

THE CONFIGURATION OF LABOR MARKET IN ALBANIA AND ITS CHALLENGES

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ABSTRACT

When the economy goes in recession, the necessity of state intervention for its regulation becomes inevitable. Often, the monetary and fiscal policies undertaken by the government with the aim to achieve this target, may result with different economic configuration, probably undesirable. That's by the other steps undertaken in the priority economic sectors. Actually, the Albanian government has taken some measure in order to reduce the informal economy (focused especially on business agent) and to regulate the market labor in the country.

As any reforms, the effectiveness of those initiatives will be seen after some years, but actually, some questions bring in mind: what is the impact of those in the economic performance of the agents (business-employee), and can improve their conditions? Is the labor market in able to handle the initiatives and have been those in the appropriate levels? How are the actual report private employment and state employment, and has been rise the employment rate during this time? Is the possibility that higher employment rate will be a good indicator for the improvement of the economic welfare? The configuration of the labor market in the country and its challenges will be the focus of this article.

Keywords: Labor Market, Mobility Employment, Rate of Employment

1. INTRODUCTION

It is obviously to say that private sector remain the promoter of country's economic development. The economics agree with the fact that labor market is the main source that contributes in the economy growth (Kydland, 1995). But, the relationships configured in the environments of the firms (especially those that stresses the relation between manager-worker), and outside of firms (such as political environment, legal and cultural), can multiply positively or not the economic growth of the country. Many scientists have focused their works in order to know the possible correlation between many variables of labor market and the growth of economy. They have seen the problem in the microeconomic view (Kydland and Prescott, 1982) based in labor productivity and working hours or (Abdel Mowla in Russia 2011) the job search like a process that is essential in labor market. (Smirnova, 2003) appoints that sometimes is not enough only to search job rather that the intensity to search it. Today, internet is stressed like a variable that influence a lot in the rate of employment (Paik, 2008). Anyway, the microeconomic aspect of labor market, in many working paper, connect the rate of employment with the total utility of the consumer, with the aim that the last variable be maximized, using the linear methods. The problems are also viewed in the macroeconomic aspects, trying to see the impact of labor market in the growth of economy. So, knowing the

effect of fiscal politics (especially those, because have to do directly on the above relationships), the economics are trying to be focused on the correlation between for example: unemployment, education, foreign investments, gender criteria, level of taxation on the wages etc. Some of those criteria will be on the focus of the article, configuring the labor market of Albania. So, it's challenges and the appreciate steps to do in order to reduce the problems. The level of the economy is a variable that must bring in mind, but the country faces also the overall economic performance of the other countries, with which has to do. Taking this fact in consideration is also necessary. Meanwhile, trying to answer the below questions, we will see the relation between the labor market in the country and its overall performance's economy.

2. THE METHODOLOGY

The primary data gathered by the different official institutions, inside and outside the country, like IMF, INSTAT, IOM, Bank of Albania, etc, are used for the article. The most useful data are taken by the LFS (Labor force Survey) for the respective years from 2000-2014. The LFS is a survey based on family and the sample is 7.450 families. The aim is to see the possible correlation among the variables like: wages, GDP, inflation, the labor-business freedom, how those influenced each other and how can be the trend in the future. As the wages, which probably will be determined by the equilibrium of the respective labor market according to the different skills and professions, are a not absolute indicator of the standard living of peoples, however, as a result of the process in every specific labor market and also by all the economy, will be the variable that can tell something about both of them.

Sure that, every specific labor market has its characteristics, strongly depending by:

- The level of education of the supply labor
- The required skills of labor demand
- The business level taxation
- The freedom of market and its regulation
- The level of doing business in Albania
- The efficiency of social programs in respective labor market etc.

So in this aspect, taking into consideration the average variables, the main hypotheses are:

- The average wage is very dependent by the growth of the economy;
- The average wage is very dependent by the report that exist between market freedom and labor freedom

3. SOME ASPECTS OF LABOR MARKET AND THE ECONOMY OF ALBANIA.

Our country is faced with very massive change during this time, from a centralized economy to an almost liberal labor market. The first phase of this long process of transition, has found the labor force of population not in able to fits the respective skills required by the free labor market. The rate of unemployment was very high due to especially frictional unemployment and structural unemployment. The reasons were:

- Labor force was specialized by some specific skills that the time required, inside the country.
- The new concepts and skills of labor market, like marketing and management, have not been heard before during their education, so labor force was totally unprepared, resulting with a high rate of unemployment, also by the fact that the economy was almost destroyed.

Those reasons are comes true when we see that in 1991, the peoples that worked in public sector were 850.000 and in 2005 only 186.000. The employment rate on that time was decline with 3.56%. The trend continued to be decreasing. In 2005 the number was 176.731 people. During this time, 2002-2005, 80% of the worked people were by private sector. Among the factors that cased the decrease of employment rate was the mass privatization of the state economy. Also, the high rate of employment in private sector was by the agricultural private sector. The activities that contribute a lot in the employment of people, on that time but also today, are the sector like: 1-agriculture, 2-fishery, 3-forestry, 4-manufacturing industry, 5-trade, 6-construction, 7-health etc.

All those sectors are very important for the development of the country, but the composition of the labor force is change due to policies of people's education. Many young people have two or three diplomas and still are unemployed. Regards their skills, the financial sector, tourism sector, real estate sector contributes a lot in their employment. The rate of labor force participation, with the focus of 30-64 years, because that category is the most active, has going to be decreasing today (please see the Table 1). That category of labor force had its peak in 2011 with 76.7% and the employment rate was 68.2% (please see the Table 2). So, 8.5% of them were unemployed.

Table 1: The participation rate of labor force during the time

Labor force participation rate								
2007	2008	2009	2010	2011	2012	2013	2014	Age group
								Albania
50.1	41.6	45.6	44.3	54.8	46.6	38.7	41.9	15-29
75.6	71.8	73.2	74.4	76.7	73.8	71.1	72.3	30-64
65.4	62.1	62.1	62.3	68.5	64.9	59.6	61.5	15-64
58.0	53.3	55.1	55.2	60.3	57.3	52.4	53.7	15+
								Male
57.1	48.2	52.5	51.6	62.2	54.1	47.9	51.2	15-29
86.5	84.1	87.2	86.3	85.2	84.2	82.9	84.5	30-64
74.7	72.4	73.5	72.3	76.4	73.4	70.2	72.2	15-64
66.9	61.7	64.9	64.0	67.9	65.5	61.7	63.5	15+
								Female
43.2	35.6	39.8	37.4	47.0	37.7	30.1	32.0	15-29
64.9	60.9	60.3	63.3	68.6	64.4	60.7	61.2	30-64
56.2	52.9	51.8	52.9	60.8	56.4	50.1	51.3	15-64
49.5	45.7	46.2	46.9	52.9	49.2	44.0	44.4	15+

Source: INSTAT, Albania 2015

Table 2: The employment rate during the time

Employment rate								Age group
2007	2008	2009	2010	2011	2012	2013	2014	
								Albania
40.2	31.3	35.6	34.3	42.8	34.5	28.2	28.2	15-29
67.5	64.6	65.6	66.4	68.2	66.4	61.8	62.7	30-64
56.6	53.9	53.5	53.5	58.7	55.9	49.9	50.5	15-64
50.3	46.3	47.5	47.5	51.9	49.6	44.1	44.3	15+
								Male
44.1	35.9	41.1	39.3	48.0	38.8	33.7	33.0	15-29
77.2	76.5	79.8	79.2	76.7	75.4	70.8	72.7	30-64
64.0	63.3	64.5	63.1	65.7	62.2	57.3	58.0	15-64
57.3	54.0	57.0	55.9	58.6	55.9	50.7	51.4	15+
								Female
36.4	27.2	31.0	29.6	37.3	29.4	23.0	23.3	15-29
58.0	54.1	52.5	54.4	60.1	58.3	53.9	53.6	30-64
49.3	45.6	43.6	44.5	51.8	49.6	43.1	43.4	15-64
43.4	39.4	38.9	39.5	45.3	43.5	38.0	37.6	15+

Source: INSTAT, Albania 2015

That time, the country was not influenced so much by the European crisis and Albania was a preferred country by FDI (Foreign Direct Investment) and some specific sector of economy had a positive rate of growth, like construction, due to also of fiscal policies and liberal administrative procedures. This is easy to bring in mind, if we see the composition of economy. It's important to know who are the most productive sector in economy. Although the labor market, especially in construction sector, faced to be informal (the number of employees are not so real in order to avoid the taxes), the rate of employment in the country was higher in 2009 with a coefficient 0.844, following by Transport and Communication sector with the peak in 2011. Its coefficient was 0.657. These coefficients are calculating, taking in consideration the ratio of the number's people who works in that sector, in the respective year, with the total of peoples employees in the Albanian economy. The interesting fact is that, regards the gender of the Albanian labor force, the number of male employed attempt to be higher in the 2009 (the boom of construction) and the rate of women employed in 2011 year (the sector of service with the growth of bank sector, telecommunication , trade etc, have make the difference , I think, in that gender ratio.) Although, the most of people have a higher education, the labor market "prefer" the women regards the man (please see the Table 3 and Figure 1). This shows another problem, stressing so social cost, meanwhile the construction is a sector that not required a lot of skills.

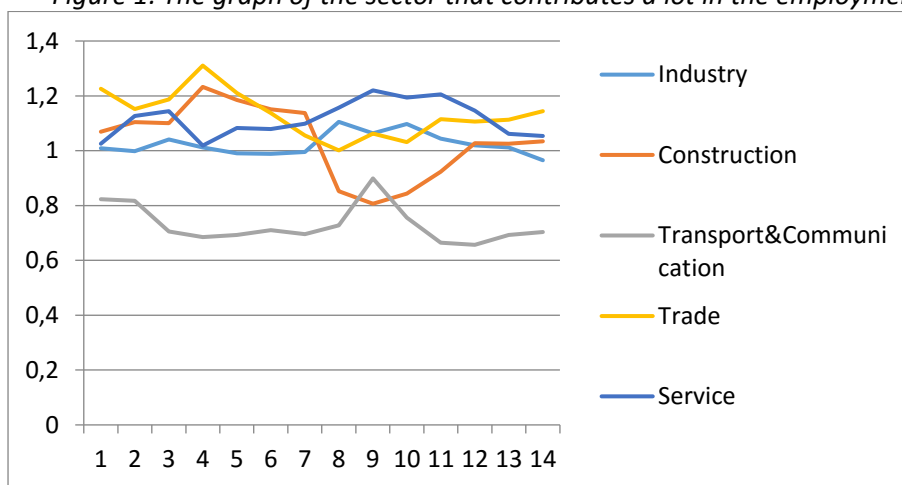
(Table following on the next page)

Table 3: The contribution of the economic sectors in Albania regards the employment

Economic Activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Industry	1.009	0.998	1.041	1.012	0.991	0.989	0.995	1.105	1.064	1.098	1.044	1.02	1.012	0.965
Construction	1.069	1.104	1.101	1.233	1.185	1.151	1.138	0.852	0.807	0.844	0.923	1.028	1.026	1.034
Transport&Communication	0.823	0.817	0.705	0.685	0.693	0.71	0.696	0.728	0.899	0.756	0.665	0.657	0.693	0.703
Trade	1.226	1.152	1.187	1.311	1.211	1.138	1.056	1.001	1.063	1.031	1.115	1.106	1.113	1.144
Service	1.026	1.127	1.144	1.019	1.083	1.079	1.099	1.157	1.22	1.194	1.206	1.146	1.062	1.054

Source: INSTAT, Albania 2015

Figure 1: The graph of the sector that contributes a lot in the employment rate



Source: INSTAT, Albania 2015

Focusing in their average monthly wage, the sectors with the most distributions of the wages are trade and service with 22% in total. This is also in the same thoughts mentioned before. (Please see the Table 4 and Figure 2).

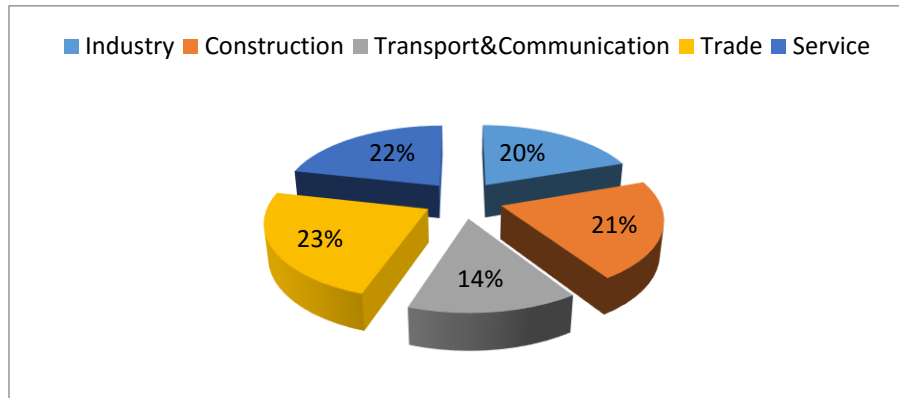
Table 4: The trend of average monthly wage and official minimum wage

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Description
14,963	17,218	19,659	21,325	24,393	26,808	28,822	33,750	36,537	40,874	43,625	46,665	50,092	52,150	53,025	Average monthly wage
7,000	7,580	9,400	10,060	10,080	11,800	14,000	14,000	17,000	18,000	19,000	20,000	21,000	22,000	22,000	Official minimum wage

Source: INSTAT, Albania 2015

(Figure following on the next page)

Figure 2: The distribution of the wages in the different sector for the 2014 year



Source: INSTAT, Albania 2015

The average monthly wage has a positive rate of growth, approximately 14.2% per year. The high rate was in 2009 and 2011, meanwhile the rate of official minimum wage is very low almost 5% per year. From 2013 and now, that variable has remain constant (please see the Table 4).

During that time, many things had happened. With the objective to reduce the informal economy, in all the sector, also in the production markets factors, the government has implemented many steps of a fiscal policy, which has produce many debates.

Those steps are undertaken with the aim to increase the long term rate of the economy growth. How can be the relationships among some variables that can show us if the economy has some probability to grow, the standard of living etc. This point of view will be the focus of next issue.

4. THE RELATION AMONG LABOR MARKET AND GROWTH ECONOMY.

The variables that are take in consideration for the growth of economy are real GDP (in %), the rate of inflation, market freedom, labor freedom, business freedom. Those are the independent variables. In order to reduce their number, I have taken another variable which is the ratio of business freedom and labor freedom. This new variable is better, I think, because shows the possibility of doing business in Albania, also the possibility of the labor market to response the business. This relation can be seen in vice versa. As dependent variable is take the average wage. The reason is that the average wage can show better the purchasing power of consumers, so the standard of living (Please see the Table 5 below). In order that the variables have the normal distribution I have take the log of them, trying to show the possible regression with the coefficient $\alpha=0.05$

The main hypotheses to be tested are:

- The average wage is very dependent by the growth of the economy;
- The average wage is very dependent by the report that exist between market freedom and labor freedom;

(Table following on the next page)

Table 5. – Data

Year/variables	W mes	GDP	inflation	Market freedom	Labor freedom	Business freedom	% B/L
2005	0.44			60.2	49	55	12.2
2006	0.48	4.1	4.4	62.4	50.2	54.3	8.16
2007	0.41	3.9	5	72	49.7	64.1	28.9
2008	0.46	1.5	9	75.8	49.5	55.6	12.3
2009	0.44	-2.1	2.9	75.8	47.2	67	41.9
2010	0.43	4.1	3.5	85.8	52.1	68	30.5
2011	0.42	2.8	5	79.8	50.4	67.1	33.1
2012	0.41	2.2	3.7	79.8	51	78.2	53.3
2013	0.42	2.4	2.6	79.8	49	81	65.3
2014	0.41	2.5	2.5	87.5	49.7	78.1	57.1
2015				87.8	52.9	70.6	33.4

Source: Bank of Albania and Heritage

Regression Equation

$$\ln wmes = -0.13118 - 0.0574362 \ln GDP - 0.0814529 \ln inf - 0.109047 \ln b/pune$$

8 cases used, 3 cases contain missing values

Coefficients

Term	Coef	SE Coef	T	P
Constant	-0.131180	0.0440783	-2.97608	0.041
lnGDP	-0.057436	0.0231069	-2.48568	0.068
lninf	-0.081453	0.0278901	-2.92049	0.043
lnb/pune	-0.109047	0.0149637	-7.28741	0.002

Summary of Model

S = 0.00759206 R-Sq = 95.02% R-Sq(adj) = 91.28%
PRESS = 0.000759804 R-Sq(pred) = 83.59%

Analysis of Variance

Source	DF	Seq SS	Adj SS	Adj MS	F	P
Regression	3	0.0043983	0.0043983	0.0014661	25.4356	0.0045738
lnGDP	1	0.0000044	0.0003561	0.0003561	6.1786	0.0677975
lninf	1	0.0013329	0.0004916	0.0004916	8.5293	0.0432221
lnb/pune	1	0.0030610	0.0030610	0.0030610	53.1063	0.0018846
Error	4	0.0002306	0.0002306	0.0000576		
Total	7	0.0046288				

Fits and Diagnostics for Unusual Observations

No unusual observations

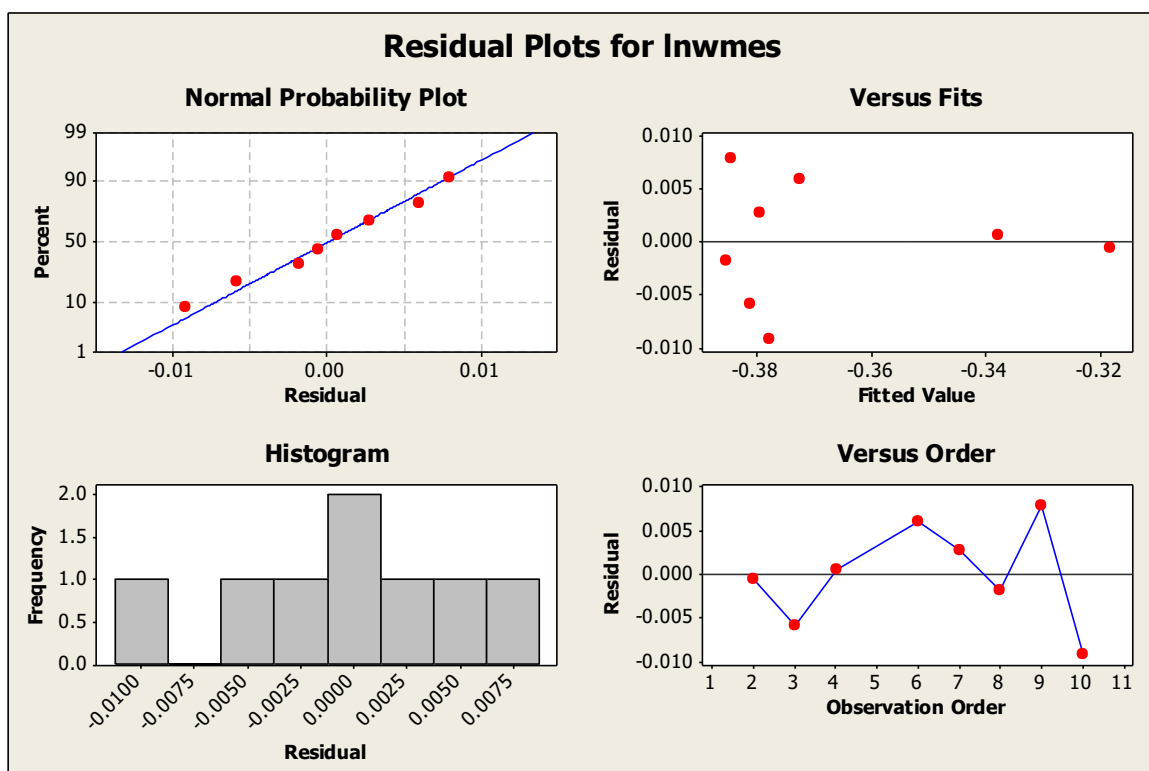
Durbin-Watson Statistic

Durbin-Watson statistic = 2.26136

According to the data, the model have a explication of the relation among the variables in 91.28% of cases and the ratio business freedom/labor freedom is the variable that have the significant impact on the dependent variable, the average wage ($p=0.0018$). Also the variable inflation has an impact on average wage as the p value is 0.043. The correlation, in both of cases is negative, showing an interesting fact. (Please see the Figure 2 all in one)

According to the hypotheses, the wage is going to be influenced by inflation rate but not so much by the %GDP, showing not a good link between them, so the first hypotheses have to be rejected. By the business freedom and the labor freedom the dependent variable is influenced, so the second hypotheses is going to be accepted. All the data of the model are showed in the Figure 2.

Figure 2: The total graphs of regression model



Source: Own data

5. CONCLUSION

All those years, Albania has faced many problems regards the economy in total, and labor market in special. It's important that the business sector, which contributes a lot in the rate of employment in the country, have a good climate of doing business. The correlation between the wage and freedom of business and labor market shows the negative relationship – indicated that the factor's productivity of labor market must be in control.

The rate of inflation is necessary to decrease in order to perform better the average wage, according to the regression. Also, the rate of employment is been decrease in the recent years, showing that the economy is in recession. The fiscal reforms that tends to formalize the economy, seems to have a negative short run impact due to the psychological costs and as result, in the growth rate of employment.

The construction sector has been in stagnation, as a block process which does not leave the producer to construct buildings. The main reason is to build in that manner, not to damage the infrastructure. The rate of employment has been constant for almost 3 recent years, due to the service trade that shows a growth in the recent years.

A disturbing fact, is the ratio for the employment between woman and mans, also the different categories according to the age in the labor force. The data shows a discrimination in some specific sector, and presence of the new age (only 15 year) participating in labor force. The education is a factor that must to bring in mind. Not only that good education results with high productivity, but I have not see the link between the education and the possibility of market to use that education. Peoples attempt to learn those skills that are not old fashion, but the economy is not configured in that manner to be in the same line with the education level of population. This is the main challenges of the labor market in Albania. If is clear where the economy will be focused (as industry economy or agricultural economy) the education must fit those objectives.

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