



. 331; 339

DOI 10.18413/2411 -3808-2019-46-3-467-473

LABOUR MARKET DEVELOPMENTS AND ECONOMIC GROWTH IN THE REPUBLIC OF ARMENIA

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Abstract

In this article the labor market development specifications of the Republic of Armenia are discussed. Labor market and its regulation are very important for economic development and efficiency. Labor market regulation can solve market imperfection issues and stipulate economic efficiency. In Armenia despite the economic growth the number of employed people for recent years decreased significantly from 1163 thousand people to 1011 thousand people. The most popular explanation of this fact is the increasing productivity. However we assume that it's not a case. After the independence among main problems in the Republic of Armenia's economy there still continue to be high unemployment level, low labor productivity and low wages. We found out that high level of poverty is due to relatively high unemployment level and enrollment level in agriculture (almost 31.3 percent of total employed). The training, education level and wages have not significant positive impact on employment. Contrary to that high unemployment level, private transfers and migration has negative impact on employment. To improve the Republic of Armenia's labor market developments are required the trade unions' regulation, reorientation of the small and medium enterprises activities, attraction of the foreign direct investments, and internationalization of the RA's economy.

: 1,163 1,011

(31,3 %).

Keywords: labour market, unemployment, poverty, economic growth.

Introduction

Labor is one of the principal factors, along with capital and technology, in neoclassical models of economic growth. After the independence among main problems in the Republic of Armenia's (RA's) economy there still continue to be high unemployment level, low labor productivity and low wages. Unemployment rate is the share of unemployed among the economically active population. According to International Labor Organization (ILO) the unemployed comprise all persons of working age who were: a) without work during the reference period, i.e. were not in paid employment or self-employment; b) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and c) seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment.[International Labor Organization^ 2019] Economically active population (labor force) includes all employed and unemployed population, who develop labor market (related to labor force supply) for production of goods and services.

Results and discussion

Labor market and its regulation are very important for economic development and efficiency. Labor market regulation can solve market imperfection issues and stipulate economic efficiency. The main question here is to determine the level of regulation, because under regulation or over regulation can have negative effects on the economy. For example, strict employment protection laws may discourage hiring and reduce economic growth by creating disincentives for the movement of workers from lower to higher productivity jobs. Under regulation also can have adverse effects. Firm productivity can decline if workers are not allowed to take sick leave or are constantly asked to work long hours with no weekly rest days. And under regulation can undermine social cohesion in economies with no minimum wage regulation, unemployment protection or medical insurance. [WB, Doing Business, 2016] It is obvious that trade unions play a huge role in labor market regulation process. In Armenia trade unions primarily organize their activities in two directions: (1) organizing recreational events (cultural and sports events) and providing support services (financial benefits), and (2) training activities on social, labour and human rights. Most trade union events have a recreational or social character, which members expect as a result of their ignorance of the role that trade unions can play vis-a-vis employers. Trade union activities regarding health and job safety are grossly inadequate. Moreover, there is no active discussion or collaboration between trade unions and political parties. In addition, trade union representatives are rarely involved in public debates on socio-political issues. As a result, they have little to no influence over policy and reform [Tiruhi, A. Nazaratian, Tilman Alexander Busch, 2017].

As already we mentioned one of the main challenges of the RA's labor market continues to be high unemployment level which was accounted 17.8 % in 2017. There exists long run indirect relationship between economically active population and unemployment rate which is widely discussed in the literature. Also relationship between labor force and unemployment rate is very important issue in the labor and development economics. Due to long run high unemployment level workers will leave labor force. In this situation "discouraged worker problem" exists where workers stop actively searching jobs because they think that they can't find work. It is obvious that discouraged workers out of economically active population and therefore can't be included into unemployment rate. Increasing economically active population will increase economic efficiency and development potential for a country [Yasemin, O. 2013].

Analyzing the data presented on the Table 1 we see that despite the economic growth the number of employed people for observed period decreased significantly from 1163 thousand people to 1011 thousand people. There are various opinions trying to explain this situation and according one of them the main reason is the increasing productivity.

Table 1
1

GDP growth rate and Labor Resources of the RA for the 2013-2017 annual periods
(1000 persons) [Statistical Yearbook of Armenia, 2018]

, 2013-2017 ..

. . [, 2018]

	2013	2014	2015	2016	2017
GDP growth (annual %)	3.3 %	3.6	3.2 %	0.2 %	7.5 %
Labor resources	2 189.1	2 180.2	2 106.6	2 011.4	2 021.3
Economically active population	1 388.4	1 375.7	1 316.4	1 226.3	1 230.7
employed	1 163.8	1 133.5	1 072.6	1 006.2	1 011.7
unemployed	224.6	242.1	243.7	220.2	219.0
Economically inactive population	800.7	804.5	790.3	785.1	790.6
Economic active rate	63.4	63.1	62.5	61.0	60.9
Employment rate	53.2	52.0	50.9	50.0	50.1
Unemployment rate	16.2	17.6	18.5	18.0	17.8

From our point of view in case of Armenia we need additional studying to state that economic growth with decreasing employment level is stipulated by the increasing productivity because in that situation we have to deal with productivity-employment-wages and economic growth analysis. Anyway if we accept that one of the main reasons is increasing productivity then we have to analyze impact of human capital and wages on employment. We suppose that for small developing countries investments in human capital or improving labor skills is very important for labor market outcomes along with the technological change, macro and micro economic reforms, trade policy, competition and etc.

 Table 2
2

Number of Vocational Training Receivers by Type of Training [Labor market in the RA, 2018]

[, 2018]

	2013	2014	2015	2016	2017
Employees	394 071	370 670	367 527	369 988	372 762
Trained	20 292	20 565	19 298	21 640	19 253
had vocational training, retraining	17 051	18 301	17 395	17 773	16 018
upgraded qualification	3 241	2 264	1 903	3 867	3 235
Took apprenticeship	522	443	458	496	1100

In Table 2 the data for vocational trainings are presented. This data is funded by the employer is based on the summarized results of state statistical reports “On the Vocational Training of Employees” submitted by medium- and large-scale organizations / companies, subject to monitoring by Armstat. As we observe according to data only about 5 percent of employees had been trained annually during 2013-2017 which is very low indicator. In order to understand what role plays education among employed population we present the structure of employed population by education level in Table 3.

Analyzing employed population by education level we can state that there are not any significant changes in favor of employment across education level. In general employment with tertiary and post-graduate education levels remained unchanged. During 2013-2017 employment with secondary specialized, general secondary and general basic education levels decreased and we will try to explain or find out the main causes later in this article.

Table 3
3

Employed population by education (average annual, 1000 persons)
[Statistical Yearbook of Armenia 2014, 2015, 2016, 2017, 2018]

[2014, 2015, 2016, 2017, 2018]

	2013	2014	2015	2016	2017
Total	1 163.8	1 133.5	1 072.6	1 006.2	1 011.7
Tertiary, post-graduate	308.8	347.3	311.7	293.0	299.7
Secondary specialized	271.0	230.8	212.0	191.0	194.9
Vocational	30.6	35.1	29.6	41.4	33.1
General secondary	475.5	469.1	461.7	424.4	441.0
General basic	71.2	47.6	53.8	51.3	40.6
Primary; incomplete primary	7.6	3.6	3.8	5.0	2.4

As well we assume that if we take that one of the main reasons of decreased employment is the increasing productivity then there should take place increasing wages. In Table 4 we present minimum wages and average monthly nominal wages.

Table 4
4

Amount statutory minimum wages and average monthly nominal wages
for the 2013-2017 annual periods (in Armenian drams) [Labor market in the RA, 2018]

2013-2017 ., [, 2018]

	2013	2014	2015	2016	2017
Amount statutory minimum wages ¹	35 000 (since 01.01) 45 000 (since 01.07)	50 000 (since 01.07)	55 000 (since 01.07)	55000	55 000
Average monthly nominal wages	146 524	158 580	171 615	174 445	177 817

As we see from Table 4 during 2013-2017 there were not recorded significant increases both in minimum wages and in average monthly nominal wages. Taking into account this fact we can mention that in the RA there exists gap between productivity and wage levels, and economic growth remains behind its potential. Usually wages are the main source of income for households; to whom consumption come largest part of aggregate demand. If we consider percentage distribution of employees by amount of wages in 2017 then ratio of nominal wages to the statutory minimum wages higher 3-6 times only 14 %, higher 6-10 times only 3 %. Low wages will mean low consumption level which will constrain the investments and incentives to invest in technology which in turn will constrain future productivity growth. It is known that for the RA's economy private transfers are considered as an "income" or "additional income" for households and forming aggregate demand. Private transfers "increase" minimum wage level by not creating incentives or motivations to be evolved in labor market for those who receive that transfers. In 2018 private transfers' inflows to the RA's economy amounted almost 1.8 billion USD. Most part of these transfers comes from Russian Federation (almost 1 billion USD) and the USA (almost 225 million USD). [Central Bank of RA, 2019] That's why the household consumption level in the RA's GDP is relatively higher then it is accepted but most part of this consumption goes to imported goods.

¹ Since 2015 minimum wages indicators are presented after income tax.

Analyzing of the RA's GDP composition we can state that in 2017 almost 76.7 % comes to household consumption, 14.2 % - to government consumption, 21.4 % - investments in fixed capital and inventories, 38.1 % - exports of goods and services and 50.4 % - imports of goods and services. [Central ^ 2018] Comparing the RA's GDP composition with other countries we see that household consumption is very high in the RA than in other countries. For example this indicator was 52.4 % in Russia, 62.8 % in Georgia, 66.5 % in Ukraine and etc. The only way to fix the problem is developing export oriented domestic production of goods and services and trying to "substitute" part of the import by domestic production.

Efficient use of labor recourses and increasing employment level are the priorities of the RA's Prospective Development Strategic Program for 2014-2025. Increasing the number of employed and providing entrance for those who have been eliminated from labor market with different reasons is core mechanism for decreasing poverty level. [RA's Prospective, 2014-2025] One of the main reasons of poverty in Armenia is a lack of jobs and low wage level which is reflected in number of workers who emigrate. According to the World Bank in Armenia, 25.7 % of the population lived below the national poverty line in 2017. [The World Bank,2019] Almost 40.5 percent of the very poor and 47.8 percent of the poor have incomes from agricultural self-employment. This self-employment is obviously not very effective, and does not even fully satisfy household's own needs.

Table 5

5

Employed Population by types of economic activity (average annual, 1000 persons)
[Statistical Yearbook of Armenia 2018]

	2013	2014	2015	2016	2017
Employed, Total	1 163.8	1 133.5	1 072.6	1 006.2	1 011.7
Agriculture	422.1	394.8	379.0	338.1	317.1
Manufacturing	96.5	94.6	84.2	83.2	92.4
Construction	66.1	58.6	49.9	37.5	37.1
Wholesale and retail trade	115.1	123.7	112.8	115.7	111.6
Transportation and storage	51.2	45.5	39.9	32.8	39.1
Public administration and defense	83.3	89.4	93.4	86.5	89.2
Education	105.5	105.4	107.1	107.7	108.9
Human health and social work	49.1	50.9	49.4	48.3	47.3
Other	174.9	170.6	156.9	156.4	169.0

In Table 5 employed population by types of economic activity is presented. As the data shows during 2013-2017 people employed in the RA's agriculture decreased from 422.1 to 317.1 thousand people. Although enrollment in agriculture as percent of a total employment has decreasing tendency in the RA's labor market it is still exist high enrollment in agriculture. During 2013-2017 enrollment in agriculture decreased from 36.3 % to 31.3 %. According to Table 5 during 2013-2017 almost 152.1 thousand decreased employed people comes to mainly agriculture (105 thousand), construction (29 thousand) and transportation and storage (12.1 thousand) sectors of RA's economy. Moreover taking into account that enrollment in agriculture is very high it will be better if labor move from low value added agriculture sector to other high value added sectors in order to increase productivity. As the data shows decreased employed number in agriculture is not accompanied with increasing employed number in other high value added sectors. High level of poverty and inequality in Armenia, outdated social infrastructures, under-financing and weakening of formal institutions during systemic reforms can introduce, with certain time-lag, significant negative changes in human development trends, if relevant policies for channeling the economic growth to human development are not enacted. [UNDP and the Government, 2005]



Conclusion

It is clear that to overcome the high poverty level and unemployment rate Armenia needs to create more job opportunities for example by stimulating SME's, attracting FDI which will help Armenia to participate in global value chains and developing agriculture sector because most part of this poverty level comes to rural regions and people who employed in agriculture. From our point of view one of the solutions of increasing employment, productivity, wages and economic growth could be stimulating SME's and internalization of the RA's economy which means that the competitiveness of the economy should rise. In Armenia, SMEs constitute 98 % of all registered and functioning legal entities. Within the SME sector, micro-enterprises make up 89 % of all registered businesses, and small firms around 6 %. Roughly 60 % of SMEs are engaged in retail and wholesale trade, with only 9 % engaged in manufacturing and 1 % in transport. Despite improvements since 2002, SMEs' contribution to GDP (33 %) and employment (23.7 %) remains low. Given the large share of micro-enterprises among Armenian SMEs, policies need to first help them to grow through upgrading their production, and second to overcome the lack of capacity and resources that hinders them from internationalising. [EU4Business, 2017] According to World Bank in 2017 Exports of goods and services to GDP ratio was 37.3 % for the RA's economy. Taking into account that Armenia is a small country with limited national market with 2.93 million population number and with 3936 GDP per capita which is below the average level we assume that further economic growth mainly have to concentrate on export oriented sectors.

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Ayrapetyan G.R. 2019. Labour market developments and economic growth in the republic of Armenia. Belgorod State University Scientific Bulletin. Economics. Information technologies. 46 (3): 467-473 (in Russian). DOI 10.18413/2411-3808-2019-46-3-467-473.

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. 46 (3): 467-473. DOI 10.18413/2411-3808-2019-46-3-467-473.