



ISSUE IN FOCUS
Second Report

Employment & Unemployment trends in Georgia

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Introduction

In the framework of the Core and Institutional Support Project for EPRC and with the financial support of the Think Tank Fund of the Open Society Foundations, we present the second report “Employment and Unemployment Trends in Georgia”, as our 2nd “Issue in Focus.”

The topic was chosen based on its vital importance as an issue of public concern. The topic needs prompt attention from the side of policy-makers and other relevant institutions. In the paper we present the key findings on the topic, and provide with some concrete recommendations.

True Costs of Unemployment in Georgia

In order to assess the economic condition of a country, economists look at a various number of statistics. Besides the level of real Gross Domestic Product (GDP) that measures the country's economic output, one statistic that attracts attention from the economists as well as the general public is the unemployment rate in the country. Unemployment imposes a number of costs for a nation, such as economic, physiological and social (McDowell, Thom, Frank & Bernanke, 2006).

From the economic viewpoint in the face of unemployment we get a so-called opportunity cost of the output that is lost because of the unutilized workforce, i.e. the output that might have been produced if those who are unemployed were employed. According to Okun's Law, every 1% increase in the level of unemployment, roughly brings a 2% decrease in the level of GDP (Knotek, 2007) (We shall check if this assumption holds true for Georgia down further). Moreover, the government loses income in the form of reduced tax-payers. In the developed countries, and some developing ones as well, the cost is further deepened since the government has to pay more unemployment benefits. The letter is not the case in Georgia where there are no unemployment benefits whatsoever, and where the burden of unemployment is severely borne by unemployed themselves, whose income falls and skills deteriorate due to the lack of use. At the same time, unemployment causes motivation for work to decrease (www.economist.com).

This brings us to the physiological costs of unemployment felt by the unemployed people and their families in the forms of physiological stress caused by the economic difficulties and loss of income. Lastly, social costs of unemployment result from the economic and physiological costs taken together. That is due to the desperation felt by the unemployed; thus, increased crime, violence, drug abuse and other social problems are observed in the countries with high levels of unemployment. These costs are borne by the society in general, since more public funds are directed towards counterattacking these problems, such as in the form of hiring more police for controlling the crime (McDowell, et al, 2006).

Since 1998 level of unemployment has been rising in Georgia, from 12.4% all the way up to 16.3% as of 2010 (f.1). According to the research methodology of the National Statistics of Georgia, this 16.3% represents: "persons at the age of 15 or above, who was not employed (even for one hour) 7 days prior to the interview process, was looking for a job for the last 4 weeks time and was ready to

FIGURE 1
Unemployment rate in Georgia (1998-2010)
www.geostat.ge

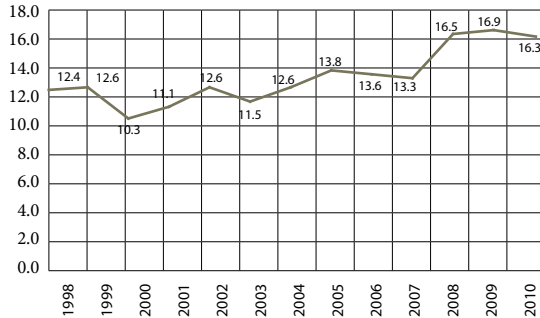
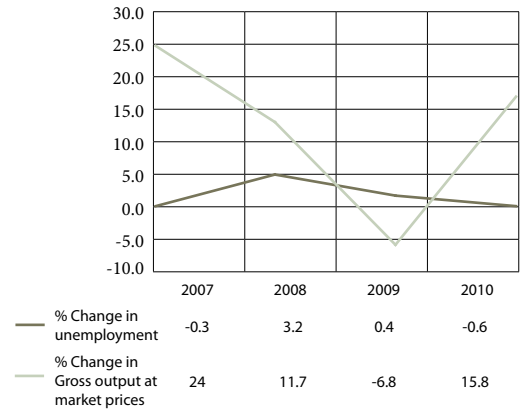


FIGURE 2
Unemployment vs Gross Output
www.geostat.ge



start working within the next 2 weeks time” (www.geostat.ge). If we consider these prerequisites, the unemployment rate is even more alarming. Furthermore, according to the survey conducted by National Democratic Institute (NDI), out of 16,161 questioned, 67% of the respondents consider themselves unemployed (www.ndi.org). Of course this number includes non-active labor force and persons not looking for a job, we shall discuss this later on in the paper.

In order to test the below mentioned Okun’s Law we present a graph below (f.2) that highlights percentage changes in unemployment and gross output indicators. As we can see from the graph the law partially holds true for Georgian reality. The latter is not only due to the unemployment but rather is caused by negative affects brought by the global economic crisis and the Russian-Georgian war. Furthermore, the level of gross output is not solely dependent on the level of unemployment rather on the productivity level, demand and the input resources.

A study conducted by the NDI once again highlights the importance of employment for the Georgian society. According to the results observed in September 2011, 62% of the population believes that “jobs” is a number one national issue, whilst 74% believes it to be the number one local issue. Furthermore, when asked to compare if the situation has changed in that direction in Georgia, 33% believes that the situation is worse in relation to jobs, and another 40% thinks that it has not changed at all. These data once again justifies the importance of unemployment problem in Georgian economy. It is also worth mentioning that 50% of those asked believe that the situation worsened in relation to deepening of poverty in the society. Below we present Georgian Employment at a Glance based on the research conducted by NDI (f. 3). As can be seen, 31% of the respondents are unemployed or looking for a job, while 5% is not looking for a job, and another 30% is non-active labor force which includes students, retirees, etc.

FIGURE 3
Georgian Employment at a Glance
www.ndi.org

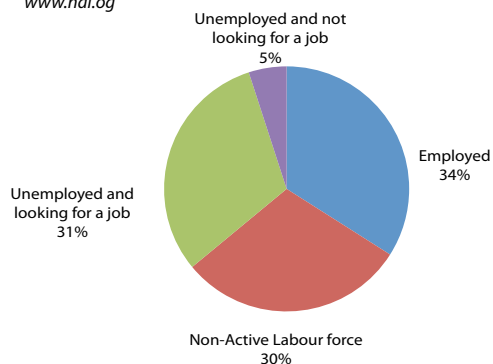
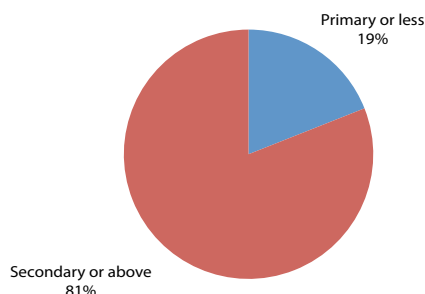


FIGURE 4
Unemployment Rate by level of Education (%) 2008
<http://hdr.undp.org>



When talking about unemployment, another point that economists find worthy of attention is the education level of the unemployed workers. According to the Human Development Report (2010), Georgia is among the leaders with the unemployed workforce who has secondary or higher education levels. 81% of unemployed have secondary or higher education (f.4). This means that the educated workforce is idle and cannot contribute to the country's economy. At the same time, according to the World Competitiveness Report (2011-2012) it is inadequately educated workforce that represents a major constraint to doing business in the country (www.weforum.org)

It is generally acknowledged that changes in economic structure causes high levels of unemployment. To put it more clearly most of the countries in the transition economies suffer from the so-called "structural unemployment". This type of unemployment is a long-term one, caused mainly by a mismatch between the skills of workers and the available jobs on the market. As the "Economist" puts it there is a great "mismatch" between the needs of the employees and the skills that the potential employers have to offer (www.economist.com). This particularly concerns the former Soviet Republics where the values have been revised and the Soviet-educated workforce ended up with the "wrong" kind of skills. Inadequately educated workforce does not only concern older generations; even though educational reforms are under way the system is still inefficient in preparing future leaders with the skills that meet current market needs. By looking at the graph that depicts the age groups of the unemployed, we see that the latter statement holds true, since the largest share of unemployed are representatives of the younger generation - aged 20-35. Moreover, information provided by NDI that highlights the ongoing unemployment tendency among youth, i.e. 40% of those who consider themselves unemployed are aged between 18-35. Another 37% of unemployed are aged 36-55.

FIGURE 5
Level of unemployment by age groups (2010)
www.geostat.ge

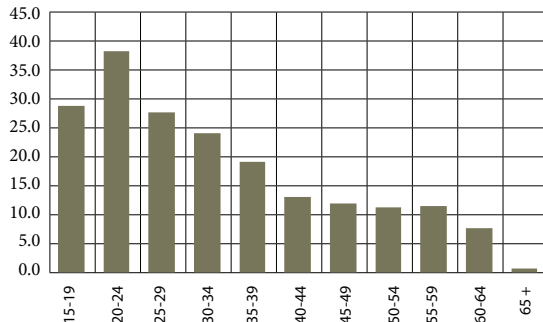
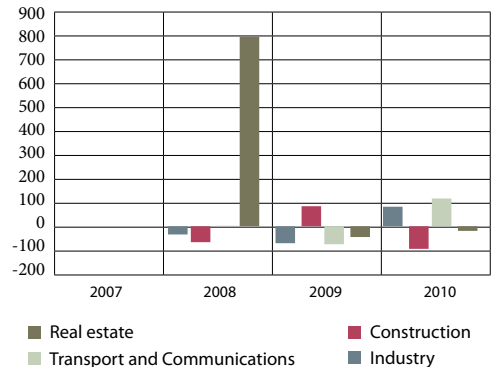


FIGURE 6
% change in amount of FDI in major economic sectors
(2007-2010) www.geostat.ge



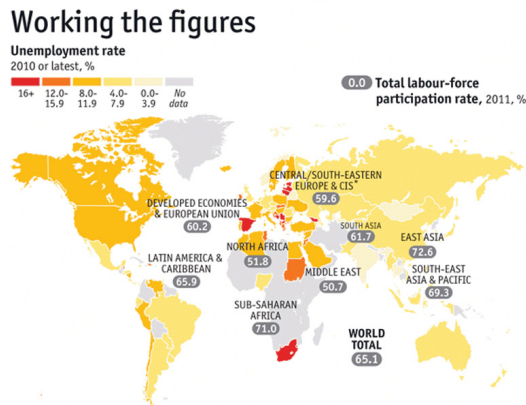
After the collapse of the Soviet Union, as well as under the forces of globalization we are faced with the lack of skills or language barriers among the workers. This brings us to the problem of age discrimination on the Georgian Labor market, since soviet-educated work force lacks the skills or language requirements demanded by the companies. Quite often we are faced with the job advertisements that convey a discriminatory message asking for a specific gender or age for an eligible applicant. In the western countries this type of discrimination is regulated by strict laws that are not in place in Georgia. In line with the fact that soviet-educated workforce lacks the contemporary skills that the employers are looking for, the President of Georgia came up with the initiative of exempting the enterprises willing to employ persons aged 45-60 years from income taxes, plus an additional stimuli being assistance from the Government of Georgia in training these people for further increasing their qualifications to meet market needs (www.president.gov.ge). It is vague how the government of Georgia is planning to implement this initiative in real life, since it might cause an even higher unemployment among other age categories, or be used indecently by the enterprises to neglect and bypass income tax.

Another unemployment type that we believe is of interest in Georgian reality is cyclical unemployment, this type of unemployment is a short term one and occurs during economic recessions, when economic output falls and when business cycles are affected by low demand on the market. We tried to determine what type of unemployment dominates in Georgia. A possible way is to look at the percentage changes in the amount of foreign direct investments (FDI) in major economic sectors, versus at the numbers of employees in those sectors over a period of time (f. 6 &7). Generally speaking, FDI accounts for the bulk of total investments in Georgia, as domestic savings are inadequate to meet local financing needs. Therefore, FDI is believed to be an important source of output growth and employment. Thus, we found it reasonable to use FDI indicator as a determinant of unemployment trends.

FIGURE 7
% change in number of people employed in major employer sectors of private business (2007-2010) www.geostat.ge



FIGURE 8
World Unemployment rates
www.economist.com



The following conclusions can be drawn from these charts: positive changes in FDI inflows have positive effects on employment statistics, although these positive effects are not as strong and are deteriorated. In some cases drastic FDI inflow is negatively associated with employment, for example we observe a 118% increase in FDI directed towards transport and communication in 2010, and a -1.9% decrease in the number of employed in this sector in the same year. In the above graph the mismatches between the growth of employment and FDI in relevant sectors might be explained by time lags, as well as the fact that not all the sectors possess long term employment generation potential. Probably, the idea is that for sustainable increase in formal employment permanent and steady flows of FDI-s is necessary. In short FDI in Georgia does not influence employment at its highest potential. The reason we believe lies once again in structural unemployment, this also explains that even in 2007 when GDP growth level was as high as 12%, unemployment was still at a considerable level of 13.3% (www.geostat.ge).

Furthermore, unfortunately we were unable to find the unemployment spell of the country, i.e. average duration of unemployment for individuals. This statistic is also directly related to the analysis of the unemployment “types”. One thing is for sure no matter what type it is, the general rate of unemployment in Georgia is among the highest in the world among the countries in transition (f. 8). As can be seen, unemployment poses a great problem in Georgia and the neighboring countries, with the rate hitting 16% and above.

“Quality” of Employment in Georgia

What is self-employment?

On the one hand a self-employed person might be a successful entrepreneur, and on the other hand a person who is struggling to find a “formal” job and is forced to self-employ oneself in order to survive. Therefore, self-employment could be interpreted in two different ways: as entrepreneurship and as unemployment (www.ciln.mcmaster.ca). In order to differentiate between the true self-employment and “disguised” unemployment a thorough investigation is needed to assess living standards of employed vs. self-employed.

In Georgia among those who are listed as employed, majority of them are self-employed, this category is largely concentrated in agriculture, whereas the productivity levels in the sector are quite low; as in initial production entirely, as well as in food processing, agriculture comprises approximately 9% of the country’s GDP. No need to argue that a sector which employs about 50% of the total number of employed, should contribute more than 9% in the total GDP figure. To further strengthen the statement, unemployment rate in rural areas is 7.9% (2010), as compared to 27.2% for urban areas. Furthermore, out of total people employed in rural areas 80% are self-employed, i.e. employed in agricultural sector (www.geostat.ge).

That is why job creation cannot be accomplished without full utilization of Georgia’s agricultural and food processing capacity. Therefore, a number of people who are officially employed is even lower than the figure presented by the official statistics. This means that the number of tax payers is quite low; thus, the self-employed workforce cannot be considered stable enough or cannot generate the

FIGURE 9
Types of Employment in Georgia in thousands (1998-2010)
www.geostat.ge

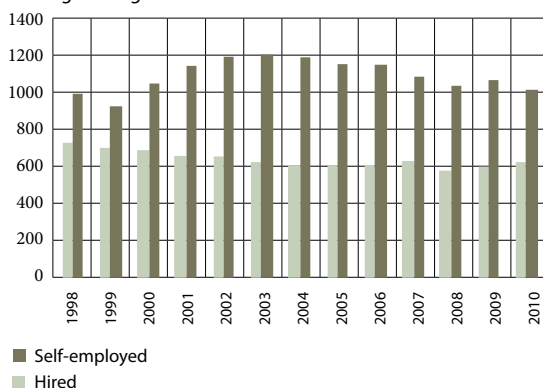
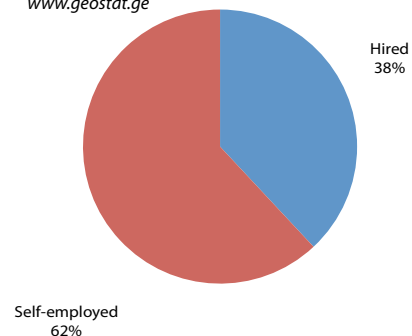


FIGURE 10
Level of Self-employment in Georgia (2010)
www.geostat.ge



income enough for decreasing the poverty level in the country. Shortly, lack of formal job opportunities represents a serious constraint to economic development of Georgia. Figure 9 represents trends of types of employment in Georgia in 1998-2010. Obviously, the only category with demonstrated growth is the category of self-employed, whereas the employed people who are “hired” have been declining.

This increasing trend might be due to the new campaign of registering all owners of micro businesses. On the one hand it is an obligatory procedure and on the other, it is motivated by the tax exemption promise. This campaign resulted in an overall increase in the “Self-employment” category as observed in figure 9. As of 2010 out of total people employed 62% are self-employed and only 38% are hired (f.10).

Self employed population is mostly concentrated in the regions for a clear reason: the agricultural land. According to the Statistics Office self-employed is a person who: “owns an enterprise and generates profit in cash or in kind.” This comprises persons who are volunteering by working at a family-owned land. This brings us to the statistics arguing that the unemployment level is considerably lower in the regions, as compared to Tbilisi (f. 11). Why? Because potential workforce cannot be assigned as self-employed in the agricultural sector. Therefore, we get a high 30.1% unemployment rate in Tbilisi. Since agricultural sector is believed to be a major source of employment, looking at the output and the number of employed in the field shall be interesting (f. 12).

FIGURE 11
Unemployment Rate (%) according to the Regions
www.geostat.ge

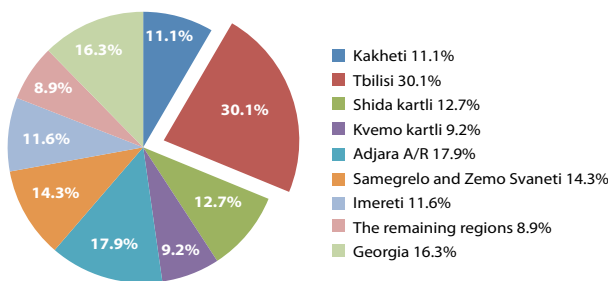


FIGURE 12
Employment and Output in Agricultural Sector (2007-2010)
www.geostat.ge

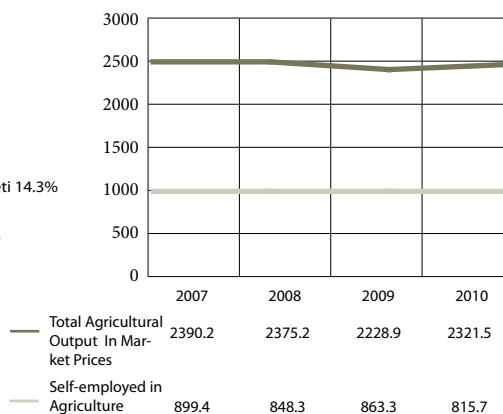
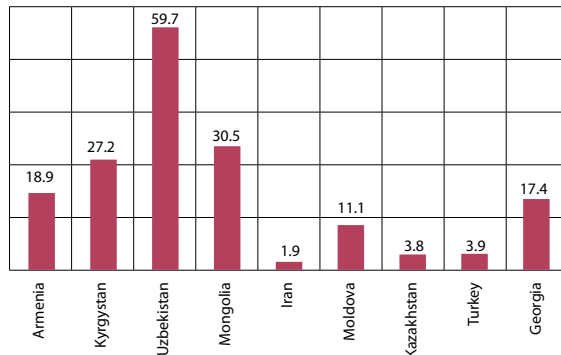


FIGURE 13
 Employed People living on less than 1.25 USD per day (2008) (%)
<http://hdr.undp.org>



From the chart above we can observe a decrease in both figures, i.e. in agricultural output as well as the number of self-employed in agricultural sector. This decrease might be due to the migration from rural to urban areas, as well as abroad. A slight increase in the productivity level in 2010 should also be highlighted.

Another noteworthy point is the income of those employed. Not only is it important to calculate the number of people employed, but also those who have a salary that is below the average minimum. Figure 13 depicts that 17.4% of the employed people live on less than 1.25 USD per day. In the developed countries this percentage equals zero, while in the post soviet countries, as well as other developing and least developed countries this is an issue of importance. Compared to some post soviet countries listed below Georgian indicator is lower, although this does not solve the problem. We believe that this statistic represents persons who are self-employed in the agricultural sector and mostly receive their compensation in kind.

Conclusions and Recommendations

We have argued that there is a well established declining trend in the number of people employed in Georgia. We have further highlighted the dominance of the so-called structural unemployment in the country. The only category with significant overall growth rate is the category of self employed. At the same time, this category is largely concentrated in agriculture with a small share in the total output figure. Lack of formal job opportunities represents serious constraints to economic development in Georgia. If new job opportunities do not emerge soon, the result might be very negative from socio-economic perspective. Therefore in the recommendations section we concentrate on both – sources of job creation, as well as minimizing the negative effects of unemployment on individuals as well on a society as a whole.

Entrepreneurship is believed to be the driver of economic growth, as well as a good source of employment, therefore creating favorable environment for doing business is one of the most productive ways of fostering employment. World Competitiveness Report has highlighted major constraints to doing business in Georgia the top three barriers were: access to finance, inflation, and inadequately educated workforce. Therefore, the government of Georgia and other relevant authorities should try to combat these constraints for boosting entrepreneurship.

We believe that access to finance in itself is not a major drawback for doing business in Georgia; rather these finances especially in the forms of loans are directed towards sectors that have fairly limited job opportunities. For example if we look at the loans issued by banks, 60% of total loans are concentrated in trade sector which is not a major source of formal employment opportunities. While the largest employer “industry” receives 16% of total loans, another large employer construction sector only 7%. As to the problem of inflation we believe that it is partially linked to fiscal imbalance and price volatilities on the global market, and shall be stabilized in the near future, as stated by the National Bank of Georgia. Third reason is a major cause of structural unemployment as argued in the paper. Thus, further reforms are needed in the education system, such as modernization of the education standards, provision of universal primary and secondary education, improvement of higher education, assisting organizations in retraining their employees to better fit current market needs, etc.

Generally companies complain about the lack of potential employees who possess the skills and experience that satisfy their needs. This brings us to the need of creating an up-to-date database of the labor market comprising of both employed and unemployed and identifying a responsible party. A census of employed/unemployed should be conducted, and a credible database of unem-

ployed should be created. Crucial importance should be paid to the number of dependents that the unemployed has. The database should be available to the companies, so that employment forums are organized. From our viewpoint, organizing employment forums for employers and potential employees shall be fruitful, it helps networking and information exchange free of charge.

When facing physiological effects of unemployment, western countries oftentimes mention the need of creating a Social safety net, so that the unemployed do not feel excluded from the society. This is usually done in the forms of unemployment benefits/compensations. In total 150 countries operate some sort of unemployment compensation programs; in developed countries these are in forms of welfare programs, most notably unemployment insurance. The latter is not an option in Georgia, since as we have argued, the country's labor market is characterized by low formal employment indicator, i.e. low number of tax payers. However, in developing countries few people receive unemployment benefits. Some developing countries started to initiate a mandatory savings account requiring employers to deposit 3-9% of their earnings. This amount still might not be sufficient for low-wage workers to accumulate enough savings to live through the unemployment period, but still is better than nothing.

Apart from unemployment benefits, Georgia lacks opportunities for voluntary work at the state institutions. In this way, state gets additional cost at no extra fee and the workers do not deteriorate their skills. In line with this recommendation a system that worked in Britain was the practice of government being the "employer of last resort" that mostly concerned the newly graduates, who lack experience for finding a job. In this case, the government provides employment to youth at relatively lower salaries; this practice is once again beneficial for both parties. Youth gets experience and the government sector new blood into the organization together with the innovative ideas.

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5, Marjanishvili str. Floor 4, Office 417. 01 02. Tbilisi. Georgia

Tel/Fax: (995 32) 2 207 305

E-mail: info@eprc.ge

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