

THE FAILURE OF THE LABOUR MARKET IN MACEDONIA: A LABOUR DEMAND ANALYSIS

Non-Technical Summary

The paper examines the failure of the labour market in Macedonia, a country with the highest unemployment rate in Europe. It first describes the labour market institutions and policies in Macedonia during the transition. The authors find that Macedonia:

- has a relatively strict legislation on temporary employment and collective dismissals
- operates less generous unemployment insurance systems than the EU and OECD countries
- spends less on active labor market policies than the EU and OECD countries
- falls into the middle of the range in terms of union density
- has relatively low payroll taxes.

The paper examines the job creation and job destruction using firm-level data and estimates short- and long-run elasticities of labour demand. The findings indicate that the relatively speedy privatization of state enterprises in Macedonia has failed to spur a recovery of labour demand. The authors conclude that firms in Macedonia began adjusting their employment to the changing conditions later than their Central European counterparts.

The paper delineates several policy repercussions:

- relax regulation of temporary employment could eliminate some of the barriers to employment
- fiscal resources should be shifted from passive to active labour market programs
- identifying factors that encourage job formation and dynamism is crucial.

Keywords: labour market institutions, job creation, labour demand elasticity, Macedonia