

LABOR MARKETS IN TERMS OF ECONOMIC DEVELOPMENT INCENTIVES IN SERBIA

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Abstract: Despite the great technological advances, the work is still one of the most important factors of production. The labor market is a component of the business environment of the organization, which provides human resources, in order to obtain benefit with their support, to organization and its consumers. Human resources present a component that can add competitive precedence to the company, which is an important factor of its own development – human capital. The paper analyzes the labor market situation in Serbia, identifies problems mismatch of supply and demand, discusses the state of labor market indicators. The starting point is that an employment has a multidisciplinary character, thus, that changes in the labor market have strong direct and indirect effects on economic development.

The paper consists of three main parts. The first part of the paper deals with the analysis of the employment situation in Serbia, compared with the EU and neighboring countries. The second part discusses the impact of labor markets on economic development, with an emphasis on small and medium companies, incentives and limitations and the employment through the self-employment and employment in new small businesses. The third part is addressing the goals of the labor market, which include increasing employment, reducing unemployment and stimulating the development of business by applying active labor market measures. This section emphasizes the need to create conditions and favorable environment for investment activity, the application of new knowledge, skills and the technological innovation, in order to ensure competitiveness and the developing of new business.

Key words: labor market, employment, entrepreneurship, business environment, economic development

1. INTRODUCTION

Unemployment is a central social and economic problem in many countries worldwide. The International Labour Organization reports describe the situation in the labor market, world wide, as alarming (195.2 million unemployed persons) and alert to the fact that it continues to exacerbate under the influence of the global economic crisis. Statement of the Secretary-General of OECD Angel Gurría, that "We are on the way to lose between eight and 10 million jobs in OECD countries and 20 to 25 million worldwide in the period up to 2010." did not sound even a little optimistic. At the same time there is an increasing number of those who have a job, but live in absolute poverty (earning less than \$ 1 a day).

The World Crisis caused by the deregulation of financial markets in the U.S. has left a further adverse effect on the business development of world economy, and therefore on the unemployment and employment. The issue of employment, which is by nature multidisciplinary, is one of the most important issues. In changing economy conditions it becomes more important for formulating economic policies of each economy. Changes in the transition process are characterized by lack of employment opportunities and insufficient number of jobs created. These results reflect right on the labor market, with direct and indirect impact on the overall business environment, economic development, living standards and employment. On the other hand, every institutional change and public policy has an impact on the labor market.

Employment policy covers all aspects of economic policy that directly or indirectly affect the use of labor as factors of production. Irina Kausch [4] (2002) says that employment

policy contains all the policy measures that affect the scope and structure of employment that create new jobs. Those include aspects of fiscal policy (taxes, subsidies, public expenditure), monetary policy (interest rates, money supply), external trade policy, which are primary regulatory and macroeconomic sphere of economic policy. Employment policy include spheres of education sector policy, social policy, industrial policy, agricultural policy, trade policy and regional politics and policy of promoting small and medium business. The success of employment policy depends largely on the successful combination of measures and instruments of all policies that affect the scope and structure of employment.

Correlation analysis show that a higher level of employment increases the amount of investment activities and investment in turn reflected in higher employment, increasing the achieved level of development of the economy. Reduction of investment activity in the economy, results in fall in employment, or lack of dynamics to reduce unemployment. In addition, there are a high degree of interdependence among the employment policies, employment protection legislation and the fiscal burden. The empirical results show that employment policy measures have greater efficiency in reducing unemployment in economies with lower tax burdens of work, limited period of receiving monetary compensation in case of unemployment, lower union power and weaker legal protection of employment [6].

In this context, the paper analyzes the labor market indicators, the impact of changes in business environments, on the change of indicators and the overall economic development of Serbia, as well as measures taken in the labor market towards reducing of unemployment, and stimulating employment by applying a set of measures of the labor market. Active labor market policy helps the unemployed to find new jobs and it is conducted through a set of measures and programs that contribute to creating favorable conditions for employment of the unemployed. The theoretical justification for the implementation of active labor market programs derive from reasons of equity and efficiency. Reasons of equity are reflected in targeting the most vulnerable groups of unemployed in the labor market, to reduce the risk of unemployment as a factor that is most likely to be a major route for poverty. Reasons of efficiency are based on the mobilization of labor in quantitative and qualitative terms, which improves functioning of labor market and increase productivity without increasing inflationary pressures.

The aim is to demonstrate that the useful activities in the field of labor market policies, institutional policy improvement of the business environment and development of job opportunities, can influence the creation of more favorable climate for new businesses, new jobs and reduction of unemployment. Thereby all participants in the market should show a greater degree of social responsibility and contribute to increasing economic and social development, living standards, for both employed and unemployed persons. The aim is also to point out the need to adopt a new, different economic policy that would be a good basis for breaking the decades-long crisis with an intensive and continuous cooperation with economic policy and science.

2. LABOUR MARKET IN SERBIA

There is a number of years that labour and educational potential of society, in Serbia is reducing, and this directly effects competitive position of the economy. The scientific community for a long time suggests that unfavorable demographic trends in Serbia has reached alarming proportions. At the same time Serbia is faced with new challenges such as the problem of aging population and the impact of globalization. Dynamics, structure and distribution of economic activity of population is crucial for determining development policies and effective use of labor. This undoubtedly confirms the practice of industrialized

countries. For the more efficient and effective use of labor as available development resource, the OECD and the EU have invested significant resources and efforts to implement programs and measures to boost employment and welfare. Table 1 and 2 shows the employment rate in Serbia and the EU and the elasticity of employment during the crisis.

Table 1. The employment rate in Serbia and the EU

Employment rate	2010 year	2020. year
EU	66	73
Serbia	47,2	65
Difference	-18,8	-8

Table 2. Elasticity of employment in the period of economic crisis

Country	GDP decline	Fall of employ.	Elasticity of Employment
Bulgaria	7,0	6,1	0,9
Czech Republic	4,9	3,0	0,6
Croatia	9,7	2,0	0,2
Romania	9,7	1,2	0,1
Slovenia	7,0	1,2	0,2
Slovakia	7,6	5,4	0,7
Serbia	4,7	12,5	2,6

Source: FREN *The quarterly Monitor of Economic Trends and Policies in Serbia in April-June 2010*

The main indicator of the labor market - the employment rate of persons aged from 15-64 years in Serbia (47.2% in 2010), is significantly lower than in the EU and OECD countries, where the average is 66% and is quite far from 70% - the goal set by the Lisbon Strategy in 2000. In addition to low employment rate, an unfavorable employment structure is particularly alarming - excessive representation of employment in the public sector, agriculture and high informal employment. More than a third of the population of working age do not participate in the labor force (59.0% share of the labor force in Serbia in 2010.), which together with the reduction of labor, has an adverse impact on economic growth and development.

For many years, unemployment is very high in Serbia. Devastating is the fact that economic growth after 2000 failed to generate employment growth, due to the rapid rise in unemployment as a result of restructuring and privatization. The results of the Labour Force Survey shows that the total number of employees in October 2010 decreased by 8.0% (ie 207,881 persons) compared to October 2009. The employment rate decreased from 50.0% in October 2009 to 47.1% in October 2010. The total number of unemployed increased by 9.5% (ie 49,351 persons) compared to October 2009 and decreased by 1.2% (ie for 6628 persons) compared to April 2010. The unemployment rate increased from 16.6% in October 2009 to 19.2% in October 2010 , while in October 2010 compared to April this year remained unchanged [9].

Statistical data indicate a very high share of long-term unemployment in total unemployment, or about 69.1% of all unemployed persons wait for employment for more than a year, leading to loss of motivation, knowledge and reduction of opportunities for employment. Long-term unemployment particularly affects women and people with lower educational attainment.

Long-term unemployment is particularly typical for older category of the unemployed who lost their jobs in the process of restructuring their companies, organizational and technological changes and preparation for privatization. Their knowledge and skills obsolete and are not in line with modern business requirements. Low rate of investment activities as a major brake for new jobs offer, further exacerbates this serious problem, especially in the undeveloped parts of Serbia. However, where there is demand for work, there is inconsistency and incompatibility between supply and demand of labor due to the difficult adjustment of the labor force with rapid technological changes and demands of the

market economy. The labor market is characterized by both unemployment and vacancy of available jobs. Table 3 presents a comparative overview of labor market indicators in Serbia for the population aged from 15-64.

Table 3. Labor Market Indicators in Serbia - the population aged from 15-64.

Indicators	2006 October		2007 October		2008 October		2009 October		2010. October	
	M	F	M	F	M	F	M	F	M	F
Participation rate	72,7	54,5	71,9	54,9	71,3	54,1	68,4	52,8	67,3	50,8
Employment rate	59,2	40,6	60	43	62,2	44,7	57,4	42,7	54,4	40,1
Unemployment rate	18,6	25,5	16,5	21,7	12,7	17,3	16,1	19,1	19,2	21,0
Long-term unemployment	76,7	84,3	79,3	82,3	70,9	72,3	66,5	64,4	68,1	70,4

Source: RZS – ARS, Abbreviations: M-male, F-female

Disharmony of education and national qualifications frameworks with the needs of the labor market, underdeveloped system of careerguidance and counseling, lack of professional and territorial mobility of young people, the slow formation of entrepreneurial value system resulted in that one-fifth of young people (aged from 15 to 24) in Serbia, are neither employed, nor in the educational system [5]. Over 2 / 3 of young people look for a job for morethan a year, because there is no demands for their professions.

In period of crisis, young people, in the absence of employment opportunities, decide to continue their education, which explains the simultaneous decrease in the number of employed and unemployed in this age group. At the same time, about 50% of the young with professional qualifications is not able to get a job without additional education and training.

Table 4. Qualification structure of unemployed persons in Serbia

Obrazovni nivo	October 2007.	October 2008.	October 2009.	October 2010.
No school	0,9%	0,3%	0,1%	0,2%
Lower level of education	21,3%	19,5%	21,2%	17,6%
Secondary school level of education	67,5%	69,0%	68,7%	69,1%
High level of education	10,2%	11,2%	10,0%	13,1%

Source: RZS (Labour Force Survey)

According to data from Table 4, unskilled workers significantly participate (21.3%) in the structure of unemployed. They are in the most unfavorable situation, because they are not qualified and have a big problem of expert adjustment to labor market needs. The number of unemployed with the university education, is the consequence of imbalances between educational system and labour market needs, and the fact that there are great number of educated people whose professions are of no interest to job offerer.

The regressive labour taxes property, in Serbia, differs from progressive taxation in some of the developed market economies. This model is unique in Europe and represents a significant obstacle to job creation in the formal sector. Result of the implementation of the model is the high share of shadow economy in total employment (the share of informal employment in Serbia in 2010 -17.2%). Employment in the informal economy is another indicator of the state failure to minimize and effectively regulate the informal

employment sector, through tax incentives and exemptions, with the significant presence of young people, people with low skills and women. 'The tax wedge' (the share of taxes and social security contributions in total labor costs) at the average wage fell from about 42% to 39% in early 2007, which at the time, represented an impulse to the employment that has been discontinued.

The labor market in Serbia is characterized by considerable regional differences. Differences in level of regions development in Serbia are among the highest in Europe. The worst regional employment trends were noted in economically least developed counties, so the average wage and standard are the lowest in them. That resulted in depopulation trends of rural and undeveloped areas. In addition to the traditionally underdeveloped southern Serbia and Raska region, there are new areas of the underdevelopment: Macva, Bor, Zaječar, Rasina and Kolubara districts. Identifying regions with the risk of unemployment that is higher than average unemployment, helps to create measures of economic policy, creating conditions for more rapid regional development and thus the overall economic development.

3. LABOR MARKET AND THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

The lack of stability in the labor market is another factor that significantly affects the incentive for development of entrepreneurship and entrepreneurial behavior. The SME sector is multi-dependent on labor market: where provides human resources using the benefits of labor market incentives for self-employment and job creation which in terms of lack of investment capital under favorable conditions presents support to establishing and developing enterprises of the sector. SME development is an opportunity for the economy to overcome its backwardness in development with the changes of its structure. New investments in the establishment of small enterprises create the conditions for developing new businesses and new jobs. That is an opportunity for unemployed workers who have certain knowledge and skills, to provide survival for themselves and family with re-employment. The entrepreneurial sector is still not in the expected degree generator of the Serbian economy as micro enterprises dominates (95.7%) with low economic strength, low cost operations and work productivity [10].

Bearing in mind the way to run self-employment, or that the factors of force (push factors) are more important than the factors of attraction (pull factors), not enough to take into account the constraints of development and entrepreneurial risk. The awareness of the Awareness that the one can not expect the growth of SMEs unless the other big companies do not restructure and commercialize, and it is necessary to create a synergistic relationship between SMEs and large enterprises (where both existing and new, established with domestic and foreign direct investments) is neglected and under-developed.

In December 2008 Government adopted the document 'The economic crisis and its impact on the economy of Serbia', the Framework Programme of measures for mitigation the effects of economic crises, which are partly restricted (reduced consumption) and work incentives (in order to avoid a recession). Government plan for the economic stability of Serbia (adopted in April 2009) has the following priorities [11]:

- less expensive public administration (reduction of personnel in public administration at all levels, freeze pensions and salaries in administration);
- stimulus package of measures for the economy (subsidized loans for the economy, consumer loans to citizens to buy domestic products, loans for investment and liquidity);

- social responsibility and protection of standards of the citizens (payment of pension and health insurance of employees, networking of service, financial assistance for the disadvantaged, to prevent further abuse in the privatization process);
- active measures of employment (employment support 10,000 young trainees, the public works program, soft loans for the small and medium companies);
- capital investment in infrastructure.

Indicators of labor market and business development situation shows that the effects of measures are not sufficiently effective and should be strengthened by additional measures.

If inadequate institutional support of the development of this sector, add following factors, like: insufficient knowledge about entrepreneurship, lack of experience and skills of employed and unemployed, lack the necessary understanding of the market economy, lack of business ideas and vision, and lack of financial resources for the initiation and development work, than it can be concluded that self-investment programs, carry great risk to its success and responsibility for the fate of entrepreneurs.

4. OBJECTIVES OF LABOUR MARKET POLICIES IN THE FUNCTION OF ECONOMIC DEVELOPMENT IN SERBIA

Recognizing the guidelines and recommendations of new European 2020 strategy for growth and development, and the real situation on the labor market of Serbia, the goals of employment policy of Serbia established, as well as the priorities which will be implemented in future. Objectives of employment policy are focused at:

4.1. Increasing employment, especially in the private sector, which means not only increase in number, but also the quality of jobs.

Development strategy of competitive and innovative small and medium companies for the period from 2008 to 2013 include implementation of reform legislation which will continue to deregulate and systematization in the future in order to create the most favorable conditions for the functioning and development of SMEs. Changes are required to strengthen the private sector and create new jobs through the creation and development of an integrated and unified structure of system support that includes information, counseling, education, financial and direct support for SME development. Not required overlap and lack of cohesion and coherence of activities of many institutions involved in SME development, requires a sharing of work and defining responsibilities and accountability of institutions to support SMEs.

Starting from the expected stagnation of employment in the public sector in upcoming period and the fact that at present share of agricultural employment in total employment is too large (24.4%), the new model of economic development requirements would have to insist on revitalization of industrial employment.

4.2. Investment in human capital - the relevant knowledge in accordance with the requirements of the labor market and the needs of employers and its application, is recognized as an essential developmental factor that Serbia, given other available factors and resources, must fully use. Harmonization with the education system EU is needed for the future of labor mobility, the recognition of diplomas and certificates obtained in our system of education during entering of Serbia into EU. Practical knowledge and acquired skills are very important for employment and integration into the world of labor. It is therefore necessary in the future to implement the establishment and

development career guidance and counseling, development of non-formal education and functional basic education, standardization of training, accreditation of educational institutions, developing of national qualifications frameworks and the establishment of a new system of classification of professions. Establishing a system of career guidance and counseling in accordance with the adopted strategy of career guidance and counseling and the Action Plan for the period from 2009 to 2014 will open up the space to faster reforms in education and employment and the implementation of the initiated activities, which are expected to perform greater contribution to strengthening and the development of human resources in Serbia, and therefore social and economic development.

Development and support to talented and managers in order to strengthen the role of knowledge and increase innovation in the creation of adequate instruments and institutional framework, to ensure that the decades-old trend of emigration in Serbia, especially the 'brain drain "is transformed into a 'flow of knowledge. "

4.3. Social Inclusion, which is oriented towards improving the position of vulnerable groups in the labor market(people with disabilities, Roma ethnic group people, refugees / displaced persons and returnees in the agreement on readmission, victims of domestic violence, trafficking and users of material security, people older than 50years, etc.) and their employment.

Unemployment generate various forms of social exclusion and poverty, with the particularly difficult position of members of unemployed among vulnerable groups. Characteristics and sources of their vulnerability, as well as defining innermost vulnerable groups of unemployed, should serve as a framework and guidance for creating a specialized support program in accordance with their needs and abilities. Assuming that each person is employable, it is necessary to specify the type and intensity of support to overcome barriers to employment.

In this context it is necessary to strengthen and expand the range of active labor market programs, and within them to create employment programs for carefully defined target groups which need help with precisely determined type and amount of support to their employment, which would be consistent with local development plans and needs of the region with constant monitoring and evaluation of their effects. In order to increase the coverage and intensity of the average user intervention, it is necessary to increase expenditure on active labor market programs.

5. ACTIVE LABOUR MARKET POLICY IN SERBIA

Evaluations show that active labor market measures can increase employment opportunities in the labor market, especially when demand is weak and investment activity is low. They are not a substitute for the jobs created by the private sector, but an additional tool for improving labor market outcomes and increment employment.

Previous experience in the implementation of active employment policy in Serbia points to the fact that the programs and measures of employment policy are realized in high unemployment rate and unstable economic growth, numerous, significant changes in the institutional, fiscal and legal framework of the labor market. In that kind of environment, the programs and active employment policy measures were, to a great extent, a political instrument for the implementation of employment policy.

Table 5. Budget allocations to active and passive labor market measures in Serbia

The budget for active and passive labor market	2006.	2007.	2008.	2009.	2010.

measures in the billions RSD					
Active measures	1,5	2,384	3,014	3,5	3,7
Passive measures	8,03	9,95	7,3	4,7	6,036

Source: National Employment Service

The most abundant active labor market measures in Serbia are presented in Table 6

Table 6. Programs of active labor market policy and the coverage of the unemployed in Serbia 2004-2010

PROGRAMS	2004 god.	2005 god.	2006 god.	2007 god.	2008 god.	2009 god.	2010 god.
ACTIVE JOB SEARCH	14,591	17,028	40.940	43.140	42,738	41.076	36.086
JOB FAIRS	13.324	27.851	33.857	47.388	63.027	52.301	53.825
ADDITIONAL EDUCATION	4,086	11.325	11.794	14.551	10.298	20.515	21.872
DEVELOPMENT OF ENTREPRENEURSHIP AND EMPLOYMENT PROGRAMS	18,585	27.312	30.018	82.391	58.563	62.029	44.771
PUBLIC WORK			1.514	3.688	10.184	10.160	5.604
SEVERANCE PAY TO GET A JOB				382	1.120	437	
TOTAL	50.586	87.063	121.670	195.061	185..930	186.518	162.158

Source: NES, Annual Reports 2004-2010 year

Assessment of the impact of active labor market measures in Serbia is not implemented in an adequate manner (initial attempts have been applied from 2006), therefore modification and enhancement do not complete in a timely manner.

In accordance with the strategic orientation, that Serbia's labor market looks in a regional perspective, decentralization of statistical data necessary for understanding the status and trends in regional labor markets has not made the required extent. This has prevented each region to identify employment programs according to their specificities (size, structure and trend of unemployment, the development potential and development plans) which would give the best effect in concrete terms.

Particularly aggravating is the fact that a consistent policy of support of the society is not sufficiently developed, and support of the social dialogue development, and partnership between government and non-government sector, which has to reduce unemployment and increase employment, is not recognized and coordinated.

6. CONCLUSION

Analysis in this paper indicates that transitional changes heavily influenced the reduction in employment and increase in unemployment in economy of Serbia, as well as in neighboring economies. There is a correlation between changes at the labor market and economic development. Restrictions in the development of business affect state of labor market, while developing and improving of the labor market with the set of incentive measures, can stimulate economic development. In terms of major changes such as the transition restrictions in Serbia, isolated and non-compliant employment programs have a limited impact on encouraging job creation and economic development. There is a need to create a favorable business environment and conditions

for stronger aggregate demand of new hires. High fiscal burden, such as in Serbia, could be one of the key causes of the high percentage of shadow economy in total economic activity. Reform the fiscal system is necessary from the standpoint of reducing labor costs for employers and increase their motivation to invest in labor-intensive activities. Insufficient investment in economy, reflected in investment in human capital and further hamper the ability of efficient adaptation to changes and challenges brought by globalization, technology and the free movement of people, capital and goods. Obsolete skills of employed and unemployed as a direct result of the technological backwardness of Serbia, and inconsistency of knowledge acquired in the education process and knowledge and skills required in work process. Therefore, reforms are necessary and adjustment of the education system to real needs and models of the EU, which will create a viable, high quality and adaptable workforce. By changes in institutional arrangements the role of the private sector can be strengthened in economic development, which in addition to direct effects (boost investments, economic growth, technological development, development and application of innovation) may contribute to development of labor markets, provide continuing training for continuous career development of individuals and employers.

The realization of these goals requires full integration of employment policy in strategies and general economic development policies with complementary programs and measures to encourage employment in the private sector. The speed and effectiveness of reforms and the dynamics of economic activities is of crucial importance to the effectiveness of employment policy. Process of planning and achieving the goals of employment policy requires its decentralization and encouraging the development of regional and local employment policy with proactive approach of local authorities and strengthening of partnership between government, local authorities, public and private sector and social partners.

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