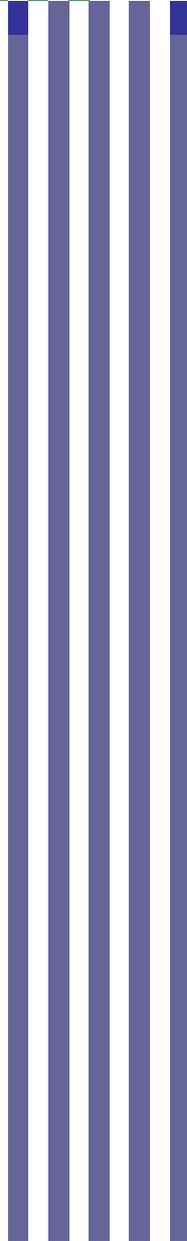


Institute for Strategic Studies and Prognoses

Working paper series



**Labor market institutions in Montenegro
– A barrier to employment?**



Project supported by the Governments of Poland and Canada, through Polish-Canadian Development Cooperation Program, administered by the Education for Democracy Foundation

Working Paper:

**Labor market institutions in Montenegro
– A barrier to employment?**

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Abstract

The labor market in Montenegro is characterized by high unemployment rate, low level of activity and high level of employment protection. Therefore enhancing job creation and boosting economic activity is the main challenge for employment polices in this country. In this paper we have tried to assess whether the mix of labor market regulations and employment polices in Montenegro is able to accelerate the pace of job creation or, on the contrary, it is an impediment to this necessary process. Our results are mixed, but it seems they give ground to sketch the main elements of the necessary reforms in that field for the nearest future. The Labor Code should be more flexible, providing freedom to employers to adjust to different economic situation. Collective negotiations and wage bargaining should be more decentralized, giving more freedom for employers and employees to negotiate own rights and commitments. On the other hand trade unions should keep their role when protecting employees rights in case of abuse of labor law in individual or company cases. One should avoid any actions leading to effective increase of minimum wage through either increasing the basic amount or reforming the system of education coefficients. It seems that system of unemployment benefits and other non-work social incomes is not further limiting the level of economic activity. Employment offices seem to effectively implement ALMP programs although some deadweight losses can be suspected to occur.

1. Introduction - main characteristics of Montenegrin Labor Market

There exist several sources of labor market data in Montenegro. One can use official data on employment published by MONSTAT and official unemployment data from labor offices. Labor Force Survey prepared annually by MONSTAT is the second source, the last one is the Household Survey prepared by the ISSP.

Unfortunately the picture of the Montenegrin labor market differs significantly depending on which data source one is looking at. The number of employed in 2005 as estimated by MONSTAT using the official data (including public sector) is about 155-160 thousands, the number of employed according to LFS in 2005 was already 178 thousand and according to ISSP it was 194 thousand. It means that depending on the source the employment rate (assuming the number of population aged 15-65 is about 430 thousand as in LFS) differs from about 36% to 45%.

The differences are even bigger for unemployment figures. According to the statistics of the employment office the number of unemployed persons in the end of 2005 was 48.8 thousand. This combined with the official employment figure would result in unemployment rate of 24%-25%. In 2006 due to serious tightening of eligibility criteria the number of unemployed has been rapidly falling to reach 38.6 thousand in November. This (even assuming zero employment growth) would result in reduction of unemployment rate to 19%-20%.

According to the LFS number of unemployed in December 2005 was much higher and reached 77.5 thousand in 2005 and this combined with LFS employment figure would result in unemployment rate of about 30% being much higher than the official number. On the other hand, the Household Survey conducted by ISSP gives much lower unemployment figure, being comparable to the official statistics from employment offices. According to this survey the number of unemployed in December 2005 in was about 40 thousand and resulted in unemployment rate of 17%. It means that depending on the source the unemployment rate in Montenegro varies between 17% and 30%.

Obviously in such a case the choice of the source used for further analysis plays a decisive role for the results obtained. Since most of international institutions (World Bank, IMF) in Montenegro treat the figures of ISSP as the most reliable we will use these numbers for international comparisons.

Unfortunately even using these relatively optimistic figures (with both highest employment and the lowest unemployment) the labor market situation in Montenegro is one of the worst in Europe (see Figure 1).

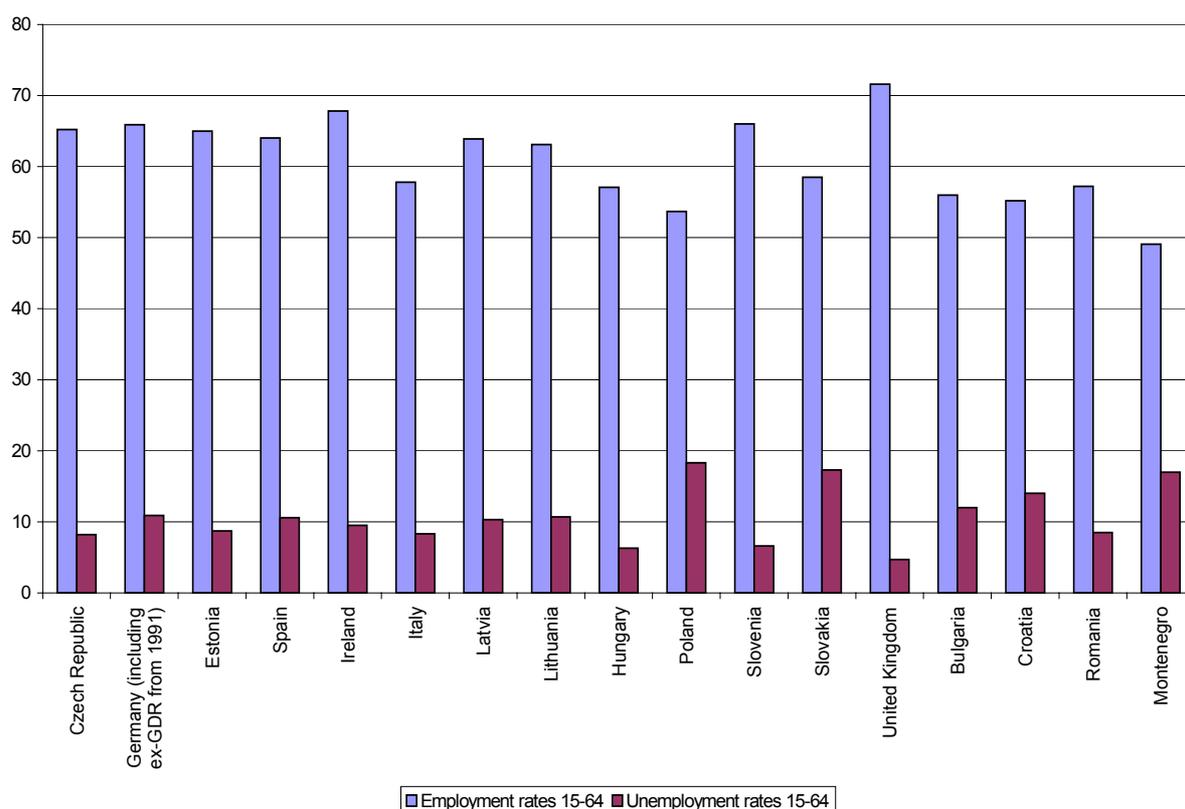
Montenegro is the only country analyzed with employment rate below 50% level. In Poland (the country with the second lowest employment rate) it is 53.7% and the EU25 average is around 64%. Consequently unemployment rate is also on one of the highest levels in Europe. There are only two countries with higher unemployment rate Poland and Slovakia. Obviously lower unemployment rate in Montenegro means only that participation rate is lower – 58%, whereas in Poland it is 64.4% and 68.9% in Slovakia. The average of EU25 is 70.2%.

High unemployment, low employment and dramatically low level of economic activity in Montenegro means that enhancing job creation and boosting economic activity is the main challenge for employment polices in this country. Following the basic hints of the restated

OECD jobs strategy (see: *Boosting Jobs and Incomes: Policy Lessons from Reassessing the Jobs Strategy*, OECD 2006) it calls for suitable policy mix of deregulated product markets and prudent macroeconomic policy with employment friendly employment polices such as:

- low level of employment protection
- low level of labor taxation
- moderate wage growths, including not excessive minimum wage and responsible behavior of social partners
- suitable mix of non-employment income support and activation polices

Figure 1 Employment rate and unemployment rate in Montenegro (according to December 2005 ISSP Survey) as compared to EU and candidate countries. Age groups 15-64.



Source: ISSP for Montenegro and EUROSTAT for the rest of countries.

In this paper we decided to compare main features of Labor Market Institutions in Montenegro with those prevailing in OECD and EU25. Based on these simple comparisons we would like to suggest main directions of reforms in the spirit of OECD Jobs Strategy.

2. Employment protection legislation

Despite the transition process and the reforms towards market economy, employment protection level in Montenegro is quite high according to international standards (see Table 1) as measured by OECD Employment Protection Legislation (EPL) rigidity index.

According to this indicator the countries are ranked from those with the most flexible regulations (value of index 0) to those with most strict regulations (value of index 6). It measures the level of flexibility/rigidity of regulations related to permanent and temporary labor contracts as well as those related to collective dismissals. The aggregate EPL index is weighted average of these three indexes.

Constructing individual indexes one looks at various aspects of regulations such as for example size of severance payments and notice period in case of permanent contracts, limitations related to number and length of temporary contacts and definition and other rules regulating collective dismissals.

Montenegro has high scores (high rigidity) in all aspects (indexes) of labor regulations. The index of rigidity of permanent employment is 3.2. Although this is the most flexible part of the employment regulations in Montenegro this index is still high as compared to the EU-15 and the OECD averages. The average value of permanent contract index is 2.2 for OECD countries, while the EU-15 it is 1.93. The index of permanent contracts rigidity in Montenegro is similar to those in Czech Republic, Estonia, Slovenia, and Slovakia – all the former communist countries. USA is the country with the most flexible regulations in this area, where the value of index is equal 0.2.

The temporary contracts regulation in Montenegro is even stricter than for the permanent contracts. It reaches 4 in Montenegro, which is more than twice as high as in EU-15 and the OECD. It reflects very tight regulations in this area prevailing: for example the maximum duration of temporary contracts is 9 months and there is only limited number of cases when this type of contract can be applied, hence hiring anyone for longer than 9 months is automatically treated as if the open ended contract was concluded. Obviously such strict regulations severely influence employer's ability to adjust employment to changing economic environment, especially in case of recession.

The value of the third index, measuring the rigidity of collective dismissals, is also the highest in Montenegro (5). It is much higher than average for analyzed countries (3.2). However, one should observe that indexes for collective dismissals are the highest of all partial indexes for most of countries. Similarly high indexes as in Montenegro can be observed also in Croatia, Slovenia and in Italy. Hence Montenegrin regulations in this respect might be claimed to match the general tendency in Southern European countries.

Such rigid regulations and practice of job protection was inherited from the past. Unfavorable and sensitive political situation (lower living standards, referendum, etc.) has resulted in labor market policy being oriented towards preserving social peace, regardless to economic outcomes.

Low level of law compliance, especially in the private sector, followed by the high share of shadow economy on the labor market, which is tolerated by the authorities, is one of the consequences. When the formal rules are too strict, businesses and individuals find the way to

evade them. Employees in the private companies (which were established as private) have different perception of the labor regulations, and accept to work although they are not provided with all the rights prescribed in the Labor Code and other regulations. The highest level of labor law compliance is obviously observed in the public sector and public companies, as well as in privatized public companies. It results from strong position of trade unions in these sectors.

Table 1. Aggregated indicators of EPL rigidity in Montenegro in comparison to OECD countries.

	Regulative of permanent employment (scale 0-6)	Regulative of temporary employment (scale 0-6)	Regulative of collective dismissals (scale 0-6)	Employment Protection Legislation Index – EPL Index (scale 0-6)
	<i>Index</i>			
Montenegro	3.2	4.0	5.0	4.1
Croatia	2.8	3.9	5.0	3.6
Czech Rep.	3.3	0.5	2.1	1.9
Estonia	3.1	1.4	4.1	2.6
Slovenia	2.9	0.6	4.9	2.3
Poland	2.2	1.3	4.1	2.1
Slovak	3.5	0.4	2.5	2.0
Hungary	1.9	1.1	2.9	1.7
Ireland	1.6	0.6	2.4	1.3
Italy	1.8	2.1	4.9	2.4
Portugal	4.3	2.8	3.6	3.5
Turkey	2.6	4.9	2.4	3.5
France	2.5	3.6	2.1	2.9
Germany	2.7	1.8	3.8	2.5
Switzerland	1.2	0.9	3.9	1.5
USA	0.2	0.3	2.0	0.7
Canada	0.9	0.3	3.4	1.1
Japan	2.7	2.1	2.1	2.1

Sources: OECD- "Employment Outlook", Paris, 2004; ISSP calculations for Montenegro

So, finally one can conclude that the strict labor code protects public servants and employees in public companies, while the private sector employees are in practice not protected at all. For example currently it is a widespread practice to force an employee to sign an undated statement on voluntary termination of the labor contract on the same day as the labor contract is concluded. So as soon as an employer finds himself in the difficulties it is very easy to dismiss a redundant worker, just inserting the date.

The institutions (regulations) should change and follow the new economic situation in Montenegro, because there are no positive effects of existing rules for either of sides. Employers are overburdened with regulations, and by breaching them they found themselves in constant threat of being discovered. The workers often do not have some basic rights secured, while the government is losing tax revenues from unregistered work. Fewer rights and the strict compliance are necessities to solve the existing problems.

3. Minimum wage and tax wedge on wages

Regulations concerning the minimum wage in Montenegro are slightly different from those in most of European countries. The minimum wage differs depending on the education level of an employee. The basic amount is set by the General Collective Agreement (GCA) between the Trade Unions and the Government and applies only two workers with primary education. Then the same agreement gives also the set of coefficients this basic amount is to be multiplied by depending on the education level of an employee. This system is inherited from the past. It represents an attempt to correlate wages with education as in socialist times the unqualified workers tended to earn more than the workers with the university degree.

Table 2 Wage coefficients according to the GCA

Qualification (education)	New coefficients	Minimum net wage according to the CCA ¹	Effective minimum wage ²
Unqualified work	1.00	50.00	63.03
Qualification 6 months	1.25	62.50	76.35
Qualification from 6 months to 2 years	1.60	80.00	95.00
High school education (2 - 3 years)	1.95	97.50	113.65
High school education (4 years) - qualified worker	2.20	110.00	126.97
High school education (4 years) with specialization – (high-qualified worker)	2.45	122.50	140.29
College education - 2 years	2.80	140.00	158.42
College education - 4 years	3.30	165.00	183.43
Master degree	3.60	180.00	198.43
Doctorate	4.00	200.00	218.43

Source: General Bargaining Agreement, 2003, ISSP calculations

Basically every wage coefficient represents an assessment of the labor value, relative to the unqualified labor. The wage coefficient for unqualified (elementary school only) workers is 1 and means that their minimum wage is equal to the general (national) minimum wage (equal

¹ Minimum wage according to GCA = national minimum wage 50€ * wage coefficient

² Effective minimum wage in €, is obtained by applying methodology for wage calculation, after deducting taxes and contributions from gross wage, net wage is actually higher than minimum. The reason for this difference is in the wage coefficient. Namely, gross wage is calculated on following manner:

$$GW = NMW * WC * 1.6394, \text{ where}$$

GW – gross wage, NMW - national minimum wage, WC -wage coefficient – as set in general collective agreement according to the level of education, 1.6394 – coefficient for recalculation gross wage, it includes 24% pension contribution, 15% health contribution, 1% unemployment contribution and 19% PIT flat rate

Previously

NMW or minimum wage for unqualified worker =50€
 WC for unqualified worker = 1
 NW for unqualified worker =50€*1
 GW = 50*1*1.6394 = 81.97
 PIT = 81.97*0.19 = 15.57
 SC = 81.97*0.2=16.40
 NW = GW – PIT – SC = 81.97-15.57-16.39=50

Now

NMW for unqualified worker =50€
 GW = 50*1*1.6394 = 81.97
 PIT = (81.97-65)*0.15 = 2.54
 SC = 81.97*0.2=16.40
 NW = GW – PIT – SC. = 81.97-2.54-16.39=63.03,
 where SC-social contributions, PIT-personal income tax

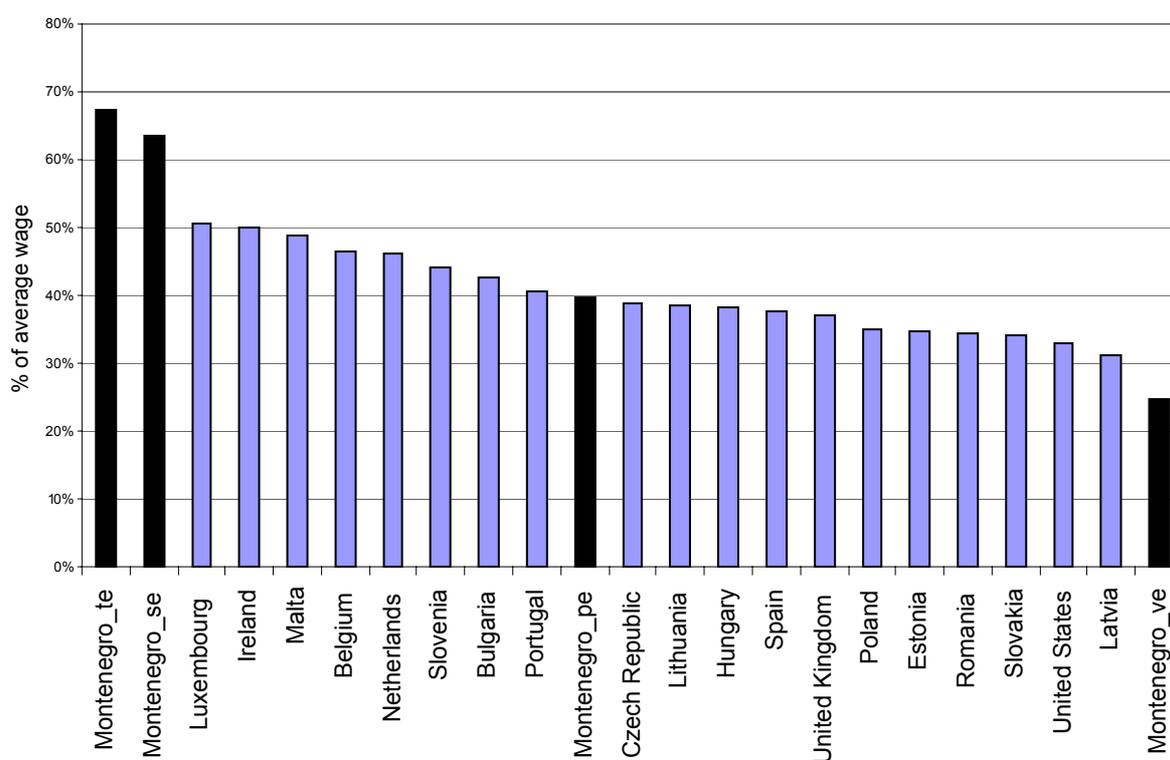
currently 50€). The minimum for each level of education is calculated by multiplying national minimum wage by corresponding wage coefficient. Workers with 6-month education above the elementary level have the coefficient 1.2 that means that at the minimum they should be paid by 20% more. The highest coefficient (4.0) has been set for employees with PHD level (see Table 2).

It means that the amount of the minimum wage in the economy can be altered either by changing the basic value or by changing coefficients, both of them being part of the GCA.

The minimum wage is binding for all companies in economy. However, it influences most strongly those working in public services sector (public administration, education, public security, and health). Wages in this sector are regulated by Law on Wages of Public Servants and Clerks and are directly linked to the national minimum wage and the education coefficients. In practice, in most of cases, wages of public sector employees are simply equal to the minimum wage for respective education levels.

In private sector minimum wage influences mainly the effective tax burden on wages. It is a common practice for employers to pay their employees the official minimum wage along with an unofficial supplement on which no wage-related taxes are paid. The resulting earnings of the employee are much higher than the reported minimum wage.

Figure 2 Minimum wage as percentage of average wage in European countries and for various education levels in Montenegro in 2005.



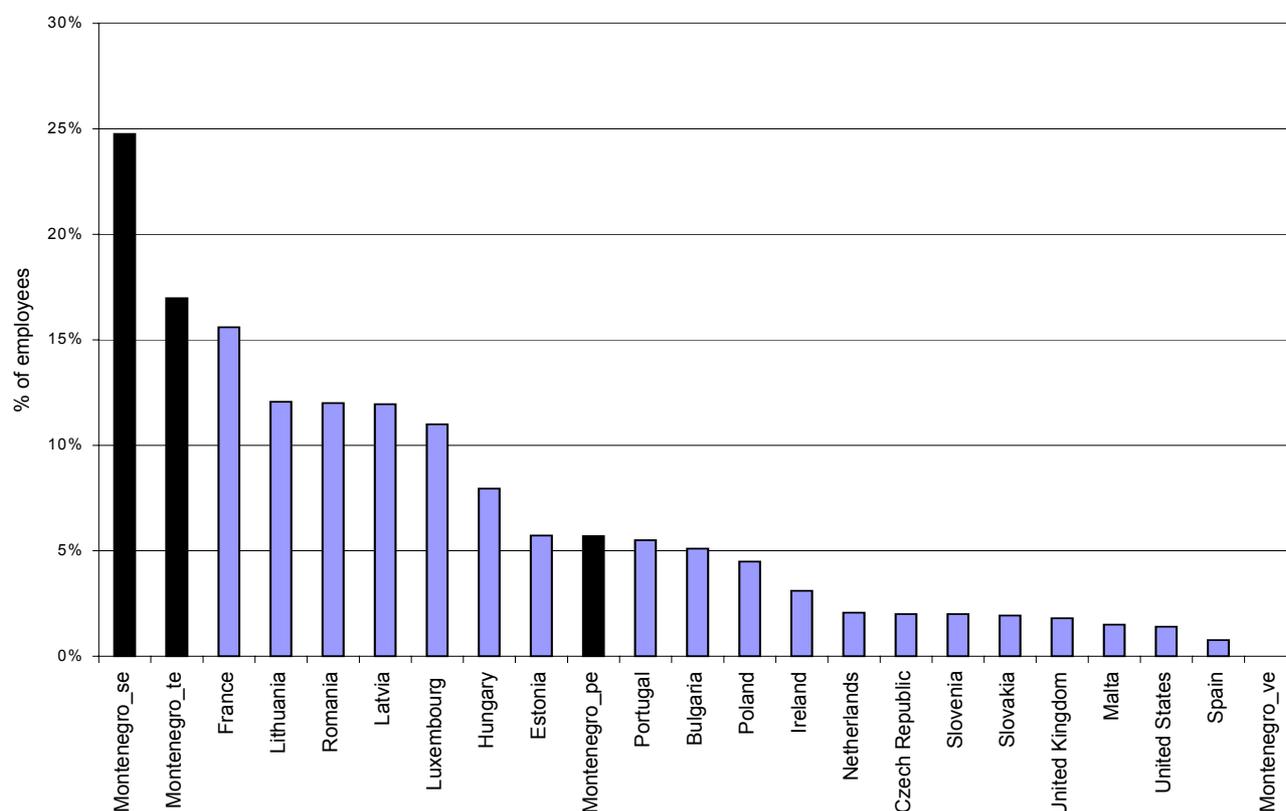
Source: ISSP calculations for Montenegro and EUROSTAT for other countries.

Note: *_pe* stands for primary education, *_ve*- vocational education, *_se*-secondary education, and *_te*-tertiary education.

Although the basic amount of the minimum wage in Montenegro is relatively low, the effective minimum wage, when measured as the share of the average wage, is one of the highest in Europe (see Figure 2). It results from the fact that most of workers in Montenegro have finished at least secondary schools and hence their respective minimum wage levels are much higher than the basic 50€. Minimum wage for these with tertiary and secondary education in Montenegro is higher than 60% of average. It is relatively low only for those with primary and vocational education levels. Taking into account the shares of employees with various education levels, minimum wage is 55.9% of the average, which is higher than in any of the EU countries.

This combined with the compressed wage structure in Montenegro results in relatively high share of workers working for minimum wage especially for those with “most popular” education levels. (see Figure 3). Almost 25% of those with secondary education works for minimum wage and more than 15% of those with tertiary education. In total 14,7% if workers in Montenegro works for minimum wage applicable for their respective education level and it is one of the highest rates in Europe (with exception of France).

Figure 3. Share of employees working for minimum wage in Montenegro in 2004.



Source: ISSP calculations for Montenegro and EUROSTAT for other countries.

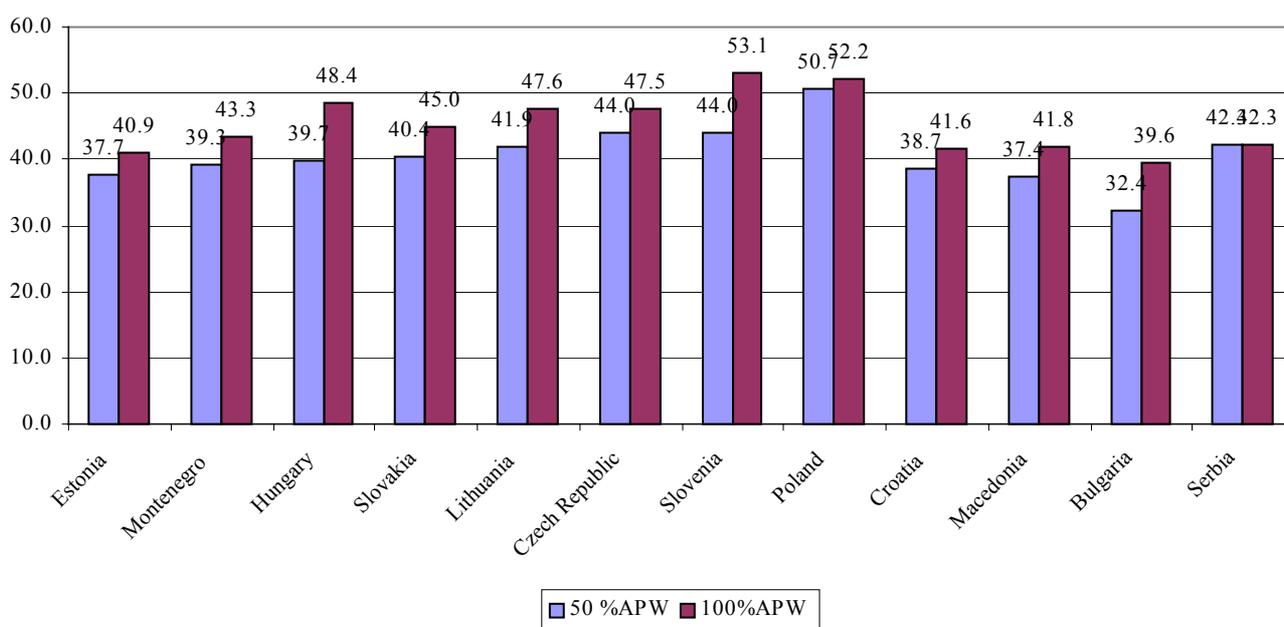
Note: *_pe* stands for primary education, *_ve* vocational education, *_se* secondary education, and *_te* tertiary education

In the 2006 OECD Employment Outlook was indicated that the cross-countries studies could not confirm or deny negative impact of minimum wage on employment. However, the influence of minimum wage is indirect, in countries with high minimum wages the influence of tax wedge tends to be more destructive for employment. It results from the fact that if minimum wage is binding (or to any other reasons wage earned by an employee can not be lowered) any increase of the tax wedge has to be transformed directly into the labor costs.

This has to result in decrease of employment. It means that any increase of minimum wage or the tax wedge instead of protecting the least educated (or least productive workers) from being exploited can result in increased unemployment among those groups. Hence instead of protecting the workers one can easily harm them.

Figure 4 Tax wedge in Montenegro in comparison with other countries for 50% of average wage (APW) and 100% of average wage in 2004.

Graph :Total tax wedge for 50%APW and 100%APW



Sources: respective statistical offices and ISSP calculations

The tax wedge in Montenegro as compared to other transition countries is on the average level (see Figure 4) both for those earning the average wage (100% APW – Average Production Wage on Figure 4) and also for those earning only half of it. On the one hand tax wedge is much lower than in Slovenia or Poland, but it is higher than in more comparable countries such as Bulgaria or Macedonia. Although the tax wedge in Montenegro as such cannot be regarded as high, its negative influence on employment can be much higher than in other countries due to high effective minimum wage. Unfortunately due to lack of reliable enough and long-term employment and wage data one is not able to assess this combined influence in Montenegro.

4. Role of trade unions in Montenegro and union density

The Labor Code regulates basic principles of Trade Unions organization in Montenegro. They are organized as centralized alliance of the 19 branch trade unions. Membership in the trade union is voluntary. Workers in every company (organization) can establish its own union association. There are 1000-registered union associations in the central trade union.

Although the membership is voluntary, until the new General Collective Agreement (GCA) was signed in the 2003, every employee had to pay a compulsory contribution of 0.2% of its gross wage to the trade union. So, regardless to being member of the union or not every employee had to pay this contribution and employer was obliged to withhold and pay this amount. These funds were used for operation of the union and recreation of workers. Currently only Union Members pay their contribution. These are not all commitments that are compulsory. The employer is also obliged to provide conditions for union operations free of charge (office, office equipment and supplies), to provide union activists with amount of paid hours they need for their union activities. Also, if company has over 1000 employees an employer has to employ one additional person to run union activities and to pay this person a full salary.

The Alliance of Independent Trade Unions (later in text simply called the Union) plays an important role on Montenegrin labor market. The role of union is especially strong in the bargaining process with the Government and the representatives of employers (previously Chamber of Commerce). The GCA being the second key labor market regulation, besides the Labor Code, is the result of this bargaining process. Minimum wage setting is also a part of GCA (see chapter on minimum wage for details).

Apart from participating in GCA negotiations the trade unions are also entitled to undertake the initiatives to protect workers of individual factories and/or branches if they feel their rights are violated by employers. In that case union can involve into the process of a collective dispute with an employer and if it does not help they also have the right to go on strike. Unfortunately actions of Trade Unions in Montenegro are in many cases driven by politics instead of protecting the employees' rights. The strike of workers in the brewery Interbrew a couple of years ago is especially good examples for that. The dispute between management and workers occurred over the new company level collective agreement. The strike resulted in huge loses for the brewery; huge loses for the workers in wages and dividends and loss for the whole Montenegrin economy as a lost exports. The most recent example is conflict over the new company Bargaining Agreement in Aluminum Plant in Podgorica (privatized company). The union has initiated the strike prior to referendum. Unfortunately, not assessing whether the strike was organized due to a just cause or not it quickly became a sort of a political happening as the opposition party leaders have joined the workers hoping to influence the vote. The Union leaders probably assumed that in hard political times the government would intervene and push the owners to fulfill Union's demands.

Taking the number of members as revealed by the Union itself, the union's density can be estimated to between 45% (if LFS employment figure is used as denominator) and 58% (if registered employment figure is taken as denominator). It would mean that union density in Montenegro is close to the average European level, close to these observed in Austria, Slovenia and Luxembourg. It is however worth mentioning that in most of transition economies (except of Romania) the observed union density is lower than in Montenegro (see Table 3).

Table 3 Union density in the EU countries and Montenegro

Country	Union density
Romania	over 90%
Belgium, Denmark, Finland, Sweden	80%-89%
Italy, Norway	70%-79%
Cyprus, Malta	60%-69%
Luxemburg	50%-59%
Austria, Slovenia, Montenegro	40%-49%
Hungary, Ireland and Portugal	30%-39%
Bulgaria, Germany, Greece, Slovakia, UK, Netherlands	20%-29%
Estonia, Latvia, Poland, Spain	10%-19%

Source: <http://www.eiro.eurofound.eu.int/2005/03/study/tn0503102s.html>

On the other hand, taking into account current quite dynamic situation on the labor market, the data on union membership obtained from the Union might be overestimated. Using disclosed Union revenues from the members' contributions in 2005 and the average wage in Montenegro, the resulting union density in Montenegro can be estimated to 28%-34%. It would mean the real union density to be close to this prevailing in most of transition economies.

Union membership in Montenegro is practically limited to the former public-owned companies as well as to the public sector services. Employees in the new private companies being mainly Small and Medium Companies (SME) usually are not members of the union. Hence one may expect that as the process of privatization and economic restructuring goes on resulting in increasing share of those employed in SMEs and in market services the number of union members will decrease. So will probably the real power of Unions as representation of employees. Weakening of statutory power of the Union seems therefore to be the natural consequence of the process of economic restructuring resulting in increasing share of workers in non-unionized sectors. .

5. General Structure and centralization of Collective Bargaining in Montenegro

The main features of bargaining system in Montenegro are close to those observed in most EU member countries (see Table 4). Trade Unions have the monopoly to run negotiations similarly as in most of European countries. The results of negotiations are extended to all workers employed by the negotiating company or branch. The results of company agreements are not automatically extended to other companies.

Table 4. Employees' representatives entitled to conclude collective agreements; employees covered by collective agreements, and extension procedures in European countries in 2004.

	Employees' representatives entitled to conclude collective agreements		Employees covered by collective agreements		Extension procedures or equivalent
	Only trade unions	Trade unions, works councils and other employees' representatives	Only employees who belong to the parties signatory to the agreement (eg trade union members)	All employees working for an employer that is covered by an agreement	
Montenegro	X			X	No
Bulgaria	X		X		Yes
Cyprus	X			X	No
Czech Republic	X			X	(Yes)*****
Estonia		X	X		Yes
Hungary	X			X	Yes
Ireland	X		X		Yes
Latvia		X	X		Yes
Lithuania		X	X****	X****	No
Malta	X			X	No
Poland	X			X	Yes
Romania	X****			X	No
Slovakia	X			X	Yes
Slovenia	X			X	Yes

Source: ISSP for Montenegro, <http://www.eiro.eurofound.eu.int/2005/03/study/tn0503102s.html> for other European Countries

Although the collective bargaining system in Montenegro is multi-tiered the importance of the GCA negotiated on the central level and the de facto monopoly of the Union makes it very centralized. The most important part of GCA relates to regulation of level of wages in the economy. It sets the national minimum wage, which serves as a benchmark for calculation of other wages according the employee education level (see chapter on minimum wage for details). Besides the minimum wage the GCA gives also the set of very detailed rules regulating the employment relationship (see Table 5 for examples). The role of GCA is additionally strengthened by the general rule, being quite standard in most of European Countries, that the agreements negotiated on the lower level cannot worsen the position of employees as compared to the higher-level agreement.

Table 5. Some features of the general collective agreement

	Collective agreement
Summer allowance	3 minimum wages (150€)
Meal allowance	½ minimum wage
Insurance	Employer collectively insures employees from accidents on a job and out of job and the risk of death from illness, in amount that is agreed among employer and union
Paid leave	-3 working days - birth of a child
	-3 working days – care for a child that has severe psychological and physical damages
	-7 working days - severe illness of family member
	-3 working days - removing consequences of natural disaster
	-3 working days – voluntary donations of blood, organs and tissues
Hourly rate increase	-1 working day – death of kin outside close family
	- for night work – 40%
	- for work during state and religious holidays – 50%
	- for overtime work – 40%

Source: General Collective Agreement, Official Gazette 1/04, 2004

Regardless to union membership, the GCA and the national level negotiations cover all workers in the economy, which is the same for the branch level and company level. Negotiated provisions also cover the non-members of union.

Observing the wage bargaining procedures/legislation European Industrial Relations Observatory has listed EU member countries in several categories (Table 6 gives overview for selected countries) according to the centralization of the wage bargaining level. There are three major groups³:

- the first and smallest group covers four countries (Belgium, Finland, Ireland and Slovenia) where the intersectoral level is the most important bargaining level for the determination of wages;
- a second group of 11 countries, mostly in northern and western Europe (Austria, Bulgaria, Denmark, Germany, Greece, Italy, the Netherlands, Norway, Spain, Slovakia and Sweden), have national bargaining systems in which the sector is the most important bargaining level for wage determination; and
- a third group of 10 countries, including most of the CEE states (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania) plus Cyprus, Malta and the UK, have relatively decentralized bargaining systems with company bargaining dominant.

In Table 6 we placed Montenegro in together with other transition economies in the groups with dominating company level bargaining. However, due to special role of GCA Montenegro cannot be clearly categorized. On the one hand, due to general importance of results of CGA and the special construction of the minimum wage system the central level should be considered as dominating one. On the other hand, however, the actual wages are obviously negotiated mainly on company level either individually by employers (in SMEs) or by company trade unions (in bigger companies). It means that the system of wage bargaining in Montenegro should be classified as mixed with important roles of both national and company level but with limited role of branch level.

³ <http://www.euro.eurofound.eu.int/2005/03/study/t0503102s.html>

Table 6. Levels of collective wage bargaining, bargaining coverage and influence of tripartite concentration (latest available figures)

	Importance of bargaining levels			Collective bargaining coverage	Influence of tripartite concentration	Tripartite consultation on national minimum wage
	Intersectoral level	Sectoral level	Company level			
Intersectoral bargaining dominant						
Belgium	XXX	X	X	> 90%	Yes	Yes
Finland	XXX	X	X	+/- 90%	Yes	No
Ireland	XXX	X	X	> 44%	Yes	Yes
Slovenia	XXX	X	X	< 100%	Yes	Yes
Sectoral bargaining dominant						
Austria	.	XXX	X	98%-99%	No	No
Bulgaria	X	XXX	X	25%-30%	No	Yes
Denmark	X	XXX	X	+/- 77%	No	No
Germany	.	XXX	X	+/- 70%	No	No
Greece	(XXX)	XXX	X	60%-70%	No	No
Italy	.	XXX	X	+/- 90%	Yes	No
Netherlands	X	XXX	X	+/- 80%	Yes	No
Norway	XX	XXX	X	70%-77%	Yes	No
Spain	X	XXX	X	+/- 80%	Yes	Yes
Slovakia	.	XXX	X	+/- 40%	No	Yes
Sweden	.	XXX	X	> 90%	No	No
Company bargaining dominant						
Cyprus	.	X	XXX	27%	No	No
Czech Republic	.	X	XXX	25%-30%	Yes	Yes
Estonia	(XXX)	X	XXX	20%-30%	Yes	Yes
Hungary	(XXX)	X	XXX	+/- 40%	Yes	Yes
Latvia	.	X	XXX	10%-20%	Yes	Yes
Lithuania	(XXX)	X	XXX	+/- 10%	Yes	Yes
Malta	.	X	XXX	+/- 50%	Yes	Yes
Poland	.	X	XXX	+/- 40%	Yes	Yes
Romania	(XXX)	X	XXX	nd	Yes	Yes
UK	.	X	XXX	< 40%	No	Yes
Montenegro	(XXXX)	X	XXX	50-60%	Yes	Yes

Source: <http://www.eiro.eurofound.eu.int/2005/03/study/in0503102s.html>

X = existing level of wage bargaining; XX = important, but not dominant level of wage bargaining; XXX = dominant level of wage bargaining; (XXX) = bargaining on national minimum wage. (XXXX) – central bargaining on national wages but also on other labor market regulations.

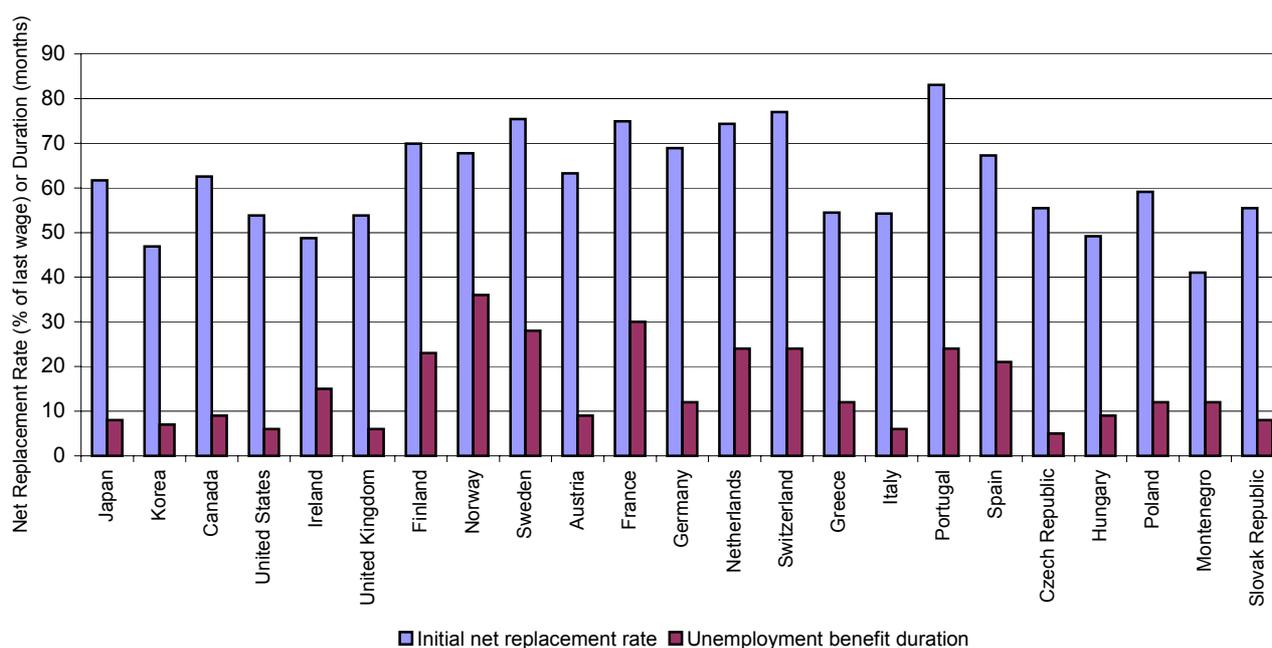
5. Unemployment benefits and other means on non-employment incomes

The size of unemployment benefit in Montenegro is relatively low. Eligibility for unemployment benefits is limited only to those who have been employed and have been paying contribution to Employment Office. Additionally their labor contract cannot be ended on voluntary basis. Duration of unemployment benefit depends on job tenure and on general is relatively short (see Figure 5):

- 3 month for insurance period of 9 month continuously, or 12 months with breaks in the last 18 months
- 6 months for continued 30 months insurance or 50 months with breaks in the last 5 years
- 9 months for insurance period from 5 to 15 years;
- 12 months for insurance over 15 years, and
- insured person that has over 30 years of working experience is entitled for unemployment benefit until its employment or fulfilling conditions for retirement.

It results in relatively low number of unemployed eligible for benefits – in 2005 it was only 9%.

Figure 5. Average duration of unemployment benefits and average net replacement rates of non-employment incomes in Montenegro as compared to OECD countries.



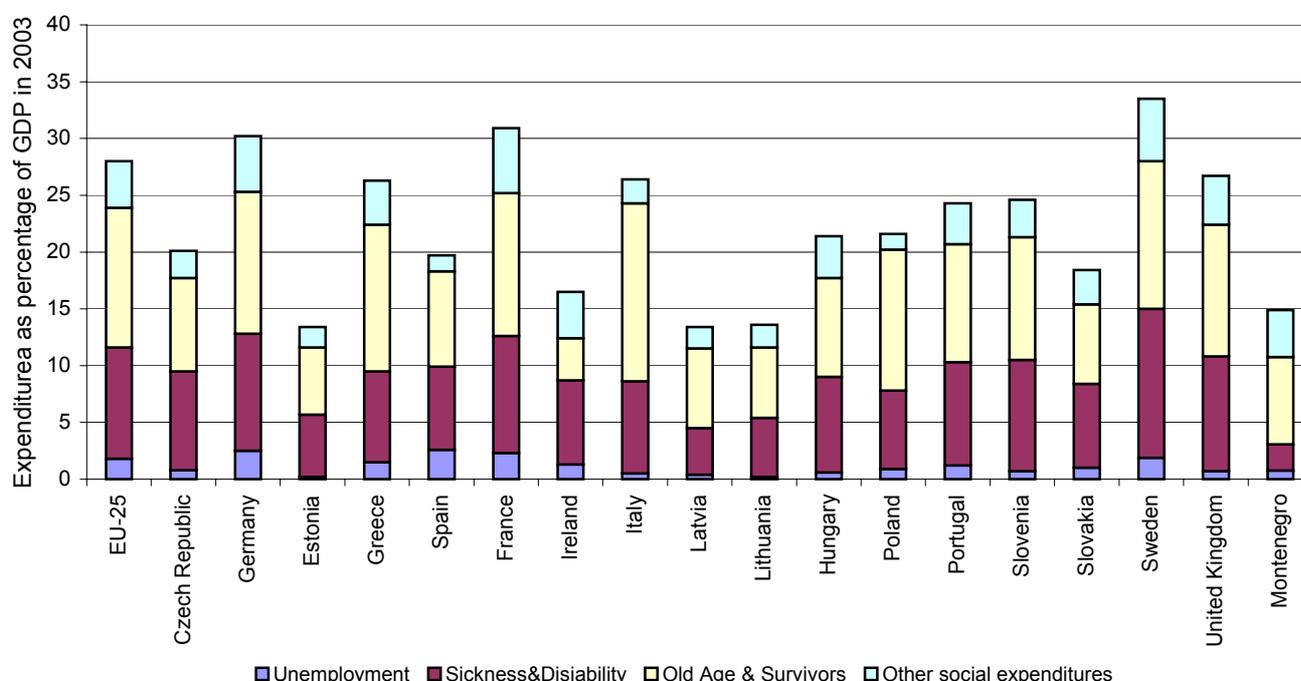
Note: The Net Replacement Rate in Montenegro is calculated according to the methodology applied by OECD. It is the average of the expected incomes of the single person without children, a couple without children and a family of four (parents + 2 children) as compared to the single average wage, i.e. one breadwinner is assumed in each case.

The amount of unemployment benefit is set to 65% of the national basic minimum wage, and currently amounts 32.5€ (net terms), and on top of this the social security contributions are paid. Relative to the average wage, the unemployment benefit is quite low, and thus it does not seem it can have influence on prevailing low activity level in the country. The average ex-ante duration of benefit in Montenegro is about 12 months. Obviously if only those who are currently obtaining the benefit are taken into account the average duration increases to 48

month. It stems from the fact that most of current recipients belong to the last groups (with open ended benefit). These are mainly older workers from former public companies, which went bankrupt.

Besides unemployment benefit, the only social transfer the unemployed persons can apply for is the Family Material Support (FMS). FMS is an income and means tested benefit. It is paid as an addition to other family's incomes until the total income reaches a fixed amount depending on the number of family members. For example if the single unemployed person receives the unemployment benefit, which is 32.5€ it is eligible to receive difference between this amount and the amount of FMS for single member family - 50€ per month – it gives the actual benefit of 17.5€. For the family of two members the amount of FMS is 60€, for three member family it is 72€, for four members family 85€ and for five and more member family 95€. On top of this, FMS beneficiary families are entitled to child benefits for the first three children amounting 15€ for each child.

Figure 6. Social protection spending as % of GDP in 2003



Source: ISSP calculations for Montenegro and EUROSTAT for other countries

The short term net replacement rate calculated for Montenegro using the size of FMS is relatively low as compared to the OECD average, (see Figure 5). One should also mention that it actually decreased to current 40% from over 50% in the end of 90-ties.

Total social protection spending in Montenegro amounts to 14.6% of GDP out of which 13.7% (or 2% of GDP) are administrative costs. Relative to other EU countries and the EU average the social protection spending in Montenegro is relatively low - the average EU country spends roughly 27%. Only 3 EU member countries have lower social protection spending than Montenegro – Luxemburg, Latvia and Estonia. Both low replacement rates of non-employment incomes and relatively small share of total social spending in GDP suggest that they should altogether not have considerable negative influence on economic activity in Montenegro.

6. Active Labor Market Polices

The overall budget for Employment Office of Montenegro in 2005 amounted 1.2% of GDP, where 0.8% of GDP or 66% of total amount was spent directly on labor market policies. The rest covers the administrative costs.

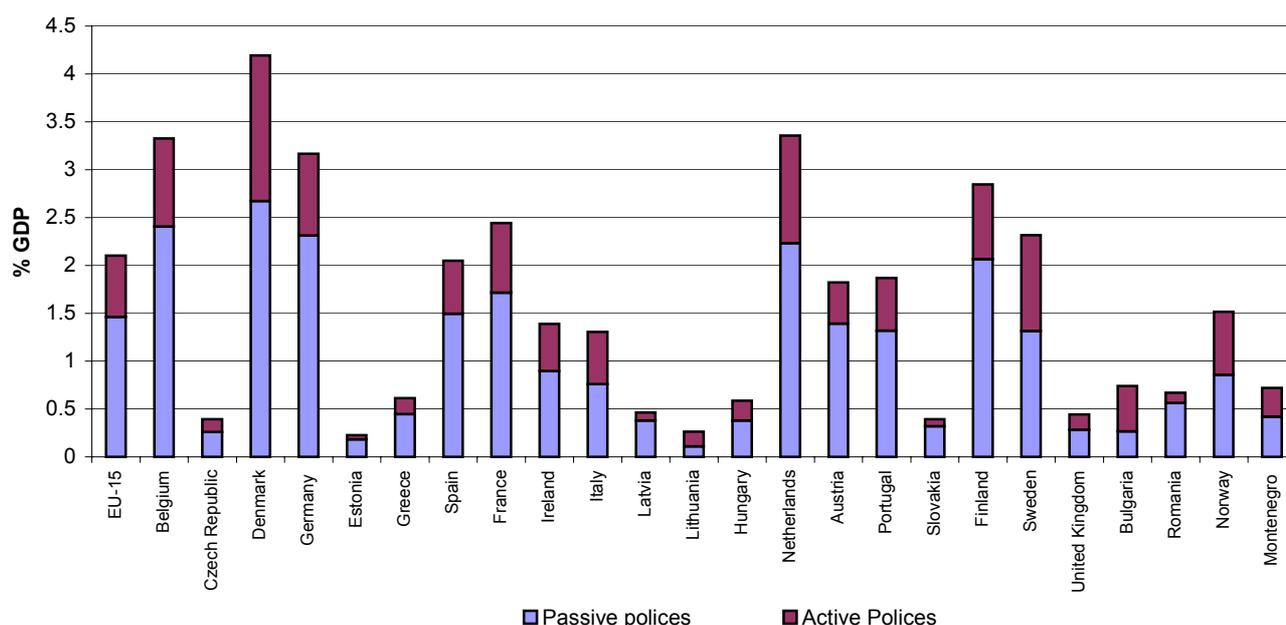
The share of spending on the active and passive labor market measures relative to GDP in Montenegro is similar to other transition countries (see Figure 7). The spending mix also copies that pattern with passive spending dominating the active ones. This kind of mix results both from relatively large number of unemployed, tough fiscal situation and underdevelopment of employment institutions being not able to effectively implement expensive and administratively complicated active labor market programs. Taking this into account this choice seems fully rational.

Nevertheless, the Montenegrin Employment Offices runs several active programs. These include:

- Program of continuous incentive to employment end entrepreneurship,
- Legalization of existing and new jobs openings
- Public works
- Programs of training, retraining and pre-qualification
- Employment of apprentices
- Assistance in employment to persons with disabilities

Relatively large number of programs offered by employment office in Montenegro results in high (as compared to other transition economies analyzed) participation of unemployed (see Figure 8). The share of those participating in active labor market measures in total labor force in Montenegro is higher than in most of transition countries (Czech Republic, Latvia, Lithuania, Hungary) and is comparable to Irish or French figures.

Figure 7. Spending on LM policies as % of GDP in 2005



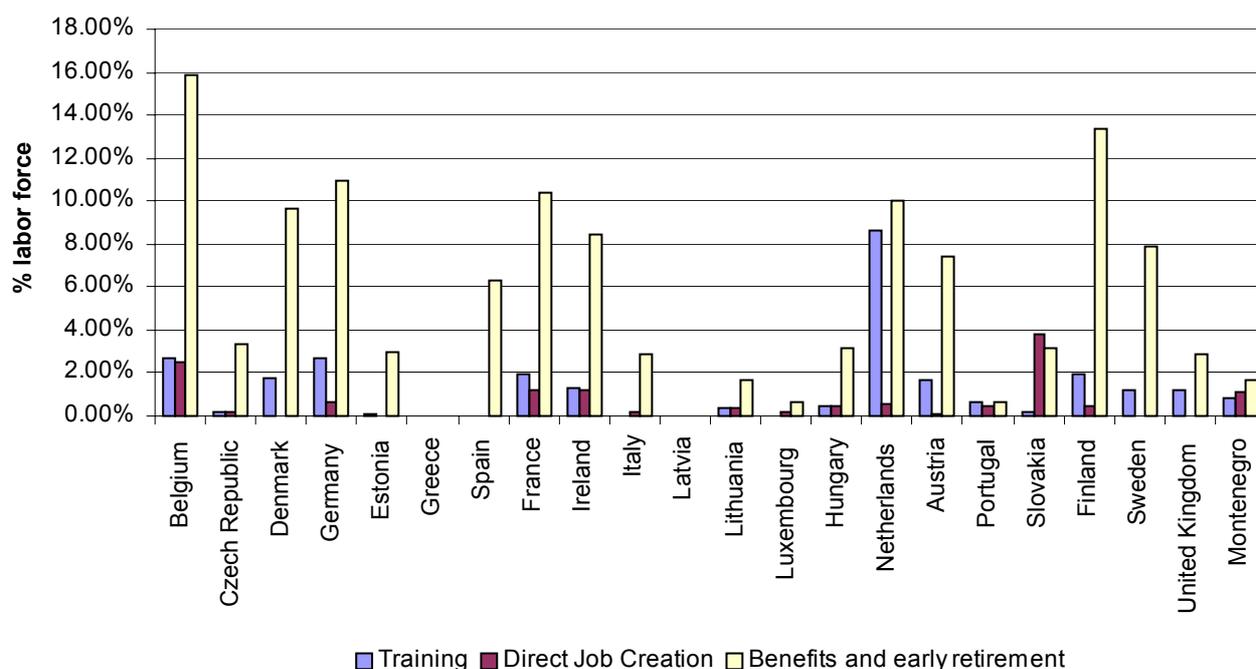
Sources: ISSP for Montenegro and OECD data for other countries.

The detailed results of programs can also be viewed as optimistic. For example the program of continuous incentive to employment end entrepreneurship is actually a credit line provided to unemployed persons for jobs openings. Special attention in this program is placed on the redundant labor and persons lost their job due to company insolvency. The loans are to be repaid within 3 years with one year of grace period, the amount of loan is 3000€ per one job opening. Since February 1999, when the program was launched, up to June 2006 the 7630 loans have been approved, and 12,615 new jobs created. On the other hand many question the true effectiveness of this program could be questioned because there have been many revealed cases of the misuses of funds.

Legalization of existing and new jobs openings program included the reduction in the employer share of social contribution from March 2003 until December 2005. Employers were relieved from paying social contributions for one year for newly registered employees in this period. Credit lines for companies, which were agreed between banks and the government, are the second part of this program. Up to date 10.1 million of euro was approved, which resulted in 1472 new jobs opening. The employers were obliged to hire people from the unemployment register. According to the Employment Office data this program also resulted in 30.000 new registered jobs. However one can suspect that most of these new jobs meant simply legalization of earlier existing shadow workplaces.

Other active measures implemented by Montenegrin Employment Office include: public works implemented for the first time in 2004, up to date 1450 unemployed persons was engaged in some of these works, programs of training, retraining and pre-qualification with several training centers established in the period since 2000 to 2006 and over 14,000 of unemployed persons covered, financing the salaries of apprentices in the private and the public sector with the university graduates receiving full annual salary compensation and the high-school graduates and college graduates receiving half of annual salary.

Figure 8. Participation of unemployed in labor market programs as % of labor force in 2004



Sources: ISSP for Montenegro and OECD data for other countries.

There exist also special programs for unemployed with disabilities. They include incentives to employers that hire persons with disabilities such as free training, co-financing of wage for apprentices, covering cost to adjust working environment, or financing social contributions for two years and one fourth for every next year, etc.

The last but not least policy of the Employment Office is to tighten the rules regarding the unemployment status. Some new requirements have been introduced including: regular reporting, attending consultation with vocational advisors etc. Mainly thanks to strict application of these new rules Employment Office has managed to half the number of registered unemployed persons from over 80000 in 2001 to less than 40000 in 2006. Obviously such tightening of rules can be criticized as an easy way to “artificially” decrease the number of unemployed. On the other hand however, taking into account the limited resources, the Employment Office should work only with those unemployed who are really looking for jobs and not with those for whom having their health insurance covered is the only reason for being registered. Therefore such tightening has to be appreciated.

7. Conclusions and Policy Recommendations

The labor market in Montenegro is characterized by high unemployment rate, low level of activity and high level of employment protection. Therefore enhancing job creation and boosting economic activity is the main challenge for employment policies in this country. In this paper we have tried to assess whether the mix of labor market regulations and employment policies in Montenegro is able to accelerate the pace of job creation or, on the contrary, it is an impediment to this necessary process. Our results are mixed, but it seems they give ground to sketch the main elements of the necessary reforms in that field for the nearest future.

The Labor Code should be more flexible, providing freedom to employers to adjust to different economic situation. The current very rigid regulations seriously limit the employment possibilities for those both employers and employees who wish to obey the rules. It results in the situation in which there are two separated groups on the labor market. The first one are mainly those in big former public companies “protected” by excessive regulations. On the other end are those working in newly created SMEs. This group is often forced to accept deprivation from any protection. It calls both for liberalization of the current rules implying fewer rights to employees but simultaneously the Government must strengthen its controlling function in order to make sure that these new more flexible rights are really provided to all employees. All three aspects of the regulations (permanent and temporary contracts regulations and those on collective dismissals) should be revised. There should be no limits on the temporary contracts; the parties should freely decide what kind of contract they want to apply and for how long. The issue of collective dismissals will probably become a smaller problem, when all remaining privatizations are completed. However, this part of legislation is highly rigid, and should involve fewer procedures. In order to have a jobs creation when the economy is in expansion, companies should be allowed to reduce employment in the recession, without excessive costs.

Collective negotiations and wage bargaining should be more decentralized, giving more freedom for employers and employees to negotiate own rights and commitments. The statutory role of trade unions, especially as far as setting of General Collective Agreement, should be limited in order to better match their diminishing position on the market. Possibly the GCA as such could be cancelled and some of its main points should become part of the labor code. On the other hand trade unions should keep their role when protecting employees rights in case of abuse of labor law in individual or company cases.

Tax wedge in Montenegro is not high and further reforms are planned by the government to decrease it. On the other hand however the effective minimum wage is very high due to the education coefficients system. The combined effect of average tax wedge and high minimum wage can reduce the employment opportunities for less productive part of the labor force possibly impeding the employment creation process. Therefore one should avoid any actions leading to effective increase of minimum wage through either increasing the basic amount of reforming the system of education coefficients. Taking into account relatively large size of the minimum wage for the largest group of the labor force, one should even think about decreasing minimum wage for these groups of workers. The system of coefficients as such, should rather enhance the employment opportunities of those with lower education instead of limiting employment opportunities of those with higher skills as it currently does. One should also consider breaking the direct connection between the minimum wage and the size of social benefits or wages of public employees. As general wage level in the country increase,

and so will the minimum wage, this can lead to serious fiscal tensions. In general minimum wage should change according to labor productivity and social spending should rather match the budget possibilities.

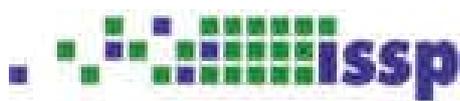
It seems that system of unemployment benefits and other non-work social incomes is not further limiting the level of economic activity. Spending on these programs is rather limited and seems to meet the budget capacity. Employment offices seem to effectively implement ALMP programs. On the other hand however one can suspect that some of their successes can be artificial, where no new jobs are created and only those existing are legalized (however this can also be considered as a success). It is also possible that some of the funds are misused and the employers take the opportunity to finance the workplaces they would create anyway leading to so called “deadweight loss” in the system. In order to confirm or rejects this hypothesis however, one should run additional studies.

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