

THE LISBON STRATEGY AND THE FLEXIBILITY OF THE LABOR MARKET IN BULGARIA - REALITIES AND CHALLENGES

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In Lisbon¹ (March 2000) the European Council approved a new Strategy for European Union development for the next decade: *to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion and care about the environment*".

As a result of the insufficiently effective usage of the potential of the EU countries, in March 2005 a "New Beginning of the Lisbon Strategy" was declared, focused on the following three tasks:

- support of innovations and improving knowledge applications;
- achievement of higher economic growth, turning Europe into a more attractive place for investments, work and qualitative life;
- creating more and better jobs, improving the adaptability, mobility and competitiveness of the working force;

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1. Strategy for economic and social renewal of Europe, approved by the European Council, which was held on 23-24 of March, 2000, Lisbon, Portugal.

The economic messages from the Lisbon Program, including those in the Strategic Directives of the Community concerning growth and employment, lay down new requirements - mostly in **labor market reforms** designed to achieve flexibility, effectiveness and equilibrium following the path toward higher results both on the national and European level.

The Republic of Bulgaria as a future member of the United Europe must fulfill the criteria of the European Commission and the Lisbon strategy for economic growth, standards, flexibility and competitiveness of employment, overcoming the productivity lag which entails less internal gross product per capita and lower quality of life.

Flexibility means development of a deregulated, open and competitive type of labor force market with improved regulatory frameworks and established information and communication infrastructure, supporting the policy of long-term, stable employment and modernization of the European social model.

This should be a market with regulated administrative intervention and dominating market-competitive mechanisms for motivation and adaptation to economic circumstances, promoting mobility of the employed population and innovation in human capital through better education, skills and qualifications throughout the worker's entire lifetime.

Not least, it should be a market embodying the parameters, institutions, legislative framework and policies laid down in the European Union program documents and incorporating the vision of the establishment of a uniform European labour market. Without adequate labor market flexibility (meaning approaches, mechanisms and tools) the Bulgarian economy risks suffering from non-competitiveness, low productivity and growth, with slow increases in salaries, and poor working conditions.

Introduction

The main message of the Lisbon strategy for the member countries of the EU is that they should increase by the year 2010 **the level of employment up to 70% (of women up to 60%, and of persons of 55-64 years of age up to 50%) through active participation in the labor market and decreasing unemployment, instead of restriction of labor force supply**².

One of the most important premises for achieving flexibility and stability of employment is **balanced demographic development**. In principle the flexible labor market requires stable reproduction of the population, good structural balance of human resources, fully integrated into the market-competitive environment.

2. By the year 2003 Denmark, UK, Sweden, and Holland were above this level, while Italy, Spain, Belgium and Greece were still relatively far from reaching it.

As far as resources are concerned the national labor market feels the effect of the deepening stagnation of the natural and artificial growth in population of -0.4.4 ‰ and -0.1 ‰ on average annually (for the period 1990-2004), forming a negative value for the total growth of the population.

The rate of the natural increase in population from - 0.4 ‰ during the year 1990 changes to - 5.2 ‰ during the year 2004, and the artificial growth in population keeps up its high negative values. This results in decrease of population during the period 1990-2004 to 937,139 people³.

The demographic analysis shows that the factor which has most impact on the change is the increasing number of deceased and emigrating people in comparison with the decreasing birth rate.

The outlined negative demographic processes lead to an accelerated ageing of the population and limit the possibilities for its “renovation” and extended reproduction on the labor market.

The change in the age structure bears the imprint of a stable increase in the percentage of the population above 65 years of age, from 13.8% during 1990 to 16.2% during 1999 and 17.2% during 2004. At the same time the percentage of the population from 0-14 years of age decreases from 20.1% during 1990 to 15.9% during 1999 and 13.8% during 2004.

The expected forecasts are that the proportion of the population above 65 years of age by the year 2030 in Bulgaria will increase to 22.2% compared to 20.3% on average for the countries of Eastern and Central Europe.

An important evaluation indicator for the intensity of the demographic aging is the rate of the aging dependency as a ratio between the populations of the dependant ages, under 15 years of age and above 65 years of age and the living population of the independent ages between 15 and 64 years of age. It changes from 0.50 at 31.12.1989 to 0.47 at 31.12.1999 and to 0.45 at 31.12.2004. That means that to every 100 people of the independent ages there correspond respectively 50 people, 47 people and 45 people from the dependant ages.

The demographic ratio “young-old people”⁴ is respectively 1.58, 0.98 and 0.80. It represents quite an unfavorable trend for the employment potential of the labor market.

3. According to the data provided by the Bulgarian National Statistical Institute (BNSI) at the end of year 2005 the permanent population of Bulgaria had decreased by another 42,266 people, or 0.5%, compared to the year 2004 and reached a figure of 7,718.750. Pronounced external migration flows also aggravate demographic reproduction, causing migration losses of about 700,000 people. Half of them are between 20 and 35 years of age, and 75% have secondary and higher education.

4. Representing the ratio between the percentage of population under 15 years of age and that over 64 years of age.

On the other hand a relatively high average age of the living population is formed – 39.6 years of age during 1999 and 41 years of age during 2004.

An important characteristic of the reproduction of the active population on the labor market is the rate of the demographic replacement as a ratio of the population from the 15-19 age group to the population from the 60-64 age group. Its values are quite negative: from 1,245 during 1989 it declines to 1,186 during 2004.

The change for the worse in the age distribution of the population defines extremely slow rates of increase in average life expectancy.

For the whole period 1990-2003 the total increase is equal to 1.21 for both genders. For men the increase is 1.09 years, for women 1.46 years. The real values of the index for the period 2002-2004 are 72.43 for both genders, 69.11 years of age for men and 76.22 for women.

The expectations for demographic reproduction up to the year 2015 are related to the further decrease of the total population and of the young population (0-14 years of age) with about 140,000 people; decrease of the population group of 15-64 years of age with about 500,000 people, from which the totality of the employed and economically active people on the labor market is recruited; stabilizing the numbers of population above 65 years of age; a change in motivation for migration and some diminution in migration after Bulgaria's accession to the EU; increase of the rate of the age dependency; step-by step stabilization and a rise in average life expectancy in the country.

The critical demographic situation in the labor market - related to the depopulation of the country, ageing and deterioration in the ageing population structure, decreasing work force - is accompanied by an increase in the employment age (looking for work) and non-linear career development, as well as by the lack of compensatory policies in the active old age economy and business activities.

Our country is ranked last but one in labor market participation of the work force, i.e. economic activity⁵ (49.4% compared to the Lisbon Strategy requirement for 70%) and last according to the level of employment (43.6% compared to an average of 53% among the 25 member states in 2003.)

The rate of employment of 40% in 2003 is far below the level of the EU member countries – 64% for the newly joined Poland (54%). Czech Republic (65%), Slovenia (64%). The lowest level of employment of 20.7% in 2003 and 21.5% in 2004 is seen in the group of 15-24 years of age, which is comparable only with the group of 55-64 years of age.

A great deal of employment is generated in the unproductive sectors of the economy or in sectors where the efficiency of labor is below the country's average and qualifications and flexibility are low.

5. This is a ratio between the work force and the population aged 15 or over.

The national labor market shows a low rate of inter-sectoral employment restructuring measured with the labor redirection index. In 2003 it changed only 2 points compared to 1989 while that of the member states changed by 7 points - a sign of slow development in the flexibility and mobility of human resources. A marked development has been seen not in general mobility but in the mobility of certain professional and social groups towards the richer sectors of the economy with better prospects.

A positive sign is the increase in the qualifications and scientific and innovation components of labor efficiency, which generate new models for motivation and professional development, as well as life-long learning (still under-developed) for implementation of technologies, financial resources, preservation of the environment and consumption.

A major feature of the labor market is the slower rate of increase in economic activities compared to the rate of decrease in unemployment and the instability of the newly-created jobs in the country.

The rate of unemployment in 2000 was 17.9%, in 2004 it was 11.8% and in 2005-10.7%. The reason for this decline is the change in the philosophy of the policy of employment, macro-economic stability and larger demand for labour. The ratio between incoming and outgoing flow of unemployed in 2004 is 1:1.09. Of newly registered unemployed people about 51% have been fired from private companies. The gender ratio was 53.9: 46.1 in favor of women and corresponds to the national gender ratio of 51.4:48.6.

In the year 2004 the highest values for the population were in the age groups of up to 29 (27.0%) and above 50 (24.1%).

The unemployment structure is dominated by people with primary or lower education – 57.2% while those with higher education number 6.8%.

The percentage of the permanently unemployed in the same year is relatively high - about 60% while that of people unemployed for less than one month is 5.8%. The percentage of women in long-term unemployment (three or more years) is up to 36 %, and those unemployed for one year or more 56.2% of the total number of unemployed people.

The percentage of long-term unemployed aged 29 and over is 22.4%, and for persons above 50 years of age 28.7%.

Job vacancies on the primary labor market (i.e. jobs which were not created with alternative employment programs) are most numerous. Compared to the year 2003 they have increased by 28.4%. They are dominated by notified employment from private sector employers.

About 50% of the general employment is in the sector of services and 70% of it is in the private sector of the economy. The unfavorable trend of priority demand for non-qualified labor continues in year 2004.

The employment of the population of 15 to 64 years of age is relatively low at 56.2%.

There are some marked regional differences in respect of employment and unemployment. There is a great number of people discouraged by limited demand on the labor market or insufficient professional qualifications. There are some obvious signs of an unregulated “grey” sector of employment.

The labor market creates significantly large risk groups (uneducated and unqualified people, long-term unemployed, refugees, handicapped people, ethnic minorities, etc.) and their social and demographic characteristics doom them to inequality and uncertainty of employment.

Therefore the major challenges of the labor market in Bulgaria are insufficiently active job seeking, low employment levels, the insufficient institutional capacity for utilization of the EU specific funds, economic activity and mobility, the relatively high unemployment rate and the weak relation between employment and remuneration as a price of labor services, unemployment and salaries as a price of labor, weakly developed system for long-life learning as a prevention against unemployment and poverty, which determines to a great extent the inflexibility and the balance of the national labor market.

Under these conditions and within the framework of the European Employment Strategy⁶ on employment and enlargement, the New Employment Strategy was developed and implemented for the long term until 2010 as well as a National Action Plan, the joint report on priorities evaluation in employment policy, the strategy for income development up to 2009 and the Joint Memorandum on Social Inclusion, signed between the Government of the Republic of Bulgaria and the European Commission.

The vision of the Strategy was defined as: creation of conditions and opportunities for free choice of relevant, competitive and productive employment; of access to qualitative education and life-long learning within the context of mobility and adaptability; of leveraging the labor market flexibility toward its stability against possible shocks in the process of its full integration with the united European market.

The formulated leading aims of the Strategy are:

- increase in economic activity and limitation of unemployment on the basis of flexibility and balance of the labor market;
- improving quality features of the work force and productivity at work;
- achievement of social cohesion and reintegration of the risk groups which have limited chances of success in the labor market;
- effective use of the minimal working wage as a governmental regulator for labor incomes, demand for and supply of employment in combination with proper pricing of the qualifications and quality of the work force.

6. Formed and developed at successive summits in Lisbon, Stockholm and Nice /2005, Laaken/2001, Barcelona/2002 and Thessalonica/2003.

- For achieving the strategic goal of increasing the employment and labor potential of the population we think that the most important priorities in creating a flexible labor market are the following:
- development and adoption of a National Economic Growth Programme and creation of more and better jobs for the period 2006-2010 in the strategic and expertise-oriented sectors of the economy in compliance with the Lisbon Strategy;
- improving the complicated and conservative legislation as well as the administrative capacity in line with the best European practices in the field of labor policy and services;
- enhancing of access to financing for reproduction and development of human resources within the context of the European social fund priorities;
- enlarging the scope, coordinating and improving the efficiency of active labor market policies⁷ by encouraging entrepreneurship, assisting self-employment, stimulating small and medium-sized businesses, development of micro-crediting, providing professional orientation, consulting and training services, supporting the groups at employment risk (including handicapped people⁸) with financial and technical help to start their own business;
- balance of the supply and demand of labor services by increasing mobility (despite the low social status and conservatism of the Bulgarian people with regard to relocation and changes of occupation and employment status) rather than by quantitative decrease of supply;
- eradication of certain obsolete and conservative remuneration mechanisms in payment such as length-of-service and workplace conditions bonuses that are not related to the efficiency of labor; these payments should form part of the basic salary;
- better utilization of the variety of forms of flexible employment such as part-time jobs, hourly contracts, seasonal, home and chain employment, shared employment and project-based employment, distance and rotational employment, flexitime, flexible employment contracts and jobs, mobile offices, etc.;
- popularization of flexible employment contracts in the context of stable employment;
- more effective utilization of flexible overtime regulators, working hours, holidays, sickness leaves, including illnesses, etc. by introducing annual accountancy of working hours and overtime remuneration;

7. They include 23 programs and 19 groups of measures in 2004 targeting around 36% of the total number of registered people who are seeking work. They involve a personal approach to the client and the provision of all services behind one desk.

8. In accordance with the Bulgarian national strategy of providing equal opportunities for handicapped people.

- gradual legalization of hidden employment by introducing minimum social security levels and minimum wages for all occupations and economic activities in business organizations;
- introduction of flexible personnel recruitment and redundancy procedures and procedures for job creation and layoffs based on economic and market competition reasons;
- reduction of social security burden as a negative factor in the growth of employment, creation of jobs and restriction of the grey economy;
- stimulation of longer active life and the policy of active ageing by introducing flexible retirement schemes, greater retirement age, multi-layer retirement schemes and flexible remuneration;
- elimination of regional employment differences (including differences in demand) using taxation, fiscal policy, lease and micro-crediting schemes and social partnership levers of employment-development initiatives, hiring specific groups of unemployed;
- improving human resource quality and suitability for employment by diversification of human investment sources, adaptation of education to labor market fluctuations, creation of a competitive environment for transfer of educational qualifications and life-long learning;
- balancing the restructuring, redirection, transfer and distribution of labor, creation of new jobs, using new mechanisms in unemployment risk management;
- improvement of the efficiency of financial resource utilization in labor market policy including passive policy measures and reduction of unemployment benefits to 45% of the average salary;
- increasing the norm of inclusion of the economically non-active in the labor market and their integration in the economy, including by self-hiring;
- improvement of access to education, professional qualifications, improvement of quality and better communication between education system and risk communities;
- active measures to overcome the imbalance between the demand and supply for female and male labor in the context of the increased number of women seeking lasting employment in the conditions of the information and technological society;
- identifying the innovation policies and the institutional reforms for annual raising of salaries depending on increasing the efficiency of labor in business organizations (measured by the index “nominal added value per one employee”). As a major criterion for raising the national minimal wages the rate of increase in the average salary should be used, and as additional criteria – the forecasted inflation and the efficiency of labor.
- applying of various active and flexible social policies designed to reduce dependency on the welfare system;

- implementing of mechanisms and environment for utilization of the financial resources of the European Social Fund, the national budget, local and foreign donors for the period of time 2007-2013 within the framework of the Operational Program “Human resource development” as a component of the national strategic reference framework of Bulgaria for joining the Euro zone with a focus on improvement of human resource quality, labor market flexibility and employment efficiency⁹;
- good management of the partnership in applying the policies and recommendations of the European strategy for employment, the Integrated European Directives for growth and jobs, the project of the European qualification framework for life-long learning and the Strategic Directives of the community for years 2007-2013.

All those strategic changes with European dimensions should be realized under conditions of macro-economic stability and economic growth. They are the foundation for achieving a balanced and effective labor market in the Republic of Bulgaria, meeting the challenges of the New Lisbon project and the European Union approaches for its implementation.

9. During the last few years the financial sources for active policies on the labor market are: 71% from the government budget, 17% from EU programs and 12% from internal and external donors.

