

Unemployment and labour force market in Republic of Kosova

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ABSTRACT

Labour market in general and specifically the unemployment represents one of the most important and debatable issues in every world economy. Unemployment along GDP, presents the main indicator of the level of utilizing capacity and economic development of a country. If the unemployment rate is increasing in a country, it shows that this country is economically stalled and is not being able to utilize available production capacities in its best possible way, hence, causing decrease the standard of living of the population.

Unemployment phenomenon is closely corelated with GDP. If production decreases, it will have an chain impact in several other indicators, starting from increase of unemployment, decrease of level of income, decrease of consumption, and as a consequence the re-decline of production. Therefore economic policy makers all over the world have one of their main goals to keep the unemployment rate level within the lowest possible limits, because this is the one of leading indicators of their successfull or not succsesfull socio-economic policies.

The very high rate of unemployment in Republic of Kosova presents one of main challenges that Country faces for a long time. The purpose of this research is to analyze the situation of labour force in Kosova, and come up with conclusions and recommendations regarding the creation of genuine economic policy which would cause the reduction of unemployment rate in country.

Keywords: Unemployment, Labour force, GDP, qualification, standard of living

1. Introduction

Most countries of the world have been faced with economic and financial difficulties, which were derived due to global financial crisis. As a consequence, this one had its effects into other macroeconomic indicators, and especially on unemployment rate. Republic of Kosova being a non-developed country and very low key on integration level, was not affected so much in a direct order of global financial crisis.

The effects of the crisis were observed especially with remittances and within the trade sector. But, despite this fact Republic of Kosova has the highest rate of unemployment in relation to the countries of the region and Europe. Seems paradoxical the fact that Republic of Kosova in all the recent years had significant economic growth going well over five percent, but it was not enough to reduce the high rate of unemployment. This argument with the fact that our country is blessed with a very young age population, with around 25-30 thousand young seekers who enter the labour market every year.

Unemployment rate of about 45% is not the only problem facing the Kosovar's labour market. Our economy faces with a number of other negative inidcators such as: *longterm unemployment*, over 90% of uneemployed in Republic of Kosova are unemployed in a longer than a year perdioid of time, then the majority of the unemployed are "unqualified unemployed" and without any previous experience, making it more difficult the possibility of getting a job in a future, *employment rate* is extremely low below 30%, then *inactivity rate* of 70% is extremely high and causes a heavy burden for the current employees.

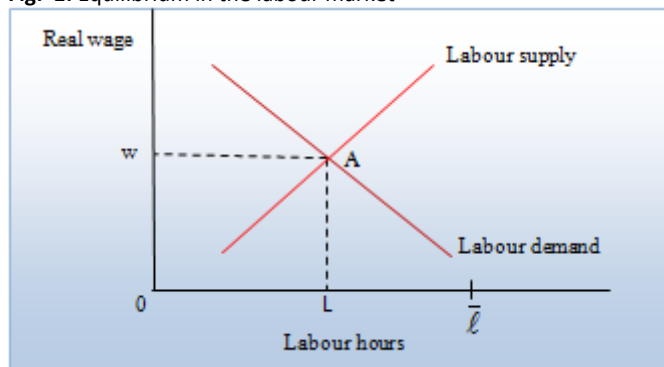
2. Labour market

2.1 Demand-supply and the labour market equilibrium

Labour supply has an upward-sloping curve due to the fact of positive correlation between wage and employment. Thus, the higher the wages, the more people will be willing to work. Demand for labour has negative slope because companies are interested to get more workers when the wage is lower.

Labour market equilibrium is reached where labour supply and labour demand intersect. As we have observed labour supply curve is derived from the behavior of workers and the labour demand curve is derived from the behavior of firms.

Fig. 1: Equilibrium in the labour market



Source: S. Landsburg & L. Feinstone, macroeconomics, McGraw-hill companies, f 276

Point A in Fig. 1 shows that at the wage level w the market clears, so we have no excess supply or demand. L in figure 1 shows the number of workers willing to work with the existing salary, respectively the number of workers to firms willing to accept to work with this salary.

2.2 Unemployment and its interpretation

2.2.1 Static interperetation and measurment of unemployment

International Labor office (ILO) and OECD, consider an individual as unemployed if he or she does not have a job (not working) during a reference period, is actively looking and ready to work. A person is employed if he or she has spent a part of last week working at a paid job (W. Wallstad & R. Bingham 2005). Persons who did not enter into any of the above categories, such as secondary school students, colleges students who do not work, and retirees are out of the workforce (Gregory Mankiw 2003). People who work and those who do not work make workforce. Workforce mainly excludes students school ones, retired people and those not interested in finding a job.

$$L^s = L + U$$

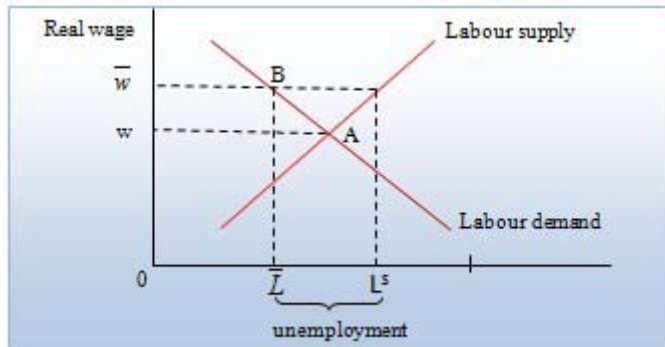
Labor force = employment + unemployment

The unemployment rate represents the ratio of the labourforce that is not working $u = U / L_s$ i.e. the ratio between the unemployed and the labour force.

2.2.1.1 Involuntary unemployment and real wage adjustments

One interpretation of unemployment is the failure of markets to clear. In Figure 2 real wage rate is considered as fixed in w , which is higher than the salary that equates the supply and demand for labour (W. Wallstad & R. Bingham 2005). Persons. With wages w firms are willing to accept L workers, while workers who want to work are L^s . As long as firms are not obliged to accept more than willing, current employment is L , while the difference $L^s - L$ is work offered but not required by the market. This is involuntary unemployment. Involuntary unemployment exists when an individual is willing and able to work with a salary w , but can not find a job no matter how hard it seeks for.

Fig. 2: Involuntary unemployment



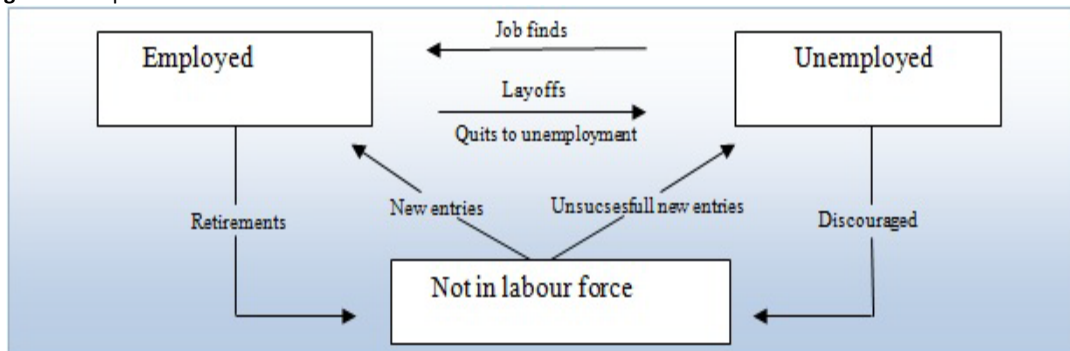
Source: Burda & Wyplosz, Makroeconomics, Oxford University Press, f 83

If real wages would be reduced in the direction of point A, demand will increase; supply will decrease, thus eliminating forced unemployment. In conclusion involuntary unemployment is the result of wage rigidity that comes as a result of several key factors, such as: a) cleaning of markets in conditions of asymmetric information. b) co-ordination problems, c) efficiency wages and real wage rigidity, and d) the minimum wage - the limit below which real wages must not fall (R. Dornbusch & S. Fischer 2000).

2.2.2 A dynamic interpretation of unemployment-the situation in the labour market and transition

Every person of working age is either employed or unemployed or outside the labour force. Fig 3 shows the three positions and the existence of movements between them.

Fig. 3: A map of the labour market



Source : Burda & Wyplosz, Makroeconomics, Oxford University Press, f 83

There are three ways which lead to unemployment. First, young people naturally joining the labor force finding a job, unsuccessfully at least in the initial phase. The second dehire of employees from work may lead to unemployment. Quitting work often leads to unemployment: the majority of workers who quit work find another job immediately. But most of those who resign and do not start any new job leave the labor force, usually for family reasons, going back to school, retire, etc.

2.3 Types of unemployment

2.3.1 Frictional unemployment - At any given time some workers are in between jobs. Some of them will be moving voluntarily from one job to another. Others will have been fired and will be seeking reemployment. Still others will have been laid off temporarily because of seasonal demand. In addition to those between jobs, many young workers will be searching for their first jobs. Frictional unemployment is inevitable, and at least in part, desirable. Many workers who are between jobs voluntarily are moving from low-paying, low-productivity jobs to higher-paying, higher- productivity positions.

2.3.2 Structural unemployment - changes over time in consumer demand and in technology alter the structure of the total demand for labor, both occupationally and geographically.

Occupationally, the demand for certain skills (for example sewing clothes or work on farms) may decline or even vanish. The demand for other skills (for instance designing software or maintaining computer systems) will intensify. Workers whose ability and experience becomes unnecessary. They are structurally unemployed until they adapt or develop skills that employers want.

Geographically, the demand for labour also changes over time. The movement of industries or factories from one region to another, or even its changing demand for certain types of work. As job opportunities shift from one place to another, some workers become structurally unemployed (McConnell 2003).

2.3.3 Cyclical unemployment - unemployment is cyclical unemployment that results in addition to structural; it occurs when the product is below the full employment level. Cyclical unemployment comes as a result of the decrease in total costs (demand) and is presented in the recession phase of the business cycle. As the demand for goods and services decreases, employment decreases and unemployment rises (R. Dornbusch & S. Fischer 2000).

2.4 Unemployment costs

2.4.1 Economic costs of unemployment

GDP gap and Okun's law. The higher unemployment is the lower GDP becomes. One of the economic costs of unemployment is fall of GDP. This best explains the Okun's law, according to which every 1 percent that the actual unemployment rate exceeds the natural rate, causes a negative output gap to 2 percent.

Unequal burdens - An increase in the unemployment rate, let us say from 6 to 7 or 8% might be more tolerable to society, if every hour of employees work and salary income will be reduced proportionally. But it is really not the case, overall unemployment strikes the poor, and this aspect should raise concern about this phenomenon. Whether the burden of higher or lower unemployment depends on several factors, as the most important of which are: occupation, education, age, duration of unemployment, etc (McConnell 2003).

Unemployment becomes a burden to the government - in the case of unemployment; the Government should establish compensation funds for the unemployed. This is an economic cost to the fact that instead of using those funds for investments or other purposes, the government, distributes them to the unemployed without any compensation. In this case, the unemployed will not suffer loss of income from being unemployed, but the society would lose from a decline in the total product. Also the burden for the payment of such compensation for unemployment, in the form of taxes falls on employees (A. Manqellari, S. Hadëri, Dh. Kule and S. Qirici 2002).

2.4.2 Social costs of unemployment

Unemployment causes depreciation of human capital - A prolonged unemployment leads to a decrease on the value of the investment made in human capital. This is because the knowledge acquired in education and working skills if are not put in use for a long time, lose their value.

The unemployment increase can affect the growth of criminality in the country - this happens because an individual is not employed. Unless there is a legitimate job, he may be inclined illegally, i.e. the streets of crime.

Social costs of unemployment also take the form of reducing the personal dignity and health deterioration of the unemployed - Unemployment makes people feel themselves as marginalized and removed from active participation in social life. Unemployment puts people in depression situation those causing them mental illness, heart disease, etc.

3. Labour market in Republic of Kosovo

The Republic of Kosovo has its a labour market in very unfavorable situation, with an unemployment rate of about 45%, with a very low rate of qualification (60% of them are unqualified), at a high rate of inactivity and desperation, over 90% of the unemployed are long term unemployed.

For analyzing the labour market, of particular importance are the following indicators:

Resident population - data published by the Statistical Office of the number of people living in the Republic of Kosova, show that permanent residents in our country are 1,733,872 people, of whom 873,598 are male and the rest of the 860,274 are females (Kosovo Statistics Agency (KSA 2011).

Age structure - the first important indicator of the labour market is the relative size of the working age population respectively persons aged 15 to 64 years, which roughly defines the limits of available potential manpower. In the Republic of Kosova, the figure is around 64%. This relatively low percentage is the result of a very young age population of the Republic of Kosova, with almost a third of the population under age 15 and 7.8% of the population over age 64.

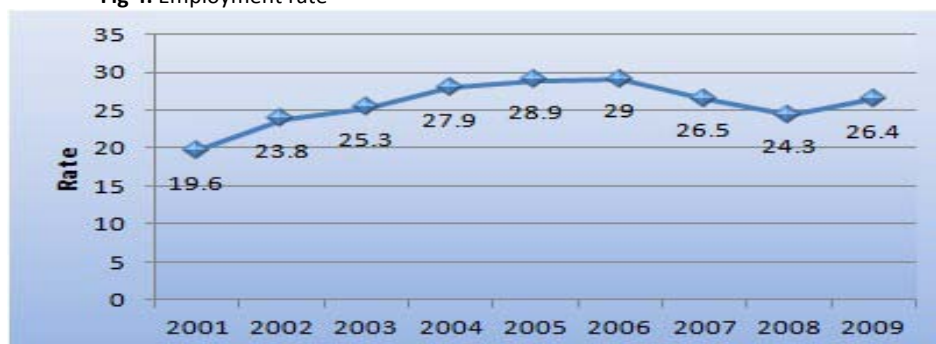
Activity Status - The second group of important indicators of the labour market is related with the actual activity of the population, by distinguishing three statuses / employed / unemployed and inactive.

Inactive people make the largest group of people in Republic of Kosova with 70% (KSA 2010). In this very high percentage of inactive people a number of factors contribute: Firstly, in this category all people under the age of 15 are included, secondly, many young people are still being educated, thirdly, a number of old people leave the labour force before reaching the retirement age, fourthly, many women decide to look after their family and household, giving up the work, and finally, many people being long-term unemployed cease looking.

3.1 Employment in Republic of Kosova

Number of registered contributors in Kosovo Pension Savings Trust Fund at the end of 2011 was 251,510 persons (KPST 2011). Employment rate in relation to working age in Kosova, consistently, in all the postwar years has been extremely low (26.4% in 2009) which shows a very low key potential usage of Kosova's economy.

Fig 4: Employment rate



Source: KSA – Labour Market Statistics 2009, pg. 24

It is worth mentioning that there is a significant difference between male and female gender, in terms of employment rate. While men achieve an employment rate of 35.5%, the percentage for women is only 11.1%.

3.1.1 Employment by age group

Largest number of persons working in the Republic of Kosova refer to the central age 25-54 years. Regarding young people aged 15-24, there is a low employment rate below 10%, which may be partly a result of continued education. But it could also be due to difficulties in finding a job for the first time and non-confidence of available jobs.

3.1.2 Employment by level of education

In general there is a positive correlation between employment and education. Thus, the higher the education is, the greater the likelihood of employment becomes. This relationship appears to be true in the Republic of Kosova as well, where 80% of those with higher education are employed (KSA 2009).

This link between employment and education in the Republic of Kosova is very tight especially within feminine gender, where women with higher level of education are more likely to be employed and almost equal with men, which is not a case as closely to women with low level of qualification.

3.1.3 Working conditions

Labour contracts as defined time limit - According to a recent Kosovo Business Alliance (AKB) on the labour market needs, conducted with 2500 enterprises in 2012, 30.8% of workers contracts have been indefinitely, which means long-term employment, 28.4% have 12-36 months contracts, and only 13% had work contracts under 12 months.

From the total number of employees in these companies, 61% have a written contract between the employer and the employee, 10.7% had oral contracts, and 24% have no contracts at all.

Ways of finding work - Based on a survey conducted by the Kosovo Business Alliance, only 23% of employment in the Republic of Kosova is realized by the public employment services. Most of the placements are made through advertisements by 33%. followed by employment through friends and relatives with about 26.3%.

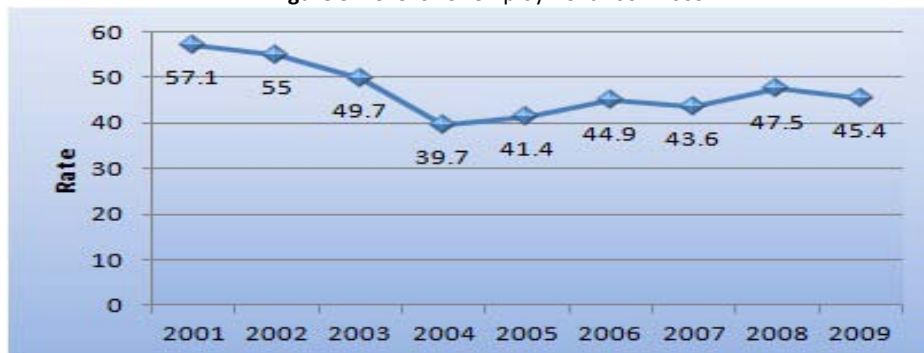
Average Wage - The average salary in the Republic of Kosova has increased continuously from year to year by a slow trend, 248 € in 2008, in 2010 292€ and 327 € in 2011. Although the increase with over 18% from 2008 to 2010 and about 11% from 2010 to 2011 it may seem a significant increase. This result fades considering the fact of a very low base in which this percentage is calculated.

If we analyze the past 6 years, we see that despite of the high unemployment rate in Kosova, approximately 85% of the vacancies offered by the public employment services are completed, the remaining 15% may be the result of discrepancy between places offered and required (AKB 2012).

3.2 Unemployment in Republic of Kosova

The number of registered unemployed people at the end of 2011 by the public employment services is 325,261 people (unemployment rate 45%). It is worth mentioning that despite continued economic growth, the number of registered unemployed people was increasing.

Figure 5: Level of Unemployment 2001-2009



Source: KSA – Labour Market Statistics 2009, pg. 24

3.2.1 Unemployment by age group

If we analyze the unemployment rate by age it shows that the highest rate of unemployment is among young people aged 15-24 years. Despite the fact that many of the people of this age, because of education are out the labour force, over 70% of those who want to work and belong to this group are unemployed.

As drawn the participation of unemployed people aged 15-24 in the total number of unemployed in Kosovo, it appears some 32% (from a total of Kosova's unemployed, 32% are of this age). Out of the largest number of registered unemployment in Kosovo, about 44% are of age 25-39. This data is not favorable if we consider the fact that this is the best age to work. Unemployed youth face a constantly increasing rate of enrollment in unemployment due to the fact that the Republic of Kosova has a very young population, and consequently a large number of people enter the active population, most of them unemployed.

Under the new law on access to the labour market, working age will not be 15-64 but 18-65 (Law on registration and evidence of employees and job seekers). This fact will have its impact not only in terms of the increasing unemployment rate of young people, but also in the overall increasing unemployment rate in the country.

3.2.2 Unemployment by the level of education

In contrast to employment, the unemployment rate is inversely correlated with the level of education. The higher the education level, is lower the unemployment rate appears and conversely the lower the level of education / training is, the higher the unemployment rate becomes. Also, it is worth mentioning that women with low qualifications face a much higher unemployment rate than men with the exact same qualification level.

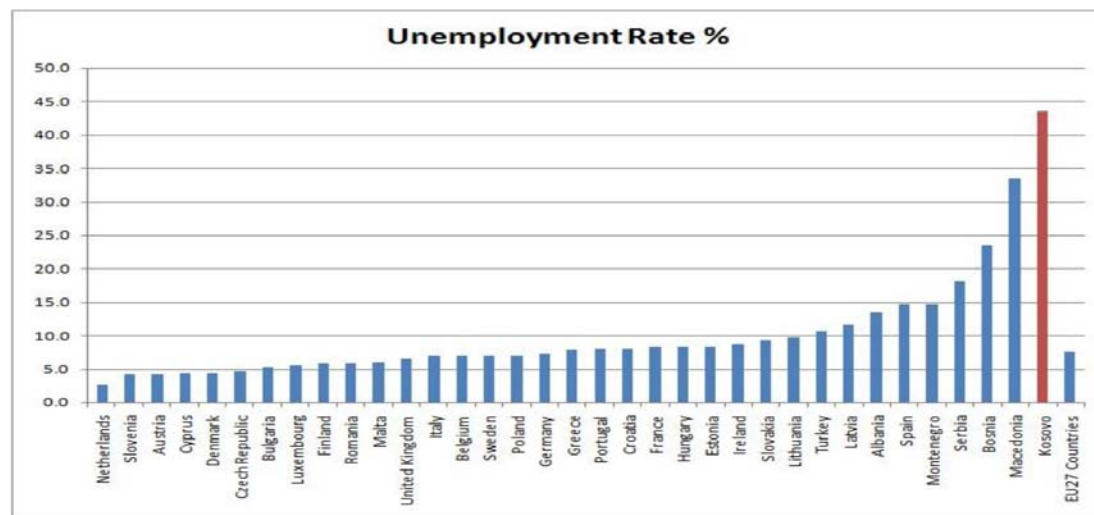
3.2.3 Unemployment rate in relation to staff

With 335,260 registered unemployed people in 2010 received a total of 182 regional employment officers (excluding support staff). On average it results that an officer is dealing with 1842 people, this average which differs from one region to another, especially contrasts sharply with the European Union average which is 150 to 1. It should be noted that in spite of the fact that the proportion of unemployed in the staff report is 12 times higher than the European Union average, the employment service of the Republic of Kosovo faces continuous staff reduction.

3.2.4 Unemployment in comparison with other Countries

As it can be seen from the following figures, the Republic of Kosova leads with the highest rate of unemployment in relation to all the countries compared.

Fig 6: Unemployment by Country



Source: GAP, Copenhagen economic criteria, pg. 28

Also, it is worth mentioning that the rate of participation in the labour force in the Republic of Kosova is 48.1%, which is significantly lower than the average of all countries in transition 65% (World Bank 2011) and the world average of 65.3% (ILO 2011). Another disturbing data is the level of employment which in the Republic of Kosova is 26.4% (KSA 2010), a rate which is very low compared to the world with 61.2% (ILO 2011).

Over 90% of the unemployed people in the Republic of Kosovo are long-term unemployed, while the average of the European Union countries is around 43.1% (EUROSTAT 2012), unemployment of young people aged 15-24 on 70%, 21.4% average of the EU.

3.2.5 Duration of unemployment

Duration of unemployment represents the average length of time for which a person remains unemployed, or in other words, the time from which a person has lost his last job or started to look for a job.

Over 90% of the unemployed in the Republic of Kosovo are long-term unemployed. Which means that continuously unemployed people look for work without success. This significantly high percentage of long-term unemployment has the effect of despair and therefore quit the search, causing increased inactivity rate, which in Kosovo is around 50% of the working age population (15-64) (KSA 2010).

3.2.6 Previous work experience

Unfortunately, most of the unemployed people in the Republic of Kosova are without any previous experience. Even the knowledge they have achieved either through education or training from professional training centers, will forfeit over time by being long-term unemployed. Over 80% of the total unemployed people and almost 100% of young people aged 15-24 are unemployed with no previous experience (KSA 2010).

4. Conclusions and recommendations

The results of this research indicate a serious condition in the labour market in Kosovo. Unemployment rate according to various sources is around 45%, 90% of whom are long-term unemployed, about 60% are unskilled unemployed, over 80% of the total unemployed are without previous experience. Employment rate in relation to the working age amounts right under 30% . Also troubling is that labour force participation is significantly lower than the average of all countries that have gone through the transition phase.

There is also a considerable difference in the level of employment in terms of gender; distinction which is more pronounced the lower the qualification to be. Also, in total there is a close link between education / training and employment - the higher qualification the higher employment and vice versa.

Capabilities of employment centers are very limited in dealing with a large number of registered unemployed from year to year. Also the role of these centers in employment turns out to be very not significant enough and therefore the trust in these centers is very small.

Conditions faced by the unemployed in the labour market, especially of youngsters are unfavorable and unequal, especially in the way of becoming employed. Employments are not done on the basis of qualities and qualifications but most of them are based on acquaintances of friends and families.

Kosovo's economic growth although has continuously been positive in recent years, it has been observed to have had some effect in reducing the rate of unemployment, arguing that large inflows of young people in the labour market as a result of young age population in Kosovo.

Privatization process, although necessary to prevent mismanagement and the so-called exposure of capital to social and public enterprises. Privatisation, except that there was no positive effect, it seems to have had the opposite effect in terms of employment.

Remittances as a significant financial resources for Kosovars in greater percentage around 46% of them are used for consumer goods, while only 11.4% are used for investments (UNDP 2010). If we consider the fact that the vast majority of consumer goods are imported. This fact weaknes the effect of remittances in manufacturing and consequently Employment in the Republic of Kosovo.

In order to improve the situation in the labour market there should be a deep study of the development of favorable economic policies that will push Kosovo towards a growth rate of over 7%, This growth would reduce the unemployment rate including new entries in the labor market. Growth that will be achieved with the support of primary importance for Kosovo sectors, especially the agriculture, then the creation of favorable legislative conditions to attract foreign investment.

Kosovar economy's financial potential should be utilized in most efficient manner. When I say Kosovo's financial potential, i think all the potential, including the privatization fund and fund KPST fund, which together exceed 1 billion euros. About 94% (KPST 2011). of the Kosovo Pension Savings Trust Fund in 2011 were invested abroad, the same situation exist with privatization fund. Failing to use these funds in the Kosovo's economy, further stagnates the economic development of Kosovo.

It would be of particular interest to find better ways of information of youth for deficient occupations, so that their orientation to be specialized or to study, to be in these occupations. Consequently, their future employment would be much easier.

Institutions of higher education and vocational training, work continuously adapting programs in accordance to the needs of the labour market. There are many such internships, because there are complaints from the enterprises in terms of job preparations of the graduates.

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