

## Wage Structure and Employment Structure Connection in the Albanian Labor Market

Dr. Imelda Sejdini

Lecturer, Faculty of Economy  
"Aleksander Xhuvani" University, Elbasan, Albania  
Email: imelda.sejdini@uniel.edu.al / imelda.sejdini@yahoo.com

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### Abstract

The transition of the Albanian economy from planned to market economy, has given a powerful effect to the key variables of the labor market: employment and wages. In this study, we observe the changes in wage and employment structure, for the whole period of transition in the Albanian economy, relying on data from the official sources of information. In the focus of the analysis are: the changes in different forms of employee compensations other than the base wage, which are an integral part of the wage structure and the employment structure evolution. The main findings of this study, are the observation of: increased wage difference by level of education and occupational position, training, computer skills, etc. and the narrowed difference in recent years, for both sectors, public and private. Considering the connection between wage structure and employment structure, we find that changes in the labor market generally favor the most qualified, who have a direct effect on improving the wage structure. In this study are explored some interesting implications for the economist and policy makers, in order to assess the impact of wage structure and employment structure connection in the Albanian labor market.

**Keywords:** labor market, labor policies, employment structure, wage structure

### 1. Introduction

Wages have an important economic and social function. On the one hand wages are regulated by changes in relative supply and demand of different groups of employees. On the other hand, the reallocation of labor, an important element of the economic restructuring is led by changes in relative wages. Thus, the evolution of the wage structure acts as an important signal of the labor market.

During all the transition period in Albania, is noticed an inequality in growth which is reinforced from the changes in the working conditions and the forms of remunerations, which are part of the wage structure, characterising all economies in transition. The indicators of the labor market like: level of education and occupational position, training, computer skills, etc, make the demand for skilled employees, which determine the wage structure too. Among them, we can mention the demographic distribution and occupational groups, that have also played a significant role in determining the structure of the wage. In view of all these elements have changed the steady and the transitory components of the wage structure. These are also the main reasons for the lack of wage stability in Albania.

Changes in the labor market generally favor the most qualified, who have a direct effect on improving the wage structure, as their requirements grow, with increased capabilities. Although this impact is attributable to a longer term relationship between the structure of employment and wage structure, is visible because wage growth may have direct impact on employment.

### 2. Employment and wage policies in Albania during transition

In recent years, employment has become a major issue in the political agenda of many governments as is increased the awareness that economic development will not necessarily generate employment for all, if not accompanied by policies needed to achieve this purpose. Employment policies and active labor plans show a gradual transition from the concern to protect, preserve and stimulate job opening to more variable answers including measurements of supply side and institutional performance. Government policies aimed at increasing labor demand or reduction of jobs, have an impact on demand and wage level. The main impact on the demand for jobs is realized from the government through direct

employment policies, because in some states the government is the most important employer. As such, it affects the determination of wages that will be paid to the employees and at the same time is a key consumer. As a consumer, it is presented with great demands to meet the needs of the institutions and public economy. The fiscal and monetary policies also serve as indirect instruments of the government impact on the economy and wages. Strengthening business through favoritism that is created by fiscal policy, leads to increased number of jobs and hence to increased demand for labor. Lower Interest rates create more opportunities for people to afford investments such as buying a home, which means more work for builders, more jobs in construction or in production of furniture or other accessories for the house. Reducing taxes and increasing the amount of money available to taxpayers, results into increased demand for products and services. This demand precedes to development and growth and consequently to increased demand for labor (Ceni, A., 2007)

The active employment policies are presented for the first time in Albania in 1995, by Law no.7995 dated 20.09.1995 "on employment promotion", creating the initial bases of a package of programs such as: (i) mediation of employment and occupation, (ii) job and profession counseling, (iii) vocational training, (iv) employment promotion programs etc.. The main objective of employment policies is to support job seekers in finding a suitable job. Employment policies are an important tool for improving the labor market situation, but in our country however they have still a limited impact in reducing the unemployment level. This comes as a result of several factors in the market labors that are associated with the fact that labor market policies are costly and require more people to implement them.

Policies aimed at increasing labor demand include: employment in the public sector, pricing policy of public goods, administrative and defense spending, agricultural policies, etc. .

When designing compensation techniques, the compliance with laws and regulations is one of the the most important objectives to consider, therefore, groups of employers and employees try to influence in the drafting of laws. The government, through macro and micro policies and the determining of factors that affect the determination of jobs, affects the wage model. According to the experience of many countries, areas where governments seek to make adjustments and to impact the wage model, generally are: minimum wage; hours of work; work of minors; non-discrimination in wages; the same wage for the same work .

Government intervention in the area of compensation is dictated by the need for mitigation of large imbalances that may arise between employees, where a group of them benefits salaries and allowances in high enough amounts, while other groups of employees can not provide even the minimum of survival. Simultaneously, the governmental interferences in the remuneration system are dictated not only by social and economic conditions, but also by development and emancipation of the society. To achieve a fair compensation system, almost all governments of different countries play an important role in determining the system of remuneration, intervening in such aspects as: the fixing of minimum wage, the guaranteeing and non-discriminating for reasons of race, age and sex, in the exercising of the control over the income, prices, etc..

During the transition period in Albania, the government intervention in the area of remuneration has been direct and indirect. Direct intervention was conducted through the development, approval and control of the implementation of legislation in this area. The government, have been directly imposed to all employers and employees to implement the obligations derived from the law. Among them, we mention the importance of respecting the obligation to pay the minimal wage, or respecting the equality by not applying differences in job rewards for the same conduct by different employees, regardless of sex, age, race, etc. Indirect intervention is realized indirectly through economic policies that aim to affect the size of wage. The government has affected the supply and demand for labor and therefore the size of wage that comes as a consequence of the affected supply and demand. Labor supply policies have aimed at reducing the workforce seeking for employment and its reshaping to fit with the requirements of labor market. At the same time the government has funded various training programs, social assistance programs, programs for the organized emigration, etc. , and has also approved laws that restrict the entry to different labor force activities and the increasing of quality of labor supply. These include laws as: (i) Wage Laws (minimum wage law, non-discrimination of wage law, the law of social services, etc.); (ii) consumer or different population groups protection laws (law for licenses, law for children and wife, law that restricts the entry of workers in the market, etc.); Law on social assistance (social assistance programs, training programs, assistance programs for different social groups, etc.).

During transition, the matter has been the implementation of suitable policies for income distribution, with poverty mitigation effects, among which we can mention: reform and continuous growth in the public sector wage, reforming of social security system, unemployment payments, economic assistance, social care, etc., as some of the main components of these policies. In determining schemes for unemployment benefits, economic aid and social care, are considered the budget options and their generally passive character. It is estimated that the importance of wage policy in

the public sector, exceeds the weight of this sector in the total employment, while the level of wages in this sector serves in some way as the reference system for the private sector. During the first years of transition, wages of most of employees, whose enterprises were not working, were practically a form of social support. Wages in the public sector are subject to continuous increases foremost, to counter inflationary effects and to provide a fairer reward of employees in this sector. For the period 1993-2000, the growth rates of nominal wage were higher than average rates of growth on overall prices. Real wage reduction until 1993 was followed by a growth in the coming years 1994, 1995 and 1996. The year 1997 marks a significant decrease, followed by a slight decline in 1998. The trend of growth returns in 1999 and 2000. In the year 2000, the average and minimum levels of wages were respectively 14,963 ALL / month and 7,000 ALL / month (INSTAT, 2005). Wages are low especially in the sector of education and health. For the coming years there have been a growing trend, especially for these two sectors. Since May 2009, wages of teachers, doctors and nurses were doubled compared to the year 2005. The average wage ranges from ALL 27,000/month in 2005, to 45,000 ALL/month in 2009 (INSTAT, 2010). The average wage increase becomes 68 per cent. For the teachers, the average wages becomes ALL 46,000/month from ALL 23,000/month in 2005, with an increase of about 100 percent. The average wage of nurses, vary from ALL 15,000/month in 2005, in ALL 31,000/month in 2009 increasing in 36,900ALL/month in 2013. For the category of doctors, the average salary varies from ALL 23,000/month in 2005 to 47, 000/month in 2009, with an increase of nearly 107 percent and slightly increasing up to 47,250 ALL/month in 2013 (INSTAT, 2014).

Regarding wages in the private sector, we can say that the trend has followed the performance of businesses in the country. Economic difficulties due to the crisis, the high level of borrowing and the lack of liquidity made that the level of wages in the private sector lag behind the trend in wage growth in the public sector (BOA, 2013). The state has intervened through reference wage determination for different professions but the effect was simply the increase of the fiscal burden and the obligation of businesses to the state.

### 3. Employment performance in Albania during transition

The indicators of our country regarding employment and wages reflect the impact of economic policies pursued during this period. Sustained economic growth levels have led to the modest job creation, but we can't talk with accurate indicators about this aspect as long as informality in the labor market is high. A part of the reduction in unemployment is attributed to a reduction in the dynamic attempt to find work, as evident from a large number of inactive people of working age, especially householders and relatively low level of employment of working-age people. The macroeconomic reforms and the restructuring of the early 90s resulted in a decreased demand for labor in Albania, as in other countries in economic transition. The country suffered a decline in the participation rate in the labor force. The mass privatization of closed state enterprises and also the increase of competition for a reduced number of jobs forced many people to withdraw from the labor force. The male participation rate in the labor force has historically been higher than the rate of women participation and the transition had a negative impact on employment of women more than on employment of men. The sharp decline in the level of participation of the labor force in that labor market, can have various causes, such as a considerable number of persons working in the informal sector, others may be discouraged by the situation of the labor market and are detached from the labor force (Hobdari, B.,1998). These indicators are also associated with the current situation of the labor market where female employment has fallen for reasons such as: (i) the closure of many previous industrial activities developed before the 90s, with a high number of women employed in them; (ii) the development of economic activities more oriented toward the employment of men such as trade or construction; (iii) rural-urban movement, which does not give more opportunities to women coming from rural areas into the urban labor market, which is due to the low level of education, current level of technology, etc..

Besides the aforementioned reasons, the increasing level of enrollment, especially in secondary education in rural areas probably could partly explain the decreased level of participation in the labor force. A small percentage (10-15 %) of the unemployed, were employed in the formal sector from 2002 to 2009 and only 10% of those who have been out of the labor force in 2002 made a similar shift. According to World Bank indicators, 38% of the unemployed have found informal wage employment (World Bank, 2006). The increased levels of out-migration are the strongest evidence of insufficient job creation. The influx of permanent immigrants and temporary immigrants rose sharply throughout the nineties in Greece and Italy. About 90% of them migrated in search of work. However, after 1998 there is a slowdown in migration flows as the economy recovered from the disruptions brought by pyramid schemes (BOA, 2008).

According to INSTAT, in 1999 the employment includes 82 percent of the labor force or 1,065,104 of employed people, 19 per cent of whom in the public budgetary sector and non-budgetary sector, 10 percent of them in the non-agricultural private sector and 71 percent of them in the private agricultural sector. This situation is totally different from

that of 1989. The workforce balance of this year shows that there was only the public sector which employed a number of 1,440,000 employees, and 551,000 of them belonged to the agricultural sector. At the end of 2009, employment includes 87.24 percent of the labor force, or 1,160,000 employed people, where 17.1 per cent of them in the public sector, 58.6 percent in the agriculture private sector, and 24.3 percent in the non-agricultural private sector.

The years 1990-1993 are the years in which closed the largest number of state enterprises and therefore are also years with drastic cuts to employees. In 1990, employment felt by 2 percent, in 1991 felt by 4 percent, in 1992 felt by 25 percent and in 1993 felt by 30 percent. The decline in public sector employment was replaced with newly created and fragile private sector employment. In 1992, the private sector had 60,000 employees, in 1994 this sector numbered 46,000 private enterprises, mainly small business, with 103,000 employees or self-employed, in 1996 with 59,000 private enterprises and 116,000 employees and in 1999, 56,000 enterprises with 103,000 employees and self-employed. Based on data of Labor Force Survey and in accordance with the definition of Eurostat and the International Labor Organization for employment, there are about 1,123,000 employees aged 15 and older or 1,103,000 employees aged 15-64 years until October 2008.

The agricultural sector has played an important role in employment after 90s. While private agricultural sector and non-agricultural have experienced growth, the public sector has significantly decreased, and more and more is represented by the budgetary sector employment in central and local administration.

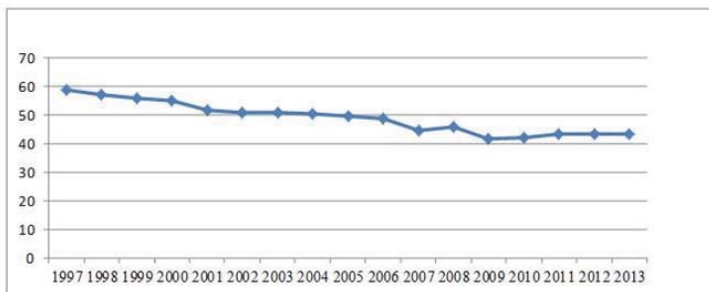
Employment in agriculture has increased and in 1999 accounted for 71 percent of general employment. The service sector has also experienced growth. It has accounted for 21 percent of employees, while industry decreases and it constitutes only 7 percent of employees from 34 percent in 1989. Employment in the public sector and the private non-agricultural sector has undergone changes each year. Meanwhile, employment in the public sector registered a decrease from 41 percent of the labor force in 1992 to 19 percent in 1999 and then to 17.1 percent in 2009, the private sector experienced growth with the exception of 1997, from 4 percent in 1992, to 10 percent in 1999 and then to 24.3 percent in 2009.

**Table 1.** Employment rate (1997-2013)

Description	Period																
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employment rate (in %)	59	57	56	55	52	51	51	50	50	49	45	46	42	42	44	44	44
Male	74	71	69	66	64	63	62	61	60	59	55	57	51	51	47	49	49
Female	45	43	42	44	39	39	38	39	39	38	34	34	33	34	40	38	38

Source: INSTAT 2014

**Figure 1.** Employment rate 1997 - 2013



Source: INSTAT 2014

Referring to the above data, we note that the trend in employment has been declining for the period 1997-2010, increasing slightly in 2011 and maintaining the same level until 2013 (INSTAT, 2013). This reduction in the level of employment is justified by reforms to increase the efficiency and to improve the services of public administration, where the number of employees in the public sector has continued to pursue a slight downward trend, while the average wage has grown steadily. In the non-agricultural private sector, the employment has followed a downward trend throughout the survey period 1997 - 2010, while the private agricultural sector has followed the same tendency of the public sector.

It is important to also mention the informal employment, for which there are no accurate sources of information, but that is really important for the economy in general, and for families in particular, despite that covers kinds of work that are out of protection of formal labor systems and official systems of social security. Informal employment varies significantly from sector to sector, but the highest concentration is in construction. High levels of informality are noted in the private agricultural sector, especially among self-employed or unpaid workers. Employment is split roughly evenly between formal and informal sector in industry. In this sector, informal employment is characterized mainly by unregistered paid work. Informality is more prevalent among men, younger people and people with low levels of education. The paid employees in the informal sector work far more hours than employees in the formal sector, and informal sector wages are much lower than wages in the formal sector, especially when considering the working hours. Informal employment is closely associated with poverty and low incomes, and constitutes a significant part of employment according to official sources of information.

#### 4. Wage level evolution during transition in Albania

Even wages as an important element of the labor market has undergone constant changes. Before '90s, the level of wages in Albania was the lowest in Europe. The economic crisis in the early 90s have worsened the situation even more. Market reforms were implemented with the aim to stimulate economic growth. The restrictive policy on incomes was an important part of this program which aimed to limit inflation (BOA, 2011). Real wages fell almost 50 % during 1991-1993. In 1992, for the first time, wages were linked to the consumer price index. In this year is also determined for the first time, the minimum wage in Albania. The justification of the minimum wage law is the protection offered to workers with lower wages. This policy tool may be particularly important in developing countries during periods of rapid adaptation to the global economy, but in periods when global competition is very strong, many policymakers argue for reduction and even for the elimination of minimum wages and other rules of labor market in developing countries. This is namely to allow more flexibility and increased competition. The main argument is that the lack of flexibility in the labor market such as lack of flexibility in wage established by the minimum wage, could decelerate job creation and thus contribute to unemployment and poverty (Micco, A. & C. Pages, 2004). On the other hand there are arguments that fierce competition in a globalized world is also creating an environment that some have defined as an ethical battle. This group argues about the fact that wages and working conditions are being damaged by global competition and thought, there is a need to overcome the difficulties with rules such as minimum wages and labor standards. The theoretical model (Acemoglu, 2001) shows that the minimum wage may change the composition of employment in terms of higher wages. The increase in the minimum wage can contribute to poverty reduction through increased income of those affected by the law, and perhaps increase in wages in high-wage jobs in the economy (Gutierrez, C et al. 2007). An increase in the minimum wage in some way reduces extreme poverty, but we can not say that all of the increase in employment levels are associated with poverty reduction. Increases in the minimum wage does not seem to influence the net probability of being poor for individuals employed in small firms, self-employed or employed in the public sector. These conclusions are just net effects which do not take into account the channels from which these results are descended.

Different states set by law different criteria to be applied in determining the minimum wage. For the determination of minimum needs, the used criteria vary from one country to another. In many countries such as Canada, Holland, UK, USA, etc., the legislation provides no criteria at all. In some developing countries, such as India, Jamaica, etc., the authorized bodies for setting the minimum wage criteria are free to decide on their own the criteria, depending on circumstances, finding the most appropriate ways.

In general, there are certain criteria that are more commonly used for determining the minimum wage. Among the criteria used in our country we can mention: the moral and social criteria, eg. needs of workers; supply and demand in the market for not having much deviation from other companies of the same kind; employers solvency requirements, which are part of microeconomic and macroeconomic requirements related to the economic development of a country.

Depending on the strategies that various countries apply for the poverty reduction, arises the necessity of meeting the basic needs or otherwise, determined by the basket of goods and services that are considered necessary to meet the needs of the people. The basket goods and services are valued at current market prices and thus are determined the minimum necessary incomes for the survival of workers. This constitutes the minimum of subsistence, which presupposes that the monetary value of the minimum needs of an employee is required to keep himself and a number of other persons in charge of him. The minimum of subsistence needs consists of clothing, food, housing and social needs. Exactly, these needs can not be determined objectively but to the extent that are acceptable, as there are several ways to determine a need and there is no certainty if it is chosen the most appropriate one. When calculating the minimum

wage, another issue is the individual that will be taken into consideration, whether or not there are other persons in charge of him. Should also be determined whether or not to refer to the numerical composition of the medium sized family, to be determined if the basis of calculation will be the full-time employment, or the total number of hours per year, etc. The way how these criteria are evaluated, exactly constitutes the basis for taking into consideration the needs of workers, in the help of calculating the minimum wage.

In poor economies, is widely used the criteria of individual base needs, to determine the minimum wage. This helps policymakers determine the extent and intensity of poverty, and this is seen as an important element for the development strategy and for meeting the basic needs. However, it is recognized that these can't be used as the exclusive basis for decisions on the minimum wages. By practice, in general is calculated the minimum of subsistence for a person and for an employee, but are also used other indicators of the poverty level, as for eg. the number of people living with income up to one dollar a day that is considered as extreme poverty, and the number of people living with less than two dollars a day that is considered as absolute poverty. The arguments of trial on minimum wage, serve to aware individuals that the minimum wage and the minimum of subsistence is not an economic abstraction, but are a source of living for workers.

The minimum wage in Albania has an economic consequence that may be evaluated from two points of view. First, the government's efforts to raise the minimum wage will lead to unacceptable decline in formal employment, since employers generally do not prefer to pay high wages, because it would lead to increased labor costs, and an increase in the minimum wage would lead employers to discourage creation of new jobs, workforce reduction in formal paid employment and informal growth. At the same time it would increase the public spending to counterbalance unemployment (BOA, 2010). Secondly, the economic consequences caused by minimum wage are closely related to the standard of living of workers because after the minimum wage increase, would benefit only those paid by minimum wage, while those paid little more than minimum wage, could not improve their standard of living because they would not benefit from the wage increase. That is fundamentally important to count on the effects of minimum wage on: currently paid wages, labor costs, prices, profits, employment and unemployment, savings, investments, economic growth and the income level of those who have benefited and those who have lost from the forced changes. Nevertheless, the information available may not be sufficient on the performance of economic indicators above, as it is not easy to separate the effect of the impact of minimum wage changes on the above economic variables, because of the affect of other factors on them. When the government tries to increase the minimum wage, this increase should be viewed with caution, as from the growth benefit groups who are not on the poverty limits, so it can harm the other economic indicators. So, if with the minimum wage are paid mostly young people who have just started a job and are not the backbone of the family income, then an increase in the minimum wage will not affect the poverty reduction but would lead to a rising of inflation. Changes in the minimum wage, have also an impact on inflation and economic growth.

During the period 2000-2013, the government of Albania has determined fourteen minimum wages. The minimum wage is applied in all sectors, public and private.

**Table 2.** Dynamics of minimum wage

Nr.	Period	Minimum wage	Growth in %
1	July 2000	7018	10
2	Jun 2001	7580	8
3	Jun 2002	9400	24
4	August 2003	10060	7
5	Jun 2004	10800	7.4
6	July 2005	11800	9.2
7	July 2006	14000	18.6
8	January 2008	16000	14.3
9	Jun 2008	17000	6.3
10	May 2009	18000	5.9
11	July 2010	19000	5.6
12	July 2011	20000	5.3
13	July 2012	21000	5
14	July 2013	22000	4.8

**Source:** Ministry of Finance 2014

Minimum wage growth is argued by the government, as a mean to reach the world economic standards, protecting employees and in the meantime conserving a low burden for businesses. In our country, the minimum wage referring to

labor code (Labor Code in Albania, 2003)<sup>1</sup> is determined relying on two criteria:

1. On the overall economic indicators and first of all, on the requirements of economic development, for minimizing unemployment and increasing the production;
2. On the needs of employees and their families, taking into account the standard of living in the country, the income derived from social security and living standards of different social groups.

So, obviously, Albanian labor code states to harmonize moral requirements (meeting vital needs of employees) and economic requirements (related to increasing the competitive ability of the economy). In practice, the minimum wage in Albania is oriented toward economic requirements aimed at maintaining the social equilibration. There have been debates between unions and employers regarding the criteria for the minimum wage determination. Trade Unions have insisted for the minimum wage to be based on the minimum of subsistence that is a moral criteria while employers starting from the need for capital accumulation have insisted for the economic criteria to the base and the minimum wages to be settled lower. In the wage determination are taken into account the overall dynamics of wage, the inflation increase from one year to another and the ability of the state budget to cope with this growth, given that in Albania, a large number of employees continue to be paid from the state budget. In the private sector, although demand in the labor market has been higher than supply, paid wages were at a level of 17% to 50 % higher than the minimum wage. This shows that the minimum wage is not a concern for employers in the labor market, as the number of employees who are paid by the minimum wage is small. The concern lies in linking the minimum wage to social benefits such as:

1. Connection to pensions - currently the minimal pension is equal to 60 % of the official minimum wage and the maximal pension is about 110 % of it;
2. Connection to unemployment - Unemployment is lower than the minimal pension (for the period 2000-2010 is averagely 56 % of the minimal pension);
3. Link to economic assistance - this is attributed to poor families by the state and not to individuals, and this can reach up to 250 % of unemployment benefits for each family;
4. Connection to the payment of disability - tends towards the minimum wage and this has negative effects on the state budget.

In comparison with average wages, the minimum wage in Albania is very high referring to regional standards. However, it seems to be too low to have any impact on employment in a sensitive scale. If we take into account the wage increases during the transition period, we see that these increases are observed not only to the minimum wage increase, but also to the paid wages in the two sectors, public and private. According to INSTAT, public sector wages have increased annually in higher real terms than the wage growth in the private sector, which has been slower, with the exception of 2003. At the government sector, the higher growth of the real wage has been in 1994 (with +26 percent) and the lowest in 1997 (by -17 percent). If we consider the official indicators of the labor market after 1997, we see that the trend in the average wages between the two sectors (private and public) has been growing until 2013. This tendency appears in all major economic activities.

Despite the progress over the years, from the resulting comparative data, wages in Albania remain relatively low compared with other countries in Eastern Europe. The low level of wages reflects the low level of labor productivity.

## 5. Wage structure and employment structure connection

### 5.1 Employment structure evolution

Since the beginning of transition, the economic activity in Albania has shifted from the public to the private sector, but not out of agriculture. The percentage of private sector in GDP in 1990 was 5 percent, while in the following years is increased steadily. However, the industrial structure is not transformed to the extent that has occurred in most other countries of the region. Deindustrialization led to the decline in the share of industry in GDP by about 20 percent and services increased by the same amount. The agriculture's share is approximately at the same level. We should take into consideration the fact that the shift in economic activity towards services has not led to employment growth in that sector. Despite the sector's growth in recent years, this increase resulted in opening no new working places in recent years. Albania shows up among Western Balkan countries and the ECA region in terms of still having a high percentage of the labor force in agriculture. More than half of the population (55 percent) lives in rural areas and almost 60 percent of the

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<sup>1</sup> Section 111 - Minimum Wage

labor force is employed in agriculture. There is a negative relationship of the Western Balkan countries between employment in agriculture and GDP per capita, which shows that employment in this sector in Albania is much higher than in the other countries involved. When the comparison is limited to countries that are more or less at the level of Albania in terms of GDP per capita, shows up how strong is employment in agriculture in Albania. If Albania moves closer to the regional trend in the future, there will be a high decrease in the labor force in agriculture. This will put further pressure on the opening of new work places (ILO, 2013).

Within the structure of employment by sectors, are noticed significant changes during the transition period, while in 1995 the employment in the state sector was 33 percent, in 2005 this sector constituted 16 percent of the total number of employees, as a result of privatization reforms developed in this sector, and in 2013 it constitutes 17,2%. While employment in non-agricultural private sector tends to increase, by about 10 percent occupied this sector in 1995, reaches 30,5 percent of the total employees in 2013<sup>2</sup>. The high percentage of employed in agriculture, shows that the albanian society remains mainly rural population, despite the large movements towards urban areas.

Employed women constitute 38,4 percent of total employment at the end of 2013. Analysis of employment levels in years, show that during the period 1993 - 2013 the employment rate of females was significantly lower than that of males. This difference continues to be maintained at the same levels. Differences between male and female employment rate are more visible in the non-agricultural private sector (INSTAT, 2014).<sup>3</sup>

Employment structure during transition, shows that the highest figure is reached in 2002, when the employment in the private agricultural sector was 71,2% of the total employment, declining in 52,4% in 2013. If we refer to the last three years, we note a declining tendency of employment in the private agricultural sector, while there is a growing tendency of the employment in the non-agricultural private sector, according to labor force balance 2007-2013 (INSTAT, 2014). So, the weight of the non-agricultural private sector has been increasing and this is accompanied by reduction of the weight of the private agricultural sector and public sector too.

The structure of employment by major sectors of the economy and by gender for the last years reflects the fact that women employed in the private agricultural sector continue to occupy the highest percentage. Over the past decade, Albania has experienced economic growth as a result of the shift of resources from agriculture to services and construction. Construction and services were the main contributors to economic growth, and now represent more than half of GDP. The expansion of these sectors is driven by high domestic demand supported by increased productivity, workers' remittances and other inflows (World Bank, CEM, 2005). The industry has maintained its share in GDP by averagely 9 percent, primarily as a result of increased production of textiles and shoes, and more recently due to the expansion of building materials (mainly cement production). The share of agriculture in GDP has almost halved, although in regional terms remains high.

Based on official data of this period, we note a continued shift of labor from agriculture to other sectors, as industry, construction and services, which have had a slight growing but with a positive effect on the overall productivity. However, the agricultural sector remains dominant, accounting for 18 percent of GDP and about 45 percent of employment in recent years, which means that there are still opportunities to increase overall productivity and production in agriculture through incentives, facilitating the movement of ongoing labor between sectors.

As regards the informal sector, we can say that this occupies a significant portion of the labor market but not included in the employment structure. For this sector we do not have accurate data, but the analysis is done based on individual employment records and family data on non-farm enterprises. Is roughly estimated that about 10 percent of employees working in Albania as non-farm household enterprises or as employees who work on their behalf. The informal sector in Albania is higher in urban areas (24 percent) than in rural areas (5 percent). Almost three - quarters of the individuals in the informal sector are employed for at least three years and about 10 percent are involved in the informal sector for more than 10 years. More than 90 percent of people in the informal sector have started their own business as a way to search for a job. With the closure of industrial enterprises and the restructuring of the economy, for the first time since 1992, was introduced the concept of self-employment. The self-employment has undergone through an increasing trend year by year. Countrywide, 63 percent of those j considered employed are self-employed and only 37 percent are paid employees. Self-employments in Albania are mainly family businesses in the handicraft trade inherited by their family. 62 percent of employees are full time employed dhe 39 percent of them work part-time, while the full-time employed are more men (70 percent) than women (51 percent). Many of them are highly educated individuals who work

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<sup>2</sup> Administrative Data

<sup>3</sup> Labor Force Balance until 2013.



full time (75 percent), compared with employees with secondary education (73 percent), and those with low education (55 percent). Self-employment remains the main type of employment in the country, almost two-thirds of self-employment are free to non-agricultural enterprises and agriculture and a third are wage employees. An absolute majority of individuals are self-employed in agriculture (MPCSSHB 2010).

## 5.2 Performance of the wage structure

According to the classification of Labor Code in Albania, the base wage means wage and allowances of permanent character, in the form of wage allowances or tuitions. In the basic wage are included the fixed payments based on employee training, capacity and competence at work, working time and professional skills polyvalencies. The base wage is generally regarded as fixed wage as it is calculated based on time spent and not on performance, and constitutes a part of the total income. To determine the base wage are taken into account several elements as conventional obligations, labor market adjustment, the positioning of the appropriate wage level and the analysis of alternatives based on the positions and wage levels, and levels of coverage choices between different positions. In determining the base wage taken into account and some other rules aimed at guaranteeing a minimum level of income, such as the minimum wage existence among professions, the existence of minimum award wage hierarchy and equality between women and men. Base wage can be determined taking into account the wage structure and specific weight accorded to each element of it. It is not everything that can benefit the employee and its size is determined by economic factors, organizational factors, social factors, political factors and psychological factors that have an impact on the company.

Given that the base wage is only one part of the total compensation that can benefit an employee, there are other ingredients that are added to the basic wage as mentioned above, which are the wage supplements and tuitions. Wage completeness vary in different countries and in different companies. They are classified in several forms and the difficulty associated with labor and employment characteristics, risk at work, delegation of authority, personal behavior, night work, Sundays, holidays or official days off, uninterrupted work in teams, tuitions for seniority, dedication to work and holiday season. According to the obligation of employers to pay tuitions, are distinguished in obligatory tuitions (mandatory by law to be implemented) and free tuitions (not mandatory by law to be implemented). By the way of expression, are distinguished in monetary and non-monetary tuitions, benefited by all the staff and selective tuitions, benefited by only some of the staff.

Regarding compensation allowances, which are payments given to employees to achieve a specified result, are distinguished in payments calculated on the basis of partial results and payments calculated on the basis of the overall results.

The difficult macroeconomic position of the country at the beginning of transition from a centralized economy to a market economy, brought out the need for extensive reforms including wages, as well as in other countries of Eastern Europe. Wage reform in Albania was based on the tax system and it was completed in two ways: first, through direct control of the wage fund of enterprises and secondly by controlling the average wage of enterprises. The first way was applied in the period from 1991 - 1992, and is replaced by a second version in 1992 or later. Given the inflation target, the wage system reforms in Albania are determined by the difficult economic situation of the country, political solutions and the lack of legal framework. Changes in wage policies such as wage determining method, wage increase and adjustments are associated with the introduction of new laws. The implementation of a new liberal strategy and new legislation on wage policy began in 1991, with an average wage increase of 50 %, despite the negative effect on macroeconomic variables. With the new law on state enterprises, was limited the autonomy of state enterprises in all sectors, were defined their competences in the determination of wages, in determining the number of employees, bonuses and individual wage levels and the minimal wage approved by the Council the Ministers, while the limits above wages level were omitted. For the first time the determination of wages in non-budget enterprises was done separately, free of budgetary enterprises influence. They began to set wages based on the number of employees and agreements with unions. In this unstable economic environment, the monopoly position of some enterprises, trade unions continued pressures to increase wages and wage liberalization, soon resulted in inflationary factors. Unions insisted that the wage growth to offset inflation to be not limited by productivity growth. To overcome these pressures, the government regained some control over wages deciding to apply a national monthly wage increase and at the same time it was determined a minimum wage and a maximum wage ratio 1 to 4 and was limited the base wage for the managers of enterprises.

For the first time, due to changes in the wage system, the public sector was differentiated from the payroll system in the private sector. In the public sector ministries determined average wages for each enterprise under their jurisdiction. In July 1992, enterprises were allowed to cross the average wages of up to 5 % without sanctions. They could increase

the average wage up to 30 %, but meeting certain criteria, including regular payments of state taxes, regular reporting of funding sources, regular financial statements, etc..

The further decline of industrial output in 1993 and the increased social pressure, increased the need for increasing flexibility. For this reason, enterprises with good performance were allowed to increase the ceiling granted in 1992 by 5% - 20% and then, in mid 1993, by 30 %. In 1995 these figures amounted to 70% leading to further decentralization signals. In many cases, these benefits sharing schemes led to increased motivation and productivity of employees, and in some less profitable enterprises they had negative effects. The effect was seen even to the movement of skilled workers from the public to the private sector, where profits and differentiation in wages were higher, which regards to the restructuring process that is necessarily accompanied by privatization.

Indexation of wages in Albania was not complete, as in many other countries in Eastern Europe. It was developed in part, not on a regular basis and through various forms of compensation. By 1992 wages increased 7-8 times, but only in 1994 the average real wage levels began to recognize positive levels as reflected in the table below.

**Table 3.** Minimum wage and average wage change in Albania (%)

Year	1991	1992	1993	1994	1995	.....	2013
<b>Minimum real wage</b>	-	53.7	-65.7	6.9	3.8	.....	4.8
<b>Average real wage</b>	4.61	-13.8	-6	12.4	3.8	.....	3.1

Source: INSTAT 2014

After the first results in mid 1993, the government drafted a medium-term plan and signed a three -year agreement with the IMF for the period 1993 to 1996. The goal was to increase the GDP by at least 4-5%, the reduction of the inflation rate in no less than 15 %, improving foreign trade and taking measures for the foreign debt . It also makes predictions about the privatization and restructuring of enterprises, development of the banking system, liberalization of the exchange rate and foreign trade and the reduction of budget deficit .

The state enterprises law, brought about changes in the wage structure of these enterprises, allowing up to 15% of profits to be distributed in the form of additional income, but no more than the two months' wages for employees. This reward system was necessary to increase the motivation, given that productivity was declining as a consequence of skilled workers shifting from the public to the private sector as a result of higher payment, which in this period was nearly three times higher. Given that state enterprises were not all equally profitable, but equally affected by the law, in cases where you should not cross the limits of allowed compensation, they found other ways to compensate the low wages of employees, such as food allowance up to 20-30 % of the monthly wage.

With regard to private businesses, wage determination turns out to be different from that of state enterprises. In this case the only intervention by the state was adhering to the law on official minimum wage, while the size of wage exceeding the minimum wage was determined by negotiation between the employer and employee. Given that in this new sector the tradition in wage setting lacked, the private employers determine wages based on their determination in the public sector, but with a slight increase in order to be competitive. Private businesses also simultaneously introduced the sharing benefits scheme, as well as state-owned enterprises, based on the same legislation. From a study done by managers of private businesses in 1994, results that most private businesses apply the same wage structure as well as state-owned enterprises and only 14 % of them apply other schemes. Even the wage gap between skilled workers and unskilled workers is almost the same in both, public and private sectors.

The economic development has improved the wage structure steadily over time and it shows that the wage structure is not rigid, but is a category that is subject to a process of dynamic change. For example, the above mentioned additional payments, at the beginning were applied only in a limited number of enterprises, but given that competition in the labor market increased, the other enterprises created tuitions and additions that often were artificial and arbitrary. In these circumstances changed the whole concept to express the total compensation of an employee in "complete wage" and not "basic wage". This is also proved by the studies which show that the income from wages are complete incomes and not only base wages (Ceni, A., 2013).

The added part on the base wage can vary by qualification of employees and its size should logically go parallelly with the responsibility of employees. If a part of the wage is linked to the performance of employees, then according to Jensen & Murphy (1990 ) and Jensen et al. (2004 ) , if you put in the same line the interests of employers and employees, you can minimize the conflict of interest between them (agency theory). If the wage employees increase their incomes by taking advantage of the elements other than base wage, they will better represent the interests of employers because

they will be encouraged to work harder to enhance their base wage with allowances and tuitions that can benefit over it .

Given that the whole wage of an employee consists of tuitions and allowances other than the base wage, as mentioned above, during the transition period there have been changes linked to this part of the wage structure. Depending on the type of work, employees can take advantage of the extra bonuses given to achieve a defined outcome, which may be partial eg. commissions on sales or participation on the overall fiscal profit. We also mentioned some criteria of tuition classifications, eg. by employers obligation to implement we can differ obligatory tuitions by law and free tuitions. As obligatory tuitions, we can mention the annual paid holidays that currently by law are not less than four calendar weeks and are paid as normal working weeks. The work during holidays is paid not less than 25% extra on nominal wage during a normal working day, the second shifts are paid not less than 20% extra and night shifts are paid not less than 50% extra. The extra hours during a normal working day are paid not less than 25%extra of daily base wage and public holidays not less than 50% extra. In all the above cases may have a compensation in equal days or hours off. In cases of difficulties at work are given tuitions ranging from 5% - 20%. For managerial positions the tuitions rang from 5% - 30% of base wage, depending on the classification of payment. For works of specific nature or special working conditions the tuitions are defined by law, eg. individuals who are in contact with the convicted criminals or mentally ill people, receive an additional payment of 5,000 ALL per month calculated on the base wage. The tuitions of seniority are currently provided at the rate of 2% for every year of employment up to 25 years and are calculated on the wage of the whole group. Among the tuitions bebefited by all the staff, which are of social character we permit pregnancy – birth payments and other social benefits, which have been in constant attention of governments.

Reforming Social Security has been a necessary aspect and a constant challenge to governments as through this system is handled about one sixth of the country's population.

The unemployment assistance program is created with the aim of mitigating the economic and social consequences of unemployment.

The economic assistance program funded by the state budget is created with the aim of providing assistance in the form of cash or no income families with low income.

The social care program aimed at supporting and integrating disabled individuals, the protection of orphans and lonely elderly. The Number of people who have benefited from this program has been increased over the years. However, the program fails to cover all categories of people who need the services it provides and the network of relevant institutions fails to cover all areas of the country. Are offered only national residential services at a close range, failing to realize social integration of these layers. The quality of services provided is not up to required standards. There have been significant improvements in this area, ranging from legal arrangements and the implementation of new standards , decentralization and deinstitutionalization, licensing of public and private entities that provide social services (NGOs), the establishment of structures for the inspection of social services (Social Services Inspectorate), etc., but more needs to be done to improve the quality of social care for the vulnerable groups.

## 6. Conclusion

According to the above investigation, the transition from planned to market economy, has given powerful effect to the key variables of the labor market: employment and wages. On the one hand wages are regulated by changes in relative supply and demand of different groups of employees. On the other hand, the reallocation of labor, an important element of economic restructuring is led by changes in relative wages. Thus, the evolution of the wage structure acts as an important signal of the labor market. Given that income from wages make up the bulk of the income of workers, then they jointly determine the absolute and relative standard of living. So wages have an important function economically and socially.

Wages generally move together with GDP as a result of supply and demand shocks associated with economic reform systems. At the same time, changes in supply and demand for different jobs, along with changes in the institutions that determine wages, have undermined the existing wage structure.

When wages are determined largely by market forces, rather than by administrative decisions, they should be adjusted to reflect changes in the labor market conditions. Looking back over the wage structure of the system left behind, one can expect a return on enhancing skills in the labor market and therefore an increase in income inequality. This means that in transition will benefit some groups of employees, eg. those with better skills and will be damaged several other groups with lower skills in the labor market. The increase in inequality will be associated with poverty implications. The relative position of low paid workers, deterioration in the context of declining real wages, means that this group lost out in relative terms as well as in absolute terms.

The level of real wages has changed substantially in all transition economies. The beginnings of the transition have been accompanied by price increases and wage inflation. The impact of price liberalization is clear and significant in the wage dynamics. Often, the official price indexes have failed to follow the appropriate dynamics of prices and wages thus the indexes are overstated. The economic liberalization has led among other things to the decentralization of wage determination process even in the most competitive markets. The private sector developments have introduced competitive ways of establishing wages. The low level of wages in the budget sector is due to the high number of employees. At the same time, the increase in unemployment in this sector is related to the gradual increase in wages. In this context, a policy of low wages may lead to a delay in the process of restructuring, particularly in the public sector. The restructuring of the public sector can be achieved through increased efficiency by reducing the number of employees and wage increases for employees who will continue to work in this sector.

According to the performance of the wage structure during the period of transition, we can say that during this time is noticed an increase in inequality which is reinforced more from the changes in working conditions and other forms of compensation, other than base wage, which are part of the wage structure and characterize all the transition economies. There are also increased the wage differentials by level of education and occupational position, where we can mention the labor market returns as the effect of the level of education, training, computer skills, etc.. These indicators are part of the market demand for skilled employees. With regard to employees without higher education, two indicators that have been influential in determining the wage structure have been age and experience, but in recent years this difference has been narrowed also considering the manpower supply in recent years, for the two sectors, public and private. The distribution of demographic and occupational groups have also played a significant role in determining the structure of wage. In view of all these elements, have also changed the steady and transitory components in the wage structure. According to Gottschalk & Moffitt (1994) these are the leading reasons for instability in wages. But how are these changes in the wage structure connected to employment structure? Changes in the labor market generally favor the most qualified, who have a direct effect on improving the wage structure, as their requirements grow, with increased capabilities. Although this impact is attributable to a longer term, the relationship between the structure of employment and wage structure is visible, because wage growth may have direct impact on employment .

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