1. LABOUR MARKET CHANGES AS AN INDICATION OF THE SPEED OF TRANSITION

In transition literature until now, the relative probability of lay-offs between the public and the private sector has been stressed as the crucial factor that determines the success or failure of transition\(^1\). The following arguments were established: when the risk of being laid off is higher in the public sector, the transformation is necessarily achieved, eventually with an overshooting of unemployment. On the other hand, where jobs are more secure in the state firms, transition is more likely to derail, since the slow reallocation of labour from the state sector then impedes the private sector development.

The view of transition offered by the optimal speed of transition (OST) models is of an “evolutionary” process of reallocation. The OST literature advocates gradual phasing out of the state sector as optimal\(^2\). The growth of the private sector is driven by capital accumulation, i.e. savings. Too fast a rate of scrapping of the state sector leads to savings reduction and therefore slows down job creation in the new private firms. On the other hand, if job destruction in the old state sector is too slow, accompanied by soft budget constraints, this forces the private sector to pull workers from their old jobs by increasing wages, thereby slowing

\(^{1}\) The basic model framework originates from Aghion and Blanchard (1994), with the policy implication that early support for private job creation is the recipe for a successful transition.

\(^{2}\) According to Jurajda and Terrell (2000).
private sector development and job creation. The government engineers the downsizing of the state sector through ‘push and pull’ forces: the reduction of subsidies (push) and the creation of generous unemployment benefits (pull).

In this theoretical model, at the optimal speed of transition, or more specifically at the optimal speed of state-sector demolition, significant and long-term unemployment does not arise, because jobs in the new sector are being created at a pace that balances the rate of decline of the old sector. However, contrary to this scenario, most transition countries\(^3\) have experienced quickly emerging double-digit unemployment rates, even in the presence of significant growth of the new private sector.

Actually, in this framework of transition studies, two types of dynamics have been recognized as the paths of transition: in the Central and Eastern European Countries (CEECs) and in the Former Soviet Union (FSU). Empirical studies show\(^4\) that in the short run different levels of official unemployment in transition countries came from different policy choices regarding public firms. Depending on the tightness of the budget constraint, they either had to prevent their wage burden from growing, or to reduce it to adapt to the new economic reality. In order to do so, they could either choose to cut wages, or to reduce in employment. Thus in a number of papers it has been ascertained that the FSU countries adjusted more by cutting in wages, while the CEECs more by reduction in employment. Furthermore, these studies reveal a rather tight positive relationship between unemployment and growth in cross section: countries with better economic performance also have higher unemployment rates.

However, if unemployment were indeed essential to the growth of the private economic activities, we would have observed a decrease in the level of unemployment after the growth revival and a high flow out of unemployment to the private sector. Yet, unemployment is a stagnant pool in most of the transition countries\(^5\). In trying to explain the persistence of high unemployment rates in countries with fast economic growth, an offered explanation is that differences come from dissimilar labour market institutions. Hence, it was stated that the lower level of unemployment in the FSU comes from low unemployment benefits and modest minimum wages. Total unemployment benefits (unemployment benefits, active labour market programmes, welfare assistance, disability and sickness benefits) are indeed larger in the CEECs than in the FSU. The lower wage flexibility therefore might also be responsible for the higher level of unemployment in the CEECs, as opposed to Russia and Ukraine.

\(^3\) Practically, all CEEC countries except Czech Republic; ibid.
\(^4\) See for instance: Commander and Coricelli [1995], Boeri [1999], Tichit [2004].
\(^5\) See Tichit [2004].
Nevertheless, minimum wages are not really binding in the transition countries and the unemployment benefits are generally low and falling\textsuperscript{6}. Transition is eventually achieved in all these countries, with a level of unemployment dependant on the tightness of the budget constraint, i.e. generosity of the social safety network. But a high level of unemployment may also coexist with a relatively low pace of economic growth, as in the case of Serbia. The dynamics of the economy actually depend on the initial unemployment level. High initial unemployment makes the state workers reluctant to restructure and eventually slows down the transition process. One of the conclusions of the OST model is that high initial unemployment hinders restructuring\textsuperscript{7}.

In reality, the speed of transition and the private sector development significantly depend on many other factors\textsuperscript{8} beside firing probability in the public sector, including expectations of the private entrepreneurs, investment risks, and similar factors. On the other hand, high unemployment is also attributable to the lack of capital, circumstances favourable for evolution of the unofficial economy, low mobility of labour and mismatch of labour force qualifications.

According to the European Commission Report in April 2001, all ten Eastern European candidates for admission to the EU recorded positive growth in 2000, for the first time since 1989. But high unemployment was stressed as the main problem of transition: over 18\% in Slovakia and over 16\% in both Poland and Bulgaria\textsuperscript{9}. Thus, the main challenge of the transition process seem to be laying off redundant workers as a consequence of restructuring, which results in increasing unemployment and poverty, with growing social inequalities. That appears in some cases strong enough factor to jeopardise the irreversibility of the transition process. This is especially true in case of Serbia, after a tremendous drop of the economic activities and the plummeting of the living standard during the 90’s.

Avoiding considerable unemployment can be achieved either by slow restructuring and reallocation, postponing the necessary rise in unemployment for later, or by offsetting a high pace of downsizing in the state sector by rapid growth of the new private sector. Limitations of the first option are hard budget

\textsuperscript{6} This was established for instance by Boeri [1997].
\textsuperscript{7} According to Aghion and Blanchard (1994).
\textsuperscript{8} According to Nesporova [2002a], the reasons for differences between transition economies lie in the diversities of the following factors: macroeconomic policy, modes of privatisation, the ability to attract foreign direct investment, the development of the small enterprise sector, progress of institutional reforms. From the perspective of their impact on labour supply and its match with demand, the following factors are relevant: demographic factors, variations in education, social policies, the role of labour market regulation, income policy and collective bargaining.
\textsuperscript{9} European Commission [2001].
constraint and costs of postponed transition, and for the second lack of investment capital.

Actually, unemployment as the main negative effect of the economic reconstruction in transition is not only difficult to eliminate, but also complicated to estimate and realistically appraise. The data on unemployment are very unreliable, often tending to underestimate certain sorts of employment: seasonal, part-time, and jobs in the unofficial economy. Therefore, both official statistics and survey results should be used when estimating the effects of dismissing labour surplus in the course of the privatisation process in Serbia.

The main purpose of this paper is statistical analysis of the most important changes in the labour market in Serbia that can be connected with the privatisation process and economic restructuring, as well as suggesting economic policies implied by these results. The hypotheses to be tested are, in particular:

a) Changes in the employment structure by productive sectors reveal employment rigidity and labour market deficiencies as compared with the restructuring requirements of an economy in the process of transition;

b) High and growing unemployment in Serbia indicates that the pace of private sector development is not strong enough to generate sufficient employment which would absorb the jobs being destroyed in socially and state owned enterprises;

c) The qualification structure of the employed changes rapidly, producing adverse shifts in the unemployment structure, and implying the necessity of adjustment of the education system and active labour market policies.

The next chapters of this paper will therefore deal with the specifics of the Serbian labour market, the resulting changes in employment and unemployment structure by sectors of production and by qualifications during the last several years, comparing the data from the period before the new privatisation law was adopted in the Serbian Parliament (in 2001) and the latest available data. Finally, concluding remarks will offer suggestions for the economic policy, based on the results of the research.

2. LABOUR MARKET CHARACTERISTICS IN SERBIA

The renewed transition process in Serbia started with the democratic changes of 2000, but at an unfavourable stage for the economy: after a decade of economic decay and social disintegration. The fast transition into a market economy and catching up with other Balkan countries should take place in an impov-
erished country, after years of disintegration and conflicts in the region, hyperinflation, economic embargo and severed contacts with the rest of the world. The country still has a vague political status, with unresolved questions of the territory and constitution, with the largest number of refugees in Europe and a rapidly aging population, due to abrupt emigration of young (mostly qualified) people and drop in natality. At such times, growing unemployment and impoverishment of large groups of population and whole regions of the country, as a consequence of the privatisation process, are especially difficult to overcome. Therefore the effects of the privatisation process in the labour market should be studied carefully and all further devastation prevented.

Although judged as not vigorous enough, the privatisation process in Serbia caused significant changes in the structure of the economy. The number of firms, for instance, increased in only three years (from 2000 until 2003) from 60 to about 70 thousand, in a renewed market structure, although not all of these new firms remained active for long. Actually, only the number of small firms increased (index 118), while the number of medium size enterprises declined (index 77), and especially marked was the reduction in the number of large firms (index 68).

In the restructuring process the firms that were shut down were of course mostly the socially owned large concerns, while the newly opened firms were of small and medium size and in the private sector of ownership. But although the number of employees in such an enlarged number of small firms increased by 44 thousand in the observed period of three years, the number of employees in medium size firms decreased by 52 thousand and in large firms more than 217 thousand employees. This indicates that the most obvious impact of the privatisation process is the reduction of employment, namely increased unemployment.

The following table shows, by size of firms, for the year 2000 and 2003: number of firms, value of output and material costs of production (in millions of dinars), and number of employees, all according to the official statistics.

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10 The newest data were published on June 20, 2005, by Media Centre in Belgrade. Serbia is still at the top of the list of countries by the number of refugees: 260 thousand from Croatia and Bosnia and about 240 thousand from Kosovo. See: Media centre, Marking the World Refugee Day, June 20, 2005; press conference by the United Nations High Commissioner for Refugees (UNHCR) http://www.mediacenter.org.yu/code/navigate.asp?Id=51#4814

11 More precise assessments of the privatisation process from different viewpoints are given in the volume: Cerović, B. (ed.) [2004].

12 The Statistical Office of the Republic of Serbia gives the data on the number of employees by firm size and ownership structure (Broj zaposlenih - veličina, svojina i sektorski raspored preduzeća, RZS, Index 30, tab. 2).

13 Ibid.
As can be seen from the table, beside the increase in number of firms, the value figures also show that only small firms had an above average increase in economic activity (both in value of production and production cost), and the same holds for the employment level, which increased only in small firms (by index 115), and decreased in medium and large firms (indices 83 and 72). The small firms’ share in production value in three years increased from 19.4 to 23.3%, in production cost even more: from 18.7 to 24.2%, and in number of employees from 21.7% in 2000 to 29.5% in 2003. However, the total loss of jobs was more than 225 thousand (or 16.35%) in the period 2000-2005.

One of the reasons for unemployment is obviously job reduction in the medium and especially large (state and socially owned) enterprises. The other reason is slow adjustment of labour to the exchanged production structure, lack of mobility and flexibility in the labour market. Focussing on the production sectors, it can be noticed that the employment structure did not show to be flexible enough to follow the changes in the structure of output. For instance, when grouped by degree of fabrication, all productive activities can be classified in three vertically positioned sectors. Comparing the GDP share indices with the employment share indices in these three groups of activities, as in the following chart, it can be shown that the change of their employment structure does not dovetail with the quick changes in their output volume; moreover, just the opposite tendencies prevail with the structure of employment.

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14 Due to different classification for GDP and employment data in the official statistics (it should also be noted that since 2001 the new classification is used in the Republican Statistical Office: NACE), in order to compare their structural changes, we grouped all economic activities in three sectors, by the level of manufacturing. Primary sector of the economy includes: agriculture, fishery, forestry and mining, secondary: all manufacturing industries, and tertiary sector: transport, trade and other sorts of services.
Chart 1. Indices of share in total GDP and employment by three sectors of the Serbian economy for the period 2000-2003.

The structural changes defined by shares of the three sectors (given in the table below) show that, in only three years, share in the GDP value of the primary sector fell a little more than 4% of the total, the secondary sector lost about 10% of its share, and only the tertiary sector showed an increase (14.5%) in GDP value share, thus accounting for more than half of all activities. However, the opposite tendencies occurred with the structure of employment. The primary sector increased its share, while the other two sectors lost in share of employment, although the total employment fell for about 6% in the observed three years.

Table 2. GDP and employment structure – three sectors of the Serbian economy

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>21.78</td>
<td>16.28</td>
<td>24.24</td>
<td>27.52</td>
</tr>
<tr>
<td>Secondary</td>
<td>41.63</td>
<td>32.73</td>
<td>24.41</td>
<td>22.35</td>
</tr>
<tr>
<td>Tertiary</td>
<td>36.59</td>
<td>50.99</td>
<td>51.36</td>
<td>50.13</td>
</tr>
</tbody>
</table>

Source: RZS, Index 30. tab. 2 & 4

The tendency of the sluggish structural change presented by Table 2 shows low flexibility and mobility of labour and calls for further analysis in the field of privatisation impacts on the labour market.
Another distinctive feature of the labour market in Serbia is an extremely low employment rate for young workers (15%), compared with corresponding rate of 40% in EU. On the other hand, for the age group over 55, the employment rate is 52%, while the corresponding figure in EU amounts to 40%, and in other transition economies between 23 and 28%\(^{15}\). This also indicates that the labour market is rigid and there is low adjustment of employment to new technologies and the new production structure.

3. EMPLOYMENT CHANGES IN PRIVATE AND OTHER SECTORS

Employment in Serbia in the last years is constantly declining, annually by about 41 thousand, thus reducing the total number of employees from 3.1 million\(^{16}\) in 2000, the year before the new privatisation law was enacted in the Serbian Parliament, to 2.9 million in 2004. At the same time, the number of employees in the private sector rose by 76 thousand per annum on the average. However, this pace was mainly linear, as shown in the following chart, and by no means rapid enough to compensate for the loss of jobs in non-private sectors (117 thousand per annum).

Although the number of employed workers in the private sector increased by a little more than 300 thousand in the observed several years and reached 57% of total employment in 2004 (comparing with only 44% in 2000), the total number of employed workers started to decrease after the implementation of the new privatisation law, with a tendency of further reduction. If the same tendencies were preserved, extrapolation by simple linear trends, it cannot be expected that the private sector will compensate the employment decline in other sectors of ownership in Serbia (social, state, and mixed - partial private ownership).

Therefore, according to the experience of the last several years, although developing, private ownership sector still cannot compensate for the rapidly growing unemployment in the Serbian economy, as implied also by the following chart. The chart presents estimated linear trends of increase of employment in the private sector and of loss of jobs in other sectors of ownership. The trends are derived as cumulative increases of employment and job loss, from the linear trends estimated for the employment data 2000-2004 in the private and other sectors of the economy.

\(^{15}\) See more in: Arandarenko and Paunović [2005].

\(^{16}\) The numbers used here follow the Survey data \((LFS)\), as a more reliable source of total employment level, including both total private sector and even informal economy, contrary to the official statistics.

Chart 3. Linear trends: cumulative loss of jobs in non-private sectors and employment increase in the private sector in Serbia, 2001-2010

If the estimated tendencies persisted, and if the overall loss of jobs continues to rise by the same pace, that would involve a total reduction of over half a million jobs in the next five years (according to a rough estimate, made as the difference between the two linear trends in the given chart). This would mean further
increase of the unemployment level, so that in the next five years the unemploy-
ment rate would reach approximately one third of the total labour force.

The presented evidence suggests that until now the privatisation process has
not shown the pace of employment increase in private firms high enough to
make up for the jobs destruction in socially and state owned enterprises. In view
of the theoretical model of the optimal speed of transition, this means that the
«old» (social and state) sector is not being downsized at the optimal speed
and/or that in the «new» (private) sector the jobs are being created at a pace that
cannot balances the rate of decline of the old sector. Obviously these findings
call for corrective actions, both in the model of privatisation and in employ-
ment policy.


The estimates of unemployment in Serbia presented by the National
Employment Service (NES) and the Labour Force Survey (LFS) show a wide and
disturbing disparity. Differences in their data on employment are the result of
employment in the unofficial economy, while in case of unemployment method-
ology also differs.

In the period under consideration, 2000-2004 (the base year taken as the year
before the new law on privatisation, and the 2004 being the last year covered by
the available data), the number of unemployed, according to the Survey, makes
on the average only 58% of the number registered by the National Employment
Service. Actually, this number varies from 52% in year 2002, to 70% of the NES
in 2004. Therefore the last official estimate of the unemployment rate according
to the official statistics data amounts to about 30.3%17, while the Survey data give
a more realistic approximation of 18.5%.

The reason for different coverage of the number of unemployed consists
mostly in the fact that the evidence of the Employment Service also covers people
who are about to lose their jobs, but are employed at the moment (for instance,
seasonal workers) while the Survey covers as unemployed only those who really
“did not work anything last month”, as the questionnaire formulates. Similarly,
the Employment Service also registers workers who actually do not intend to
start working, but want to realise some benefits from social security package for

17 Thus the most recent estimates of the unemployment rate in Serbia in published documents
of some international organisations come up to some 30%. See for instance:
Nationmaster Statistical Database, http://www.nationmaster.com/country/yi,
ExxUN. com: http://www.exxun.com/enec/fd_economy_overview_1.html,
the unemployed persons. There is no doubt, therefore, that the Survey data on unemployment should be considered as more reliable\(^\text{18}\).

It is worth noticing that the number of unemployed people according to the Survey data, in percentages of the National Employment Service number, is always lower than 100\%, except when compared by qualification structure - as shown on the following chart. Only in the case of higher education, in year 2004, number of unemployed by the Survey is larger than the one presented by the National Employment Service data. This means that unemployed workers with higher qualifications do not rely as much on the service of the National Employment Service, and some of them are more inclined and able to find work by themselves. And contrary to that: the lower the qualifications, the higher the number of workers who apply to the Employment Service, although they are actually not all out of work, according to the Survey.

Thus, for workers without or with only elementary education that are applying for job at the National Employment Service (the first columns in the following chart), it is interesting to notice that \textit{de facto} two thirds of them are not unemployed, according to the Survey. Therefore we may reiterate that on the number and structure of the unemployed compiled by the Labour Force Survey are always more reliable.

\begin{center}
\textbf{Chart 4. Unemployment data by the Labour Force Survey as a percentage of the number registered by the National Employment Service}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart4.png}
\end{figure}

\(^{18}\) Still another unemployment measure can be obtained from the investigations organised by the World Bank, but the methodology is hardly acceptable for situations such as the one in Serbia, because even a completely sporadic activity is treated there as “employment”; according to recent calculations, this would reduce the unemployment rate by some 50\%, bringing it down to as low as 12.4\%. About that see: World Bank, \textit{Living Standard Measurement Survey}, 2002 and 2003.
When annual changes in unemployment, according to the Survey data, are compared with the estimated difference between annual job creation in the new (private) sector and job destruction in the old (non-private) sector, as shown in the next chart, it can be noticed that these changes appear to have some positive correlation, that is, unemployment seems to stagnate or grow together with the reallocation, even when there is no significant net loss of jobs, as in 2004. Actually, the absolute value of the difference between the job creation and the job destruction in the Chart 5 is represented by the increase of the space between the two lines in Chart 3, narrowing for the first time in 2004.

**Chart 5. Job reallocation and unemployment increase**

The lack of negative correlation between job reallocation and increase in unemployment is yet another signal that the growing unemployment tendency cannot be offset by private sector development. This is due to the fact that, beside job reallocation between sectors and a relative drag in the private sector development, that is in labour demand, there is an additional increase in labour supply, which makes it difficult to compensate for the unemployment increase by the sufficiently rapid expansion of the private sector exposed hitherto. In a situation when the increase of unemployment is faster than the speed of employment reallocation between sectors, as is usually the case at the beginning of transition, the government should focus on boosting private job creation more intensely than it happened in the last years in Serbia.

Two especially unfavourable characteristics of the structure of unemployment are the share of long-term unemployed and the share of young people.
Actually, youngest members of labour force (age group 15-24) are the most affected by unemployment, with unemployment rate of 45% in 2003, three times higher than the average unemployment rate for this age group in the EU countries\textsuperscript{19}.

One of the impediments causing the disparity between the net job loss in the non-private sector and the job creation in the private sector could be low adaptability of the qualification structure of the labour force. The following table shows changes in the qualification structure for the employed in the private sector and the unemployed in the observed period.

\begin{table}[h]
\centering
\caption{Qualification structure of the unemployed and private sector employed}
\begin{tabular}{lcccccc}
\hline
\hline
\textbf{employed in private sector} & & & & & & \\
\textbf{total} & 1362429 & 1430428 & 1419350 & 1539241 & 1667767 & 122.41 \\
no education & 6.81 & 4.82 & 4.44 & 3.04 & 3.36 & 60.32 \\
incomplete elementary & 27.89 & 24.51 & 23.77 & 20.95 & 15.46 & 67.86 \\
secondary school & 33.70 & 36.98 & 37.72 & 40.80 & 51.88 & 188.42 \\
higher school & 2.56 & 2.09 & 2.65 & 2.68 & 3.98 & 190.54 \\
university & 2.88 & 2.92 & 3.20 & 3.39 & 5.65 & 239.98 \\
\hline
\textbf{unemployed} & & & & & & \\
\textbf{total} & 425571 & 432677 & 459599 & 500325 & 665436 & 156.36 \\
no education & 0.75 & 1.21 & 1.11 & 1.46 & 0.62 & 130.16 \\
incomplete elementary & 3.11 & 2.11 & 2.25 & 3.26 & 3.06 & 153.76 \\
elementary school & 17.69 & 18.24 & 19.40 & 19.36 & 18.34 & 162.10 \\
secondary school & 72.04 & 69.53 & 68.00 & 66.36 & 67.19 & 145.83 \\
higher school & 3.14 & 3.84 & 4.90 & 5.27 & 5.57 & 277.10 \\
university & 3.27 & 5.06 & 4.35 & 4.30 & 5.22 & 249.68 \\
\hline
\end{tabular}
\end{table}

As one of the main features of the qualification structure in general, a relatively high percentage of those with low education levels and low percentages of those with high qualifications can be noticed. This holds for both unemployed and employed persons in the private sector.

\textsuperscript{19} On that see: Arandarenko and Paunović [2005].
In order to facilitate comparison of changes in qualification structure between unemployed persons and employed in the private sector, we have computed shares of three large groups: elementary education (the first three categories in the table), secondary school, and higher qualifications (the last two categories) and their indices for the period 2000-2004 are presented in the following chart. It is obvious that apart from the highest education groups, shares of other two levels of education had opposite tendencies. In the private sector, share of the employed with elementary education decreased and of those with secondary education increased, while the opposite happened with the structure of unemployed, although somewhat less markedly.

The qualification structure improvement through time in the private sector can indicate an overall advance in production and technology of the sector, and consequently of the whole economy due to steadily increasing share of the private sector. At the same time, the increased share of labour categories with the highest education in the unemployment pool appears to be quite disturbing, especially in view of the fact that a large number of highly educated people already left the country during the last decade. Since the total number of unemployed (in 2004) still makes some 40% of the private sector employment, this means that all the present needs in qualifications can still be fulfilled with the current supply of the unemployed workers.

When the qualification structure data for all employed and the unemployed persons are added, in order to study the qualification structure changes of the
entire labour force, it can be shown that in the period 2000-2004 the share of the lowest qualifications (elementary school and lower) has dropped from 35.2% to 26.7%, while the share of secondary education, and especially higher education, has considerably increased (from 51% to 57% for the secondary, and from 13.8% to 16.3% for higher). This indicates an improvement in the qualification structure of the labour force during the time of high unemployment – it seems that further education has partially substituted for lack of jobs. Therefore, growing unemployment with larger share of higher qualifications means that Serbia still has abundant human capital resources, despite considerable achievements in formal education.

Moreover, these findings also point to a relatively slow pace of restructuring and probable mismatch of qualifications and jobs, with many skilled workers performing jobs that do not reflect their levels of education. It can be expected that over time there will be a continuing shortage of skills in view of the continually modernised and improved production structure, so that education system should adjust to the technological upgrading quickly and completely. Both government and firms need to pay increased attention to training, and government must improve investment conditions that would capitalise more on the relative abundance of highly educated workers.

5. CONCLUDING REMARKS AND ECONOMIC POLICY SUGGESTIONS

As in all other transition economies, privatisation process in Serbia was followed by an increase in unemployment. However, while other centrally planned economies of Central and Eastern Europe started their transition to a market system with no open unemployment, that was not the case with Yugoslavia.20 In Serbia, the existing unemployment problems are additionally exacerbated by a high inflow of refugees and the overall impoverishment of the population during the 90s. So, although in the other transition countries unemployment is transitional in character, particularly so in the initial period of reforms, deepening the transition crisis and exposing the problem of labour hoarding, substantial part of the unemployment can be considered as ‘structural’ in Serbia. It is reflected in high proportion of long-term unemployment, or socially selective incidences of unemployment, including wide regional disparities in employability triggered by lack of skills, immobility or inflexibility. The high level of youth unemployment rate is further aggravating both the economic difficulties and political tensions of the society.

20 More on comparative analysis of unemployment in Central and Eastern Europe in: Nestorova [2002b].
A more rapid economic growth would certainly relieve this situation. However, unlike in the more advanced transition countries, increasing unemployment in Serbia is not accompanied by high growth of employment in the private sector. In fact, the lack of a more rapid growth seems to result from low capital investment and low use of labour. Beside restructuring problems there are further impediments to growth, as specific conditions in Serbia: high investment risks due to yet unsolved political status, slow institutional changes, high impoverishment of the population after a decade of economic isolation, high social disintegration as a result of conflicts in the region and a large proportion of immigrants. In such a situation, it is vital to place employment goals at the centre of economic and social policy.

Participation in the labour market is fundamental for social integration. The transition of Serbia into an open market economy will be tested by the extent to which the basic civil rights are fulfilled. Unemployment is one of the main channels of social exclusion, for it prevents people from deploying their labour services and their productive knowledge. High unemployment further produces macroeconomic problems, budget imbalances, and finally increasing tendencies to cut down unemployment benefits. However, evidence suggests that in transitional economies during intense structural changes, once mass unemployment has built-up, tightening of unemployment benefits can hardly enhance outflows to jobs, since there are too many low-productivity workers in the pool.

Although jobs growth alone cannot address the marginalisation of large numbers of people of working age, nor can it solve the welfare problems, the transition between unemployment and employment seems to be the main challenge of the public policy accompanying the privatisation process. However, as we have established, the increase of the private sector employment has not been sufficient enough to reduce the proportion of workforce in receipt of social security and to improve the market development by raising the level of the purchasing power of the population. Until now, the changes in the labour market show that the privatisation and economic restructuring effects were unfavourable and that active policy is required to promote job-creating economic growth.

The three hypotheses set to be tested as the main purpose of this paper were all proven, and the following suggestions for the economic policy can be made:

- Unequal speed of changes in the productive and employment structure by sectors reveals the main reason for high unemployment, indicating slower labour adjustments to the speed of restructuring of the economy in the transition process. Active employment policy measures that facilitate switches in specialities are required to surmount the period of rapid structural changes.

\[\text{See for instance: Boeri, T. (1997)}\]
b) The pace of employment increase in private firms has not been strong enough to compensate for the dynamics of decreasing employment in socially and state owned enterprises. Thus a method of privatisation and taxation should be chosen accordingly, to stimulate job-creating development.

c) The employment structure changes by qualifications do not coincide with the qualification structure of the unemployed, implying the necessity for adjustment of the education system and a far greater flexibility in the labour market.

Since the growth of the private sector in Serbia can be assessed as too slow to offset the necessary pace of downsizing in the state sector, the resulting rise of unemployment calls for some well-designed strategic measures in order to speed up the transition process and employment in the private sector. Actually, the appropriate national policy response should take into account the following factors that have been highlighted\textsuperscript{22} for their substantial influence on employment development in the first decade of transition to a market system: the type of privatisation of state-owned enterprises; foreign direct investment; new enterprise (especially small enterprise) development; legal and institutional reforms. Besides, a combination of country specific factors affecting the supply and demand sides of the labour market that contribute to its poor employment performance should be considered to secure stabilization and higher employment security on the labour market. The long-term goal of providing decent work for all, treating this claim as a human right, should be put at the centre of economic and social policy\textsuperscript{23}.

In Serbia the privatisation process was designed to prevent negative effects of high unemployment. However, large expenditures for social programmes were realised in privatised firms only in the first years of privatisation. In 2002 and 2003, expenditures for education programs and prequalification amounted to more than a quarter of a million euros. But during the last couple of years the firms sold to private buyers had distinctly inferior performances, so that they are not obliged to form the so-called social programs. The laid off workers can only get a two-year salary in case of redundancy\textsuperscript{24}. This solution can hardly stimulate self-employment and private entrepreneurship. Since poverty and income

\textsuperscript{22} See, for instance, Nesporova [2002b].

\textsuperscript{23} As one of the main goals of the International Labour Organisation. About the ILO, see: http://www.ILO.org/public/english/about/index.htm

inequalities are increasing, social tensions are rapidly growing, threatening to jeopardise the speed of transition. Therefore, a set of more complex government programmes are required to confront the problem of growing unemployment and reduce the mismatch of qualification in the labour force.

And although economic growth is the necessary condition for boosting new job creation and providing an increase of wages and incomes, it is not sufficient by itself. Macroeconomic policy should promote an economic growth that generates enough jobs for all who want to work, earning a sustainable living for workers’ families. Governments must promote a stimulating environment for private investment, also ensuring that legal rules and market institutions are stabilized and that property rights are reliably safeguarded. Simultaneously, governments should directly invest in social and technical infrastructures that promote productivity growth, enhance returns to private investment, while attracting new investors, both domestic and foreign.

The findings of a cross-section research of selected nine countries in transition\(^{25}\) show that there is a negative correlation between unemployment rate and relative expenditures on active labour market policy (expressed as a ratio of GDP spent on various forms of active labour market policy and income support per unemployed). Therefore, the problem is more in how to provide financial sources than in choosing the mode of the active labour market policy.

At this stage of transition in Serbia, obviously new jobs are mostly created by foreign direct investment through privatisation of the existing enterprises, or by setting up of new firms. Therefore, for the job-creating growth, it is important to establish a favourable business environment in general. Beside the policy of attracting foreign strategic partners pursued until now, government must also simplify administrative rules and taxation for small firms. It must enhance the access of small entrepreneurs to capital, facilitate their adopting of new technologies, and support attaining managerial and technical skills of entrepreneurs and employees. In order to preserve high employment in the production chains, large foreign-owned firms should be encouraged to increase their links with domestic suppliers and help them upgrade their production.

Beside government, the employment-stimulating policy requires active and close collaboration of all concerned, involving the social partners, thus ensuring that different interests are harmonised. While employers require higher labour flexibility, mobility and productivity, workers need reasonable security and motivation in order to agree to changes. Governments of course have a key responsibility in introducing reforms and providing additional education and training to meet labour demand and supplying workers with an improved

\(^{25}\) According to Nesporova [2002a], tables 6 and 13, based on data for 1998.
employability through lifelong learning. Enterprises should be encouraged to invest in the education and training of their workforce and build on the functional flexibility of labour.

Regarding unemployment as one of the pitfalls that can trap the reform process, the EBRD Transition Report titled Employment, skills and transition suggests that “labour market performance be enhanced substantially through institutional reforms, in particular by limiting the duration of unemployment benefit and combining social support programmes with active programmes that enable the unemployed and under-employed to move into more productive jobs”26.

In Serbia, financial report of the National Employment Service suggests extremely low share of expenditures for active labour market measures (around 5% of its total budget). Nevertheless, if various active labour market and employment programmes that are not administered by the NES are taken into account, the overall picture is somewhat more favourable. It appears that a number of new projects, including Serbian government’s and donor-supported programmes, are being successfully implemented27. But the synchronised measures and coordinated actions of all concerned parties are still absent.

The labour market policy should be considered a device that can facilitate a smooth and secure labour market transition28. It should promote high employment, reduce frictional unemployment and moderate long-term structural unemployment or forced inactivity. The aim is to strike the right balance between the adjustment needs of enterprises and the needs of workers, who should feel secure either in keeping their jobs or in the transit between jobs, and be encouraged to constantly improve their skills, flexibility and productivity.

Special attention should be devoted to less competitive social groups, by eliminating discrimination and helping them to overcome their disadvantages. National social security systems must be designed to advance employment promotion of those who can work, while providing decent income support for those who cannot work permanently (or temporarily). However, such policies must also be financially sustainable in the long-term, so they must be led by carefully chosen priorities, providing for minimisation of the costs of economic and social advance.

Furthermore, it should be emphasised that the problem of long-time unemployment appears to be not just a lack of jobs, but also a lack of well paid, full-time jobs that make it possible to secure a decent standard of living. Thus, a

26 EBRD Transition Report [2000], Chapter 5: Labour markets, unemployment and poverty during the transition
27 See more in: Arandarenko and Paunović [2005].
28 More on active labour market policies in the ILO documents, e.g. Nesporova [2002b].
reduced unemployment rate in the official statistics may in fact mask the emergence of other forms of workforce deprivation\textsuperscript{29}. The transition between unemployment and employment involves the articulation of active labour market policies, employment service delivery, the interaction of the wages and welfare systems, and the structuring of eligibility conditions underlying unemployment support.

Given the revealed and still continuing inability of the private sector development in Serbia to offset the employment shedding from socially and state owned enterprises, an active labour market policy is required, dovetailed with adjustments of the education system. Bearing in mind an especially high share of the unemployed with secondary education, the reform of secondary education would particularly be desirable, through shifts towards more flexible vocational programs from certain existing obsolete ones. Also, since the share of highest skills among the unemployed persons is increasing, university education should become more flexible and efficient, giving opportunities of adapting specialisation forms and courses of permanent education to the economic needs and business requirements. Based on the concept of ‘transitional labour markets’\textsuperscript{30}, several policy questions should also be properly addressed: (1) the financing mechanisms: how combinations of wages, transfers payments and other income sources can support the living standards, (2) the regulatory environment: what legislative and/or collectively or privately contracted entitlements stimulate people’s participation in transitional employment and (3) the risks: whether such financial and regulatory frameworks protect individuals when faced with critical life events.

Improved business environment and stable economic conditions, combined with active labour market policy, could stop the large emigration of the young qualified persons from Serbia\textsuperscript{31} and possibly even reverses the directions of labour flows. This would not only improve the skill structure of the labour force in Serbia, but also improve the flexibility and adaptability of the labour market to the challenge of the newly reconstructed economy.

\textsuperscript{29} Recent evaluation of the outcomes of labour market deregulation in Australia states that ‘deprivation can no longer be seen as confined to the sphere of unemployment but, in fact, extends deep into the sphere of employment’. See: Ziguras [2004].

\textsuperscript{30} The concept of transitional labour markets (TLM) was developed by Gunther Schmid. It distinguishes four main pathways between standard employment and other statuses: (1) the education-to-work transition, (2) the transition between unemployment and work, (3) the transition between unpaid work and paid work, and (4) the transition to retirement. See for instance: Schmid [1998] and Schmid, O’Reilly and Schömann [1996].

\textsuperscript{31} On recent estimates of the number of emigrants from Serbia and Montenegro in: Grečić, V. [2004], Dijaspora kao razvojni resurs: strategijski pravci saradnje matice i dijaspora, in: \textit{Ekonomski anali}, godina XLVIII, pp. 219-230.
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