

## CHARACTERISTICS OF THE LABOR MARKET, EMPLOYMENT POLICIES IN KOSOVO AND EUROPEAN UNION IN THE YEAR 2014

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**Abstract:** The aim of this paper is presenting the situation of the labor market in the European Union after the crisis in 2008 and the comparison of the labor market situation in Kosovo in 2014. In the light of modern economic crisis, it is worth to analyze the development of the situation on the labor markets in the EU and in selected countries of the world since 2008. This allows to examine changes in the level of employment under the influence of both the dynamics of the recession and the antirecession policies used. The level of unemployment is closely linked to the dynamics of GDP. Recorded in the EU and in other countries of the world, increase of the unemployment rate from 2008 confirms the strong interdependence of these indicators. To sum up the situation on the European labor market, it is worth noting that the progressive process of increasing the flexibility of the labor market favors the competitiveness of the economies of the European Union. This does not mean, however, that as a result of the changes observed do not appear negative effects (e.g. Spain). It therefore appears necessary to further reduce barriers to movement of labor and services within the European Union and the use clearly positive experiences of labor market reforms.

**Keywords:** labor market, employment policies, Kosovo

### INTRODUCTION

The level of economic development of Kosovo is reflected in a delay of many economic parameters in place which results even in the strangulation of the labor market as the biggest challenge in Kosovo. Would not mind that the most worrying aspect of the labor market in Kosovo is the high unemployment rate which reflects with the numerous problems in Kosovo society. The labor market

in Kosovo during the period 2002 to 2014 was consistently followed by a different set of anomalies which have led to the raising concerns of the Kosovo population which are reflected not only by the unemployed, but also the active part of the population which in the absence of functioning of the collective contract, failure of unions, low average wage and a series of violations of workers' rights more and more is undergoing development gap in the labor market. Kosovo is the most highest rate of unemployment in the region which is around 40%. And when we consider the composition of contingent labor, such as very young population which annually makes contingent labor increases in parallel with this also increases the rate of demand for labor and immigration as the feature itself, then the approach should become much more serious.

The first part is an analysis of the overall labor market in the EU and the steps being taken by some euro area countries. The next section provided an overview of the Kosovo labor market and some of the problems that has this market, based on studies of Kosovo and international institutions.

#### **Employment policies of European Union in the year 2014**

The collapse of economic growth in European Union strongly reflected in rising of unemployment. According to estimates of the International Monetary Fund, the global economic crisis has led to the elimination of 30 million jobs and the needs in the coming years are estimated at 40 million new jobs [Strauss-Kahn 2011]. While in the period from 1998 to 2008 followed by a slow reduction of the size of unemployment in the European Union, accompanied by a systematic increase in the Gross Domestic Product, that with the advent of economic recession directly occurred increase in unemployment (e.g. Greece and Spain).

The developments of the size of unemployment determined, of course, not only the economic situation. Currently, among the most important determinants of the unemployment lists the rules and the degree of regulation of the functioning of the labor market. However, we can formulate a thesis that these and other factors of a regulatory nature in times of crisis, lose their importance, giving way to the effects of stimulus policies implemented by individual governments.

The largest increase in unemployment was recorded in the Baltic countries as well as Ireland, Greece and Cyprus, where the rate increased more than 3-fold, and even in the case of Lithuania 5 times. You will notice that such dynamic increases in unemployment was accompanied by the highest rates of economic recession. The economies of these countries decreased by almost 20% and in Latvia by more than 20%.

An exception in this is Ireland, where the recession did not exceed even 10%, and the unemployment tripled. It is worth noting that since the beginning of the crisis in the European Union the total unemployment rate almost systematically increased. In 2013, its size reached the level of more than half higher than in 2007.

A very interesting example is Spain, where the unemployment rate reached at the EU-higher level of 26.2%, while relatively not high scale recession. In this case, you can conclude that the policy of reducing unemployment used during the reign of J. Aznar, based on labor market reforms Flexibilisers offset the Spanish labor market only during favorable economic conditions. The successes achieved in the fight against unemployment were mainly based on the implementation of flexible employment model using e.g. Short-term contracts of employment. Created in this way, unstable labor market, the largest in the EU involving the so-called low-paid. "Junk contracts", ie those which their holders do not provide any security guarantees and fixed-tem. Unfortunately, given the problems with limited public debt, which has risen sharply in Spain, just like in other countries, it is difficult to expect rapid positive changes, such as the high unemployment rate significantly reduces the level of public revenue, as well as a brake on the development of domestic consumption. On the other hand, the reforms implemented consisting largely performing cuts in public spending, to an even greater extent, can reduce the pro-development trends in the economy, and this in a straight line that determines the continuation of the trend of mild recession.

Similar effects on GDP and labor market policy wich has brought drastic savings realized in Greece and Slovenia. The high growth rate (doubling feet) was also recorded by Bulgaria, Denmark, the Netherlands, Portugal and Slovenia. In the case of Denmark can be seen, in turn, noted that the rise of unemployment to nearly 8.0% (still lower than the EU average), wich was quickly stopped, so that in 2013 the rate stood at 6.6%. This decrease was achieved only a few EU economies.

Unemployment in the EU, among people 25 years of age, primarily of people entering the labor market in 2014, the average is about two times higher than the total unemployment rate. Even worse for this group the situation in Sweden and Italy, where the unemployment rate among young people represent 3 times the feet total. This reflects the low effectiveness of programs to support employment of graduates. The employment of people entering the labor market is not conducive to the excessive rigidity of the labor market where protection of existing jobs limited mobility in employment, which puts inexperienced post-szukujących work in disadvantaged position. Record unemployment rate in this group was recorded and in Spain and Greece (over 55%). Spain in turn, is an example of the state where the flexibility of the labor market did not prevent the shaped-ing a dual labor market insider-outsider, at which graduates have little chance in the competition for stable jobs with more experienced, older employees.

Analysing the dynamics of unemployment during the crisis should pay attention to a phenomenon that Germany is that beyond the minimum (0.3 pp) increase in 2009, recorded throughout the period considered (2007-2013) almost steady decline in unemployment (8, 2% in 2007. to 5.2% in 2013.). You can even venture to say that the German labor market is gaining on the crisis in the EU. The strongest economy in the Euro zone uses the advantages of the weakened economies of southern Europe, which are not able to regain competitiveness

through devaluations of national currencies, which are only possible in the case of countries outside the "euro zone".

Another noteworthy dependence on the level of unemployment in respect of expenditure on active labor market policies. Programs to mobilize the unemployed often complain that contribute to improving the situation only temporarily, and even contribute to perpetuating unemployment, by extending the benefit entitlement and the same periods of unemployment. Such arguments are grounded in some of the examples – e.g. Spain and Ireland. In others (Denmark, the Netherlands, Finland), in turn, can be seen that the higher the percentage of GDP spending for this purpose, the greater the balance of the labor market in the country. There are clear associations size of unemployment and the level of expenditure on labor market policies.

To sum up, the more vulnerable to the rise in unemployment proved to be significantly more flexible markets, but at the same time deprived of, or slightly saturated instruments employment security (flexicurity principles), since the crisis is having a particularly negative impact on certain groups in the structure of employment. First, almost without restriction is a reduction of employment among workers on fixed-term contracts (those contracts usually during the downturn are not renewing). In an equally difficult situation young people seeking their first job, since the suspension of investment and restrictions

#### **Employment policy in Kosovo in 2014**

Kosovo's labour market is characterized by several features that distinguish it from other countries in the region. That which makes the difference is that from all the data indicated that one of third of the population is under 16 and over 50% is up to 24 years. So what affects the level of unemployment from year to year is the biggest entry of young people into the labor market despite high immigration tries to mitigate such a situation, however, the impact of entries cannot be mitigated.

According to the latest Labour Force Survey (LFS) conducted by Kosovo Agency of Statistics (KAS), in 2014 Kosovo's population of working age stands at 1,202,489 people, with an almost equal gender distribution. However, active labor force (aged between 15 and 64 years) stands at 500.521 persons, of whom 128 975 are women.

Consequently, the rate of labor force participation for women is much lower than that of men, having a rate for the general population to 41.6%. According to the LFS in 2014 in Kosovo were 323.508 employees (an employment rate of 26.9%), a decline of 4% compared with 2013.

Regarding the employment structure, four main economic activities (which employ about half of the total number of employees) are : production, followed closely by trade, construction, and education.

Information about the contribution of the manufacturing sector in GDP are incomplete due to the lack registration of manufacturing enterprises and little

information about public and social enterprises (POEs and SOEs). These last two types of enterprises face problems as old-fashioned assets, financial underperformance and unclear employment relationships.

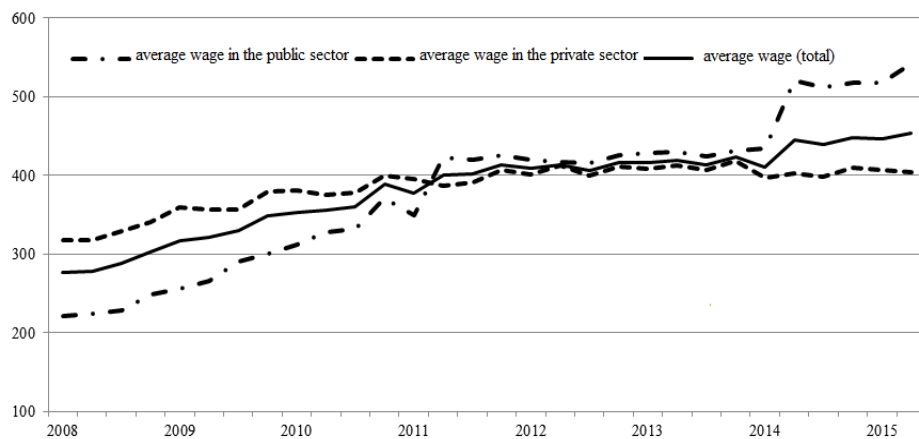
Comparing the data of LFS 2014 to 2013, there was a decrease in "total hours productively" at national level, mainly due to lower level of (above) employment in 2014 compared to 2013.

Given the level of GDP in 2014, this translated into an increase of 8.5% in labor productivity in 2014 compared with last year. On the other hand, with regard to cost competitiveness, the ratio of ULC in 2014 decreased by 4.6% compared with the previous year. It is interesting to note that the level of "compensation total workforce" of the country in 2014 remains similar to that of 2013, despite the decline in working hours, which means that the increase of the average wage in 2014 has offset the decline employment, from a standpoint of national level.

Unlike employment and productivity, which are based on official data of the KAS, the discussion will focus on wages data, taking into account their availability and most importantly, the 'frequency' of their own. In this sense, there are differences between the main indicators when making comparisons between the two sources, which are mainly the result of differences in registration (for example, KAS can not record the self-employed or informal sector so that under estimates significantly, while LFS does not provide detailed information on public and private sector separately, which is at the center of our analysis on salaries).

As can be seen from the graph, after three years (2011 to 2014) average wage in the public and private sector has moved almost in parallel with each other, it seems a divergence starting from Q2 2014 as a result of the decision to increase the salaries of the sector by 25%.

Figure 1. Average wages in the public and private sector in Kosovo in the years 2008-2015



Source: own preparation

Improving employment opportunities for people, especially women and young people, poses challenge the single main socio-economic development in Kosovo , next to an agenda of important reform has already been implemented to create more jobs and reduce unemployment .

There is no system for predicting the skills required in the market. The process of drafting the professional qualification standards is slow though and implementation of the Curriculum Framework. Enterprises do not have clear incentives related to the provision of internships for graduates and the education system does not provide proper career guidance.

Lack of skilled labor is considered to be a binding constraint for growth. Fragmentary evidence for "high wage premium" i.e., lack of supply of highly skilled labor. The disproportion between the needs of the labor market with the knowledge and skills gained in higher education and vocational education identified as the biggest gap of more than 2/3 or existing and potential investors in Kosovo - about 25% of firms in Kosovo still not complain that the workforce has adequate skills; low level of expenditure for students in APP and at least a quarter of APP schools do not offer practical work in school or outside of it; no system for predicting the skills required in the labor market.

Progress Report of the European Commission underlines that "no progress has been made in improving the quality of education. Increases in public spending for education (up to 4.4% of GDP in 2014, with 4.6% projected for 2015) have so far been used almost entirely to cover salary increases. More funding should be directed to other aspects of education reform.

Unemployment is the main problem in Kosovo, remains the highest in the region. The data from the Labour Force Survey for 2014 noted that unemployment has risen to 35.5% from 30.0% in 2013, while in 2014, the level of youth unemployment has reached 61%. Funding for employment services and training of new training remain insufficient and fragmented in some subjects.

On the other hand, informality in the labor market is very high, significant proportion of people who economically are inactive are in fact employees discouraging and public employment services that have a demonstrated need for reform and modernization and a good about the labor market.

In the recent report of the World Bank entitled " Return to work : growth with jobs in Europe and Central Asia" it stated that the unemployment rate is high and the rate of creation of jobs is low throughout Eastern Europe and Central Asia (ECA), despite the impressive reform efforts that have been made in many countries and a decade of strong economic growth before the crisis after 2008.

To create more jobs and better places to work in ECA, the report recommended policy actions in two main areas, namely:

- Creating the basis for the creation of jobs through a macroeconomic environment and business enabling that allows existing companies to evolve and new companies to emerge and succeed and not to fail quickly, and at a cost of lower; and
- Support the workers they exploit new opportunities and have the right skills, incentives to work and unhindered access to the labor market and be able to move from one place to another with the greatest potential for job creation.

According to the report, the creation of jobs in this region has been slow even before the crisis (2000-2007), when the region ran faster than many other emerging economies. Economies and employment rates in ECA in particular were affected by the crisis then and after 2008; while job creation remains too slow in recovery after the crisis. In 2012, the average unemployment rate for Europe and Central Asia was 14 percent, compared with 31 percent in Kosovo. Worrying factor is that about half of the unemployed have sought work for more than a year. Young workers and the elderly, women and ethnic minorities are more likely to be unemployed or employed in informal jobs with low wages. For example, one in five people in the ECA neither working nor looking for work nor study.

## CONCLUSIONS

The level of unemployment is closely linked to the dynamics of GDP. Recorded in the EU and in other countries of the world increase of the unemployment rate from 2008 confirms the strong interdependence of these indicators. To sum up the situation on the European labor market, it is worth noting that the progressive process of increasing the flexibility of the labor market favors the competitiveness of the economies of the European Union. This does not mean, however, that as a result of the changes observed do not appear negative effects (e.g. Spain). It therefore appears necessary to further reduce barriers to movement of labor and services within the European Union and the use clearly positive experiences of labor market reforms.

The current situation is the result not only traveled the recession and low GDP growth, but largely expenditures submitted to financial institutions, as part of stabilization packages. The countries 'Eurozone' together for that purpose, funds equal to approx. 23% of area GDP, which means a heavy burden on the budgets of the various countries, and the consequences for taxpayers. This also means the need to implement deep reforms aimed at savings due to limitations in budget expenditures.

Radical cuts contribute to a reduction in demand and, consequently, contribute to lengthening the duration of the second wave of the crisis, aggravating the situation on the labor market. Even if the majority of the economies of EU

countries manage to avoid a recession and a slow employment growth in the market sector, the programs implemented budget cuts cause restrictions on public sector employment. Therefore, in my opinion, should not be expected in the near term, a clear improvement of the situation on the EU labor market and achieve employment levels close to those recorded in the period before the crisis.

On the other hand, unemployment is the main problem in Kosovo and remains the highest in the region. Data from the Labour Force Survey for 2014 noted that unemployment has risen to 30.0 % from 35.5 % as it was in 2013 , while in 2014 , the level of youth unemployment has reached 61 %. Regarding the employment structure, four main economic activities (which employ about half of the total number of employees) are: production, followed closely by trade, construction, and education.

The discrepancy between labor market needs with the knowledge and skills gained in higher education and vocational education has been identified as a major gap more than 2/3 of the existing and potential investors in Kosovo.

Informality in the labor market is very high, significant proportion of people who economically are inactive are in fact employees discouraging and public employment services that have a demonstrated need for reform and modernization and a good about the labor market. The increase of the average wage in 2014 has offset the decline employment, from a standpoint of national level.

Improving employment opportunities for people - especially women and young people - poses challenge the single main socio-economic development in Kosovo , next to an agenda of important reform has already been implemented to create more jobs and reduce unemployment .

As we stated above, Kosovo has the highest rate of unemployment in the region, while initially raised some concerns that have characterized the labour market during 2008-2014. Economic stagnation of many parameters in place results even in strangulation of the labour market. Unemployment is not the only concern for the population of Kosovo, part of this concern are the active part of the population who work without regulation of collective contract, low average wages, violations of workers' rights which are consequence of malfunctioning to full union.

Kosovo should create favourable policies to attract foreign capital in order to use the advantages that are offered especially in the aspect of the young people. Strategic orientation of the Kosovo economy should be state policy of favouring the development of small and medium enterprises as generator of economic development on occasion will allow creation of new jobs, especially for young Kosovar.



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