



ЕФЕКТИТЕ ОТ ЗАЕТОСТТА И БЕЗРАБОТИЦАТА ВЪРХУ ИКОНОМИЧЕСКОТО РАЗВИТИЕ НА РЕПУБЛИКА СЕВЕРНА МАКЕДОНИЈА

THE EFFECTS OF EMPLOYMENT AND UNEMPLOYMENT ON THE ECONOMIC DEVELOPMENT OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract: Unemployment is considered a normal phenomenon, a mechanism for the redistribution of work resources in relation to the volume and demand of the productive system, which is permanently connected with the economic and social development of each country. Within the limits of 3–4%, unemployment can have a positive impact at the global and individual level, meaning that it can encourage the flexibility of the workforce and increase work productivity, as well as form appropriate behaviour to increase quality at work in order to stimulate education and improve work discipline. On the other hand, an increased rate of unemployment on a large scale can cause a loss of economic potential, losses in production and income of companies, degradation of qualifications, losses in income and social status, discouragement and demotivation. Unemployment is seen as a problem of the functionality of the markets, not as a specific problem of the labour market; through the connection and communication with other markets, the labour market takes on unbalanced impulses which are retransmitted through mechanisms and specific forms, expanding them to already existing imbalances.

According to data from the International Labour Organization, unemployment includes people who have not undertaken any activity for a period longer than one hour, but are available for employment and are actively looking for work. Economically, youth unemployment leads to job instability in the labour market, increased social support costs, erosion of the basic tax rate, and investment costs in education and professional training. Socially, youth unemployment is not only a problem for the unemployed, but also for their families and society in general.

Failure to find a job leads to human ingratitude and increases the risk of some disorders, such as: malnutrition, stress, depression and even heart problems (Msigwal & Kipesha, 2013). There is also a significant risk among young people in activities that will break the law, which means that they will be liquidated from the labour market.

Keywords: resources; communication; unemployment.

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Introduction

Work represents working hours and work effort that people allocate to the production of goods and services (Parkin, Powell & Matthews, 2008). Work involves the mental and physical effort of people working on farms, construction sites, factories, stores, and offices. The quality of work depends on human capital, which includes knowledge and skills that people acquire through education, training and work experience.

The market is interpreted “in different ways, most often in its daily use people put the idea of a place where they can buy certain goods.” (Stefanov, 2018, p. 26).

There are numerous definitions of the labour market, but the basic and most comprehensive one is that the labour market is the place where the supply of labour on the one hand meets the demand for labour in the form of employers on the other hand. The labour market is the place where supply and demand meet, where workers find paid work and employers find willing workers, while the monetary compensation for that work is a contractually determined salary. Labour markets can be local or national (even international) in scope, and consist of smaller labour market interactions according to different qualifications, skills and geographical location. They depend on the exchange of information between employers and job seekers, on wage rates, employment conditions, the level of competition, as well as the location of jobs.

“The labour market is characterized by numerous inequalities caused by gender, race, nationality, etc. In such conditions, the classical economic principle according to which the marginal yield of labour and the average wage are equal in equilibrium is no longer valid, because the wage can be higher than the equilibrium wage, because preferred social groups have higher wages compared to discriminated groups” (Fabris, 2013, p. 467).

Definitions of what constitutes a spatial or local labour market vary considerably. However, two main approaches are dominant (OECD, 2000). According to the first one, the labour market is defined as homogeneous areas sharing common characteristics of the labour market. Cluster analysis is the most commonly used technique to identify such an area. According to the second approach, the labour market is defined as an area of nodes, the boundaries of which are monitored with the aim of detecting mutual relations between stakeholders. The most suitable spatial framework depends on the purpose of the analysis to be carried out between them.

Over time, economic theories have observed and given their definitions of balance on the labour market in accordance with economic conditions and labour market variables, i.e. the types of unemployment and labour prices that they have included in their analyses, and this area will be dealt with more thoroughly in the section on unemployment. At the European level, there is the European Trade Union Institute (ETUI), which has several comparative projects in the field of labour market, employment, and social policy. Projects include quantitative and qualitative segments on the labour market, taking into account specific configurations of institutional working conditions.

To take into account not only quantitative, but also qualitative assessment of the labour market, the European Trade Union Institute has developed a multiple index of job quality in order to compare developments in terms of opening new opportunities for employees in Europe over time. Special attention is paid to developments in non-standard employment and its implications for social security, but also in trade union organization. Another goal of this index is cross-border labour mobility in Europe. Some of the labour mobility projects are focused on skill mismatch issues and on the impact of the economic crisis. The Job Quality Index (JQI) is based on a series of sub-indices (wages, employment, working conditions, working hours and work–life balance, training and advocacy) that capture different aspects of business quality. By means of these criteria, comparisons are possible in order to achieve higher quality business in the 27 EU countries.

Employment

One of the basic macroeconomic goals is to reach the level of full employment, which represents the imperatives of the economy’s functioning that strives for a welfare state. The need highlighted in the Strategy 2020 refers to reaching the target employment rate of 75% for persons aged 20–64 at the level

of the European Union, and 65% for persons of the same age in the Republic of Serbia. These are tasks which the countries of the Union and the candidates should achieve in the now already five-year period, which brings along not only the problem of unemployment, but also high inflation rates and insignificant growth, viewed from the period of the beginning of the World Economic Crisis in 2008 until today; all of this represents challenges with which the creators of the economic policies meet. Full employment (Dimitrijević & Fabris, 2009) is the level of employment for which the labour market is in equilibrium. It is a key postulate of the neoclassical school (derived from Say's law of the market), according to which, for the existing real wage, everyone who wants it can find a job. Certain unemployment has a frictional character, because only those who are looking for higher real wages are unemployed.

Full employment means full utilization of all resources and achievement of the highest potential volume of production – the equilibrium level. Although more attention is paid to the phenomenon of unemployment in literature and research, the issue of employment, i.e. achieving the target level of employment, is very important, especially when it comes to employment policy.

Unemployment

The basics of macroeconomics are fundamentally linked to the area of unemployment (Josifidis, 2004). The theory and practice of economic thought and the situation until the outbreak of the Great Depression did not pay enough attention to the phenomenon of unemployment, at least not to the extent that it should have been analyzed according to its features, causes and consequences in economic, social, political, cultural and civilizational terms. With the appearance of Keynes, the problem of unemployment became crucial, because it is this problem that called into question the survival of the capitalist economy and system. By solving the problem of unemployment, Keynes solved the burning issue of capitalism. This way of getting out of the crisis was dominant until the 1970s, when another economic problem – inflation – emerged, which marginalized the unemployment issue to some extent in favour of permanently reaching the target level and price dynamics. In the practice of modern market economies, inflation control is dominant, while the problem of unemployment is the second most important one.

The parameters related to the labour market are among the key macroeconomic indicators, based on the fact that work is a key production factor, a key component of the production function and development opportunities of a country, while the growth of the unemployment rate is a basic indicator of the economic cycle and macroeconomic imbalance.

We will start with the production function (Dimitrijević & Fabris, 2009, pp. 43–44) $Y = AF(L, K, H, N)$, where:

Y – the amount of output produced is a function of the following inputs:

A – technology level;

K – capital level;

H – amounts of human capital;

N – natural factor;

L – amount of work,

Work is represented threefold: a) in the amount of work; b) in human capital; c) in the level of technology. If we now divide Y by the amount of work (L), we get $Y/L = AF(1, K/L, H/L, N/L)$ of economic efficiency (economy, companies). Labour productivity depends on physical capital per worker (K/L), human capital per worker (H/L), and natural resources per worker (N/L). The labour force consists of employed (E) and unemployed (U) on the labour market:

$$L = E + U$$

The unemployment rate (U) is expressed as a percentage and represents the ratio of the number of unemployed to the labour force:

$$U = \text{number of unemployed} / (\text{employed} + \text{unemployed}) \times 100.$$

Since the category of unemployed can also be seen as persons looking for work, this relationship can also be set as:

$U = \text{people looking for work} / \text{labour force} \times 100$, or $U = \text{people looking for work} / (\text{employed} + \text{people looking for work}) \times 100$.

The participation rate represents the ratio of the labour force to the total population: $SP = (\text{L} / \text{total population}) \times 100$.

A high rate of participation indicates a significant economic potential of the country, because a large part of the population is involved in the working potential of the country.

The unemployment rate is one of the key indicators of economic performance.

Economies that function with high unemployment rates in the long run waste their productive resources. Real output levels are usually above real output. There are lower levels of social benefits with a large number of beneficiaries, which increases inequality. It is important for people that they are needed in order to recognize their own existence in the society in which they live.

Unlike the inflation rate, which is a flow variable, the unemployment rate is a stock variable. Precise measurement of unemployment is not so simple, and the USA has the largest measurement range. The structure of unemployment is dominated by young people (teenagers aged 16–19 years), followed by women who are in a subordinate position compared to men, Afro and Hispanic Americans, as well as people with an insufficient level of education compared to university-educated US citizens.

The unemployment rate is closely related to the growth rate of real output, and the relationship between these two categories is measured by A. M. Okun's law, which reads: "The inverse relationship between the fluctuations of real output around its growth trend and the fluctuations of the unemployment rate around its equilibrium level."

Types of Unemployment

There are several types of unemployment, but in macroeconomic theory and practice, three basic forms of unemployment stand out the most (Dimitrijević & Fabris, 2009, pp. 44–45):

"Frictional – not considered unemployment; these are those parts of the labour force that demand higher wages and could be employed at the current level of wages; it is the migration of workers in search of higher wages. It is a consequence of short-term changes in the labour market, i.e. labour mobility in search of new or better jobs.

Cyclical unemployment (Keynesian unemployment) – a consequence of cyclical economic activity, falling aggregate demand, falling production, and insufficient demand for labour. It follows periods of insufficient aggregate demand.

Structural unemployment – of a more permanent nature. The consequence is a discrepancy between the structure of supply and demand for labour force, and it is solved by long-term structural reforms in the labour market. These changes are located in specific activities, regions, professions."

A synonym for sustainable unemployment is full employment, i.e. natural unemployment rate, while real unemployment is the sum of the sustainable unemployment rate and the cyclical unemployment rate.

The natural rate of unemployment is linked to competitive labour markets with flexible wages, and the NAIRU concept (the rate of unemployment that does not accelerate inflation; the New Keynesian approach, based on the imperfection of the labour market) is based on models of imperfect labour markets, where it is not possible to clear the market, while the NRU concept (the natural rate of unemployment, based on a perfectly flexible market) prevents the growth of the inflation rate.

The unemployment rate is a key indicator of the labour market and one of the most significant macrophenomena, because along with the inflation rate, it is the basic form of macro-imbalance and the economic cycle; also, the growth of the unemployment rate leads to a decline in the social product and insufficient utilization of resources (Okun's Law, Phillips curve). The level of full employment corresponds to the concept of potential social product (Y^* , E^*), and in connection with that issue and with the theoretical approach to the labour market, there are differences between Keynesians, New Keynesians, and Monetarists.

It is also necessary to present the Phillips curve (F-curve), which has become an indispensable part of macroeconomic theory and the subject of numerous empirical studies, theoretical conclusions and recommendations for specific application in economic policy. The significance of the F-curve stems

from the relative simplicity of its analytical apparatus, the possibility to apply it as an economic policy and the consequences of the functioning of the modern market economy.

The main streams of economic thought of the 20th century and the most influential schools dealt with Fkriva in their own way. Since it was introduced in 1958 by an article by A. Philips, it has triggered a lot of research, analysis, and conflict. Some authors disputed its empirical existence and the functional relationship it explains, others distinguished between the short-term and long-term F curve, and third ones believed that it could be used to conduct quite an efficient economic policy. Even today, no consensus has been reached among theoreticians in relation to certain questions. Although it has partially lost its importance, research and new hypotheses are still present today, which confirms the vitality, importance and relevance of the F-curve.

The interpretation of the F-curve can be viewed from a historical, theoretical, and doctrinal perspective. In the historical approach, it is interpreted according to the chronological order of origin and development. Accordingly, the following stages in the development of the F-curve are distinguished (Dimitrijević & Fabris, 2009, pp. 98–99):

“1. The original F-curve from 1958 as an empirical relationship between the unemployment rate and the rate of change in money wages;

2. Lipsey’s F-curve model with the concept of excess demand and a theoretical explanation of the relationship;

3. Samuelson–Solow transformation of the F-curve, where on the y-axis the rate of change in money wages is replaced by the inflation rate;

4. Klein–Ball and Dix–Mir model of simultaneous influence between wages and prices;

5. Kaldor’s model, in which profits and the relationship between employers and unions have a decisive influence on wage growth, not the unemployment rate;

6. The Friedman–Phelps concept of the short-term and long-term F-curve with the introduction of the ‘natural rate of unemployment’ hypothesis;

7. Replacement of the hypothesis about the natural rate of unemployment with the concept of NAI-RU – an unemployment rate that does not accelerate inflation;

8. Extension of the F-curve with the Phillips–Okun model (hereinafter F-O) which simultaneously analyzes inflation, unemployment, and social product;

9. Rejecting the existence of any trade-off inflation/unemployment and the existence of an exclusively vertical F-curve.

10. Newer, diverse and numerous research on the F-curve. The theoretical approach in the research and periodization of the F-curve starts first of all from the basic theoretical concepts in the explanation and interpretation of the F-curve as well as new approaches and hypotheses. At the same time, it is necessary to emphasize that this kind of periodization is closely related to the historical one, that they are intertwined and that it is always difficult to distinguish them, especially because different theoretical approaches alternated precisely in chronological order. For example, Frisch’s periodization is by its nature ambivalent because it has the characteristics of both a historical and a theoretical approach. Frisch singles out three stages in the development of Fkriva:

1. Phillips and Lipsey’s concept based on a stable, negative interdependence between inflation and the unemployment rate;

2. The ‘natural rate of unemployment’ hypothesis that distinguishes between short-run and long-run F-curves (Friedman & Phelps);

3. Criticism of the F-curve by the school of rational expectations, in which there is no systematic trade-off between inflation and unemployment.”

Labour Market and Employment in The Republic of North Macedonia

Data on the labour market in North Macedonia are processed by the country’s statistical office and Eurostat, and data related to employment in this former Yugoslav republic are taken from both databases (Eurostat only records data for the employment rate).

In the field of employment, like other countries which aspire to join the European Union, North Macedonia sets out plans on the labour market through employment action plans in order to meet the requirements defined by the Europe 2020 Strategy. In terms of the Global Competitiveness Index, the country was in 79th place in 2010, which means that it was in a better position compared to 2009, when it was in 84th place as a result of improving the economic environment and increasing the ability to achieve sustainable development. According to this index, North Macedonia was better than Greece (83rd), Serbia (96th), Albania (88th), Bosnia and Herzegovina (102nd), lagging behind Slovenia (45th), Turkey (61st), Montenegro (49th), Croatia (77th), and Bulgaria (71st). In 2010, the employment rate in North Macedonia was 48.1%. According to the plan for 2015, this rate should have been 55%. There were plans for employment growth, and their realization depended on domestic and foreign investment opportunities. In the country's national employment strategy, this is exactly what was emphasized: that its funding depended on the government, on pre-accession funds of the European Union, donations, and local self-governments. According to data of the Macedonian statistical office, the activity and employment rates increased in the three-year period, while the unemployment rate decreased from year to year.

Conclusion

Unemployment is a condition in which part of the working population in society cannot be employed in accordance with their abilities and qualifications with a normal wage. Unemployed are all people in society who are partially employed, but their labour force is not used to the full extent, they do not work full time and do not have incomes worthy of a normal existence.

The international standard definition of unemployment is based on three criteria that must be met at the same time. According to this definition, unemployed are considered to be all persons above the specified age for measuring the economically active population who, during the time period, were:

- out of work, i.e. they were not in paid employment or self-employed, as defined in the international definition of employment;
- currently available for work, i.e. they were available for paid employment or self-employment for the period in question;
- looking for a job, i.e. taking concrete steps in a certain past period to look for paid employment or self-employment.

The international definition of unemployment refers exclusively to a person's activities in a certain reference period. As a result, unemployment statistics based on the international definition of unemployment may differ from the registered unemployment rate statistics.

The criterion "out of work" exists to draw a line between employment and unemployment and to recognize that employment and unemployment are mutually exclusive, with employment given priority. Thus, a person can be considered to be unemployed if he/she does not work during the reference period (even for an hour), or if he/she is temporarily absent from work.

The other two criteria of the standard definition of unemployment – "currently available for work" and "looking for work," serve to distinguish between the unemployed population and those who are not economically active.

In accordance with the activity principle of the labour force framework, the criterion "seeking work" is formulated in terms of actively looking for work. For a person to be considered a job seeker, specific steps must be taken within a specified period of time to obtain a job. It is not enough to just make a general statement that a job is wanted. This formulation of the criterion aims to ensure objectivity in the measurement. The elapsed period for job search activities should not be the same as the basic reference period of one week or one day, but it may be longer. In practice, most countries define the job search period as the past month or the past four weeks. The extension of the job search period aims to take into account the time lag involved in the process of obtaining a job after the initial step has been taken. During the time lag individuals cannot take other initiatives to find work. This may be the case for people who are looking for work with an employer and are waiting for a response to their job application.

The term 'self-employment' also requires special attention for self-employed persons, where it is difficult to draw a line between job-seeking activities and self-employment activities. In many situations,

activities such as prospecting for potential customers or services or advertising the goods and services produced are an essential component of self-employment activities.

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