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# EMPLOYMENT POLICIES AND THE IMPROVEMENT OF LABOR LEGISLATION IN ALBANIA. THE NEED FOR A CHANGE AS A FUTURE CHALLENGE.

Theoretical  
Article

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## Keywords

Global economic  
Legal framework  
Domestic production  
Unemployment

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## JEL Classification

K00

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## Abstract

*Albania is facing lack of job vacancies and this is the same as all former communist countries. Albania has mostly young population which is potentially capable of working and it is living in a minimum of social assistance. The economic stagnation which is due to the lack of domestic production has made the Albanian economy to be under a “Tango” during these last 20 years. Before 2009 and the beginnings of global economic crisis, the Albanian living standards had been higher than today and this thanks to remittances. The government has to discuss with the social partners in all those cases the development strategies. The new legal framework on the fight against informality should aim the strengthening and consolidating the control mechanisms to ensure the proper pressure against abuses in the labor market. This paper presents a picture of the socio-economic situation and the need for our country to match labor policies and legislation to the Acquits.*

## 1. INTRODUCTION

Albanian labor force has been affected by two factors: a) the restructuring of state enterprises (which is something in common with all the other transitional countries) and b) the high level of migration especially in the labor force. Migration has had a huge effect in the demand and supply of the labor market. It has also had a positive effect in the private sector as well as in the unemployment reduction.

### 1.1. The communist regime in Albania and the economical crises.

Before the 90s the Albanian wage level was the lowest in Europe. The economical crisis in the early 90s worsened the situation. In order to stimulate economical growth market reforms were implemented. An important part of this program was the restrictive policy on income and its intensification to limit inflation. Real wages fell by almost 50% during 1991-1993 but during 1994, 1995 the annual real wage increased by 25 percent. However, the pyramid scheme crisis and high inflation diminished these increases and real wages fell on 17 percent.

The 1997 crisis continued to limit wage growth but it was not the only reason. The most profitable enterprises were not allowed to pay higher wages through strict control of wages. The macroeconomic stabilization after the crisis and the art of inflation in recent years allowed that the real wage to grow again. Since 1998 it has been growing up more than 10% every year.

The highest wages were those of the service sector, followed by those of transport and telecommunication and then the wages of other sectors.

According to studies conducted by INSTAT men have higher salaries than women in all sectors but this is related to the salary of a specified job, where men are imposed on jobs with higher wages. In the state sector the average salary difference between men and women is almost negligible.

### 1.2. The Albania Labor Market Legislation

After the 90s the Albanian labor market legislation has been reformed in order to correspond to the new economical and political system reality. The actual legislation is based on western models and politics. One of the base documents of the labor market legislation is the Labor Code of the Albanian Republic which came into force on 1995. It does not only guarantee the known principles (such as the discrimination end at the work place, the right of strikes, the end of forced labor etc), fixes the work relationships, wages (including the minimal ones), safety and security at the work place, collective agreements, syndicates etc.

Despite the Labor Code, the parliament has also approved some laws which accomplish the labor legislation. Here we can mention the law of "State labor inspectorate" "Employment promotion" (Labor legislation 1996) and meanwhile the government has also approved some decisions and directions on the implementation of the approved laws of the parliament. As emphasized from the officials of the Labor Ministry, the labor legislation is good but we need to be more committed to the mechanisms that would assure their implementation.

### 1.3. The Informal sector situation

The informal sector in Albania is analyzed by using data for the individual employment and nonagricultural familiar enterprises. Information over employment show that 10% of employed people in Albania work as nonagricultural familiar enterprises or as selfemployed (Kudret Çela Labor Right 2009). The informal sector mass in Albania is bigger in the urban areas (24%) compared to the rural areas (5%). Nearly 15% of the employed people in Tirana are selfemployed or workers on nonagricultural familiar enterprises. Almost three fourth of individuals in the informal sector are employed for at least three years and nearly 10% of those are part of the informal sector for more than 10 years. More than 90% of people in the informal section have started their own business as way to look for a job. One of the main reasons of the informal employment can be the level of imposed duties and then the complicated rules and the existence of state procrastination. It is verified that a high percentage of entrepreneurs do not pay the imposed duties for their employers.

### 1.4. Lack of job vacancies and the need for self-employment

The selfemployment concept firstly entered in 1992 with the closure of industrial enterprises and the countries' economic remodeling. Selfemployment has been rising year by year. On a country scale 63% of those considered as employed people are selfemployed and only 37% are salary employed people. Selfemployment has familiar business character in Albania. 62% of the employed are full time workers and 39% are working part time. We can even say that there are more men than women working full time. There are many individuals who have finished university and work full time, compared to the high school educated (73%) and those with a low level of education.

Selfemployment is the main type of employment in Albania, and almost two third of employment are selfemployed in the agricultural enterprises with no salary. One third of them are selfemployed with salary. The absolute majority of these selfemployed individuals are working on agriculture.

### **1.5. The problems of unemployment, a socio-economic erosion**

The highest rate of unemployment was during the 90's. The macroeconomic reforms and the remodeling of the 90's beginning lessened the labor request in Albania as well as in other countries with economic transition. Our country suffered a collapse in the presence of labor forces.

The mass privatization of state enterprises and their closure, as well as the rising concurrence for reduced labor places obliged many people to withdraw from labor force. According to state statistics the lowest rate of presence at labor force was in 2000 when only two third of the citizens who were on the right working age were active in the labor market. Male participation rate in the labor forces has historically been higher than that of women. The transition years had a more negative effect on women employment. The significant decline in the job participation level of labor force may have different reasons as for example a considerable number of people work in the informal sector and others may be discouraged by the labor market situation and might have left labor force.

Similar to other transition countries, Albania has a distinct contrast in the unemployment rate. Poor infrastructure, where some places are very isolated, contributes to a high rate of unemployment. The most hit group of unemployment is young people. Unemployment in this group is due to their first entry in the labor market. A special concern for Albania is the long term unemployment. The total rate of this kind of unemployment has risen consistently over the 90s and reaching 90% in the 2000 which is in continuous growth.

### **1.6. Employment and women participation**

We can see important changes inside the employment structure according to sectors. In 1996 the employment in the public sector occupied 36% (Instat 2014) but in subsequent years this percentage has been going down. This as a result of the privatization reforms taking place in this sector. However the employment in the private sector but not the agricultural one has up growing tendencies. The employment structure reflects the fact that economy is still dominated by agriculture and other traditional activities. The modern employment sector is still small and the majority of employment is still informal. The long term unemployment is wide spread and many unemployed workers are not looking for a job any more. There is a general problem: that of expelling women, ethnic minorities and people with no education from labor market and they face up big problems in finding a job. The major part of employers works in agriculture, another part works on construction, transport and trade and then we have the industry which occupies a lower percentage. The women

employment level has clearly been lower than that of men. The differences in the employment level of men and women are more emphasized in the private sector than in the agricultural one where the number of employed women occupies 25%, but it has been rising in the last years.

## **2. LABOR MARKET IN THE UE**

Based on official statistics of the EU countries and EUROSTAT, the EU labor market is improving since 1999. Nearly 3.1 million new jobs have been created since then and this way bringing the unemployment rate under 8%. About 70% of these new jobs belong to women. This is important in terms of population working age productivity when taking into account the small rate of participation. Most of the new jobs are created in the service sector and the demand for manual labor is declining continuously. The overall employment is 63.9% being 55% for women and 72% for men.

### **2.1. The divergences between the European labor market and the right of workers' movement**

Youth labor market is characterized by participation and employment scale which are relatively low and with a high level of unemployment. In 2012 youth represented 45.6 percent of the population from the age of 15 to 29 in the labor market and this compared to the national average of 64.8 percent. This low rate of youth participation is mostly because they are at school (almost 39% of the youth population is following studies) and because of girls' low participation (41.6 percent).

On January 2012 the European Union was hit by a new high rise of the unemployment rate with 10.1% over the symbolic limit of 10% from 1% in two previous months.

The divergences between EU and labor markets are still high, even though in the last three months the number of unemployed people has been declining in six member states, but since March 2011 it has been rising in most of the states.

The unemployment rate in the EU has gone up with 0.6 for 1.625.000 more unemployed people. Even though unemployment has been declining in some member states since spring 2011 it has been going up in a progressive way on most of the other states. German unemployment has continually been going up during the past two years (EBRD January 2015). At the end of 2011 they arrived on a tight historical collaboration which resulted in a small improvement on January 2014, the first since June 2009.

The number of unemployed people got up in most member states during the last three months since January 2012 and all the member states have been affected by unemployment. The continual deterioration has been affecting men more than

women and the gender difference has disappeared since spring 2009. The youth unemployment is still critical because it went up with 0.2% on January 2012 on a historical height of 22.4%. The youth unemployment rate is at least two times higher than all the member states except Germany. There are big differences between member states: the youth unemployment is higher than 20% on two third of the states.

## **2.2. The EU Labor market and needs for more flexibility**

Even though unemployment in the EU is not as high as that in transition countries, it is distributed in an unequal way among different groups. The international rate of migration in the labor forces is still low in EU countries. This is important to alleviate the high unemployment in several EU countries. In the recent times we have been seeing more and more flexibility due to the following factors:

Globalization

New technology/economy

IME (the International Monetary Union)

Some studies of unemployment in the EU countries attribute it to the rigid labor market in these countries. The inflexible nature of labor market in the EU appears even on the data of work and job movements which are low compared to recent increases. EU labor market is described with a low real wage flexibility, which makes economy stay behind economic cycles (Simon Deakin and Gillian Morris, *Labor Law* (2005)). Small movements in the labor market are the results of specific knowledge for large firms, and cross-cutting industry and they restrict the labor force movements as well as increase the costs of losing a job. Anyway, EU countries are far away from Albania in every aspect including employment and his policies.

## **2.3. Employment Directives In The European Union (EU)**

EU employment guidelines are based on four strategic pillars: They are:

- Employment Opportunities
- Entrepreneur
- Appropriateness
- Equal opportunities

The first pillar (employment opportunities) has to do with the supply side of labor market. It engages for active rather than passive measures and reduces the lack of qualification (e.g. measures aiming to combat long-term unemployment and the youth one, an appropriate policy of employment in terms of social benefits, taxes and training needs; training in the context of lifelong learning, reducing discrimination and the promotion of social integration through easier access to employment).

The second pillar (entrepreneur) has to do with the creation of new jobs by reducing costs and closing the "service gap" between the U.S. and the EU (Keith Ewing, Aileen McColgan and Hugh Collins, *Labor Law, Cases, Texts and Materials* (2005)). This column calls for the formation of a good management in companies, setting up new employment possibilities in a knowledge-based society and in the service sector, and support for the initiatives for a regional and local employment. The third one (appropriateness) is related to the creation of flexible arrangements for work organization and addresses as responsible not only the state actresses for employment policies but social partners as well. These measures aim to modernize the work organization and the proper creation in the context of the company as a long-term learning component.

The fourth pillar (equal opportunities) has to do with the measures towards the reduction of differences based on specifics of gender at the labor market (*Law and Public Policy Into Focus* (2009)). That is engaged for undertaking those activities, the alleviation of those imbalances in the percentages of men and women in different occupations and economic, as well as the advancement of opportunity improvements for career women. These measures are also in favor of improving the compatibility between work and family life, the regulation of parent's consent, facilities for children and other persons who need care) as well as easy return to work.

## **2.4. The specific points of the labor market in the European Union**

Special emphasis is put on the need for more coordination between labor market trends and the educational system at the recent times. In the long run, these two should be co-integrated, so they need for a joint treatment and accepting the fact that they dependent and affect each other (Carletto, G 2004).

The UE average public spending on education is 5% of the GDP, but the existence of small achievements from inferior groups is still present. Statistical data show that 1 in 5 person aged 18-24 years have only the high school qualification or less (Norman Selwyn, *Selwyn's Law of Employment* (2008) Oxford University Press). On the other hand, about 33% of the adult populations are taking part in some of the reforms to continue education or training.

The educational system reforms are based on market (Simon Honeyball, *Honeyball and Bowers' Textbook on Employment Law* (2008)). Special emphasis is placed on increasing achievements by applying: (a) an open registration, b) management based on school, c) publishing tables of success and d) institutional competition.

### 3. CONCLUSIONS AND RECOMMENDATIONS

- Two factors have been affecting Albania since the beginning of the work force transition, which are the restructuring of state enterprises and the high rate of migration
- The employment in the state sector has decreasing trends while in the private nonagricultural sector it has growing trends.
- Selfemployment has had an increasing trend from year to year. Unemployment is at a high level in Albania and as regarding the wages, it was noticed an increase of them year after year.
- Youth labor market is characterized by relative low participation and employment scale and high levels of unemployment in Albania as well as in many EU countries.
- Current legislation is based on the work models and the Western policies (Stephen F. Befort and John W. Budd, *Invisible Hands, Invisible Objectives*). We have the Procedure Code of the Republic of Albania, Law on State labor Inspectorate, the Law for Employment Promotion as well as many decisions and government guidelines.
- Employment policy's main objective is to support job seekers in finding a suitable job. Employment policies are an important tool for improving the situation of the labor market.
- Based on official statistics of the EU countries and EUROSTAT the EU labor market has been improving since 1996
- EU employment guidelines are based on four strategic pillars. They are opportunities for employment, entrepreneurship, adaptability and equal opportunities.

- EU labor market is described with a low real wage flexibility, which leaves employment behind economic cycles.
- I recommend development of an active policy to deal with young people in disadvantaged positions
- The importance and quality of active policies should be assessed regularly
- Labor market information must be improved so that based on this information we can make studies linked with workforce.

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