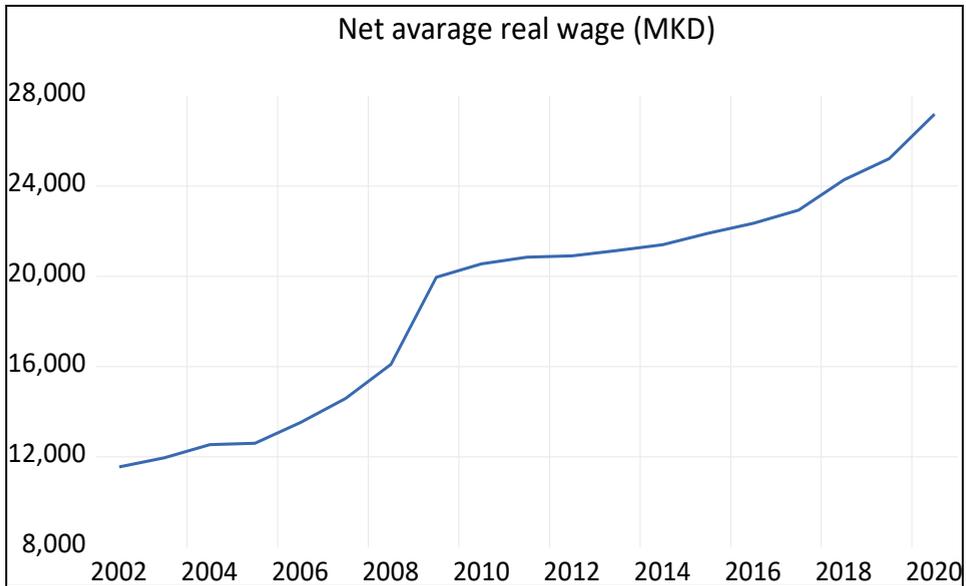


Source: NBRM statistics

Unemployment in North Macedonia was about 20% at the onset of transition and continued increasing during transition, implying that the emergence and development of the new private sector was not sufficient to absorb the decrease in employment caused by the restructuring of state-owned companies (Zalduendo, 2003). Albeit in recent years witnessing a modest reduction, the unemployment rate is still very high, reaching 16.4% in 2020. Unemployment is unevenly distributed among different groups of population low skilled workers, especially, women, youth, older workers, ethnic minorities, and people in less developed regions are among others suffering high rates of unemployment (World Bank 2013). Youth unemployment is very high, reaching 46.7 % in 2020. A notable problem of North Macedonian labor market is the high proportion of long-term unemployment, where the rate of long-term unemployment is above 80% of total employment. The Mojsoska (2005) study suggests that the high and persistent unemployment in Macedonia is due to the following factors: specific regional economic and political factors influencing the country's transition; the privatization method, based on substandard Managers-

Employees-Buyouts; labor market flows dominated by low rates of job creation; high non-wage labor costs; and diversion to informal economy.

The relatively high share of informal economy in the country might cause measurement problems in the labor market understatement of employment or overstatement of unemployment. The very large proportion of registered long-term unemployment and, on the other hand, absence of evidence of the extreme poverty that could be expected to follow long spells of actual unemployment, suggests high participation in the informal economy among the formally unemployed. The informal economy in North Macedonia has been estimated to be already high at the onset of transition, around 34.5% for the period 1990-1993 (Shnieder and Enste, 2002). Schneider (2007) suggests that the share of informal economy has been increasing reaching 36,9 % in 2004-2005, while the World Bank (2003a) indicates an even higher rate of informal economy reaching at 40-45% of GDP at the beginning of the 2000s. Studies analyzing employment in the informal economy suggest that the informal labor market remains sizeable and quite active, in the range from one third (Schneider, 2002; World Bank, 2007) to one half of the pool of unemployed (Jackman, 2007). These informal jobs are low quality jobs with a significant number of informally employed (52%) without an employment contract and working mostly on temporary jobs (77%). A World Bank study (2008) analyzing different demographic groups, suggests that informal economy activity is more widespread among men of prime working age, between 25 and 55, the young, ethnic minorities, in the private and in the primary sectors and in rural areas.

**Fig. 3: Net average real wage in North Macedonia**

Source: State statistics office of North Macedonia, LFS reports

In North Macedonia wages are in line with productivity levels, specifically from 2000 onwards, real wage growth generally followed the productivity growth (Mojsoska-Blazevski et al, 2009; IMF Country report, 2013). For the first time in 2012, North Macedonia introduced a national legal minimum wage of 8050 denars (MKD) that has steadily increased to 14934 denars (MKD) in 2020. In terms of the equality in earnings distribution, Mojsoska-Blazevskiet al (2009) suggests that wage differentials are in general quite compressed. Regarding wage differentiation by education level, several studies confirm significant returns to education that varies from 25% to 44% (Mojsoska, 2005; Angel-Urdinola and Macias, 2008). In January 2009, a deep reform of the North Macedonian payroll system was implemented to reduce the relatively high labor tax burden (tax wedge) especially on low-wage workers. Mojsoska-Blazevski et al, (2009) suggests that a worker earning the average wage, faced a labor tax wedge of around 33%. The reform implied the introduction of a gross wage system i.e. wages would be negotiated on a gross basis, tax free allowances would be integrated into wages, the liable person for the payment of personal income tax and social contributions would become the worker instead of the employer. Additionally, planned

was a gradual reduction of social contributions' rates from 32% in 2008 to 27.9% in 2009 and further to 22% in 2011. The reform would contribute as a means of reducing informal employment and evasion.

During the recent years North Macedonia has implemented considerable reforms to improve the overall business environment which is reflected in the World Bank's Ease of Doing Business for 2019 ranking, where Macedonia is ranked 17 out of 189 countries. However, despite considerable efforts to simplify business entry by introduction of a one-stop shop and intensive reforms on legislation and procedures being completely overhauled, and the infrastructure and capacities of courts and judges being upgraded, there are further improvements needed in terms of practical obstacles for firms, to ensure business-friendly environment which will stimulate new job-creation in the labor market.

Considering the underperforming labor market and investigating the characteristics that define a labor market's supply and demand, it appears that there is no striking feature of labor market institutions or policies that could explain such high levels of unemployment: wages are aligned with productivity, there is remarkable progress in improving the business environment, institutional rigidities are not too strong, unemployment benefits are not significantly affecting reservation wages, the tax wedge is decreasing over time (IMF Country report, 2013).

The design of unemployment benefits, i.e., overly generous social assistance or high and lengthy unemployment benefits, might lead to unemployment trap or low-intensity job search. In the case of North Macedonia, considering the high inflow of remittances, more research is needed in understanding and quantifying potential drivers of North Macedonian reservation wages, hence its role in explaining high unemployment. However, social assistance and unemployment benefits are not likely to be pushing reservation wages. In North Macedonia unemployment benefits do not seem to be sufficiently generous to provide an incentive for potential workers to not engage in the labor market. The benefit replacement rate is low compared to EU countries, although comparable to other countries in the region. The unemployment benefit accounts for only 50 percent of the last wage for the first 12 months, followed by 40 percent for the next 2 months. The relatively low proportion of registered unemployed receive unemployment benefit due to the strict entitlement conditions that restrict benefits to people who have a sufficient record of contributions from work. Considering the current labor market

context, characterized by a low administrative capacity, weak enforcement and a large grey economy providing ample possibilities for informal work, Mojsovska-Blazevski et al, (2009) suggests that the unemployment benefit system in North Macedonia is appropriately designed, justifying relatively low unemployment benefits that would not create employment disincentives and are fiscally sustainable. Lehmann (2009) investigates the possible negative effects of unemployment benefits on job search of unemployed in North Macedonia and the findings suggest that this effect is not significant.

The implementation of Active Labor Market programs (ALMPs) North Macedonia before 2007 was modest, mainly ad-hoc and donor-driven. The amount spent on active labor market policies, between 1996 and 2002, was less than 0.05 percent of GDP (Micevska, 2008). In 2007, the government started to prepare annual operational plans (OPs) for active policies and measures and, in the following years, the allocated funds for ALMPs increased considerably, as well as the scope of the programs. Despite the upward trend of spending on ALMPs since 2007, the level of spending is low compared to EU countries, although comparable to the level of spending elsewhere in the Western Balkan region. The spending on ALMPs on 2007 was 0.1 % of GDP and it reached 0.2% of GDP in 2008 and 2009, however in 2010 and 2011 the spending on ALMPs declined to 0.1 % of GDP (World Bank, 2012). ALMPs were focused on job counselling, training, and pre-qualification of unemployed, business start-up incentives like self-employment with low interest loans, public works schemes, formalization of existing businesses, work-experience programs for young, and special programs for the Roma population. Considering the large pool of unemployed and sluggish labor demand, vulnerable groups in transition economies, such as the long-term unemployed, have difficulties to compete successfully for regular jobs even after programme participation, therefore making active labor market programmes ineffective (Mojsovska-Blazevski, 2011). Target groups of ALMPs are young workers up to 27 years, individuals unemployed for more than 6 months, elderly workers aged 55-64, orphans, women victims of violence and Roma population groups.

During the transition period, North Macedonia adopted new labor legislation focused on relaxing restrictions on regular employment, while insufficient attention was paid to rigidities related to temporary employment and collective dismissals. North Macedonian employment protection legislation (EPL) is more restrictive compared to other countries

in the region and EU countries and this rigidity arises due to regulation on temporary employment and collective dismissals (Micevska, 2008). North Macedonia has achieved significant progress in enhancing labor market flexibility by reducing the restrictions on fixed-term employment and giving equal statutory rights to temporary, seasonal and part-time employees as full-time employees with the implementation of The Labor Law from July 2005; the introduction of agency work as an additional source of flexibility in the labor market with the Law on Temporary Work Agencies in 2006; and amendments to the Labor Law in 2008, which consisted of increasing the maximum duration of contracts up to 5 years and simplifying the administrative procedures (Mojsoska-Blazevski et al.2009).

The bargaining power of trade unions in North Macedonia has declined during the period of transition. Union coverage and union power is still important in the public sector and in large, privatized companies, where wages are determined mostly through collective bargaining. However, elsewhere in the private sector, trade unions are almost non-existent and wage levels are mostly determined at the enterprise level. The trade union density in 2008 is only 45% of the salaried workers and has declined further subsequently. However, trade unions have retained their influence on creation of new labor legislation in the process of negotiation and coordination with employer associations and the government (Micevska, 2008).

### **3. What is the cause of persistent high rate of unemployment in North Macedonia?**

Several studies investigating the causes of high unemployment in North Macedonia suggest that the unfavorable labor market performance can be attributed to the following factors: i) unfavorable initial position characterized by high unemployment inherited from the previous socialist system; ii) the insider model of privatization; iii) still unfinished transition characterized by poor economic growth; iv) massive skilled labor migration; v) legal and institution factors; vi) the relatively high labor taxation (Rutkowski and Walewski, 2007; World Bank, 2008; Mojsoska-Blazevskiet al.2009, IMF Country report, 2013). Considering the depreciated and largely obsolete inherited capital stock and relatively low investments over the transition period, it may be argued that a high and

persistent level of unemployment in North Macedonia may arise due to the insufficient level of capital to employ the labor force. Additionally, the degree of unresponsiveness of employment to output changes (IMF Country report, 2013) indicates that supply side problems might be the cause of high rate of unemployment in Macedonia. The unfavorable labor market outcomes in North Macedonia can be in part attributed to the inefficient model of privatization of management/employee buyouts, which limited the entrance of new strategic investors and management turnover, and consequently resulted in failure of these privatized firms to successfully grow and promote job creation (Micevska, 2008). The process of transition is still unfinished in North Macedonia. Despite several structural reforms, the process of structural transformation of the economy is very slow. North Macedonia has still a relatively large dependence on agriculture output and looking at the current sectoral structure of employment suggests that vast majority of employees work in agriculture, trade and manufacturing, usually doing low skilled manual jobs. The slower structural transformation of the economy is partly due also to insufficient FDI investments in North Macedonia. Despite recent improvement and favorable results on FDI attraction, the country still performs poorly in the capacity to absorb technology compared to other Western Balkan countries (World Bank, 2013).

North Macedonia experienced massive migration of skilled labor during transition and anecdotal evidence suggest that the phenomenon of brain drain is still present, which consequently made structural transformation even harder, especially in high productivity growth sectors. Given the current structure of the economy, reflecting the current stock of physical and human capital, the North Macedonian labor market is not able to create sufficient high skilled and high productivity jobs. Additionally, considering the skills mismatch and the gaps in education, the replenishment of lost skills is slowing down. Mojsovska-Blazevski et al. (2009) suggest that there is a significant mismatch between required and available qualification in North Macedonian labor market and the low and inappropriate skills and education of supplied labor are an important factor contributing to the high level of unemployment in the country. The comparison of the skill composition of labor supply and demand indicates that there is an excess supply of less educated workers. The occupation structure of labor supply and demand, at secondary and tertiary level of education reveals another form of mismatch, suggesting that certain

occupation profiles such as social sciences graduates remain in unemployment longer than persons from other occupations such as technical and engineering graduates (ESA Annual Report, 2007). Mojsovska-Blazevski et al. (2009) suggests that the mismatch problem is driven by specific factors at different educational levels. Specifically, for the lowest educational level the mismatch is due to low qualifications and lack of specific skills of non-qualified workers; for secondary education, the problem is due to lack of specialization of gymnasium graduates, while for tertiary education, the mismatch arises due to occupation choice and surplus of university degrees in less market-oriented fields. The skill mismatch and shortages in North Macedonia arise due to a lack of adequate systematic monitoring or assessment of the demand for labor and forecasting of the future skills needs of employers, which in turn would inform policymakers and serve as a basis for designing the educational and training policy in the country. North Macedonia conducts annually since 2006 a Skill Needs Analysis. However, this analysis suffers from narrow focus and several methodological problems. The survey is based on a sample of employers with 10 or more employees in eight sectors: agriculture, hunting and forestry, manufacturing industry, construction, trade, hotels and restaurants, transport, storage and links, financial intermediation, and real estate services. The survey covers only firms from the private sector. Considering that most employees (82.9%) work in small companies with 1-9 employees, which are not included in the survey and that the survey does not cover activities that account for 37% of GDP and employ 29.7% of the workforce, this survey has a limited reliability in providing a forecast of potential demand for skills and does not reflect the actual needs of the labor market among different categories of workers (Pejkovski, 2012).

The labor market in North Macedonia suffers from insufficient and inadequate human capital and the analysis of education performance in Macedonia suggests poor educational outputs at all levels of education (European Commission, 2011). The education deficiencies lead to low productivity, affect the skill mismatch and the technology absorption capacity of the country. Mojsovka-Blazheski and Ristovska (2012) suggest that the poor educational achievement in Macedonia is due to a long period of input based educational policy and past under-investments in education. In recent years, the government has implemented reforms on educational policy focused on improving the educational infrastructure, the

introduction of nine-year primary education, compulsory secondary education and an extension of the provision and increase in subsidies to public higher education. However, most of the expenditures on education are attributed to tertiary education. Despite the moderate improvement of education attainment as a result of these reforms, primary education enrolment is considerably below the average of transition countries, and there are significant gaps in the effectiveness of the schooling system, as reflected by international assessments of pupils' skills, in which North Macedonian pupils show worse results compared to the EU and the Western Balkan region. In North Macedonia, a relatively high proportion of pupils' complete primary education having poor basic skills of literacy, reading, math and science (Mojsovka-Blazheski and Ristovska 2012).

Despite recent reduction, the tax wedge in Macedonia being the highest in the region, can be considered as one of the major obstacles to employment growth (Rutkowski and Walewski, 2007). The North Macedonian labor taxation system is characterized by a regressive structure across levels of wages, where low wage earners who dominate both employment and unemployment are penalized by making low-paid jobs unattractive to workers and hence discourages labor supply and affecting labor demand by increasing the costs of labor (Mojsoska-Blazevski, 2012). The affected group of low-skilled workers are usually the most vulnerable group most likely to be outside the labor force or working informally and will therefore be facing disincentives to join a formal labor condition (IMF Country report, 2013). Mojsoska-Blazevski (2012) findings suggest that the social contributions represent a significant wedge on labor in North Macedonia and the reduction of the effective rates of social contributions exerts a significant increase on employment.

## **Conclusion**

The aim of this paper is to provide a critical assessment of labor market development in North Macedonia. We start by exploring the differences and similarities of labor market development and flexibility between transition and advanced countries. We continue by specifically exploring labor market in North Macedonia, being an outlier compared to other countries in the region and other transition economies.

The findings of this paper suggest a liberalization of labor markets in transition countries. The labor market institutions are like those in

advanced economies and the empirical evidence suggests that the in countries with more flexible labor markets the unemployment rate is lower.

The findings suggest that North Macedonian labor market is performing worse than other SEE countries, being an outlier, characterized by high and persistent unemployment rate and a significant skill mismatch. The labor force participation rate, especially participation rate for young workers, is very low and most inactive groups are usually young persons, people from rural regions, especially females and members of ethnic minorities with a low level of education. The labor market in Macedonia is considered as non-inclusive especially for categories such as young or old workers from ethnic minorities. The gender gap in employment is relatively high and persistent and female participation in labor market is low mainly due to tradition and cultural habits and a high level of labor market discrimination against females. The youth employment and the use of part-time employment is relatively low. The share of self-employment in total employment is much lower than in the EU countries with inappropriate structure. The most concerning fact is that unemployment is persistent i.e. the rate of long-term unemployment is above 80% of total employment. Unemployment is unevenly distributed among different groups of population low skilled workers, especially, women, youth, older workers, ethnic minorities, and people in less developed regions are among others suffering high rates of unemployment.

In terms of labor market institutions, the findings suggest that wages are aligned with productivity, there is remarkable progress in improving the business environment, institutional rigidities are not too strong, unemployment benefits are not significantly affecting reservation wages, the tax wedge is decreasing over time, and the bargaining power of trade unions in North Macedonia has declined during the period of transition. Hence, the differences in labor market institutions and flexibility are not the potential drivers of high unemployment rates in North Macedonia.

The findings suggest that high and persistent level of unemployment in Macedonia may arise due to the insufficient level of capital to employ the labor force. The inefficient model of privatization of management/employee buyouts, the slow process of structural reforms and slower structural transformation of the economy, insufficient and inadequate human capital due to education deficiencies, inappropriate labor taxation system, massive skilled labor migration and still unfinished transition characterized by poor economic growth are the main factors

explaining the high and persistent unemployment rate in North Macedonia.

We recommend that policy makers implement structural reforms that would increase the efficiency of labor market in North Macedonia. Specifically, structural reforms that would improve the quality of education and reduce the skill mismatch, tax reforms that would reduce the tax wedge, reforms that would reduce the informal economy, structural reforms that would contribute to a more inclusive labor market are necessary and urgent to improve the labor market performance in North Macedonia.

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