

Employing Macedonia's youth

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The number of job contracts concluded in Macedonia increased 5.9% for January–October 2006 over same period a year before, with a 30.6% increase for fixed-term contracts—impressive gains for a country where unemployment hovered above 30% throughout the 1990s, partly due to rigid employment laws. “[Macedonia] wanted flexibility and we got it,” says one local economist.

Macedonia passed the Labor Relations Act on 22 July 2005, the first significant labor law reform since 1993. Major reforms in labor and employment law are uncommon—largely because of the extraordinary political will required. Changing labor laws can inspire strong reactions from employers and employees alike, often in very different ways. Emotions can run high, with labor laws affecting something that both care about: their livelihoods.

With Macedonia suffering from chronically high unemployment, the government decided in 2003 that it was time for a major reform. Part of the cure was a new labor law that could better respond to the economy's needs. Passing the new law was a success for 2 key reasons. First, representatives of both employees and employers took part in the reform process. Each side had a voice, and neither felt excluded. Second, the new law enjoyed strong political support from both the governing and opposition parties in parliament.

While employers and employees disagreed on some issues, they agreed that a strong economy with low unemployment was a good thing. With that as a starting point, the government went to work.

Chronically high unemployment

Macedonia had grappled with rising unemployment for decades. The problem was one of its most pressing social issues. Registered unemployment in Macedonia had been rising since the early 1960s, topping 20% in the 1970s. By 1991, when Macedonia gained independence from Yugoslavia, the economy had been contracting for more than 6 years, and unemployment was about 24%.

High unemployment hit Macedonia's youth and women especially hard. A 2003 study found that nearly 30% of the unemployed were between the ages of 15 and 24. In 2001 only 32% of Macedonian women of working age were employed, much less than 51% in the European Union and 54% in OECD countries. Nearly two-thirds of the people looking for work had been without a job for at least 4 years, and there was evidence that most of them were young.

Fighting the problem at its source—the law

Numerous factors contributing to Macedonia's soaring unemployment were beyond the country's control, but reforming Macedonia's labor law was a significant first step in combating unemployment. The Labor Relations Act of 4 December 2003 was principally based on a 1993 law (the Labor Relations Act of 27 December 1993), written mainly with socially owned and state-owned enterprises in mind. The gov-

ernment set out to pass a new law to address the changes in Macedonia's economy.

Reforms focused on 4 key issues. First, legislators introduced more flexibility in the types of labor contracts permitted and clarified the language of provisions governing part-time and fixed-term contracts. Second, they built more flexibility into overtime provisions. Third, they simplified redundancy procedures to make compliance easier and less costly. Fourth, they made changes to the collective bargaining framework, including those to comply with International Labor Organization standards.

Making the reform happen

When the Social Democratic Union of Macedonia won parliamentary elections in 2002, with Branko Crvenkovski as its head, one of its key election promises was to create jobs. Although Branko Crvenkovski left his position as prime minister to become president in 2004, the party remained in power throughout the reform process that led to a new labor law in 2005.

Aside from combating unemployment, the Macedonian government needed to reform its labor laws before it could join the European Union, after applying for membership in March 2004. The European Council Decision of 22 July 2003 set guidelines that called for member states to promote employment policies that would encourage job creation. It set the goal of reaching an employment rate of 70% by 2010. It also called for member countries to promote job creation by improving the adaptability of workers and firms to economic changes and restructuring—and by transforming undeclared work into regular employment through measures to eliminate undeclared work.

World Bank economist Arvo Kuddo advised the government throughout the reform process. He started in September 2004 by preparing lists of key reform objectives and proposing possible solutions to the government. Then between November 2004 and January 2005, labor and employer representatives had the opportunity to express their views on the key objectives through written proposals to the government.

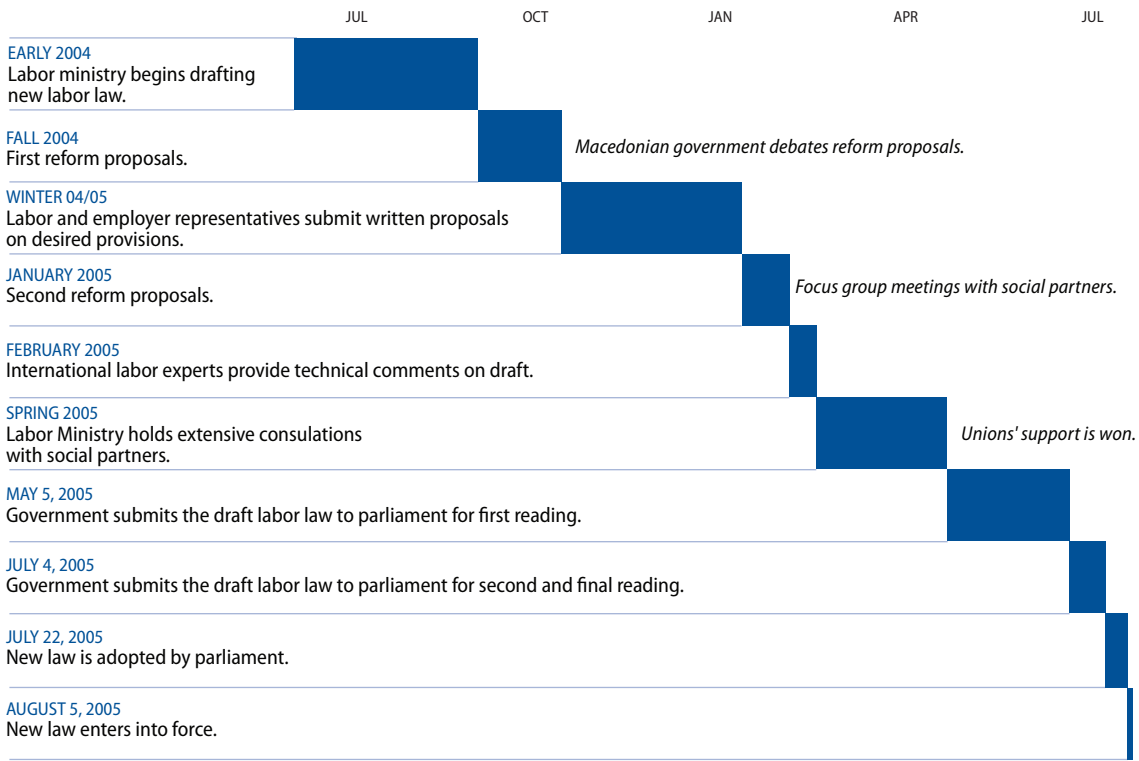
In January 2005 meetings took place between officials from the Ministry of Labor and Social Policy and several “social partners” (employers associations, trade unions, and other interest groups). This was a crucial step. Participants shared their perspectives, voiced their concerns, and worked to hammer out a compromise. In March 2005 the Ministry of Labor held additional consultations so that the various groups could provide further input on the draft law. Throughout April and May the parties hotly debated a range of reform proposals.

Labor unions were at first deeply opposed to the reform. But once they were brought into the reform process and given a voice, they worked with the government and employer representatives to negotiate compromises. Key to making the process work was including the unions in the drafting, rather than crafting a law without their input. Through sustained interaction with the Ministry of Labor, the unions

FIGURE 4

Timeline of labor law reform in Macedonia

Source: Doing Business database.



came to realize that reform helps everyone. The new law was passed without disruptive strikes that might have impeded the reform effort.

The reform enjoyed support across the political spectrum. In fact, the greatest surprise was probably the ease and speed of parliament’s passing the new law. With unemployment so persistent, the opposition party made a point of not challenging the legislation, and most parliamentarians genuinely favored reform. And its total cost was minimal, because there were no direct costs, simply the time dedicated by staff of the Ministry of Labor.

The government first submitted a draft of the law to parliament on 5 May 2005, and by 22 July the final version was passed. On 28 July the Labor Relations Act of 22 July 2005 was published in the Official Gazette of the Republic of Macedonia, entering into force 8 days later on 5 August 2005.

Introduce flexibility, streamline, and clarify

The 2005 labor law created new and more flexible options for labor contracts, clarified and liberalized overtime provisions, limited the events that qualified for paid leave, and streamlined redundancy procedures. It also redefined the framework for collective bargaining, clarifying several rules and limiting the duration of collective bargaining agreements to 2 years.

Under the previous labor law, some articles were ambiguous, even about what types of contracts they purported to regulate. The new law clarified the rules applying to fixed-term and part-time contracts, and promoted more diverse employment relationships by loosening restrictions on the use of fixed-term, temporary, and part-time employment contracts. Article 46, for example, capped the total length of fixed-term contracts (including renewals) at 4 years, up from 3.

Previously, overtime was allowed only under exceptional circumstances, such as fires and epidemics. Under the new law overtime was no longer limited to those cases. Weekly overtime was limited to 10 hours, annual overtime to 190 hours, with lower limits for minors.

The old labor law required employers to notify a state employment agency each time a contract was terminated due to redundancy. Severance costs were high even by regional standards, with the maximum payment set at 8 monthly salaries. The new law relaxed preconditions for valid redundancy dismissals and limited maximum severance pay to 6 monthly salaries.

The collective bargaining framework under the old labor law violated ILO standards. Convention 144 on Tripartite Consultation required that representation by social partners be voluntary and that collective agreements bind only parties to the agreement. But Macedonia's collective agreements bound the entire public and private sectors, even workers whose representatives were not parties to the agreements. A single chamber of commerce represented all employers, whether an employer wanted to be represented by it or not. To complicate matters, the law did not provide clear rules defining which parties were qualified to represent employers and employees in negotiating collective agreements, and it placed no limits on the duration of a collective bargaining agreement.

The new law made membership in trade unions and employers' associations voluntary. It laid down rules for determining which parties may represent employers and employees in negotiating collective agreements. And the law made collective agreements binding only for signatories and members of signatory organizations. In addition, it limited collective agreements to a fixed 2-year term, making regular renegotiation necessary.

Improving opinions—an important first step

For the government, the passage of the 2005 labor law was a great success. And understandably so: to have smoothly adopted a reform of such breadth was no small feat, especially with the divergence of views among the parties in the discussions.

Employers and employees alike are pleased with the flexibility the new law brought to employment contracts. "I consider the law positive," notes Slagjan Mihajlovski, owner of Infinite Solutions, a software development company with 20 employees, "because many of the obstacles to flexible forms of employment have been elimi-

nated.” Milivoje Dzordevic, the owner of fx3x, a visual effects and animation company with 20 employees, agrees, “My opinion of the labor law is positive, since it allows me flexible forms of employment [which are] essential for the nature of my project-oriented business. This is something that has a direct impact on the competitive position of my company.” Twenty-year-old Marko Culev, a part-time employee at the company, adds, “[It] allowed me to have a part-time job, since I could work only 4 hours a day due to my various other responsibilities.” He and other employees wish, however, that a public awareness campaign had brought the changes in the labor law to the general public’s attention.

Some employers and employer representatives feel that more reform is needed, though they consider the new labor law a move in the right direction. Valentino Konstantinovski, owner of Etapa Project, an architecture and engineering firm with 6 employees, is pleased that the new law “shortens employment and redundancy procedures,” but considers it “just the first step for establishing the overall framework that will support the growth of small and medium enterprises.” Darko Velkov, owner of a private employment agency for temporary workers, Vrabotuvanje Leasing, and manager of the largest private employment agency, Vrabotuvanje.com (meaning “Employment.com”) agrees, “[T]he new Labor Relations Act is a small movement in a positive direction, but it is just the first step in the adjustment of the legislation to the labor market needs.” Mile Boskov, president of the Confederation of the Employers of the Republic of Macedonia, bluntly says that he supports an “ongoing process of regulatory guillotine.”

Unions and employer organizations disagree over some of what they feel is good about the labor law. Labor unions emphasize that greater worker protections are needed, while employer organizations like the Employers’ Organization of the Republic of Macedonia complain that the law is still too burdensome for the employer. While the quality of the legislation was high, the law was the result of a compromise, and as such, it probably fit no one’s ideal, “The law is not perfect, but under the circumstances and the compromises that had to be made, it was a success.”

But one point where both unions and employer representatives agree is their criticism of the minimum required by the new law for representing employers and employees in collective bargaining negotiations. According to Articles 212 and 213 of the new law, to take part in the negotiations on a collective agreement, union and employer organizations must each represent a minimum of 33% of the total number of employees and employers, respectively, covered by the collective agreement.

The problem in some situations is that no representative organization can meet this threshold. While this is not an obstacle to collective bargaining at the firm level, it is at the national and branch level. Because Macedonia does not have a tradition of firm-level bargaining, bargaining can shift to the firm level, or unions can consolidate to join forces. Ironically, the high threshold was proposed by the dominant union as a way to protect its position. The strategy backfired, however, because even it fails to meet the threshold.

Lesson—include social partners in the dialogue

The main lesson for other countries is that social partners need to be included in the drafting process at an early stage. Unions, chambers of commerce representing employers' interests, and groups of business executives all participated in discussions leading up to the 2005 reform. This gave them a voice and an opportunity to have their interests addressed, which led to broad acceptance of the new law.

Groups included in the talks are clearly more satisfied with the reform's outcome. Aco Spasevski of the Macedonian Chamber of Commerce, representing the interests of small- and medium-size enterprises, called the reform process a "positive experience" and made a point of emphasizing the concrete results of constructive cooperation with the government.

Impact of the reform—an early indication of positive results to come

Given that the new law makes it easier to form flexible labor contracts, it would not be surprising to see an increase in redundancies in the short term, followed by an increase in the number of fixed-term and part-time contracts. But layoffs have not materialized. Macedonia will need to experience both a period of economic expansion and one of contraction (a full business cycle) before the effects of the reform materialize.

An early indication that the reform is working is the rise in employment of youths ages 15–24. In the second quarter of 2006 (the most current labor statistics available) as compared with the same quarter in the previous year, employment rose 4 percentage points (from 13.4% to 17.4%) and unemployment fell 5.2 percentage points (from 59.8% to 54.6%). Because young people are the group most actively looking for work (as they are just entering the workforce), they are most likely to be affected by the reform in the short run.

Will the results of Macedonia's labor reform continue to be positive? The early signs are encouraging. The 2005 labor law was a critical move toward reducing unemployment. By consulting with labor law experts, building broad-based political support for the new legislation, and creating an effective dialogue with social partners, Macedonia has moved past an obstacle that impedes many countries.