Comparative Analysis of Labour Markets in South East Europe

Mirko Savić\textsuperscript{a}, Jovan Zubović\textsuperscript{b}*

\textsuperscript{a} Faculty of Economics, University of Subotica, Segedinski put 9-11, 24000 Subotica, Serbia
\textsuperscript{b} Economics Institute, Kralja Milana 16, Belgrade, Serbia

Abstract

Seven years after the EU enlargement, when Romania and Bulgaria joined EU, and a year later that Croatia became a member country, other five South East European countries (Serbia, Montenegro, Bosnia and Herzegovina, Albania and Macedonia) are waiting for the membership in European Union. Labour markets of SEE must adapt to fast changes of European labour market where opportunities for life-long jobs will be very rare and job mobility will be even more intensified in the future. In order to find adequate answers to these challenges labour markets in the region should become more market-driven. Process of transition in most of the countries of the region started nearly 25 years ago and countries in the SEE region have been trying to implement the best solutions and practices into local labour markets and to move in the right direction. The main purpose of this paper is to make comparison of labour markets among the countries in the region of South East Europe, especially comparison of non-EU members with the labour markets of Bulgaria and Romania, from the aspects of gender, age and other characteristics, and to draw the conclusions about the changes on the labour market of the region in the last decade when it comes to the employment, unemployment and participation rates and other labour market indicators. Through implementation of principal components analysis and factor analysis changes of regional labour market in last decade were monitored and key factors were identified. Comparative analysis of labour markets in the region was made and conclusions were drawn about differences in the case of key labour market indicators.

Keywords: Labour Market, Key Indicators, South East Europe, Multivariate Analysis, Comparative Analysis

* Corresponding author. Tel.: +381-66-357-000; fax: +381-11-3613-037
E-mail address: jovan.zubovic@ecinst.org.rs
1. Introduction

Couple of years after the EU enlargement, when Romania and Bulgaria joined EU and after Croatian entry into EU there are five South East European countries (Serbia, Montenegro, Bosnia and Herzegovina, Albania and Macedonia) are waiting for the membership in European Union. Three of them are already candidate countries, and other two are determined to achieve the same status in the near future. All the countries in the region are going through long and complicated procedure and waiting to become the new members of EU family. This is the region with approximately 20 million inhabitants and all five countries are expecting to join European Union in the following decade.

As the result of radical and deep changes in the economy of every country in the region, the labour market went through significant changes in its structure. As the consequence of the transitional reforms, when free market economy replaced state-run planned economy, unemployment, long-term unemployment, widespread non-participation, gender and age gaps and structural mismatches become common phenomena in all eight countries. Also, region of SEE is going through significant and negative demographic changes characterized by ageing of population, more intensive migration of working force, low fertility and high divorce rates. Also, system of education, especially higher education, is not compatible with labour market needs.

Many researches were dedicated to the analysis of labour markets on the South East of Europe in recent years and the main conclusion is that the labour market in SEE countries must be more flexible. “The labour market in the economies of the former Yugoslavia was shaped by the particular legacy of the “self-management” system for enterprises, and the existence of the so-called social ownership, which led to a high level of job protection and overall rigidity, and to widespread labour hoarding”. (World Bank, 2004). “Despite major revisions in the 1990s and 2000s, the ideology of the current labour laws (labour codes) in many countries in the region still dates back to the 1970s, 1980s or early 1990s when the laws were first adopted.” (Kuddo, 2009).

What are the main recommendations from these and many other researches? It is necessary to introduce more flexible work organization, working time arrangements should be more diverse followed by more flexible employment contracts. Labour markets of SEE must adapt to fast changes of European labour market where opportunities for life-long jobs will be very rare and job mobility will be even more intensified in the future. In order to find adequate answers to these challenges labour markets in the region should become more market-driven.

Process of transition in most of the countries of the region started almost 25 years ago and the countries in the SEE region have been trying to implement the best solutions and practices into local labour markets and to move in the right direction. This paper serves as an attempt to answer the following question: When we look at the changes in the last decade, are there any significant structural changes on the labour markets from the aspects of gender, age etc.? If we compare the labour markets of those eight countries where are the main changes? After the EU accession of Bulgaria and Romania, are the labour markets in these two countries changing and improving faster than the rest of the region? Which labour markets are the most underdeveloped? Which dimension of labour market is the biggest problem?

The main purpose of this paper is to make comparison of labour markets among the countries in the region of South East Europe, especially comparison of non-EU members with the labour markets of Bulgaria and Romania, from the aspects of gender, age and other characteristics, and to draw the conclusions about the changes on the labour market of the region in the last decade when it comes to the employment, unemployment and participation rates and other labour market indicators.

Data about key labour market indicators for eight countries of the Southeast Europe (Bulgaria, Romania, Serbia, Croatia, Montenegro, Bosnia and Herzegovina, Albania, and Macedonia) were collected. Data sources are database of International Labour Organization (ILO), EUROSTAT and national statistical offices. Through implementation of principal components analysis and factor analysis changes of regional labour market in last decade were monitored and key factors were identified. Comparative analysis of labour markets in the region was made and conclusions were drawn about differences in the case of key labour market indicators.
2. Literature Review

The modification of labour markets in Eastern Europe during transition has been quite different from that anticipated by the contemporary scientific literature. In particular, it was characterized by stagnant unemployment pools, large flows to inactivity and significantly low labour mobility especially when we look at the changes occurring in the structure of employment across sectors, occupation and ownership of firms.

“Indeed, post-communist countries started with pretty similar initial conditions in terms of the performance of their labour markets. The latter were characterized by shortages of labour, no open unemployment, very high levels of unionization, and no unemployment protection.” (Lehmann & Muravyev, 2010, p. 6) In all Eastern European countries, in the first years of economic transition, significant rise to unemployment and fall in participation and unemployment rates was caused by economic restructuring and dramatic decrease in labour demand. As Rutkowski noticed, rapid enterprise restructuring has led to the growth in open unemployment. In contrast, the gradual approach to restructuring resulted in hidden unemployment (underemployment or low-productivity employment) (Rutkowski, 2006, p. 19).

According to Ferragina and Pastore, when the speed of restructuring is too fast, actual separations exceed the maximum hiring rate and private job creation is unable to absorb the workers laid off by the state sector. Unemployment increases steadily, eventually reaching such a high level that the fiscal burden generates causes the reforms to fail. This suggests that the reform should be gradual (Ferragina & Pastore, 2008, p. 80). On the basis of their model same authors came to conclusions that (a) unemployment is persistent because the unemployed are crowded out by employed job seekers; (b) the initial stages of transition crucially determine the degree of persistence of transitional unemployment (Ferragina & Pastore, 2008, p. 83).

Countries of South East Europe went through the process of reform during the last two decades, but the reform is not over yet. We can observe many similarities in the way how reforms were conducted:

- All the countries experienced drastic declines in output at the start of transitions.
- Radical structural change occurs followed by low worker flows.
- Significant number of job leavers in comparison with job losers in the years of the steepest employment and decline of output.
- Private employers recruited their workers mostly from the state enterprises rather than from the large unemployment pools.
- Significant number of workers left the labour force after the start of transition and caused high inactivity rates.
- Labour market reform is not followed by reform of educational system in the corresponding way.
- Introduced active labour market policy measures are not efficient.

Boeri suggests that, on the one hand, reforms had to be enforced in such a way as to avoid creating too much unemployment before a critical size of the private sector had been reached. Otherwise, social unrest related to increasing unemployment and the associated political backlashes of reformers, the fiscal burden induced by unemployment benefit payments or other “feedback” mechanisms (e.g., income effects of dis-employment) would block reforms. On the other hand, reforms could not be too slow as resources had to be freed for the growth of the private sector, unemployment had to start exerting its moderating effects on wage claims (and employers were deemed not sufficiently organised to resist such claims) and increased productivity had to stimulate investment. This was the essence of the trade-offs entailed by the models of the speed of transition developed at early stages of the process and widely used in policy advice throughout the region (Boeri, 1999, p. 1).

The problem of long duration of unemployment is even more severe. In the transition economies of South East Europe, for example Croatia and FYR Macedonia, large number of long term unemployment spells occurs because strict employment protection legislation discouraged employers from hiring new workers. It was the reason for the accumulation of the large contingent of workers who find it extremely difficult to enter or re-enter the labour market. The similar cases we can find also in other countries of the region.

When it comes to the participation rates and experience of former candidate countries now in the EU, in comparison to the EU15 the NMS12 have particularly low participation rates among the prime working age (i.e. 25
to 54 year old) males, while participation and employment rates of females and the older tend to be more in line with the EU15. (Huber, 2008, p. 9)

We can find many similarities between the situation in the South East Europe and the situation in new EU member states ten years ago. In comparison to EU member states, candidate countries are characterised by high unemployment, which is in particular driven by high, long-term unemployment rates and higher youth unemployment than in EU member states (Knogler, 2001). With the exception of Hungary they are, however, also characterised by higher participation rates than Southern European high unemployment countries such as Spain. This circumstance is primarily due to a higher female participation rate in these countries, while participation rates of the elderly are comparable to that of many EU countries (Gacs & Huber, 2003). Furthermore, candidate countries also share a number of common problems with current EU member states. In particular the predicted demographic decline in these countries for the coming decades is much more pronounced than in the EU member states. Demographic forecasts of the UN predict that, up to 2020, the population may decline by between 1.8% (Poland) and 11.3% (Bulgaria) in these countries as opposed to 1.5% in the European Union (Gacs & Huber, 2005, p. 557). As a consequence there could arise implications on regional labour market adjustment mechanisms as analysed in this article, since it is often found that older people are less likely to migrate than younger people (Hunt, 2000).

One of the crucial problems is the model of privatisation of state-owned enterprises. Although unemployment is unavoidable, policy makers are in the position to prevent too rapid rise in the number of unemployed people at the beginning of transition, through harmonisation of employment reductions in state-owned enterprises with the slowly growing capacity of the emerging private sector.

Because of increase in unemployment caused by privatisation, labour market policies were much more social than economic category. According to many West European authors, unemployment benefits at the beginning of transition must be relatively generous, in order to initiate the reallocation process, but when unemployment reach a certain threshold transition economies should reduce the generosity of benefits in order to reduce the fiscal burden on private sector and to convince the stakeholders that reform will not slow down. This simply did not happened in the South East Europe. The fiscal burden imposed by the financing of these benefits on private job creation still exists, and employers are very doubtful about the final outcome of reforms.

On the example of Poland, Boeri states three striking facts about labour market in transition economies (Boeri, 1999, p. 11):

- First, outflows from employment to inactivity are twice as large as flows from employment to unemployment.
- Second, large direct shifts from state-sector-employment to private-sector-employment occur which are not mediated by intervening unemployment spells: in Poland such job-to-job shifts were in 1992-3 more than twice as large as flows from public sector employment to unemployment (almost 9 per cent of state sector employment moved directly to the private sector compared with a modest 4 per cent becoming unemployed).
- Third, a very significant component of outflows from unemployment (more than 40 per cent!) involved withdrawals from labour force participation rather than flows to private sector employment.

The same author stresses that it is still necessary to ascertain which policy instruments, if any, can be activated by policy-makers in countries shifting from one economic system to another. “The generosity of non-employment benefits is a key variable governments can rather freely adjust particularly at early stages of the transformation process – as there are no longstanding entitlements to benefits, no long transitions involving the grandfathering of existing claims, to deal with -- and one that has the potential to significantly affect the pace and characteristics of labour market adjustment.” (Boeri, 1999, p. 15).

According to Rovelli and Bruno (2008), higher rates of employment are in general associated with higher expenditures on labour market policies, especially on active policies for countries with a high pro-work attitude and a lower degree of rigidity in labour market institutions and in product market regulation.

On the basis of experience of other Eastern European countries, recent researches showed that moderately strict employment protection legislation in combination with significant number or active labour market programs and smart distribution of unemployment benefits is very important for the development of labour markets in the region. “Active LMP (Labour market policies) should exert a positive effect on labour market outcomes (employment
rates), although the size and cost-effectiveness of such effects may vary according to the type of program and also to cyclical conditions (Rovelli & Bruno, 2008).

By examining the evolution of five labour market institutions and policies in the transition economies, Lehmann and Muravyev (2010, p. 5) concluded that there is in general trend towards liberalization in the whole transition region, but there are important differences across countries.

Elhorst and Zeilstra are stressing that different countries need different approach to the problem. “The implication is that a common policy to encourage labour force participation in the EU is impracticable. Policy measures that have large effects in one country may have small or even adverse effects in another country.” (Elhorst & Zeilstra, 2007, p. 544). Very important question that needs to be answered is how similar are the labour markets of the countries in South East Europe from the aspect of implemented policy instruments?

In early research papers about transition in Central and Eastern European countries we can find that transition has also been characterized by the significant increase of regional disparities (Boeri & Scarpetta, 1996). A number of stylised facts have been established in this respect: large cities have exhibited the lowest unemployment rates and highest wages throughout transition; border regions to the West have developed better than non-border regions; and mono-industrial regions faced considerable labour market problems (Gorzelak, 1996) and (Smith, 1998).

3. Scientific Methods

In order to conduct the comparative analysis of the labour markets in the region of South East Europe, two multivariate techniques were used: factor analysis and principal components analysis. Factor analysis, on the basis of the principal components analysis, will help us to reduce a significant number of variables to a meaningful, interpretable, and manageable set of factors (Myers & Mullet, 2003, p. 203). Manly (2005, p. 101) indicates that factor analysis is interdependence technique that seeks group of variables that are similar in sense that they are “moving together” and the basic idea is to identify the similar variables among great number of labour market variables and group them together. Each group will represent a key factor on the South East European labour market.

One of the main results will be the visual presentations of national labour markets in the region of South East Europe on the basis of the identified factors. The pictures obtained on the basis of principal components analysis should be meaningful in terms of what is known about employment in the region of South East Europe. The countries with similar labour market indicators should be grouped together. This will enable the possibility to see the position of each country in the comparison with other SEE countries. In order to better evaluate the changes and position of the countries in the region, Austrian labour market is also included in the analysis and graphical presentation as a benchmark.

The data were collected from EUROSTAT statistical database and national statistical offices. Actually, the collected data are from the Labour Force Surveys conducted in each country in the years 2002 and 2010. There is a few very important remarks about collected data:

- Data were collected about 48 different labour market variables: activity rates, employment rates, inactivity rates, and unemployment rates across age groups and genders.
- In 2002 Serbia and Montenegro were one country and in 2010 two separate countries. Because of that in the 2002 labour market variables are the same for both countries.
- In the case of Albania and Bosnia and Herzegovina significant amount of data for 2002 and 2010 were not available. Therefore data from 2003 and 2009 were used or estimation was conducted on the basis of available data.

4. Results

4.1. Labour markets of South East Europe in 2002

On the basis of factor analysis of data from 2002 four factors were extracted:
Factor 1: Female + Total (female participation rates, female inactivity rates, total participation rates, total inactivity rates). This factor explains around 40% of variation on the labour markets.

Factor 2: Male (male participation rates, male inactivity rates). This factor explains additional 22% of variation on the labour markets.

Factor 3: Employment + Unemployment (employment rates and unemployment rates for both genders). This factor explains additional 18% of variation on the labour markets.

Factor 4: Young + Older (participation, inactivity, employment and unemployment rates for youngest (15-24 years) and oldest (55-64 and 65+) groups for both genders). This factor explains additional 12% of variation on the labour markets.

The following table shows that 91.9% of variation among data was covered with these factors.

| Eigenvalue | % Total - variance | Cumulative - Eigenvalue | Cumulative - % |
|------------|--------------------|-------------------------|----------------|
| 1          | 19.33876           | 40.28909                | 40.28909       |
| 2          | 10.38466           | 21.63471                | 61.92380       |
| 3          | 8.64568            | 18.01183                | 79.93564       |
| 4          | 5.74519            | 11.96914                | 91.90478       |

The main difference among labour markets in the region is in the case of female labour force, participation and inactivity (factor 1), and then in the case of male labour force participation and inactivity (factor 2). If we look at the Figure 1, we can see surprisingly good position of Bosnia and Herzegovina in the case of male and female labour force. This is because the process of transition in BIH started later in comparison with other countries and larger unemployment spells started after 2002. The process of privatisation was on the beginning and large contingent of labour force was formally still employed.

Bulgaria and Croatia had relatively better position of female labour force in comparison with other countries. Albania had the worse situation concerning females and in the case of participation rates of male labour force Macedonia and Bulgaria were lagging behind.
When we look at the Figure 2, in the case of youngest and oldest cohorts on the labour market in 2002 Croatia had the best position following by Macedonia. The situation was the worst in Bosnia and Herzegovina. Bulgaria and Romania also had less favourable situation concerning the youngest and oldest labour market participants.

4.2. Labour markets of South East Europe in 2010

On the basis of factor analysis of data from 2010 we have extracted four factors:

- Factor 1: Female + Employment + Unemployment (female participation rates, employment rates and unemployment rates for both genders). This factor explains 53% of variation on the labour markets.
- Factor 2: Activity + Inactivity (total participation and inactivity rates for both genders). This factor explains additional 19% of variation on the labour markets.
- Factor 3: Young (participation, inactivity, employment and unemployment rates for youngest groups (15-24 years)). This factor explains additional 10% of variation on the labour markets.
- Factor 4: Male (male participation rates). This factor explains additional 8% of variation on the labour markets.

Eight years later situation on the labour markets have been changed. Main factor are female participation rates and employment and unemployment rates. In other words, if we look for the variables that are making the largest differences among countries we have to look at the position of female labour force, employment and unemployment rates. In 2010 these variables are moving together on market. Also we can conclude that male labour force is in relatively similar position in all eight countries.

The following table (table 2) shows that 90.6% of variation among data was covered with these four factors.

|                      | Eigenvalue | % Total - variance | Cumulative - Eigenvalue | Cumulative - % |
|----------------------|------------|--------------------|------------------------|----------------|
| 1                    | 25,53561   | 53,19919           | 25,53561               | 53,19919       |
| 2                    | 9,19334    | 19,15280           | 34,72896               | 72,35199       |
| 3                    | 4,80950    | 10,01979           | 39,53846               | 82,37178       |
If we compare the situation in 2010 with 2002 in the case of female labour force (Figure 3), we can see that Romania and especially Bulgaria have made the significant advance. Also we can see that worst position of labour force is in the Bosnia and Herzegovina. Serbia and Montenegro are also lagging behind while Croatia and Macedonia have relatively better positions in comparison with 2002.

If we look at the Figure 4, in the case of male labour force situation is rather equal among the SEE countries with exception of Macedonia. There is significant dispersion in the case of youngest groups on the labour market. Romania is lagging behind in that area and Bulgaria is somewhere around the average of the region. We can conclude that despite the EU accession in 2007 Bulgaria and Romania have not improved the position of the young labour force in comparison with other SEE countries.
5. Conclusion

This paper is an attempt to analyze and compare the labor markets of the South East European region through multivariate analysis in 2002 and eight years later, in 2010. There is obvious scientific and practical significance from exploring variations in key labor market variables in South East Europe, but relatively little has been done so far. One of the main problems is the low quality of available data, or even their unavailability, especially from the early periods of transition. The answers to the questions from the beginning of the research are the following: When we look at the changes in the last decade, there are some structural changes on the labor markets. The main characteristic that makes the difference among labor markets in the region is still female labor force but in combination with employment and unemployment rates, while male labor force and position of oldest groups are losing its significance. It does not mean that oldest groups are in better position on the labor market than before. It means that the countries of the South East Europe are in more similar position concerning the oldest part of labor force.

In the case of Romania and Bulgaria, eight years later we can conclude that these two countries are the leaders concerning female labor force and employment in total. On the other hand, situation is not so good in the case of youngest groups because Romania is lagging behind while Bulgaria is around the average for the region. They are changing and improving faster than the rest of the region but eight years after the changes in that area are not significant. Also we can conclude that the most underdeveloped labor market in the region is in Bosnia and Herzegovina especially in the case of female labor force and total employment and unemployment rates.

In which direction labor market reforms in the region should go? Important results of research from Rovelli and Bruno are showing that, on a cross-country basis, higher rates of employment are in general associated with (Rovelli & Bruno, 2008, p. 1):

- Higher expenditures on labor market policies, especially on active policies for countries with a high pro-work attitude;
- A lower degree of rigidity in labor market institutions and in product market regulation.

Commenting on the research of Boeri (2000, p. 43), Ferragina and Pastore (2008, p. 84) came to the conclusion that unemployment benefit is a key policy variable during transition, but not in the sense in which the early transition models considered it. Boeri maintains that all transition countries made the wrong choice with regard to the timing of unemployment benefits. They made overgenerous non-employment benefits available from the outset, thereby creating the conditions for stagnant unemployment pools throughout transition. How to improve the weak labor markets and employment prospects in the South East Europe? The solution to the economic development and consequently better labor market conditions in the countries of the region is investment and the consequent job creation. Thus, the main task of policy makers in the region of South East Europe is to attract more investment, through creation of incentives for firm entry, reducing the red tape, development of infrastructure, and through investments in human capital in order to improve labor productivity.

What should be the main policy for South East Europe in the following period? It is clearly the Lisbon agenda. Although the majority of countries in SEE are not the EU members they should follow the Lisbon agenda in order to reduce the development gap between them and EU. They must follow the road that EU countries are going through.

For the SEE countries, in the current circumstances it is necessary to continue with structural reforms towards more flexible labor market in the line with Lisbon agenda which means that employment policy should focus on two goals: implementation of integrated flexicurity approaches and better skills matching and improvement. In the case of flexicurity the transitions within and into the labor market must be provided and followed by adequate safety nets, minimum income schemes and improvement of Public Employment Services and active labor market policies. Second goal is better skills matching and it is critically important for the countries of South East Europe as it is improving labor force for rapid technological change and continued innovation, while improving employability. According to the Council of the EU (Joint Employment Report 2008/2009), “this requires an open and constructive dialogue with social partners and other stakeholders as well as carefully considering the interplay between monetary, budgetary, fiscal, employment and social protection policies.”

There are three basic problems in South East Europe to conduct efficient labor market reforms in line with Lisbon agenda: lack of social consensus, resistance towards flexicurity and lack of financial funds for labor market policies. Although all the countries have been trying to introduce active labor market policies, their share in GDP is
significantly lower than in other European countries. Resistance towards flexicurity is very strong because of inherited habit of high job protection and high union density. The general conclusion is that significant changes on the labour markets of SEE countries are not possible without financial funds from the outside, but the main problem is the lack of social consensus because of the continuous political volatility.

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