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Working Paper

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GLO Discussion Paper, No. 837

Provided in Cooperation with:

Global Labor Organization (GLO)

Suggested Citation: Drishti, Elvisa; Kalaj, Ermira Hoxha; Kopliku, Bresena Dema (2021) : Efficiency and Distributional Effects of the Two-Tracked Labor Market Institutions in Albania, GLO Discussion Paper, No. 837, Global Labor Organization (GLO), Essen

This Version is available at:

<https://hdl.handle.net/10419/233875>

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Efficiency and Distributional Effects of the Two-Track Labor Market Institutions in Albania



Elvisa Drishti, Ermira Hoxha Kalaj, and Bresena Dema Kopliku

Abstract This study examines the efficiency and distributional effects of selected labor market institutions in Albania, a rather underresearched country. An initial overview of the postcommunist developments articulates why Albania has the poorest labor market performance among other South East European countries. Using a set of mixed qualitative and descriptive quantitative methods we find evidence of inefficient segmental effects and a predatory structure of labor market institutions which noticeably diverge from the efficient institutions' point of reference. The institutional/welfare regime at the cross-national level points out at a relationship between the labor market institutional framework and labor market performance, as measured by unemployment. At the country level, a disproportional relationship between the “de jure” labor market regulation and unemployment is identified, which is also moderated by the interaction between labor market and economic institutions.

Keywords Albania · Labor market regulation · Welfare regime · Unemployment · Labor market institutions

1 Introduction

Matters regarding the role and effects of labor market institutions have been a controversial and a much-disputed subject within the field of labor market performance, for both developed and developing countries (Bentolila and Dolado 1994; Bertola

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et al. 2001; Betcherman 2012; Blanchard and Landier 2002; Botero et al. 2004; Freeman 2005; Kahn 2012; Lehmann and Muravyev 2010; Skedinger 2010). The generalizability of much published research in this topic offers two levels of inconclusive debate: (i) the “within” the labor market opposing views, where, on one hand, the “institutionalists” or “interventionists” standpoint largely subscribe to the efficient institutions’ approach suggested by the Political Coase Theorem, and, on the other hand, prevails the “deregulation” strand of research which considers institutions as “distortions” or “imperfections” of the competitive labor market (Acemoglu 2003; Acemoglu and Robinson 2008; Betcherman 2012; Freeman 2005; Heckman 2007); (ii) the “between” markets perspective which argues that the pure institutional approach (Lehmann and Muravyev 2010), which initially dominated labor economics and macroeconomics research, has been challenged by several lines of evidence which put forward arguments in favor of an interaction of labor market institutions with economic performance (Bertola et al. 2001; Blanchard and Wolfers 2000).

This chapter attempts to provide a plausible appraisal of selected labor market institutions in the Albanian labor market, at both abovementioned levels. It sets out to make four contributions for the case of Albania. Initially, concerning the post-communist labor market institutional framework of a relatively underdeveloped country, which represents an interesting and striking research context that has been paid far too little attention in terms of institutional evolution. Second, it elaborates on the hybrid postcommunist welfare regimes in general, and for Albania in particular, by identifying the institutional regimes clusters. Third, to be able to relate to the efficient institutions view, an attempt is made to establish whether labor market regulation is disproportionally related to the unemployment rate, from a cross-national comparative approach. This will help to conclude whether different underlying national characteristics affect the efficiency of economic institutions. And finally, it deals with certain aspects of labor market institutions: minimum wage and employment protection legislation in terms of efficiency and distributional effects.

A combination of quantitative and qualitative descriptive (narrative) methods was used in the data analysis. The quantitative methodological approach taken in this study is reported at the cross-national level. The data analysis method conducted at the macroeconomic level relied on using descriptive statistics and graphical inspections between labor market regulation and unemployment. The research data in this chapter is drawn from three main sources: (i) valuations of labor market regulation (LMR) have been obtained by Doing Business database of The World Bank for 2017; (ii) unemployment rates data from the International Labour Organization (ILO) database for the year 2017; and (iii) the 2017 Gross Domestic Products at market prices with chain-linked volumes indexed with the 2010 base (as 100) were obtained from Eurostat. The cross-national nature of these data represents a limitation in terms of estimation of fixed effects that isolate the national unemployment differences along a period in which the labor market institutional variation has transpired. Ideally longitudinal microlevel data would have bridged this deficiency.

The use of qualitative analysis is a well-established approach in labor market institution studies when the explanation of complex interactions between labor market institutions is intended to explain the effects in the most prominent labor market outcome, i.e., unemployment.

The findings make an important contribution in terms of whether, and to what extent, have labor market institutions in Albania adapted to the economic requirements of the country and whether the welfare regime is related to unemployment in such fashion that moderates the flexibility – unemployment relationship.

This chapter has been divided into five parts, including this introductory one. The second part deals with a chronological dynamic of the labor market structure and employment composition in Albania and outcomes in terms of labor market flexibilization. The third part lays out the theoretical dimensions of the welfare regimes cluster at the cross-national levels, and looks at the rationale of the “post-communist” welfare cluster in particular. The fourth part is concerned with the labor market institutions and the deregulation effects in terms of labor market segmentation and unemployment at the country level. Finally, the conclusion gives a brief summary and reflections on the findings.

2 Labor Market Structure and Employment Composition in Albania

The Albanian labor market faces a number of challenges due to the severe problems that characterize the emerging market economies which are not currently EU members. Persistent poor labor market performance and outcomes have been linked to the difficult economic situation and inadequate economic governance. According to the Albanian Institute of Statics¹ (INSTAT), the labor force in 2013 was around 1.18 million² in absolute terms, and participation in the labor market reached 70.2% for men and 50.4% for women.³ These figures reflect a clear decreasing trend which was more noticeable for women following the financial and economic crisis.

Generally speaking, overall activity rates in the Western Balkans are lower because of low female participation. Male activity rates in Albania compare well with those of the EU peer countries, while female participation is significantly lower. Inactivity is higher among women, young people, and those with low educational attainment. The share of people outside the labor market in Albania is 36% (World Bank 2017).

¹ All the figures were taken from this link: <http://www.instat.gov.al/en/themes/labour-market-and-education/employment-and-unemployment-from-lfs/#tab3>

² Total registered population in Albania is 2.9 million, according to INSTAT.

³ In retrospective, these figures were: 2012: 74.4% and 56.7; 2011: 76.1% and 60.3%; 2010: 72% and 52.8%; 2009: 73.3% and 51.8%; 2008: 72.1% and 52.8%, respectively for men and women.

Prior to the 1990s, the expansion of the service sector in capitalist economies was associated with a steady expansion of female participation and prevalence of flexible employment (Feldman and Doeringhaus 1992; Tilly 1991). In centralized economies however, the service sector progress was suspended but the communist doctrines sustained the de-familization of women (Esping-Andersen 1999), which resulted in misleadingly augmented gender equality. This endeavor was motivated by the quest of communist governments to achieve the imperative of industrialization (Pollert 2003). Being faced with the problem of labor force shortages, public policy required working-age women (15–55 years) to work around 70 h per week,⁴ and their participation fluctuated between 70% and 90%. Accordingly, under communism, nonstandard work was absent and full employment was in effect reached. Yet, gender equality in terms of participation was more of a quantitative than qualitative nature since the majority of women were employed in “light” manufacturing (e.g., textile) industries and caring occupations and occupied the lower 24% of jobs on career ladders (Pollert 2003).

After the transition (1992–1995), the property rights of most of the state-owned enterprises were transferred to unions and workers, and unemployment rose since many vulnerable groups of workers (i.e., women, young, and low-skilled) were made redundant. By 1998–1999, sectors such as retail, hotels, and finance flourished and tended to hire on part-time and/or temporary basis which translated into lower union coverage. It is important to point out that the weakening of trade unions and the lack of well-established labor laws (code) were associated with a higher level of part-time and temporary employment arrangements (Clegg 2007; Ebbinghaus 2006) and worker exploitation. In addition, the well-developed communist public childcare system disappeared, making it difficult for women to arrange childcare and employment and therefore encouraging the shift to part-time carer/worker (Saxonberg and Sirovátka 2006). This way, within the first decade of the market economy, the relative improvements in gender-related human development achieved during communism were eroded (Pollert 2003). The capitalist regime, by reinstalling traditional “familization” (Saxonberg and Sirovátka 2006) and prompting women to return to the home as unpaid family workers (housewives), encouraged conservative family views, division of gender roles (Esping-Andersen 1999), and transferred full-time work back to men (Toots and Bachmann 2010). For all these reasons, the demand for flexible jobs in Albania was initially, both, employee- and employer-driven.

Nevertheless, the aforementioned initial labor force supply factors were not likely to play a major role in explaining the persistent growth in nonstandard employment arrangements. In the course of the last couple of decades, there were three converging forces that contributed to a rapid accommodation of the flexibilization reforms in Albania and the region: (i) new political leaders seeking to solve economic problems, especially chronic and long-term unemployment, and to increase job creation rates; (ii) domestic businesses that benefited from side-stepping

⁴The work week had 6 days.

high costs and bureaucratic legal procedures transcended from past legacies and the need to meet technological and demographical changes introduced by the new capitalist economy. Both these two forces were the main facilitators of the shift toward increased labor market flexibility; and furthermore, (iii) a fragile rule of law and a large informal sector, typical for developing countries, lead to an augmented real (*de facto*) compared to legislative (*de jure*) flexibility (Boeri and Garibaldi 2005; Cook 2010; Djankov and Ramalho 2009). To summarize, conservative communist era legacies merged with rapid neoliberal reforms and led postcommunist Albania to match EU developed economies in terms of diminished labor market interventions. Newly created jobs were characterized by low job security and entrapment of workers in repeated spells of nonstandard jobs or exit to unemployment, a completely new employment pattern compared to the life-long secure and predictable jobs that prevailed under the communist system.

In terms of labor market issues, the most notable stem from the deep and difficult to tackle structural imbalances and a high presence of structural unemployment in overall unemployment. The roots of such imbalances can be found in several factors, including a lack of regional mobility, deindustrialization of the economy during the transition period, and the resulting mass unemployment of low-skilled and hard-to-adapt labor, i.e., agricultural workers, and weak links between education systems and industry requirements (Numanović et al. 2016). Without any doubt, the high unemployment rate is worrying. For example, in 2013, the ratio of unemployed persons to the working-age population (aged between 15 and 64) was 18.3% for men and 13.8% for women⁵ compared with 9.3% and 9.5% in the euro area and 11.1% and 9.6% among the new member states⁶ of the European Union, for men and women respectively. Unemployment trends in general and for the youth⁷ (aged 15–29) in particular are worrying. Despite that the National Strategy for Development and Integration⁸ – which combines the European Integration agenda with the sustainable socio-economic development of the country – sets the promotion of employment as a principal objective for 2015–2020, unemployment figures⁹ are constantly rising. Similarly, as part of the “National Strategy for Employment and Skills 2014–2020¹⁰,” active labor market policies are given a prominent position as one of the key instruments for achieving defined goals, while concrete measures are defined by annual action plans aligned with the Strategy. Nevertheless, in reality,

⁵In retrospective, these figures were: 2012: 15.2% and 12.0%; 2011: 13.8% and 14.1%; 2010: 12.8% and 15.9%; 2009: 12.2% and 15.9%; and 2008: 12.5% and 13.5%, respectively for men and women.

⁶Croatia, Slovenia, Bulgaria, and Romania.

⁷In retrospective, these figures were: 2015: 32%; 2014: 32.5%; and 2013: 27.2%.

⁸https://ssl.kryeministria.al/SKZHI_FINAL_QBZ.pdf

⁹In retrospective, these figures were: 2016: 28.9% and 15.6%; 2015: 33.2% and 17.5%; and 2014: 32.5 and 17.9% for the 15–29 and 15–64 age segments respectively.

¹⁰The four strategic objectives of the above strategy are: (i) decent work opportunities through effective policies of the labor market; (ii) education and vocational training for youth and adults; (iii) social inclusion and regional cohesion; and (iv) analysis of labor market dynamics and sustainability of the performance evaluation system.

little to no positive outcomes have been evidenced so far. Slow job creation rates and a generally underdeveloped labor market institutional framework have also contributed to these patterns.

These fundamental developments in the labor market stimulate feelings of job insecurity among employees (this is also the case, to different extents, for the Balkan countries¹¹ of South Eastern Europe) and have been the source of major social concerns. The very low youth employment rate has stalled the process of investing in human capital, specifically for men, and instead made migration to other developed countries (usually Germany and France¹²) a more appealing option. Indeed, at present, significant shares of the population aged between 15 and 25 have sought asylum in France and Germany (Balkan Insight 2017; McGuinness 2017) despite the fact that the country is not in war.

The social support system is inefficient and dependency on it is unmanageable. The situation is even worse for low-skilled land owners working in the agricultural sector in the country side. Along the immediate postsocialist years, abandonment of cropland in peripheral rural areas with low population and forest-cover loss was evidenced (Müller and Munroe 2008). In the last decade, Albania has been given the status of the “Europe’s outdoor cannabis capital” (Pressly 2016) since struggling farmers desperate for work have no other survival options.

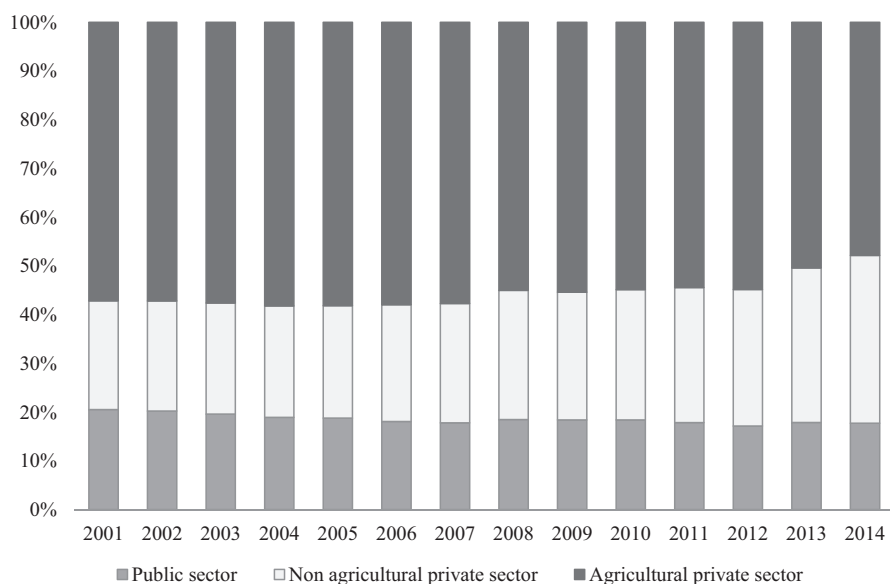
Albania has the poorest performance in the region, e.g., compared with the South East Europe (SEE) 2020 Strategy standard of achieving 44.4% employment for the total working population (over 15 years old), lagging far behind from the main labor market indicators (World Bank 2017). This is because employment in 2010–2016 has grown in all countries but Albania and Bosnia and Herzegovina. However, in 2015 and in 2016, Albania’s growth in employment was 4.8% and 6.8% respectively, mainly as a result of the national campaign addressing the informal economy (World Bank 2017).

The share of highly educated people among the employed increased in the wider region between 2010 and 2016, but Albania exhibited the highest share of low-skilled (46.7%) and the lowest share of high-skilled people employed in the Western Balkans (World Bank 2017). This is explained by the fact that paid employment was still dominated by the agricultural sector, and the services sector. As a rule of thumb, rising economic growth would be associated with a shift in employment from agriculture to the nonagriculture private and public sector which is translated into more jobs in services and industry.

Graph 1 indicates that the workforce is divided almost in half between the agricultural sector and the public and nonagricultural private sector. From 2001 to 2014, there was shrinkage of almost 10 percentage points of the private agricultural sector in favor of mainly the nonagriculture private sector, which marks the first steps of an improvement – from lower income with a larger rural sector toward less low income with slight job growth.

¹¹ Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia, all post-communist countries.

¹² A major cause of the fierce opposition of France to open EU accession talks for Albania in October 2019.



Graph 1 Employment by sector in Albania. (Authors' own figure; Source of data: INSTAT)

In conclusion, Albania as part of the Western Balkan countries is characterized by low employment rates. High and persistent long-term unemployment has become a salient feature of the labor market. In fact, the lead economist and author of the World Bank's recent "South East Europe Regular Economic Report," Gallina A. Vincelette, maintained that *"unemployment remained very high in the region at an average rate of over 24% in 2013. Persistently high unemployment rates and chronic unemployment are particularly prevalent among vulnerable groups, such as youth, women, and the low-skilled"*. International migration plays an important role in mitigating the problem of unemployment, and remittances have become an important source of income. In addition, almost the entire region is facing population aging and shrinking due to low birth rates and high emigration (World Bank 2017). Substantial informal sector activities, as will be explained in the next section, are another prominent feature of the Albanian economy, creating significant challenges. These circumstances further exacerbate weak labor market performance and high levels of job insecurity.

3 Welfare Regimes Clusters and Implications for Unemployment

Keeping in account that little adequate analysis is available for Albania, initially, a location of the country in the "welfare map" is contended. In this section, an attempt is made to relate the poor labor market performance of the Albanian labor market with its institutional context, i.e., welfare regime, from a cross-national comparative

outlook. Another related reason of employing such an approach relates to the need to address the call for more inclusive research on labor market regimes in countries with different macroeconomic and labor performance (Lehmann and Muravyev 2010) since the majority of such investigations and seminal work are carried out in large and prosperous OECD countries (Aleksynska and Cazes 2014; Kahn 2012; OECD 2015) and only a few recent studies have instigated the integration of developing postcommunist countries and new (candidate) EU countries in their cross-national comparisons (Bassanini and Duval 2006; Betcherman 2012; Botero et al. 2004; Feldmann 2008). Indeed, the inclusion of different, small and less efficient, and developed economies in such comparisons brings to the picture more variations in terms of labor market regulations and institutional regimes as well as economic performance, even though the availability of standardized and reliable data is an issue. The national differences in labor market regulation and institutional welfare state regimes are predicted to have explaining power upon the variation of unemployment rates among countries (Gallie 2007; Holman 2013; Kahn 2012). The main institutional theories pertinent to this investigation across Europe are quite a few. In this chapter, the “varieties of capitalism” (Hall and Soskice 2003) typologies will be used to capture the tendency that countries have to cluster when there is convergence of their complementary practices in different spheres.

3.1 *The “Post-communist” Welfare System*

Albania diverges significantly from other Central and Eastern European countries with regard to population, economic standards, and political status. Each of these countries has experienced their own path of transition. However, Albania has pursued a comparable economic and political track compared with other postcommunist countries following the Second World War (Cook 2010¹³; Lehmann and Muravyev 2010; Savić and Zubović 2015). This is reflected also in contemporary postcommunist labor markets. The theoretical rationale for such similarity is that analogous socio-cultural and/or politico-economic backgrounds stimulate analogous sets of institutions that regulate the labor markets and the welfare regimes across nations (Esping-Andersen 1990; Kemmerling and Bruttel 2006; Schubert et al. 2009). Homogeneity in labor market institutions has also been linked with consistency in labor market performance (Boeri and Ours 2009).

Cross-national research has frequently made use of typological analysis which captures the tendency that countries have to cluster when there is convergence of their complementary practices in different spheres. The typologies used in this investigation have been mapped along a continuum from traditional conservative to liberal welfare regimes (Esping-Andersen 1990) or across the dimensions that

¹³ The author investigates these postcommunist countries: In Europe: Bulgaria and Romania, Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia, and in the Former Soviet Union: Latvia, Lithuania, and Estonia.

distinguish coordinated from liberal market economies (Hall and Soskice 2003). According to the first typology, the distinct “post-communist” welfare regime is a hybrid between the bismarckian/interventionist/coordinated and liberal/uncoordinated welfare regimes. The policy-making context is comparable to the “continental-conservative” typology, reflecting the pre- and communist-era legacies (Aidukaite 2011; Cerami and Stubbs 2011; Cerami and Vanhuysse 2009; Toots and Bachmann 2010). The Labour Laws (Codes) under communism, e.g., in terms of permanent full-time employment as the standard, reflect an extensive utilization of strong employment protection legislation by means of generous redundancy costs and strict hiring and firing rules to slow down job separation (Doing Business 2017).

Using the “varieties of capitalism” categories (Hall and Soskice 2003), four clusters of EU countries, plus Albania, can be distinguished (see Table 1). The postcommunist group, however, is heterogeneous, and there are differences within this group. The postcommunist EU members that are most similar to Albania are Bulgaria and Romania. Slovenia is closer to the coordinated market economies (CMEs) while Estonia is closer to the liberal market economies (LMEs). The Czech Republic has some similarities with the CMEs and LMEs. Poland is a mixed CME. The Western Balkans, Albania, and Croatia, are still transitioning toward different paradigms of capitalism, Croatia is evolving toward the CMEs while Albania toward the LMEs. Building on Esping-Andersen’s (1990) welfare regimes, Gallie and Paugam (2000) proposed the “employment regime” typologies aimed at integrating aspects relating to the organization of social welfare including unemployment benefits, employment protection legislation, and financial reimbursement. These typologies lead to the classification of six different welfare regimes as shown in Table 2.

Social protection and social rights exist in postcommunist countries (Whelan and Maître 2010), but as discussed, flexibility has been on the rise. Albania is located in

Table 1 Varieties of capitalism (Hall and Soskice 2003)

Liberal market economies	Coordinated market economies	Mediterranean	Postcommunist
UK	Austria	France	Poland
Ireland	Belgium	Italy	Bulgaria
	Denmark	Spain	Romania
	Finland	Portugal	Slovakia
	Germany	Greece	Latvia
	Netherlands		Lithuania
	Norway		Estonia
	Sweden		Slovenia
	Switzerland ^a		Czech Republic
			Hungary
			Croatia
Albania			

Authors’ own table

^aNot an EU country, but it was included in the analysis for its resemblance of the “bismarckian” cluster, i.e., Germany, Austria

Table 2 Employment regimes^a

Liberal regime	Social democratic regime	Corporatist regime	Southern European regime	Postcommunist corporatist	Postcommunist liberal
UK	Denmark	Germany	Italy	Czech Republic	Bulgaria
Ireland	Finland	Austria	Spain	Hungary	Romania
	Norway	Belgium	Portugal	Poland	Latvia
	Sweden	France	Greece	Slovenia	Lithuania
	Netherlands	Switzerland		Slovakia	Estonia
				Croatia	Albania

Authors’ own table

^aAccording to Bukodi and Róbert (2007) and Gallie and Paugam (2000)

Table 3 Per-capita GDP by welfare and employment regime and GDP per head^a

Liberal regime	Social democratic regime	Corporatist regime	Southern European regime	Postcommunist corporatist	Postcommunist liberal	Postcommunist 2007 and after accession ^b
UK	Denmark	Germany	Italy	Czech Republic	Latvia	Bulgaria
Ireland	Finland	Austria	Spain	Hungary	Lithuania	Romania
	Norway	Belgium	Portugal	Poland	Estonia	Albania
	Sweden	France	Greece	Slovenia	Croatia	
	Netherlands	Switzerland		Slovakia		

Authors’ own table

^aAccording to Eurofound (2013)

^bTo the EU

the “post-communist liberal” regime group. However, this group is heterogeneous due to very different per capita GDP figures (reflected in the year of accession to the European Union, i.e., 2007 and after¹⁴). As mentioned earlier, less affluent societies are characterized by low levels of per-capita GDP and lie below the convergence point of the per-capita GDP – happiness relationship (Costanza et al. 2007; Helliwell et al. 2017). In this relationship, countries such as Albania are located in the “economic gains” section, where additional economic gains translate in a multiplied positive effect on utility (welfare). Taking into account welfare regimes, employment regimes, and differences in per-capita GDP patterns, EU countries and Albania can be categorized into seven distinctive clusters as shown in Table 3. Albania holds the EU candidate country status and was rejected to open negotiations for EU membership in 2020 for failing to meet the EU integration requirements. Albania is therefore located in the postcommunist 2007 and after accession group.

In an effort to provide a diverse cross-national comparison and also compare Albania with similar small South-East European contexts which are in the same

¹⁴ Romania, Bulgaria, and Croatia.

phase regarding EU integration, Kosovo,¹⁵ Montenegro, North Macedonia,¹⁶ have been included in the database. In the same fashion, post-communist non-EU countries such as Bosnia and Hercegovina and Serbia have been added.

3.2 Welfare Regimes as a Moderator of Economic and Labor Market Performance

This section is concerned with the question of whether welfare regimes are related to unemployment and macroeconomic performance to assess whether it moderates the rigidities–unemployment relationship.

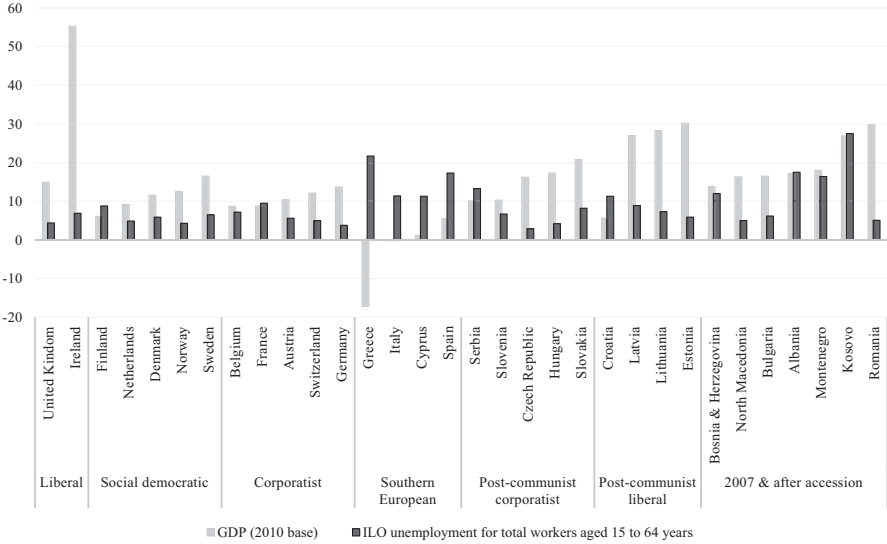
The first two clusters include the “liberal” and “social democratic” countries. The low unemployment share can be explained by their welfare regime and social protection which provides high unemployment benefits and social protection and fosters partial labor market participation or different types of nonstandard forms of employment (NSFE). For these countries, the labor market qualifies as efficient, and voluntary reduced labor supply is typical predominantly from the side of women who chose this form of work to meet their work-life balance. Graph 3 shows that the United Kingdom, Netherlands, Norway, Germany, Czech Republic, Hungary, and Romania have the lowest levels of female unemployment, while the opposite is true for Mediterranean countries such as Italy, Albania, Greece, and Spain, and also postcommunist countries such as Serbia and the rest of non-EU countries in the Balkans.

The corporatist countries show more comparable trends with the social democratic cluster and the United Kingdom in particular in terms of equally gendered low unemployment, under 10%, and moderate GDP growth (above the 100% base GDP in 2010). Altogether, compared to the southern European and postsocialist clusters, the social democratic and corporatist countries qualify as efficient in terms of labor market performance. In fact, the pattern is reversed when the southern European cluster is considered. The prominent low economic performance is related to high levels of unemployment, mainly female dominated. With the exemption of Cyprus where unemployment is male dominated, Spain and Greece have very large shares of unemployment and very low, even negative, economic performance for 2017. From the cluster level shares of types of employment and unemployment presented in Graphs 2 and 3, it can be assumed that the countries under the social democratic, corporatist, and liberal institutional regime are characterized in general by equally dominated shares of unemployed and a descending pattern of stable and moderate economic performance.

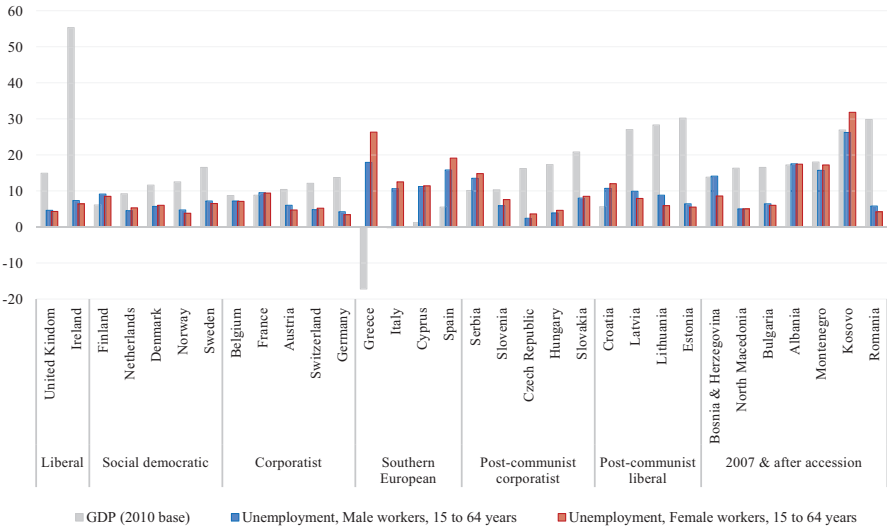
The southern European cluster demonstrates the higher share of unemployment among EU countries, complemented by very low rates of GDP growth. On the one hand, the postcommunist countries which have been integrated in the EU have

¹⁵ Albanian-speaking country.

¹⁶ Montenegro and North Macedonia include Albanian-speaking minorities.



Graph 2 GDP growth (base 2010) and total unemployment by country and welfare regime. (Authors’ own figure; Source of data: Doing Business Database, The World Bank 2017; ILO Unemployment data, 2017; Eurostat GDP at market prices data, 2017)



Graph 3 GDP (base 2010) and gendered unemployment by country and welfare regime. (Authors’ own figure; Source of data: Doing Business Database, The World Bank 2017; ILO Unemployment data, 2017; and Eurostat GDP at market prices data, 2017)

higher levels of GDP growth associated with higher unemployment rates. It is interesting to point out the emerging pattern which suggests that countries with the highest unemployment rates, i.e., Mediterranean and postcommunist non-EU countries have also higher female unemployment shares. This means that as the labor market gets tighter, women are the first to become unemployed and return as unpaid family workers. On the other hand, countries with low unemployment rates, i.e., United Kingdom, social democratic countries, and Central European EU-member countries, have balanced gendered unemployment.

High labor market regulation and employment protection result in high shares and unbalanced unemployment. Typically, countries with higher GDP growth¹⁷ (compared to that of 2010), which are usually developing economies such as the postcommunist clusters and peripheral areas, show patterns of high male and higher shares of female unemployment rates. This explains why their unemployment rate is higher and unbalanced between both genders. On the other hand, more affluent countries have higher absolute values of GDP per se, but lower GDP growth because their 2010 baselevel was already high. The effects of the macroeconomic performance, measured by GDP growth, when included in the above graphs, indicate a positive effect on unemployment, which means that fewer workers will be working and the female shares of unemployment are the first to peak.

4 Labor Market Institutions

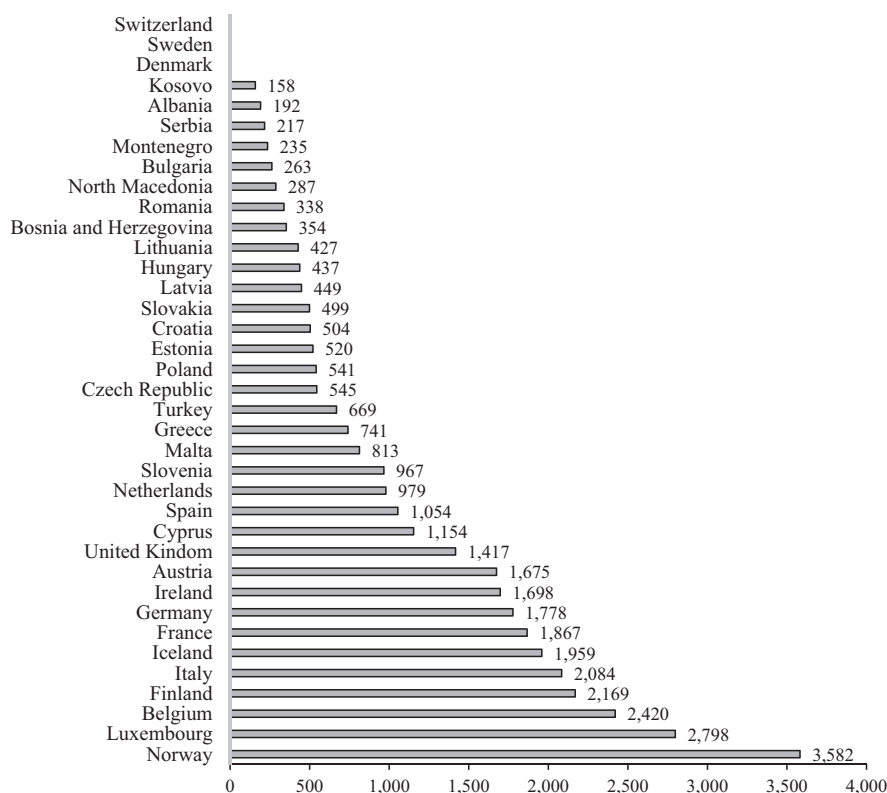
4.1 *Minimum Wage*

The minimum wage of a country is the minimum floor amount (lowest salary) per hour, per day, or per month that employers should legally pay to workers. The interventionists/institutionalists argue that the minimum wage instituting serves the anti-exploitation dimension of the employment relationship and provides a baseline income to prevent vulnerable workers from in-work poverty. It is considered a basic right in terms of “decent work” and social policy agenda and increases efficiency and distributions effects as per the efficient view of institutions. However, for the case of Albania, there are several shortcomings and unintended penalties from minimum wage.

In 2019, the national minimum wage in Albania remained fixed at 234.23 US\$ per month, i.e., 26,000 Lek per month, and accordingly, the minimum wage has been raised by 2000 Lek per month from the previous year, 8.33% in the last year. The level of the minimum wage is taken into account for social security contributions and health insurance calculations. Regardless of the fact that minimum wage in Albania tends to be the lowest in the region, the ratio of the minimum wage to value added per worker¹⁸ is in fact relatively high (see Graphs 4 and 5). According

¹⁷ Year-on-year growth is high for developing countries in general as they start from a lower base.

¹⁸ The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

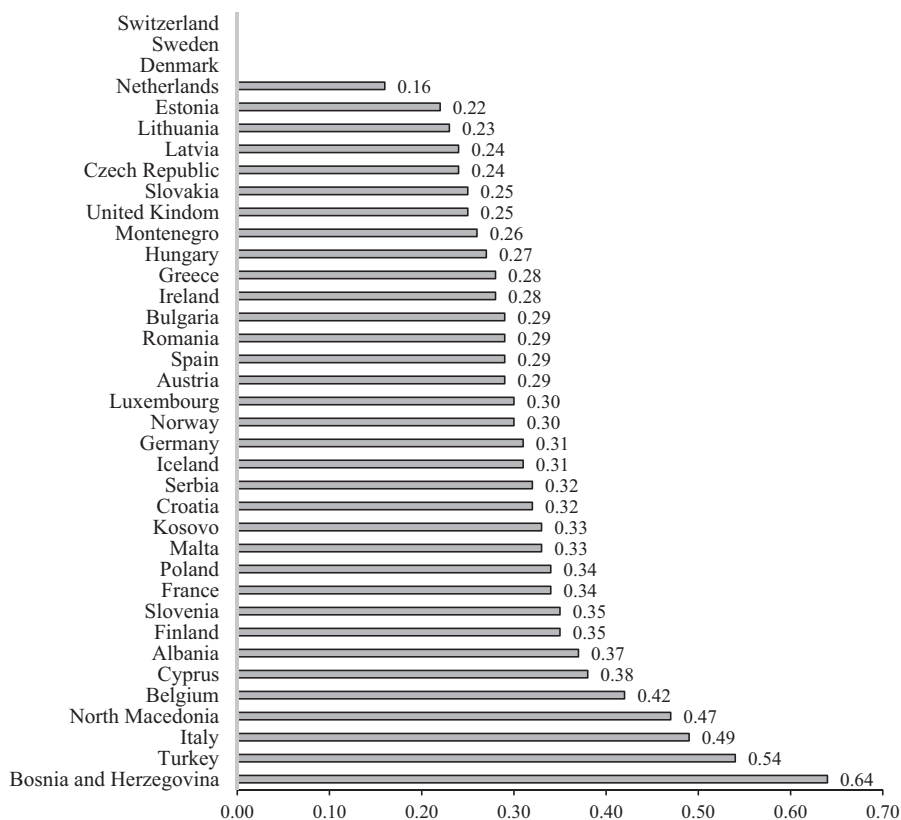


Graph 4 Minimum wage for a full-time worker (US\$/month). (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

to the competitive labour market theory, a potential drawback is that a higher minimum wage may discourage firms from employing low-wage workers because of the increased labor costs, which suggest that the minimum wage is set beyond the competitive equilibrium wage.

The fairly high minimum wage compared to the value added per worker discourages employers from formalizing more jobs which remains a major structural challenge. The Albanian government attitude toward the low minimum wage tends to emphasize its competitive advantage in terms of labor market flexibility and is promoted to attract foreign direct investments in the private sector.

Yet, considering that the unit of analysis of this study is “corrupt me please” Albania, the official minimum wage tells only one side of the story, i.e., that of the public sector. In the private sector, labor market regulation is not enforced. For vulnerable groups, such as low-educated, women, and the youth, a considerable share of employees work without contract (Kosta and Williams 2018; MSWY 2014). In many cases, private companies arrange paper work (i.e., working contract, minimum wage payment, bank receipts, social security, etc.) and conform the legislation, but workers are requested to give back almost as much as half of their minimum



Graph 5 Ratio of minimum wage to value added per worker. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

wage in cash to their employer. In view of the lack of proper and depoliticized union coverage, corrupted and politicized labor Inspectorates and local tax offices are instructed to “keep an eye closed,” as this way, employment figures are quantitatively improved and foster the propagandized improved labor market performance to meet the EU integration requirements.

In addition to the agricultural and unpaid family workers, segments of vulnerable workers in the private sector are almost completely excluded from the minimum wage, social protection, and union (unemployment) protection. The results indicate the emergence of a segregated/segmented applicability of minimum wage floor: the formal public sector playing according to the rules and the informal private sector paying workers below minimum wage, e.g., the case of light manufacturing (such as the textile) industry. The minimum wage has contributed in fact to push low-productivity female workers into the off-the-books/informal labor market, damaging precisely these vulnerable workers which the minimum wage is set out to help from the policy in the first place. Low-educated female workers, mainly migrating

Table 4 Key segments of the contemporary postcommunist Albanian labor market

	Demand side: Employers			
Supply-side: employees	Private sector – Not regulated and liberal			Public sector – highly politicized but conservative
	Primary segment	Secondary segment		
		Formal	Informal	
High productivity	High wage	Low wage	High wage	Low wage
	Standard jobs	Involuntary/ Voluntary nonstandard jobs	Nonstandar jobs	Standard jobs
	Involuntary nonstandard jobs		No contract	
Low productivity	Crowded out via flexible work arrangements that overcome initial information asymmetry – human rather than social capital is rewarded	Low wage	Low wage	Crowded in as social rather than human capital is rewarded
		Involuntary/ Voluntary Nonstandard jobs	Involuntary/ Voluntary Nonstandard jobs	

Authors' own table

from rural to urban areas, are exploited for as much as 100 Euro-monthly wages working in poor working conditions and with diminishing morale and living circumstances, productivity, and consumer spending (Invest in Albania 2020). The “de jure” minimum wage regulation and enforcement is more of a quantitative rather than qualitative aspect of the labor market, mainly to converge with international labor ILO Convention 131 (1970) (Ahmad and Drishti 2019), but “de facto,” it is only applied for the public sector segment (See Table 4 below).

Policymakers usually endogenously determine minimum wages since increased minimum wages may help address public demands to fight rising inequality. Minimum wage is set to rise again in 2021, and considering the fact that Albania is a developing country, the effect will result in increased and innovative ways of informal employment in the private sector. Due to an upsurge in informal labor supply, contracted wages ultimately will be resulting in an augmented informal sector. This is aligned with the economic theory which predicts that increasing the minimum wage decreases the formal employment of minimum-wage workers, when labor market is assumed perfectly competitive.

4.2 Employment Protection Legislation

Employment Protection Legislation (EPL) is a means of inflicting job security for workers by setting rules of hiring and firing. In this section, two main aspects of EPL for the Albanian case are discussed: nonstandard forms of employment (temporary/fixed-term contracts and part-time hours) and redundancy rules. According to Botero et al. (2004), the main determining factor of EPL is the national legal tradition. From an efficient institutions view, the introduction of EPL is related to the provision of workers coverage against the job insecurity of being made

redundant of and to force employers to comply with social responsibility in the sense of legal and psychological contract.

4.2.1 Nonstandard Forms of Employment Arrangements and Labor Market Segmentation

Between 2007 and 2013, around 20% of employment was arranged via temporary contracts, either on full- or part-time hours. Over 80% of this work was reported as involuntary, that is, not by choice (INSTAT).

Graphs 6 and 7 include nations where the labor market regulation predicts an impediment of fixed-term contracts for permanent tasks.¹⁹ The Albanian labor market regulation abides by this rule, but given the fact that the length of single and repeated fixed-term contracts is not restricted, it has been positioned in the very upper-right point with countries that have the same regulation. Maximum values in this case have been introduced in order to not exclude from the graph the “no limits” cluster (Turkey, Albania, and Croatia).

High turnover of civil servants at the central and local level is evidenced mainly at every postelection period when a new winning political force takes office. This was a familiar method of militant politicization in communism. In 2018 alone, the court bill of unfair political dismissal of public sector workers costed Albanian taxpayers some 13.4 million Euros (BIRN 2019). Recruitment of low-productivity outsiders without skills and experience but who support the political party’s coalition generates crowding in for standard jobs since political active membership which we have denoted as a form of social capital, rather than human capital,²⁰ is rewarded (Meyer-Sahling 2004, 2008, 2009). The introduction of flexibility into the labor market in postcommunist European countries has taken place in the context of established and stringent labor market regulations, e.g., high firing costs. Previous studies have reported that, on the one hand, labor market regulations such as higher firing costs translate into higher job security in favor to the so-called insiders in the primary labor market segment. While, on the other hand, they allow for the creation of more nonstandard jobs²¹ in this already highly regulated setting, meaning that fewer of these nonstandard forms of employment (NSFE) will be converted into standard forms of employment (SFE).

Albania is quite liberal in terms of length of single and repeated flexible jobs, even though the Labour Code (Law) imposes *de jure* prohibition of fixed-term contracts for permanent tasks. NSFE have contributed toward the segmentation/dualization of the labor market, which is now characterized by the increased incidence

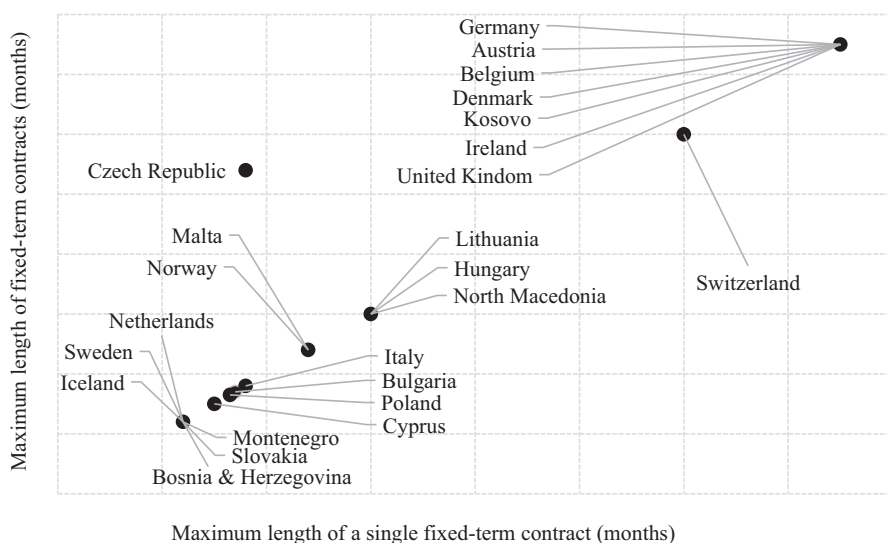
¹⁹ For illustrative purposes, in Graphs 6 and 7, countries where the lengths of single and sequential fixed-term contracts had no restrictions are given the maximum scores of the abscissa and ordinate axis.

²⁰ Labour market experience, tenure, training, or further education over the minimum level in the job description.

²¹ Albania has no legal limits for the maximum duration of “fixed term contracts”.



Graph 6 Fixed-term contracts prohibited for permanent tasks



Graph 7 Fixed-term contracts not prohibited for permanent tasks. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

of precarious jobs and contraction of the standard employment base. The reason for this is that large firing costs are an incentive for employers to sequentially use and abuse NSF – even for tasks that would otherwise be done by standard workers – rather than transform them into SFE. As a result, allowing for the creation of NSF stimulates both job creation and destruction – boosting hirings and firings – but the

second effect (destruction) is amplified by strict labor market regulation, and by default, the overall net effect is higher unemployment (Botero et al. 2004; Cahuc and Postel-Vinay 2002; Djankov and Ramalho 2009). For many individuals, this then translates in repeated spells of nonstandard jobs (Blanchard and Landier 2002; European Commission 2014; Gagliarducci 2005; Kahn 2010). In Albania, the incidence of NSFE has been influenced by the use of rigid labor market regulation for SFE jobs while the regulation for NSFE is absent.

Notwithstanding the fact that *de jure* temporary employment is not permitted for permanent tasks, the weak rule of law, high levels of corruption, and fictive industrial relations have never provided any *de facto* protection for nonstandard workers.

Research on this matter advises that the more heavily regulated a labor market, the more inclined employers will be to hire via flexible terms (Bentolila and Dolado 1994; Blanchard and Landier 2002; Cahuc and Postel-Vinay 2002). For example, in these studies, findings suggested that countries where an approval from a third party is necessary in order to dismiss a redundant worker,²² the probability of hiring via temporary jobs is higher than in a country where such a request is not necessary. Regarding part-time employment, the prohibition of fixed-term work can increase part-time (permanent) employment. However, the incidence of part-time employment is lower when notification and obtaining an approval from third parties are required before dismissing an employee (Bentolila and Dolado 1994; Blanchard and Landier 2002; Cahuc and Postel-Vinay 2002).

This setting implies that “flexibility of” rather than “flexibility for” employees (Alis et al. 2006; Gash 2008) has been the outcome of nonstandard work expansion in Albania. Over the course of the last decade, in the nonagricultural sectors, approximately one in five jobs created has been in nonstandard employment – temporary and/or on part-time terms. Moreover, according to INSTAT, the share of informal work in the private nonagricultural sector was approximately one-third or 31.9% in 2016, and apart from those who work without a written contract and do not pay social and health benefits, it also includes employees who report lower wages (usually minimum wage).²³

From the supply-side, the labor force includes high- and low-productivity workers, an analogy made in terms of “cherries” and “lemons” in Akerlof’s (1970) seminal work “The Market for Lemons.” From the demand-side, the contemporary postcommunist labor market reveals a multiple (Peck 1996) rather than dualistic (Doeringer and Piore 1985) segmentation, following the weakening or eradication of industrial relations structures and state regulation. The radical polarization into primary and secondary sectors (Doeringer and Piore 1985; Gordon et al. 1982) resulting from technological advancements or workplace politics may be more typical of the formal private sector. Critically, the secondary private segment has a considerable share of informal employment that has been “nourished” by a weak rule of law and corruption (see Table 4).

²² This is not the case for Albania as industrial relations and tripartite systems are quite fictive and corrupt.

²³ In 2015, this figure was 34.1%

<http://www.instat.gov.al/media/1914/tregu-i-pun%C3%ABs-2016.pdf>

One argument to explain this is that firms in the private sector, prior to hiring, are unable to observe the productivity of job applicants (Farber 1999) which represents a situation of asymmetric information and embeds the risk of “hiring a lemon” (Gibbons and Katz 1991). The only information the firm has for a job applicant is his or her current labor market status. In the case of employed workers (who engage in on-the-job search), the signaling effect (Spence 1973) of being in employment is positive as it signifies high productivity and human capital accumulation, which is translated into higher prospects of being hired in standard jobs. For unemployed, inactive (student, trainees, interns, etc.), or other forms of nonparticipation, the utilization of nonstandard jobs allows employers to observe their productivity, and this strengthens his/her probability of transitioning to standard employment.

The problem with this “stepping-stone” argument is that in many postcommunist settings, studies show that flexible work arrangements more frequently lead to repeated spells of nonstandard jobs (Babos 2014; Tilly 1991). Kugler and Saint-Paul (2004) argue that since during downturns, firms dismiss low-quality workers who generate lower profits, in equilibrium, employed workers are more productive than the unemployed. Thus, firms concerned about the high firing costs will generally find it worthwhile to recruit on standard basis primarily from the pool of those in employment, be it standard or nonstandard.

The public sector in Albania is characterized by the strong EPL inherited from the past interventionist regime; therefore, the incidence of standard jobs in the public sector is higher than in the private sector. However, this sector is highly inefficient and bounded by two types of selectivity: (i) From the demand-side, it is characterized by resilient “partisan politicization” (Meyer-Sahling 2008, 2009). (ii) From the supply-side, the public sector is strongly preferred by Albanians in general, reflecting communist-era fatalist views of life and the need/expectation of job security/protection (D’Orlando and Ferrante 2009).

To some extent, this gives rise to selection bias since the sector attracts less-risk-taking individuals. Moreover, the public sector is attractive to some because it requires fewer demands on employees in relation to their productivity (e.g., hours of work, quality of work, and additional holidays) and offers multiple options for corruption and bribery. This comes from practices that were common throughout the communist regime when everyone worked in the state, i.e., the “public” sector, and individuals became more and more creative about ways to steal²⁴ from the state to generate additional benefits. The results of this study are in-line with these arguments, since for individuals working in the public sector (controlling for education), previous labor market status had no impact on the probability of working in a standard job.

²⁴ Workers would accept third shifts (from 12 p.m. to 07) and would steal from production lines or stocks to sell in the black market. Anecdotes in democracy for such practices would justify them as activities to “weaken/damage the communist regime” in charge.

4.2.2 Redundancy Rules

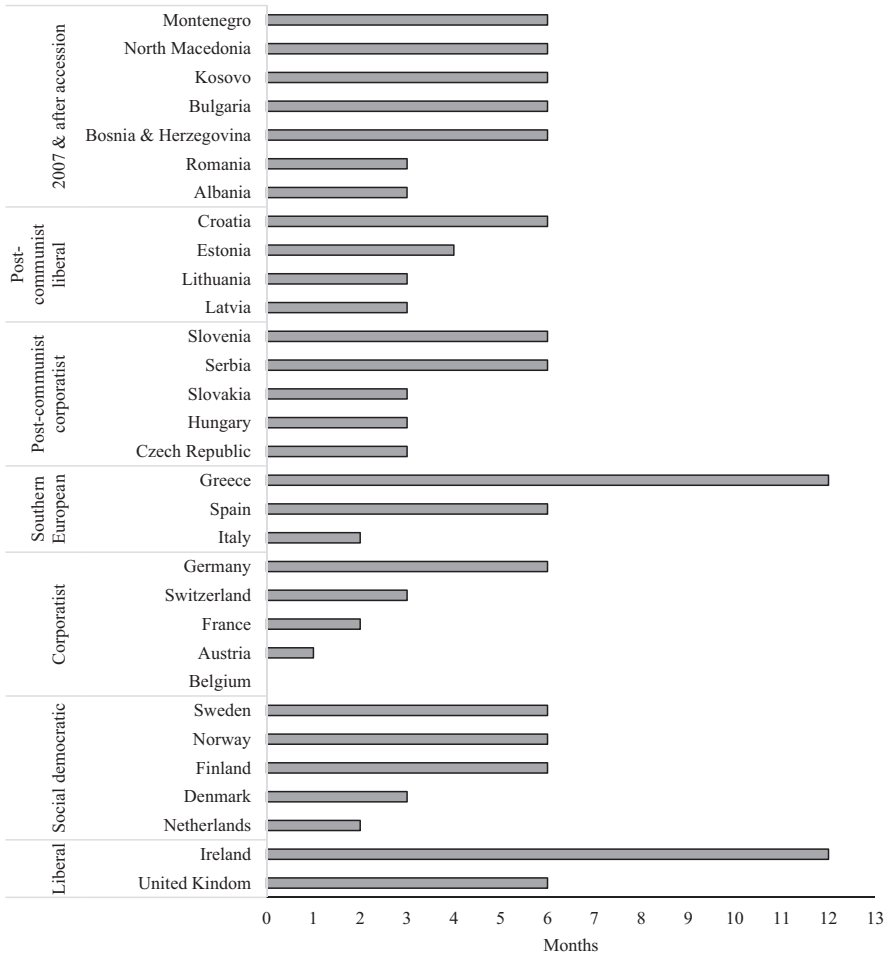
Redundancy rules refer to regulatory provisions related with hiring and firing, particularly those governing the maximum length of probationary period, third party consultations for one and nine worker/s dismissal, and rules for precedence of redundancy, reemployment, and retraining or reassignment. These “hiring and firing” rules, together with other labor market institutions such as NSFE and minimum wage, will be addressed as EPL.

The labor market effects of stringent EPL, as mentioned above, foster labor market segmentation and duality between the so-called “insiders” and “outsiders” which in turn translate to augmented labor market rigidity, inequality, and social exclusion requiring additional costs for their mitigation. Loss of security and protection from an “insider” or “primary segment” job implies loss of privileges and exposure to uncertainties of the labor market which also prevents them from moving to more productive jobs elsewhere (Cazes and Nesporova 2003). Overall, a highly regulated labor market diverges from a competitive one.

The Albanian EPL provisions a maximum 3 months of probationary period after which an employer must decide whether or not to hire a worker. In terms of firing, there are no requirements of notifying and let alone obtain approval from third parties (unions) neither for one nor for a collective dismissal of nine workers. In terms of labor market flexibility, this induces less frictions and interventions and stimulates labor movement, even though there are potential issues related to unfair dismissal.

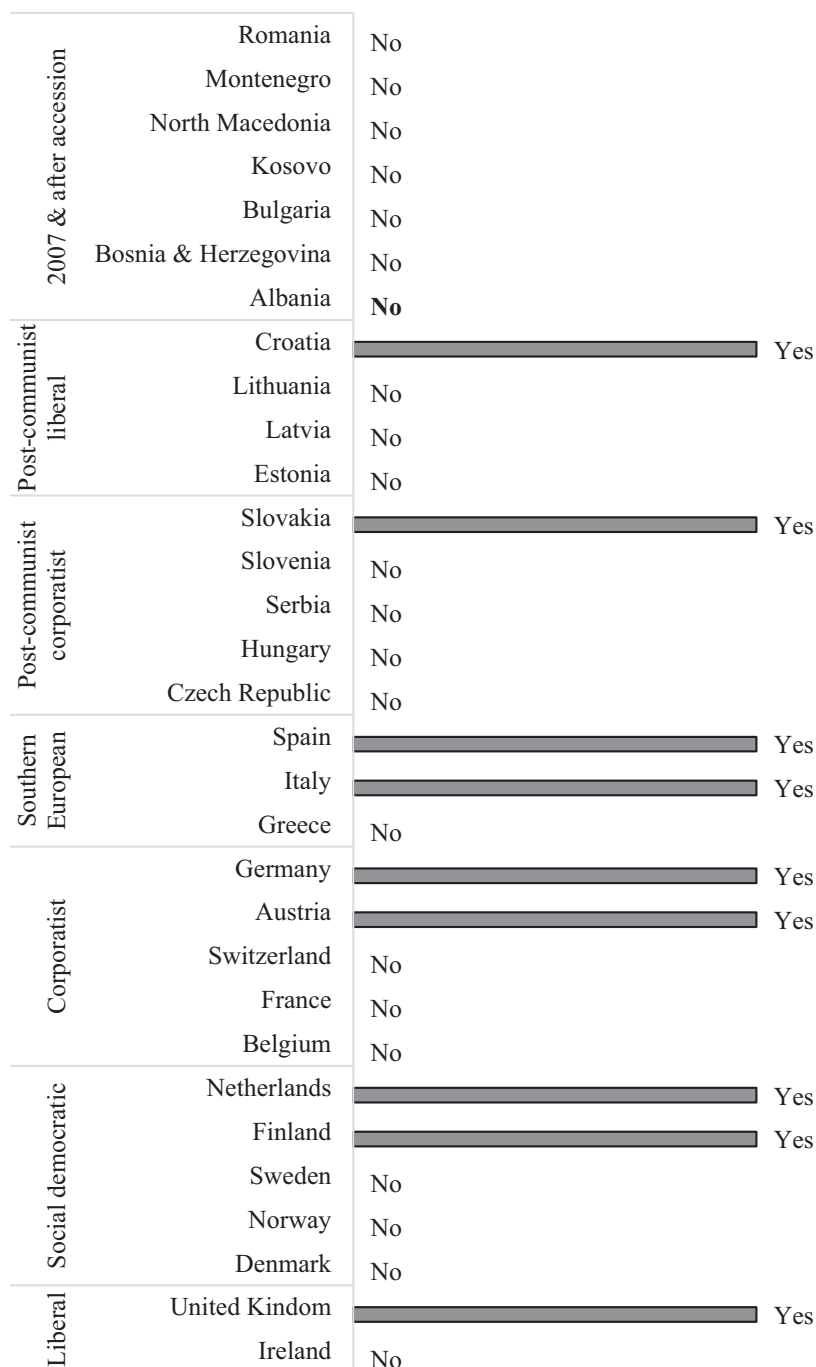
From an efficient perspective, the lack of social dialogue and negotiations diverges from Ronald Coase’s political theorem of labor market-efficient outcomes. The ILO favors labor market interventions and tripartite arrangements since industrial relations would provide efficient results. Notwithstanding the arrangement of property rights, negotiating is sought to achieve an optimal distribution of resources providing transactions costs are low (Graphs 8 and 9).

Labor institutions play a redistributive role in terms of income for employees without damaging economic efficiency (Freeman 2005). Requiring the notification of a third party, obligating employers to prior retraining and reassignment before making a worker redundant, and the prevalence of priority rules with respect to reemployment of ex-employees after they have been dismissed, is predicted to have the same positive effect on job security and social responsibility of employers. In this regard, the Albanian labor regulation is less interventionist and quite flexible; however, previous evidence suggests that interventionists practices typical of CMEs result in better labor market performance (Graph 10).

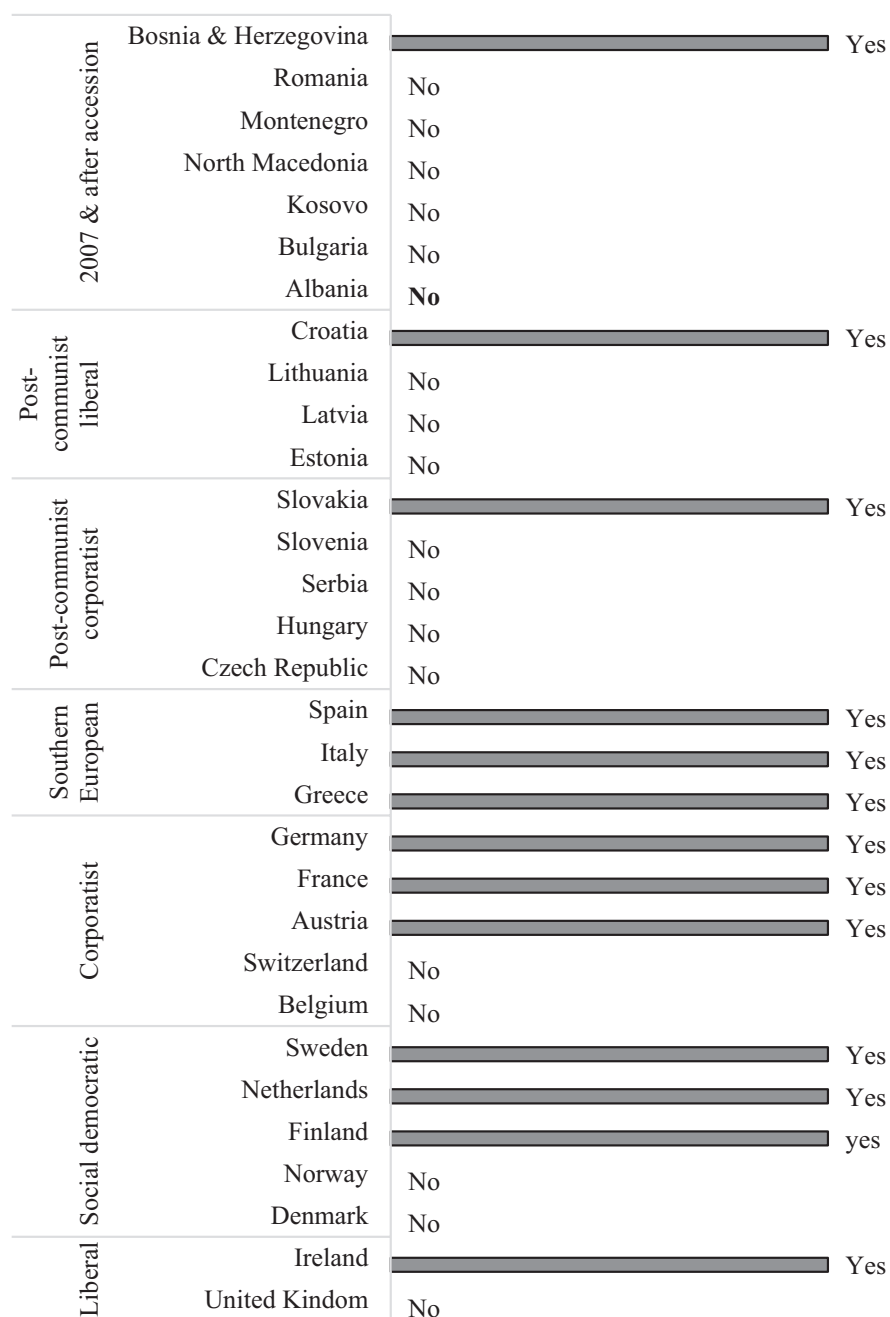


Graph 8 Maximum length of probationary period (months). (Authors’ own figure; Source of data: Doing Business Database, The World Bank for 2017)

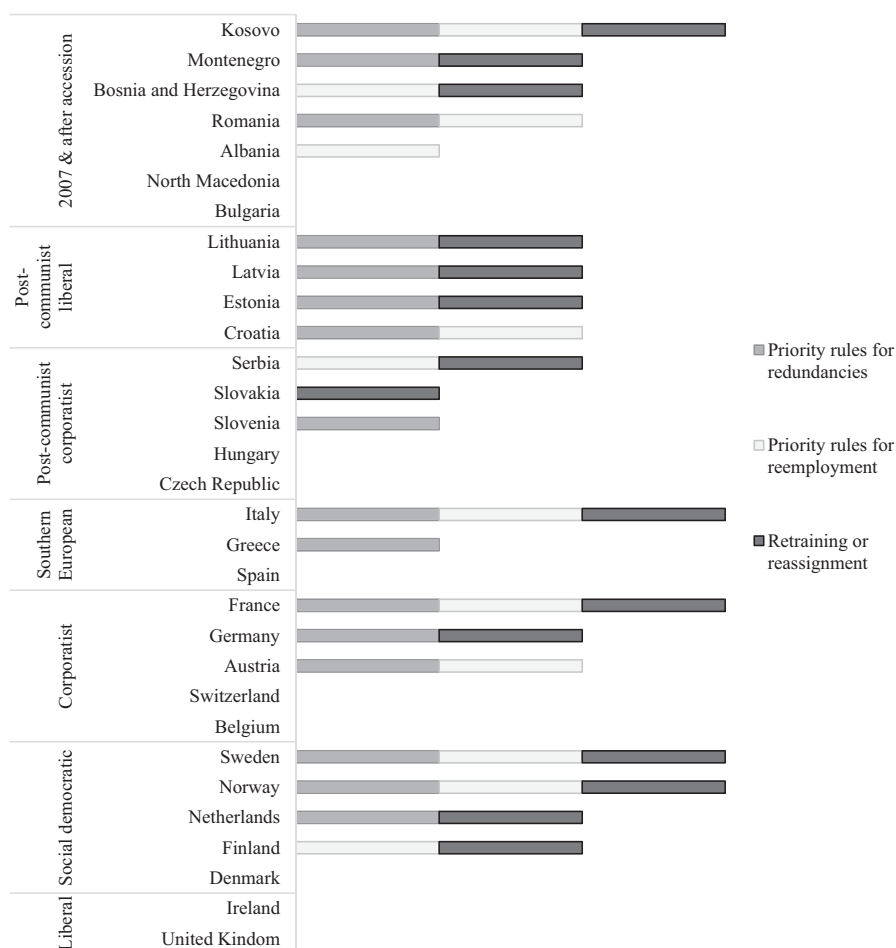
Tripartite systems which provide workers with proper union coverage result in higher wages, less working hours, and more training and tenure. At the national level, high union coverages contribute to lesser inequality and in-work poverty and have positive spillovers in terms of expanding economic performance – by lowering unemployment and inflation, and increasing productivity and faster adaptation to shocks (Freeman 2005, Graph 11).



Graph 9 Third-party notification if one worker is dismissed. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)



Graph 10 Third-party notification if nine workers are dismissed. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)



Graph 11 Rules for precedence of redundancy, reemployment, and retraining or reassignment. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

5 Conclusion

The purpose of the current chapter was to determine whether institutions and macroeconomic performance explain labor market performance in Albania. The efficiency and distributional effects of both, welfare/institutional regime and labor market institutional context, were analyzed. We found that the promotion of institutional deregulation, i.e., flexibilization to lower the high shares of unemployment in postsocialist Albania, resulted in higher levels of labor market polarization and inefficiency, and ultimately higher unemployment. Standard employment is strictly protected and not easily accessible by nonstandard workers, therefore restricting them

from upward mobility. The latter is typical of the “entrapment” or “dead end” hypothesis (Babos 2014; Booth et al. 2002).

The Albanian institutional/welfare regime is one of hybrid nature, which mixes conservative communist era legacies merged with rapid neoliberal reforms which translate in a simultaneous use of interventionist and flexible labor market institutions. This has given rise to a segmented labor market where different rules apply to different categories of workers in which the highest burden is placed on the most vulnerable groups such as female workers, with low educational attainments, and/or young workers who remain at risk of remaining entrapped in repeated spells of low-skilled and labor-intensive jobs and/or exiting to unemployment. Such an effect is moderated by the prominent low-economic performance and results in higher shares and unbalanced unemployment. Typical of countries with high unemployment rates, i.e., Mediterranean and postcommunist non-EU countries, is the higher female unemployment shares. This means that as the labor market gets tighter, women are the first to become unemployed and return as unpaid family workers. These labor markets are considered inefficient, and standard labor supply is reduced involuntarily.

Regarding the labor market institutions analyzed in this chapter, minimum wage, and employment protection legislation, the main key factor to keep in mind is the segmentation of the labor market between the public and private sector. The interventionist side of the hybrid institutional context of Albania is a characteristic of the public sector, which is more regulated in terms of minimum wage, but when it comes to employment protection legislation (nonstandard forms of employment and redundancy rules), high turnover of civil servants is driven by militant politicization. For the private sector, nonstandard jobs have contributed to a broadened segmentation of this sector which is characterized by an increased incidence of precarious jobs and contraction of the standard employment base.

The main institutional barriers are lack of proper and depoliticized union coverage, fragile institutional capacities such as corrupted and politicized labor inspectorates, and local tax offices which are hired by the party militants' base. Indifference toward the law enforcement is related to the government's interest to quantitatively inflate employment figures and the propagandized improved labor market performance to meet the EU integration requirements, reflecting the shorttermism of Albanian policymakers rather than a long-term approach which targets qualitative policy labor market instruments that increase the creation of decent jobs. On the other hand, migration and gender segregation, sluggish economic activity, and fiscal adjustments aimed at decreasing public deficit have hindered labor market institutions' performance. The “de facto” labor market institutions in Albania do not comply with Ronald Coase's theorem of efficient institutions' view as they contribute toward lower job quality, higher informal employment, and a predatory labor market structure.

This research has thrown up many questions in need of further investigation. Further research in this field would be of great help regarding the complementary nature of labor market institutions and policies and provide a rationale for the implementation of broad labor market reform packages. This means that the institutional

arrangements beyond the labor market, i.e., product market, financial market, entrepreneurship capital, etc., need to have a proper investigation in order to provide additional insights for the reformation of the labor market institutions if unemployment, as a key efficiency indicator, is to be improved. Therefore, in terms of macro-level analysis, the divergent labor market outcomes in postcommunist EU countries and Albania cannot be credited to economic performance or labor market institutional regimes only, rather interactions of both had to be better well-thought-out as latent variables for this equation.

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