

## Creating a role for unions in ambient conditions for increasing employment

### Abstract

*Current trends in Serbia show that employment has decreased by 23 % compared to the previous year. The trend in the average wage per employee is also negative, both in nominal and in real terms (due to the effects of inflation). These trends have had a negative impact on the purchasing power of the population. The effects of these shifts have been that people are focusing their activities on consumption at the expense of savings, since the cumulative effects of unemployment, an unrealistic exchange rate and the rate of inflation represent limiting factors to the entry of foreign direct investment and in the growth of output as the main driving forces in raising the level of employment. In such circumstances, key labour union efforts must be focused on the creation of an economic environment that will stimulate a raising of the levels of investment and production. The current circumstances require a strategic approach to address the problems of businesses and of liquidity, but this is problematic in a country which does not have an entrepreneurial culture or tradition.*

**Keywords:** *employment trends, education, inflation, economic crisis, wages, purchasing power, consumption and demand, insolvency, business conditions, transition, investment, entrepreneurialism, trade union role*

### Introduction

The employment of the population, as a means of generating income, is the main source of purchasing power and, therefore, represents a generator of aggregate demand. The purchasing power of the working population is determined most of all by the level of earnings and prices. This means that it is very important to analyse the movement of wages and the general price level in order to establish the real purchasing power of base salaries.

In order to realise real purchasing power based on net wages in work, analysis of the impact of inflation and the rate of employment trends will be carried out in nominal measures that determine purchasing power and the effect of the exchange rate. This is in order to obtain realistic benchmarks and to form appropriate conclusions based on cause and effect and to give suggestions for possible solutions to remedy the consequences. In these, trade unions have a key role to play.

### Employment trends in Serbia

The economic system of the Republic of Serbia is characterised by a lack of social rationality, a degree of technical and technological backwardness, economic exhaustion

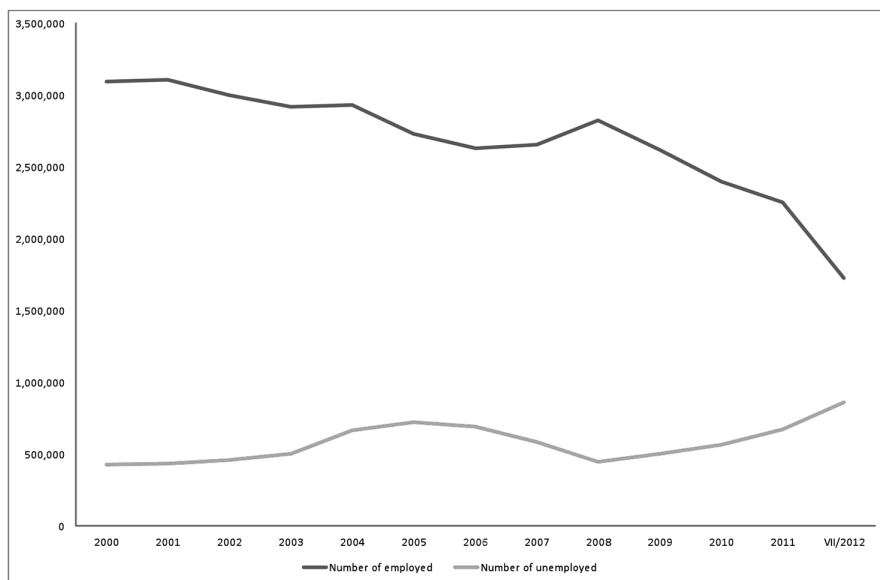
and a lack of market orientation. These factors are a result of many unfavourable factors in the past, both in the country and in Europe.<sup>1</sup> The unfinished process of transition, as well as the general decline in economic activity and the high rates of inflation, characterise an environment in which businesses operating in the Republic of Serbia can have had little other than negative consequences for employment trends (Table 1 and Chart 1).<sup>2</sup>

**Table 1 – Employment trends in Serbia, 2000-2012<sup>3</sup>**

Year	Number of employed	Number of unemployed	Active population	Unemployment rate
2000	3 093 674	425 571	3 519 246	12.1
2001	3 105 598	432 677	3 538 274	12.2
2002	3 000 219	459 599	3 459 818	13.3
2003	2 918 598	500 325	3 418 913	14.6
2004	2 930 846	665 434	3 596 282	18.5
2005	2 733 412	719 881	3 453 293	20.8
2006	2 630 691	693 024	3 323 716	20.9
2007	2 655 736	585 472	3 241 209	18.1
2008	2 821 724	445 383	3 267 107	13.6
2009	2 616 437	502 892	3 119 419	16.1
2010	2 396 244	568 723	2 964 966	19.2
2011	2 253 209	671 143	2 924 352	23.0
VII/2012	1 729 000	858 296	2 587 296	33.2

- 1 Stamenković, S and R. Pavlović (2011b) *Upravljanje vodnim resursima u saobraćajnom sistemu R. Srbije* Prvi simpozijum o upravljanju prirodnim resursima sa međunarodnim učešćem, Zbornik radova: Bor.
- 2 Pavlović, R, M. Pavlović, S. Stamenković and M. Stamenković (2012) *Financial-Accounting Indicators of Companies: The Condition of The Transition Stagflation* 3rd International Scientific Conference: 'Capitalism in Transition' *Proceedings* Higher Education Institution for Applied Studies for Entrepreneurship, Belgrade, June.
- 3 RZS (2011) *Anketa o radnoj snazi Mesečni statistički bilten 7/2012, RZS: Beograd.*

Chart 1 – Trends in the number of employed and unemployed people



During the period under analysis, the number of employees decreased by 1 364 674 workers, or 44.1 %. The number of unemployed people increased by 432 725, or 101.7 %; in other words, the number of unemployed people in July 2012 increased by more than double compared to the 2000 figure. The unemployment rate of 12.1 % in 2000 had increased to 33.2 % as of July 2012. The decline in employment, the significant rise in unemployment and a strong increase in the unemployment rate are all indicators of a drastic decline in economic activity. These parameters indicate that Serbia is in deep economic crisis.

In 2010, Serbia had the highest rate of unemployed people with higher education compared to other countries, standing at 13.1 %; in the 27 countries of the European Union, the average unemployment rate for people with higher education is 5.6 %. Apart from Serbia, above average unemployment rates can be found in Croatia (8.8 %) and Slovakia (6.6 %).<sup>4</sup> The total number of unemployed people who were graduates from university, colleges or high schools in that year amounted to 44 911, of which 35.1 % have been looking for work for more than four years, while 44.7 % had lost their jobs due to the closure of companies (ownership transformation, bankruptcy and liquidation). Those with prior experience in executive and responsible positions are dominated

4 *Izveštaj o razvoju Srbije 2010, Ministarstvo finansija: Beograd, 2011.*

by employees with a high school education (49 %),<sup>5</sup> which represents a very high percentage, especially when taking into account that this number represents one-half of employees in managerial and responsible positions and that is higher than the number of employees who have higher education. The situation is even more dramatic if we look at the number of employees in these positions who have not completed primary school and who have no more than a primary education.<sup>6</sup>

### Analysis of change in earnings in Serbia

The average nominal salary of employees in the Republic of Serbia describes a positive trend. Under the Labour Law of the Republic of Serbia, gross income includes income from taxes and contributions from the wages received by an employee for work done and time spent at work, including increases to salaries, wages and other income. Given that taxes and contributions are not part of disposable income, our analysis focuses on net earnings, salaries and wages in order to realise the potential purchasing power of the working population in the country.<sup>7</sup>

Almost the entire period here – apart from 2009 – is characterised by a year-on-year increase in net earnings but, in order to bring a valid judgment on the financial situation of the employed labour force, it is necessary to include in our analysis the effects of inflation in order to obtain a realistic representation of real purchasing power based on net wages.

**Table 2 – Movements in nominal net wages, 2001-2012<sup>8</sup>**

	Average salary after taxes and contributions
2001	5 840
2002	9 208
2003	11 500
2004	14 108
2005	17 443
2006	21 707
2007	27 759

5 Pavlović, M, M. Stamenković, R. Pavlović and S. Stamenković (2012) *The policy of engagement as a manager of human resources and efficiency of the company in Serbia* 2<sup>nd</sup> International Symposium of Natural Resources Management, *Proceedings* Faculty of Management, Zaječar, May.

6 *ibid.*

7 Stamenkovic, M and M. Pavlovic (2011) *Analysis of the Impact of Employment and Inflation on the Purchasing Power of the Population of Middle Banat Region* International Scientific Conference: ‘Strengthening the Competitiveness and Economy Bonding of Historical Banat – SCEBB’ Vršac, 28-29 September.

8 *Statistički godišnjak RZS: Beograd.*

2008	32 746
2009	31 733
2010	34 142
2011	37 976
VII/2012	40 472

**Table 3 – Movements in nominal and real wage growth rates, 2001-2012 <sup>9</sup>**

Year	Retail price index		Average net income		Index of net earnings <sup>10</sup>	
	Year	Cumulative	Nominal	Real	Nominal	Real
2001	191.8	191.8	5.840	3.045	244.5	127.5
2002	119.5	229.2	9.208	4.017	157.7	131.9
2003	111.7	256.0	11.500	4.492	124.9	111.8
2004	110.1	281.9	14.108	5.005	122.7	111.4
2005	116.5	328.4	17.443	5.312	123.6	106.1
2006	112.7	370.1	21.707	5.865	124.4	110.4
2007	106.8	395.3	27.759	7.022	127.9	119.7
2008	110.9	438.3	32.746	7.471	117.9	106.4
2009	110.1	482.6	31.733	6.575	96.9	88.0
2010	108.6	524.1	34.142	6.514	107.6	99.1
2011	111.0	581.8	37.976	6.527	111.2	100.2
VII/2012	106.9	621.9	40.472	6.508	106.6	99.7

In the period to 2008, net earnings were positive as regards their real growth rate. In 2009, however, net earnings showed negative growth in both nominal and real values, falling in the latter case by 12 %. The trend of negative, or static, real rates of net earnings continued into 2010 and 2011. The real growth rate of net wages in the first seven months of 2012 showed a figure of -0.3 % although, in 2012, average net income had increased by 593 % in nominal terms compared with 2001 as a result of rising prices, or inflation. Real growth in net earnings for the last 11 years was just 114 %.

This real growth in net earnings in the period may create the impression that the Serbian economy had recorded a strong level of growth. Compared to the average net income of citizens in neighbouring countries, our net earnings are at a low level. In addition, net earnings in 2000 were very low, but it should be borne in mind that, with

<sup>9</sup> *ibid.*

<sup>10</sup> Base year: 2000, Indices are chained. Average net income in 2000 was 2 389 dinars.

the grey economy taking a share of over 50 %, the actual earnings of citizens were not recorded in full.

Thus, under the influence of inflationary pressure, real purchasing power is far less than real. To make an analysis of purchasing power based on net earnings on the basis of more realistic calculations, it is necessary to encompass the decrease in employment since, in this period, the number of people out of work has increased and, on that basis, the purchasing power of the working population has reduced even further.

**Table 4 – Movement of purchasing power of the employed population, 2001-2012**

Year	Number of employees	Rate of employment growth	Total purchasing power of the employee population (RSD, m)		Growth index of purchasing power (chain)	
			Nominal	Real	Nominal	Real
2001	3 105 598	/	217 640	113 478	-	-
2002	3 000 219	-3.39	331 512	144 623	152.3	127.4
2003	2 918 598	-2.72	402 765	157 324	121.5	108.8
2004	2 930 846	0.42	496 181	176 027	123.2	111.9
2005	2 733 412	-6.74	572 147	174 239	115.3	99.0
2006	2 630 691	-3.76	685 253	185 148	119.8	106.3
2007	2 655 736	0.95	846 647	223 783	129.0	120.9
2008	2 821 724	6.25	1 108 802	252 973	125.3	113.0
2009	2 616 437	-7.28	996 329	206 437	89.9	81.6
2010	2 396 244	-8.42	981 751	187 310	98.5	90.7
2011	2 253 209	-5.97	1 026 814	176 426	104.6	94.2
VII/2012	1 729 000	-23.26	489 833	78 766	81.8*	76.5*

*\* Indices of growth for the first seven months of the 2012 were calculated by comparing purchasing power in the seven months of 2012 with 2011.*

In 2012, the total number of people in employment decreased by 1 376 598 in relation to 2001, or 44.33 %. The synergetic effects of inflation alongside the rate of the decline in employment can best be seen in Table 4. With the period ending in 2008, purchasing power, with the exception of 2005, achieved positive growth in each year. From 2008, however, purchasing power fell in every year, declining by 18.4 % in 2009 and falling significantly in the first seven months of 2012, compared to the same period in 2011, by over 20 %. This drastic decline in purchasing power results in a lower consumption of goods and services and, subsequently, lower demand. Falling demand

causes a decrease in production which entails a further decline in employment due to lay-offs, which result in a further reduction in purchasing power.<sup>11</sup>

It should be noted that, according to the data of the National Bank of Serbia, the number of businesses whose accounts were blocked at the beginning of 2011 amounted to 63 031 (of which 23 609 were companies while 39 422 represented entrepreneurial activities).<sup>12</sup> Compared to a total number of registered businesses of 331 164, this indicates that one in five business subjects currently have a block on their activities. If we add that, in Serbia in 2011, 8 893 companies whose accounts had been blocked for two continuous years were selected to go to the automatic bankruptcy courts that day – a rate of bankruptcy seeing more than 25 petitions lodged with the Agency for Business Registers per day – it is not hard to make a judgment<sup>13</sup> about the necessity of adopting urgent measures to break out of the vicious cycle. Economic activity must first be revived and the level of competition raised,<sup>14</sup> in which a significant role should be played by unions, especially in the private sector.

Given that there is a demographic aging of the working-age population, leading to a decrease in the number of the population who are of working-age, this reduces the number of inhabitants on the basis of the negative trends in population growth, on top of which there is migration to more attractive regions and cities. Consequently, it is clear that the cumulatively negative effects of the above data, on the basis of inflation, a fall in employment and a decline in general economic activity, make these trends substantially worse.

The causes of this situation could be found in the economic environment and the business and environmental conditions in which business enterprises in the Republic of Serbia operate, characterised as it is by inadequate macroeconomic policies that are reflected in the following:<sup>15</sup>

- a high level of inflation
- a restrictive monetary-credit policy
- an unrealistic exchange rate policy
- a restrictive fiscal policy
- an unfinished transition process.

The question is what is the perspective on the Serbian economy if we take into account the above indicators and trends. The answer is definitely negative. To overcome these problems, it is necessary to create such environmental conditions, through appropriate national and regional economic and agricultural policies, as well as through regional economic development policy, that attract a significant amount of investment in productive sectors, given that this sector has a role as an employment generator. Furthermore, it is necessary to invest in training and development as well as in raising the level of technical equipment of enterprises, to stimulate private entrepreneurship

11 Stamenkovic, M and M. Pavlovic (2011) *op. cit.*

12 [www.sef.rs](http://www.sef.rs).

13 Pavlović, M, M. Stamenković, R. Pavlović and S. Stamenković (2012) *op. cit.*

14 Stamenkovic, M and M. Pavlovic (2011) *op. cit.*

15 Pavlović, R, M. Pavlović, S. Stamenković and M. Stamenković (2012) *op. cit.*

and to match supply with market demand in order to achieve an adequate level of competitive advantage for the economy and its companies.<sup>16</sup>

### Role and importance of trade unions

The primary role of trade unions should be to seek to call attention to the following issue:

*In the current economic crisis, there is a need for a strategic approach to treatment of the condition and strength of our businesses and the continuing problems of liquidity throughout the economy.*<sup>17</sup>

The state and business associations have a priority task of creating the environment for enterprise creation and economic development, as a precondition for employment growth, but this has not been done because of the lack of an entrepreneurial society and education.<sup>18</sup>

The difficult financial and social position, and the disregard of the basic rights of employees in the private sector, means that unions must, in accordance with their powers, set out initiatives and make proposals for the adoption and amendment of laws governing the rights of labour-based work, such as the right to health, pensions and disability insurance, and guarantees for security of existence. The exercise of these rights, by the very act of joining a union, means that employees in the private sector, who are usually left on their own and unable to finance litigation in a dispute with the employer, do acquire at least a measure of legal and operational safety.<sup>19</sup>

### Conclusion

The Serbian economy is characterised by unsatisfactory trends in terms both of average wages as well as in terms of an increase in the rate of decline in employment, which reflects negatively on the purchasing power of the population in this area. The synergetic effects of inflation, alongside the increasing decline in employment rates, have reduced the purchasing power of the population as a result of which consumers have re-focused their activities on the basis of consumption at the expense of savings, as the cumulative effects of unemployment, an unrealistic exchange rate and the rate of inflation rate are limiting factors to the entry of foreign direct investment and thereafter to growth as a major driving force in raising the level of employment. The causes of such negative trends are the characteristics of the transition process; the inadequate restructuring of the economy; the low level of education of employees in managerial positions; and the movement of the population towards the land and other jobs out of

16 [www.rpk-zr.co.rs](http://www.rpk-zr.co.rs).

17 Stamenković, S and R. Pavlović (2011a) 'Uloga i značaj izveštavanja o novčanim tokovima za strateško i operativno odlučivanje u korporacijama' *Megatrend revija* 8(2), Megatrend Univerzitet: Beograd.

18 Marinković, V *Sindikati bez pregovaračke snage* dostupno na: <http://www.pravda.rs/2012/04/17/vladimir-marinkovic-sindikati-bez-pregovaračke-snage/>.

19 [http://www.sindikat.rs/stari\\_sat/webhtml/polozej\\_zaposlenih\\_i\\_nacin\\_organizovanja.htm](http://www.sindikat.rs/stari_sat/webhtml/polozej_zaposlenih_i_nacin_organizovanja.htm).



the country, despite the specifics of the potential of the natural resources existing in Serbia.

Given this, it is necessary to create such an economic environment that will act to stimulate investment and increase the level of production in which there is, evidently, a significant role and potential for trade unions.

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