LABOR MARKET DYNAMICS

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Abstract

This paper analyzes the labor market dynamics in Albania. The analysis is based from the observations of the labor market on a ten year period from 2000 - 2010, surveys, historical data and trends. The main employed people are part of the private sector where the majorities are part of the private agricultural sector, however it has experienced decrease. In ten years the employed people in the public sector, have steadily decreased, whereas the number of employed people in the non-agricultural private sector has increased. However in general the employment level has decreased for males and females but for the latter group a little bit higher, with a change between the two of approximately 3%.

Related to the unemployment level, it has decreased for both males and females. Albania is characterized as a country that has experienced radical changes from a centralized economy toward a democratic one. However this is not accompanied with the necessary changes or reforms in the labor market. In Albania, there is the ministry of labor, social affairs and equal opportunities, but it is important to note that even though they do exist they are a formal, not to say an inexistent medium for finding a job. In general people are directed towards informal ways to find it. So it is important to mention the role of institutions for an efficient allocation of jobs in the labor market.

Data are collected, and through regression analysis we will see the negative relationship that exists between unemployment with FDIs and also education. How the two can decrease in the long term unemployment.

Keywords: unemployment, labor market dynamics, FDIs, education

1. INTRODUCTION

Since 1990's, Albania has gone through tremendous changes from a communist regime to a democratic one. During this process, most of the state-owned properties have been privatized. While in the communist regime there was a production-based economy, in the democratic era it

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changed towards a service-based economy. This led into an increase in the labor force and a decrease in unemployment. A very positive influence which affected the Albanian market was also the process of foreign investments. Many foreign corporations opened initially factories in Albania which helped locals get employed. Even though the democracy brought many positive aspects in Albania, there were also negative ones which directly affected the masses. One of them was emigration, where it is reported that more than 2 million Albanians left their home country and went for a better standard of life in Italy, Greece, Germany or even USA. In South of Albania, most of the men aged 18-30 went in Greece and started working in various force-jobs such as construction, factories etc. Back in their homes they left their old relatives which were out of the labor market force, producing so a strong imbalance. Within the last decade there has been an increase in demand for the Albanian labor market, with two strong factors affecting it. First, most of Albanian teenagers tend to know more than 2 languages (English & Italian mostly) and second the average wages in Albania are 3x lower when compared to our region. Many Italian, Greek & German companies have outsourced most of their work in Albania (especially telecommunication), diminishing so their costs and increasing their profits.

2. LITERATURE REVIEW

Labor market is central to an economy as labor is one of the main factors of production and also unemployment is of great concern to economists and the economy state. (Kydland, 1995). Albania is a country that has undergone a process of transformation, and for an economy in transition as also stressed out by Mark. C. Foley (1997), it can be expected to have a decline in the state sector, and a rise in the private sector. Also one cannot expect high flows of employment to the private sector. In an economy with no experience in the job searching, no efficient programs to provide references and trainings for employees, can all attribute to lower labor force participation. The difficulty to estimate the relation between the labor productivity and the working hours, pointed in the research by Kydland and Prescott (1982), brought also a lot of other discussions and theories related with labor markets, like the ones from Hansen (1985) and Rogerson (1988) and McGrattan (1994). This was also seen in the case with Russia which also transitioned to a market economy. As also Somaya Abdel Mowla (2011), emphasizes job search is essential in the labor market. And the factors that mostly affect it are the intensity and the tactics to search for a job. As also Smirnova (2003) appoints that sometimes is not enough only to search for a job, rather than the intensity to search for it.

In many publications (Masague, 2008, Smith, 2003, Brown and Taylor 2008), there are displayed a number of search methods. But however there are generalized in two main groups; informal and formal search methods. Each group has its own allies and opponents. Informal methods are less costly and more socially oriented (Koning, 1997), whereas at some countries, like England, which are more regulated, the formal methods, like through official labor offices are more preferable when it comes to job search. (Gregg & Wadsworth, 1996). In Albania, some labor forces were established in some major cities, in 1999, in order to easy the job- search process. In turn through these offices unemployment benefits are carried. (Elda Pema) To some extent, the

informal ways are preferred to those people who require lower skill requirements. As also stressed out from Paik (2008), internet has played a vital role worldwide. Via integrated websites now many people can search for different jobs online, filter the results according to their preferences and take advantage of the job supply online. However from studies (Kuhn & Skuterud, 2004), there is no proven evidence that unemployed people who seek for job opportunities online, have become employed more quickly than the ones who search via other means.

When carrying out an analysis of the labor market in the Albania, the available information seems vague, since Albania has a transition history, which in turn has grown informal sector, by thus making ever harder having some reliable source of information and data. (Elda Pema). As it turns out from the data, later, there has existed and still does a gap between the females and males unemployed citizens. But from different sources of literature it is theorized that usually females do not actively seek for a job as males might do. (Tasci, 2008, Lilja and Torp, 2002). For acting so, there might different reasons, like the selection of the job search methods, marriage (Bowen and Doyle, 2004), marital status, and giving up during the search period. However according to some studies, (Werbel, Mcelory, 2003), women are considered more efficient in the job- search process.

3. DATA, DEFINITIONS AND METHODOLOGY

3.1 Data

The data used are taken from Institute of Statistic (INSTAT), World Bank and International Monetary Fund. For a general analysis of the labor market, this paper is based on the Labor Force Surveys (LFS)   for year 2010 and 2009. The LFS is a family based survey. The sample size for survey was 7,440 families.

The unemployed registered citizens have declined, and in the same time also the gap between the unemployed females and males. However the number of unemployed women remains still higher than that of males, by thus showing high inequality among men and women. If we would compare unemployment related to the education level we can say that for population with primary education has decreased, and also for the ones with secondary education. An interesting fact to take into consideration is the unemployment rate for the people with high education level. This rate has steadily decreased in the first 4 years, but then has reached again high level. This can be attributed to many factors, such as a very high number of students enrolling universities, represent the relatively high demand for high positions. Also the main provider for the employment level is the agricultural private sector, which in turn requires unskilled labor. As you can see also from the graph, the unemployment level is high for younger part of the population at up to 30%, and then the curve changes to the extent of unemployment rate of 5- 10% for the middle part of the population. From the available data the highest number of unemployed people compared to group ages, the percentage of unemployed people from 35 and above is highest and

has a tendency to increase. Whereas the unemployment tendency for group ages of 15-19 has steadily decreased..
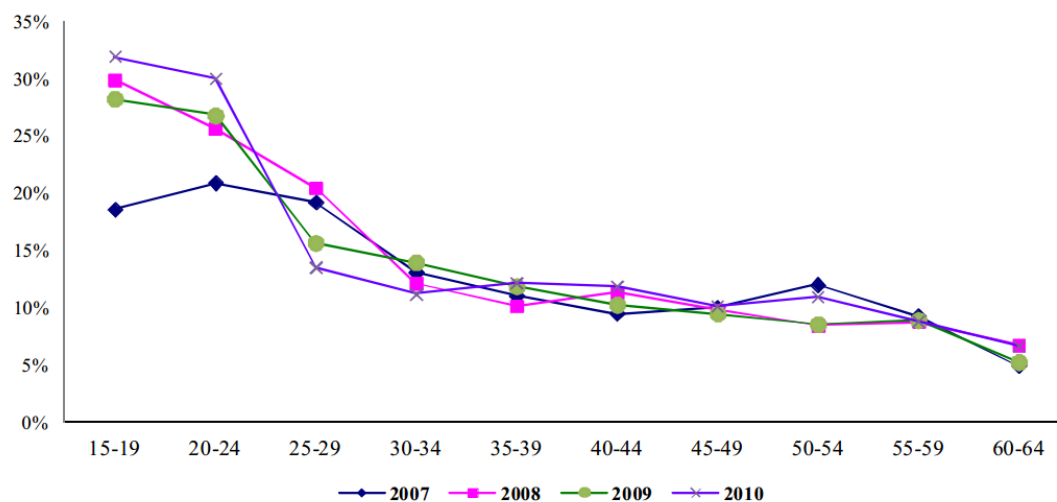

Figure 1 Unemployment rate according to age groups, 2007- 2010

Albania has gone through a process of massive changes, from a centralized economy to a democratic and liberal market. After the communist regime, as any would expect there was an increase in unemployment. As the main sectors that underwent development were trade and construction sector. And this could have also been one of the factors that explain the gap between employed women and men. There are sectors that require men labor force, without wanting to underestimate also the gender discrimination. During the transition period from the communist regime, there has been a tremendous decline for the females participating in the labor market. This was caused mainly due to the fact that during communism females were forced to work due to social pressures and with the transition to a market economy, many females chose not to work, dedicating themselves to the raise of their children.

An important factor to mention is the employed people in the state sector according to the education level. In general this number has decreased from year 2000 to 2011. The number of people with primary education employed in the state sector has halved. People with a secondary education have decreased, whereas the ones with university degree have increased. This means that the decrease of number of employed in the state sector can be mostly attributed to the decrease of the ones with primary and secondary education.

3.2 FEMALE LABOR FORCE PARTICIPATION
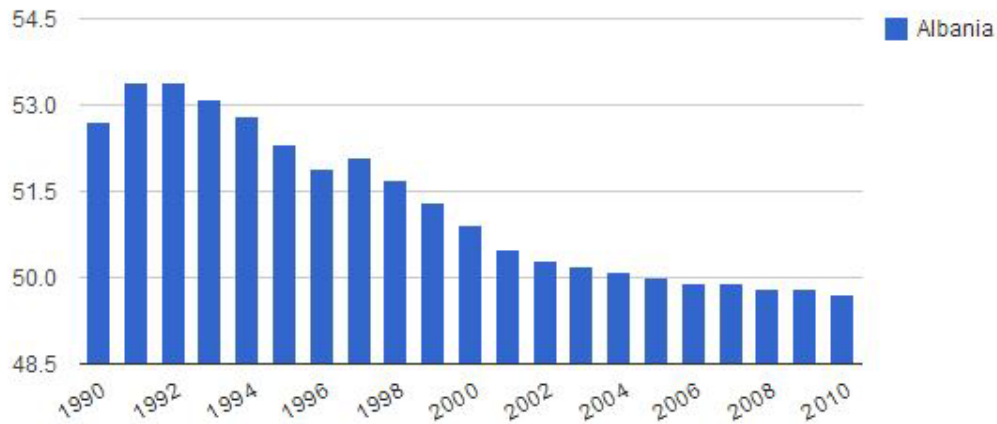
3.3 MALE LABOR FORCE PARTICIPATION
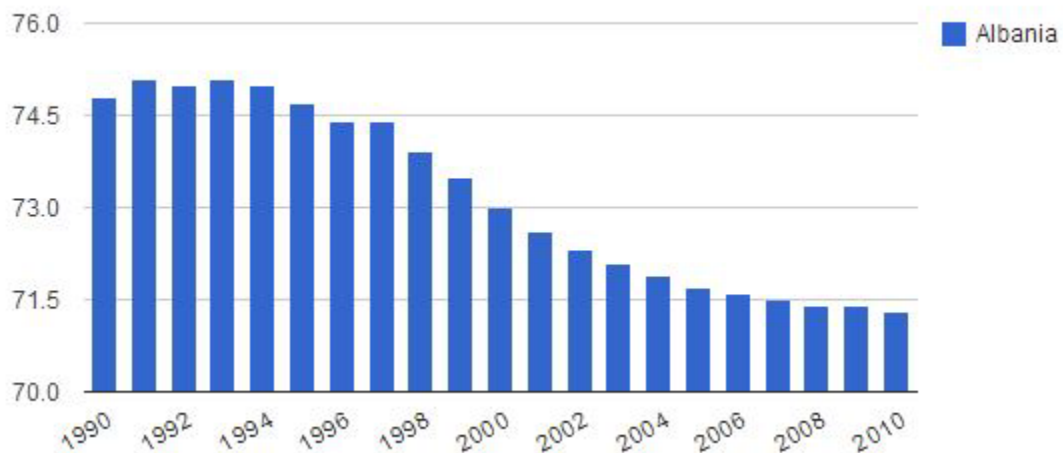
As it is shown in the graph above, there has been a decline in male labor force participation and this can be clearly explained by the increase of male participants in the informal market and also immigration. According to Instat, a vast majority of Albanian males aged 18-30 (approx

300,000-500,000) have immigrated abroad during the last decade, and are now working on their respective countries.

3.4 EMPLOYMENT DEVELOPMENTS

The restructured economy change in 1990's led to a decrease in the employment from the public sector. This decline was attributed to the mass privatization of state owned enterprises which during the communist regime were centralized. The most affected industries were the industrial sector, especially the extraction of minerals, metallurgy, chemical industry, textiles and other similar industries. However during those years there was a tremendous increase in the services sector despite the fact that most of the labor force was men.

From 2002 to 2005 more than 80 % of the total number of employed registered individuals was in the private sector. Most of the communist countries have experienced the same increase in the private sectors after transitioning to a capitalistic market. Albania prior to 1990 had no private sector and by 1994 had more employed individuals in the private sector than any other transition counties of the same region. This was caused from the rapid privatization of the agricultural sector, a process which was considered finished by 1993.

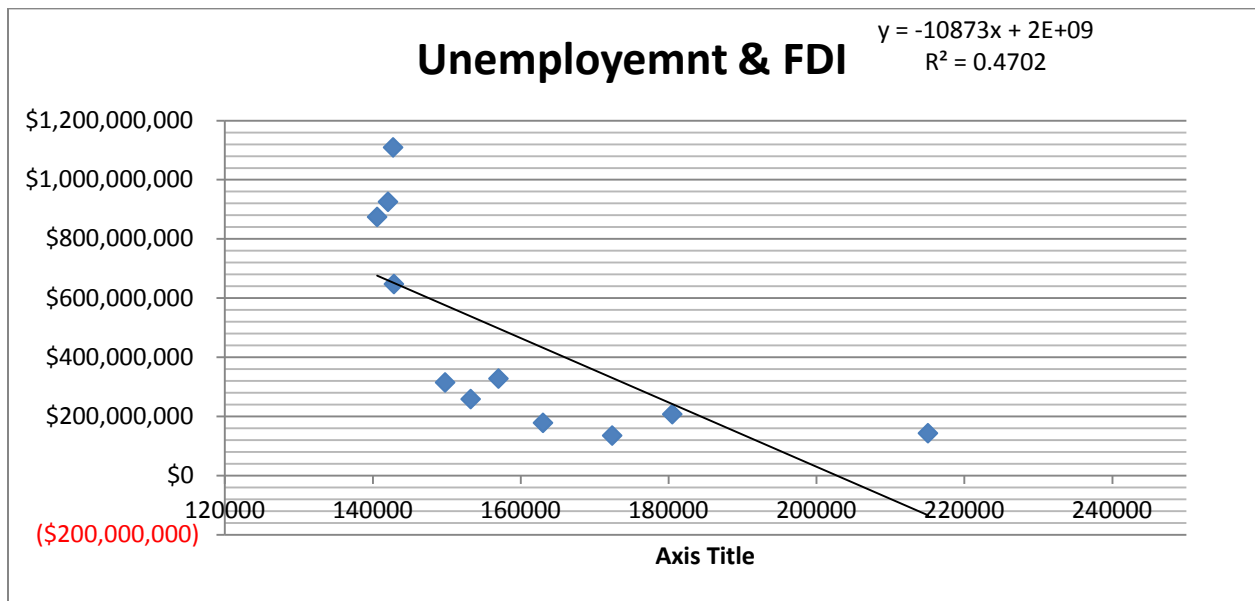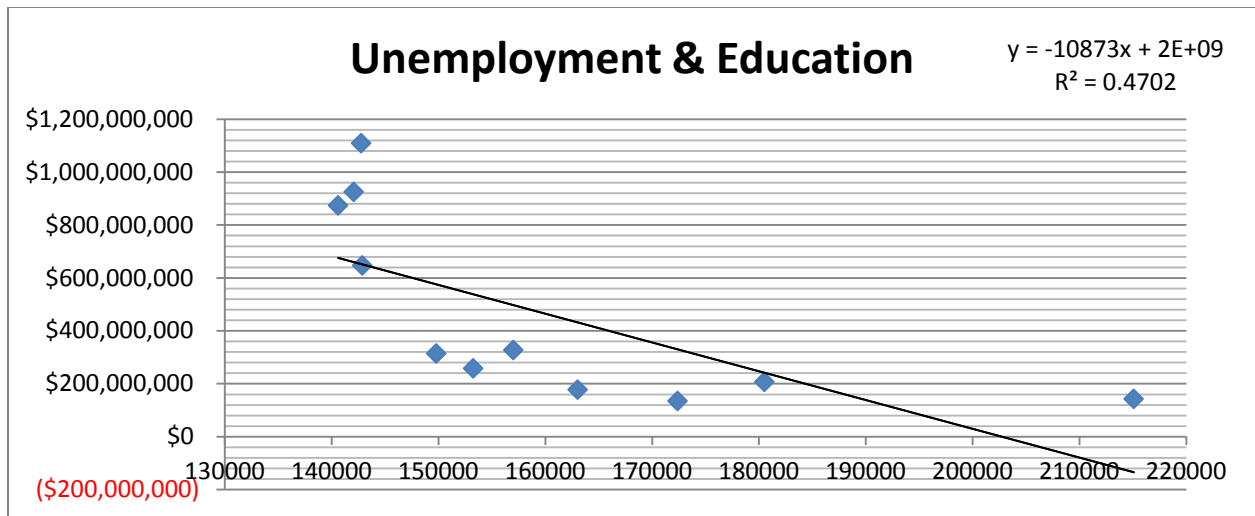| Year	1992	2000	2001	2002	2004
Total number of employed people	**1'094'821**	**1,068,190**	**920,569**	**920,144**	**931.068**
a) Public Sector-	614'607	191,166	188,965	186,065	176.731
-Budgetary	-	122,298	120,114	118,162	130.150
-Non Budgetary	-	68,868	68,851	67,903	46.581
b) Private Sector **Non agriculture**	60'000	116,024	205,267	207,742	213.000
c) Agriculture Private Sector	420'214	761,000	526,337	526,337	542.337

(EMPLOYMENT BY SECTOR: PUBLIC & PRIVATE)

As it's shown in the image above, the number of employed people in the private sector is continuously increasing compared to the public sector. The agricultural private sector consists the biggest number of registered people employed whereas the non-agricultural sector has been increasing in the recent years (and moving towards the service-oriented sector)

3.5 Methodology

In this paper, there will be analyzed if there exists a relationship between foreign direct investments in Albania and education in unemployment. Our independent variables will be education & FDIs, whereas our dependent variable will be unemployment.

Year	Unemployment	Education	FDIs
2000	215085	40125	$143,000,000
2001	180513	40859	$207,300,000
2002	172385	42160	$135,000,000
2003	163030	43600	$178,036,400
2004	157008	53014	$327,681,200
2005	153250	63257	$258,417,500
2006	149794	74157	$314,638,300
2007	142871	86178	$647,365,300
2008	140599	90202	$874,270,000
2009	142068	93206	$925,406,000
2010	142761	116292	$1,109,371,000

Unemployment & Education

y = -10873x + 2E+09
R² = 0.4702

Unemployemnt & FDI

y = -10873x + 2E+09
R² = 0.4702

Axis Title

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.763807553
R Square	0.583401979
Adjusted R Square	0.53711331
Standard Error	15311.66419

y=204307.085 -0.657X

Observations	11

ANOVA

	df	SS	MS	F	Significance F
Regression	1	2954867393	2954867393	12.60355916	0.006214439
Residual	9	2110023541	234447060.1		
Total	10	5064890934			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	204307.0846	13322.12989	15.33591747	9.30565E-08	174170.333	234443.8361
X Variable 1	-0.65677132	0.184998232	-3.550149175	0.006214439	-1.075266396	-0.238276246

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.685691817
R Square	0.470173268
Adjusted R Square	0.411303631
Standard Error	17267.55021
Observations	11

ANOVA

	df	SS	MS	F	Significance F
Regression	1	2.38E+09	2.38E+09	7.986685376	0.019849
Residual	9	2.68E+09	2.98E+08		
Total	10	5.06E+09			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%
Intercept	180072.2616	8822.877	20.4097	7.59204E-09	160113.5	200031	160113.5
X Variable 1	-4.32441E-05	1.53E-05	-2.82607	0.019849253	-7.8E-05	-8.6E-06	-7.8E-05

According to the data the equation drawn for unemployment and education is y=204307.085 - 0.657X. As it can be seen also from the graph and the coefficient of determination of 0.58 shows

that there is a significant relationship among the two data. This is a negative, which can be also understood from x variable coefficient with minus. This means that education and unemployment are negatively correlated. Higher education for the population would decrease unemployment. When we take into account also the correlation between unemployment and foreign direct investments, as any could expect there does exist a negative correlation. The coefficient of determination 0.47 shows again that there is a significant relationship among our data. Saying it in simpler words means that foreign direct investments decrease unemployment. However in both cases the R square is not very high, but this should not mislead us in decision. Because unemployment is a very broad term we cannot expect to be effected only by these two variables. There are lots of direct and indirect variables that could effects it, such as country growth, living standards, regulations and what is the main important by the supply and demand which in turn determine even the wage.

CONCLUSION

This assignment has explained in a broad way the labor dynamic in Albania There relevance of unemployment is clearly supported by the current findings. From the analysis drawn there was seen a negative relationship between unemployment and education & unemployment and FDIs. Albania comes from a transition economy and thus there has been labor market reallocation. We should also note that labor force participation and employment is lower women than for men. The employment rate in generally has been characterized by a downward trend, however still remaining with a gap between women and men, with the latter still having higher employment rate.

Another disturbing factor that is also seen recently is that part of the youth that are not doing a job search at all due to discouragement of the current economic & political situation going on. The country lacks employment opportunities, making even harder the possibility of finding a job. The employment is offered through three main categories, like state sector, non –agricultural private sector and agricultural private sector, with the latter comprising the most. The employment rate has decreased in the state sector for people with a primary education and has increased for people with university degree.

In order to boost employment, along with development Albania needs a lot many specialized programs and professional structures, to intermediate among the two sides of demand and supply of labor. Albania needs more institutional support to support and encourage unemployed people.

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