

ECONOMIC INEQUALITIES AND SOCIAL TENSIONS IN THE TRANSITION PERIOD IN FYROM

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In circumstances when socialism in the former territory of Yugoslavia emerged from the class struggle, its practical operationalization started from the ideology of equality, justice and equity, as fundamental principles that should be qualitative attributes of the change of the former system (capitalism).

The principal burden of change was shouldered by tectonic shift of the ownership basis towards the constitution of social property, as a pillar of new "self-management production relation", and widely diversified net of social and educational institutions through which the state modeled the value system and behavior of individuals in its effort to eliminate all forms of discrimination (class, sex, national) on the way to egalitarian society. Besides the guaranteed job, a wide-ranging system of welfare, health care, free education, low rents, subsidies in the sphere of culture and education, created a genuine milieu of a welfare state. The problem lied in the ideological approach to constituting such a state, the essence of which was prevalence of social and political criteria. In the last instance, such a situation was mirrored as a conflict between a decrease in productivity and increase in redistribution of income in favor of all kinds of expenditure. This conflict brought about the aggravation of all vital performances in the system - decrease in growth rate, disinvestment, production decrease, employment decrease ... Consequently, there occurred an imperative, particularly in the context of transitional changes in East European countries, of making topical the question of abandoning the ideological matrix of socialism and a return to the empirically acknowledged road of civilizational progress - market economy, private property, democracy.

Such changes should establish a natural order of matters - increase in economic efficiency as an overture to consolidating the acquired values of social progress. In effect, the realization of a project for global progress was closely linked with the successfulness of economic reforms' implementation.

In 1989, FYROM commenced a process of transformation of its political and economic system. The process gained a special characteristic by monetary indé-

pendence of the state (1992) when the responsibility towards social and economic development was completely taken over by internal political forces. Henceforth, the events in the economic life have been manifested as a deep discrepancy between the anticipated and achieved development which has brought FYROM on the edge of a deep economic and moral crisis. The most synthetic expression for economic downfall in the period of reforms was "free fall" of the grown rate amounting to -10% on the average for the period 1991-1995. This caused GDP in 1996 to decrease by half, in comparison to the situation of 1991. Society impoverishment did not follow the matrix of a linear process since the course of reform changes opened a process of transition of rather egalitarian social and political systems into a society of drastic economic and social polarization.

Dimensions of economic and social polarization

The most obvious form of degradation, impoverishment and deprivation of individual in a modern social system is carried out through the rapid unemployment increase. In the economic reality of FYROM, unemployment gains dimensions incomprehensible for the time, cultural ambiance and the area it has been taking place in. That is precisely why the most significant degenerative component of modern transition economy is manifested in marginalization of human resources and their erasure from the system of value objectives.

High unemployment rate is not a typical product of economy in transition. This is why great sensitivity should have been shown to these issues in the period of economic reforms. Insufficiency of reforms that would have a proper view on unemployment was a root for enormous expansion of the problem. Thus, whereas in the period 1976-1987 in FYROM there was a positive rate in employment growth (4%), since 1990 onward the employment rate has been continually decreasing (6% on the average).

Table 1
Employment and Unemployment in the Period 1988-1996¹

Year	Employed		Persons looking for job	
	Total	Indices	Total	Indices
2				
1988	514.986	-	145.190	-
1989	516.534	100.3	153.528	105.0
1990	507.372	98.2	159.307	103.8
1991	468.372	92.3	166.873	104.7
1992	446.117	95.2	173.350	103.9
1993	421.021	94.4	177.156	102.2
1994	395.686	94.0	198.280	113.2
1995	356.617	90.1	228.959	116.6
1996*	339.824	95.3	237.572	109.9

According to the official statistics in 1989, i.e. before the start of a negative employment trend, unemployment rate was 22% while in 1996 it increased to 40%. Such unemployment in FYROM cannot be located in the framework of any existing scientifically verified typology, (frictional, structural and cyclical) not only because of the dimension of this problem, but also because of its duration. The unemployment rate of over 20 % for over two decades is a specific type of system unemployment. This kind of qualification of unemployment is in context of the empirically verified situation that a system without a market economy and incorporated mechanisms (instruments of economic policy) that would orient a society at a complete use as possible of labor resources, generates economic marginalization of a human being in society.

Market imperfection embodied in the fact that it cannot balance relations in the labor market in the framework of economic cycles cannot be compared to shortcomings of statistic economy which pushes to the point of absurdity a bureaucratic conflict with economic laws concerning labor market. Thus, the labor market in FYROM is a buyers market, because the workforce offer in 1996 is 63 times the demand, all this in the context of identified relations in one institution - Employment Bureau.

Demystification of the true scope of unemployment, in scientific terms, requires that certain methodological dilemma and inconsistencies be clarified. Thus, the category of workers dismissed, due to insolvency proceedings, is

treated as employed population. According to its main features: amount of wages equaling to social help, non-payment to various social and pension schemes, non-productive engagement at the workplace, long-term character of such a status, impossibility of seeking alternative solutions (re-training, new job) because of the cycle phase, should be treated as unemployment. If we want to be precise in regard to non-engagement of the workforce, workers dismissed due to insolvency proceedings and surplus workforce (in total 120.000 employed) should be excluded from the category of the employed and added to the category of the unemployed. In that case the unemployment rate would amount to 59.5%. The genuine dimensions of the problem do not lie in such an extreme unemployment rate. The category of labor capable population includes various hidden forms of unemployment. Partial unemployment comes from the impossibility of securing full-time employment and generally not in the context of the need for providing normal reproduction of an individual. Agrarian over-population is also part of unemployment category. Hidden unemployment in the farming sector is particularly emphasized when rural exodus is prevented, due to negative structure of the economy. It amounts to approximately 80.000-100.000 persons.

In the situation in which 2 to 3% of persons looking for a job manage to find it with the help of the Employment Bureau, a large part of the category of unemployed do not officialize their status in the Employment Bureau and, consequently, the unemployment rates artificially decreases.

On the other hand, gray economy including part of illegal business (narcotics), as well as the habit of avoiding due registration of employees for purposes of tax evasion, impacts the increase of the official unemployment rate, although these persons in fact generate income.

When the dimensions of the problem are to be determined from the scientific point of view, it is desirable to take into account migrant workers abroad. If we start from the assumption that 10-15% of them would stay abroad, while the rest of them would return to the country, in case normal economic structures were restored, it appears that the category of unemployed would include additional 150.000 persons, if calculations are made on the basis of the fact that in 1995 the exodus of the population abroad included 180.000 persons. Trying to approach real dimensions of the problem we have overstepped the line of alarming situation in regard to use of workforce in FYROM which amounts to 18% vis-à-vis enormous economic marginalization of the population. This is largely young, productive and educated population that cannot exercise its civilizational right to economic freedom, not on account of a natural disaster cataclysm, but due to incorrect pursuance of economic policy.

The structure of unemployed persons by the duration of period on a waiting list is alarming. The so-called long-term unemployment (over 1 year) dominates, while 41 % of the registered unemployed persons are seeking jobs for over five years. Out of the total number of the unemployed, 70% is a young population waiting to realize their right to the first employment. The unemployment structure by education degree is also unfavorable. Thus, 20% of unemployment goes to unemployed persons that have higher or university education.

The problems, in regard to unemployment assessment, are closely linked with the comprehension of economic and social expenditures incurred by unemployment.

Unemployment is primarily an economic problem and, accordingly, the strategic "price" of high unemployment lies in unrealized production. The percentage of unemployed workforce amounting to 60% in 1996 is by 38% larger than in the period before transition commenced (22%). If this figure is multiplied by the Owkenn's³ coefficient (38×2.5), it will turn out that the rapid unemployment increase in the period 1990-1996 produced a GDP loss of 95%. In other words, if FYROM had managed to keep the unemployment level registered in 1990, GDP would have been twice larger. If these calculations are made on the basis of the natural unemployment level (6%), losses would be much more striking.

System unemployment is much more than pauperization of the population. It is at the same a social catastrophe. Elements of such a catastrophe are rather obvious in everyday life and are manifested in loss of self-confidence, defeatism, erosion of moral code, destruction of family, involvement in various forms of criminal behavior, increased number of suicides, psychological disorders and mortality rate.

The obvious indicator of economic and social erosion in this area is life expectancy. In 1980, life expectancy was 70 years, but today it declined to 66 years.

Impoverishment affects the category of employed as well. Thus, the average decrease in the index of real net pay per employee, in the period 1991-1995, was 8.2% per employee. The real net pay in 1995 was 64.7% of the level in 1990, as a result of enormous increase in the index of the cost of living. In 1997, the average monthly pay of the Macedonian worker amounts to 150 USD.

Table 2
Indices of real net pay and cost of living

Year	Indices of cost of living	Indices of real net pay		
		total	Economic activities	non-economic activities
1991	210.8	87.5	84.2	94.9
1992	3396.6	58.4	57.6	57.7
1993	15692.4	75.3	72.2	79.3
1994	35825.7	67.6	66.5	64.5
1995	41450.3	64.7	64.6	58.0

The social erosion seriously affects the category of pensioners. Their large share in the population (12%) creates a vicious circle of high pension expenditures (10.2% of GDP in 1996), high contribution rates, motivation not to register employees and, therefrom, again higher contribution rates. For instance, FYROM has 6 labor capable persons on one pensioner over 60 years, but only one of them pays contributions.

In effect, the social milieu of FYROM is constantly deteriorated in a vicious circle of economic downfall through the reduction of funds allocated to the health care budget. The real value of funds allocated to health care in the period 1991-1996 were decreased by 60%, what reflects negatively on the entire health care system. Owing to "hard line" budgetary restrictions, which were objectively imposed by the aggravation of the economic situation, there occurred a reduction of expenditures for education, culture and sciences as important investments in human factor. The practice of paying tuition is largely entering the education system, what hinders the process of social and educational restructuring and paves the way for conservation of social differences, through maintenance of education monopoly. The social milieu erosion is seen in a drastic decrease in participation of expenditures for social and health care and education. Their share in the former system was 68% of the overall public expenditures, whereas in 1996 it dropped to 50%. It is beyond doubt that this drop is even larger in view of that fact that in this period (1990-1996) the GDP was halved. In fact, public expenditure in this period was burdened with costs incurred by the economy in transition (expansion of budget state), what had negative effects on the qualitative aspects of the welfare state of the former system.

The antipode of impoverishment is concentration of wealth in hands of a small number of persons (2-3%). As distinct from the capitalist world, where acquisition of wealth is carried out by economic laws of the market, accumulation of wealth by inter-generation transfer (inheritance) or rapid acquisition of wealth, as a result of invention and creativity capitalized on the market, acquisition of wealth in FYROM was conducted in a non-economic way, an illegal way or various forms of organized crime.

Causes of Problem Escalation

Methods of impoverishment of people, as an obvious regression in the historical development or vice versa to the concentration of wealth, were a direct consequence of failures in "social engineering", selected privatization model, expansion of gray economy and created economic policy.

Failures of "social engineering" relate to the selection of value objectives as a basic orientation of transition. In conditions of lack of historical experience and theoretical knowledge on how to carry out transition, practice prevailed and, therefore, the main value objective became privatization. Such an orientation was primarily a political decision based on short-term interests. In the situation in which every power is centered around the distribution of surplus value, the challenge to the current government was greater because the distribution of social wealth, created almost 5 decades, was in question. Thus, real pillars of development of the modern world, market economy and concept of management, in the context of which transformation of the system towards improved efficiency could be carried out, were not correctly assessed. Such a strategy would be an overture to consolidation of the economic basis for lawful process of ownership transformation. Focus on privatization took us directly to the threshold of the deep economic crisis.

The first fundament of social differentiation was brought about by the way in which privatization was carried out. Problem simplification was manifested in reduction of a grandiose historical change (alteration of ownership structure), upon which the quality of the future social and economic system depended, to a technique of capital transformation. The dominant model of management buy-out in the first stage of privatization, in cases of the most profitable companies, demystified by demagogic platitude regarding commercial logic of the process, was disclosed as a process of distribution of enormous capital on the basis of exclusiveness of the existing and acquired position (political functions, managers ...) The basis of ideological deviations of transformation were disrespect for the prin-

ciple of equal opportunities for all at the start of transformation. The ontogenesis of this principle ensues from the character of ownership in the previous system - social, as well as from real situation in the society, in view of the fact that the former system formed egalitarian economic and social ambiance and, actually, there were no economic operators that would be economically potent buyers of such enormous capital.

It was the principle of equal opportunities for all, in the sense of commercial valuation of capital, that could be morally, ethically and economically justifiable approach, because not only that it corresponded to the features of the former system, but it had the attributes of market economy it was supposed to promote.

Disregard for this fundamental principle brought about ideological metamorphosis of the privatization process in the following direction - the legally defined objective became a justification for loss of conscience, ethics and economic logic of the process itself. The realization of the dogmatized objective created political, economic and legal structure which, starting from concessions in the adopted Law, then breaches of the Law on a case by case basis, pressures on independent judiciary for registration of incriminated entities, repayment of debts by high discount bonds.... closed financial plans with fictitious rights of illegal activities and enormous socially-owned capital, created by the people for decades, was transferred over night to private hands. According to the official data, the dominant part of the total capital (76%) was privatized by the end of 1996, the value of which is assessed to be 2.36 billion DM. The total financial effect of privatization was 106.6 million DM, i.e. only 4.5% of the estimated value of privatized enterprises. Cash money amounted to 21.6 million DM in the overall structure, meaning 0.9% of the capital value, whereas the rest was covered by blocked foreign currency deposits, discount state certificates, etc.

Ideological deviation of the situation had rather negative repercussions on the economic and moral status of the population, but also on consolidation and legitimization of ownership transformation from the historical perspective, due to the fact that it was carried out as an act of acquisition of property by officialization of all possible forms and instruments of cashless acquisition (without consideration).

The second ideological metamorphosis that was a source of social differentiation took place in regard to market economy. Thus, the conservative and dogmatic monopoly subdued the concept of market economy to one's own understanding (interests). That is where one of the most destructive deviations of the system comes from: statist destruction of the market by annulment of minimum standards necessary for its normal functioning, which are creation and observance of a legal framework that would guarantee fundamental rights and freedoms of e-

conomic operators and their business transactions, as well as the security of their property. In regard to these market imperatives, insecurity and disorder are accentuated in our country through arbitrary interpretation of laws, repeal of their validity by decrees, arbitrary "implementation" and frequent non-implementation of laws. Insecurity makes economic operators seek non-institutional solutions, i.e. connection with political structures in order to provide their "status", as well as to acquire benefits through politics (tax evasion, exemption from customs). All this leads to flourishing of gray economy as a parallel market, which is a result of political monopoly in the situation when the political actors do not demonstrate any willingness to incorporate it into the institutions of the system, although this is an easily resolvable technical problem. Thus, at present there are two markets in FYROM: institutional (legal), in which economic operators are exposed to all legal tortures (taxes, customs duties, real interest rates) and, consequently, irrespective of high-quality performances, (capability, entrepreneurship, productivity) they cannot yield profits, since they have to pay for the subsidized gray market which, under the patronage of politics, may engage in providing profits for itself exclusively. Thus, the market economy in FYROM is not competitive but discriminating and, as such, leads to feudal market partialization and is, at the same time, a spiritus movens to material and moral corruption in the society and to the degeneration of the system of distribution (concentration of wealth in hands of a small number of individuals).

In the context of macroeconomic policy, the stabilization policy program based on the notion of the most orthodox monetarism is, in fact, the most serious blow on employment, that is to say increase in social erosion in FYROM. The prolonged restrictive monetary-credit policy that has never been implemented anywhere in the world has negatively impacted investment and employment. The impossibility of widening the scope of labor in times of major restrictions and negative growth rates are empirically proven rule. The blockade on the use of workforce emphasized particularly the real interest rate which put the entire Macedonian economy into bankrupt, since all the revenues coming from it were exhausted, and froze the basic national assets (the current debt of the economy is by 18% larger than the value of the appreciated fixed assets of the existing companies). In the economy institutionally incapable of making its own investments, confronted with privatization problems and structural adjustment, the "ghost was let from the bottle", i.e. the interests rates went up enormously, but did not correspond to the real situation in the economy. In conditions when the average net profit marked negative values (losses), interests rates amounted to 30-50%. Real interest rates became irrational due to the fact that they did not follow the second

important pillar - inflation - and unreal discrepancy was established. While the annual inflation was 3%, the monthly interest rate amounted to 3-5%. The discount rate, as a basis for credit price, is a third pillar from which the real interest rate completely departed. Thus, while in 1996 its average value was about 9%, the interest rate was by 20-30% higher on the average, although in normal market economies it is by 5-6 % higher than the discount rate.

Thus, in circumstances of absolute discrepancy between the offer and demand of capital, the interest rate policy brought the Macedonian economy into the so-called "solvency trap".

Economic policy of promoting high passive interest rates in the diversified net of financial institutions (saving banks) stimulated citizens to deposit their funds in these institutions but one by one all of them started to go bankrupt, while existentially ruined citizens, freed from their own "past labor", will have to live in fear for his own future.

In effect, the interest rate policy facilitated a parallel development of two processes: primitive accumulation and concentration of capital in the hands of banks with mobilization of all official and unofficial forms of capital transfer from the people and economy. The second process relates to the capital flow from the country in conditions when the accumulated wealth is not realized through legal channels and is not used for additional accumulation.

Destruction of the "helping hand" to the state, economic system and social milieu, was most obviously manifested through the management of foreign currency exchange rates. By using foreign currency exchange rates as an anti-inflationary pillar, that is to say lack of re-importation of inflation through the exchange rates and, finally, making it fixed (1994), the economic policy produced appreciation of its value by 157%. In condition of full liberalization (95%) and customs rates on the average lower than the OECD rates, FYROM started the process of bankruptcy of its economy, in the presence of the productive world economy.

The substitution degree of the domestic production amounts to the 70% share of imports in the GDP, whereas exports make up hardly 20% of GDP. The fact that the domestic production is substituted by imports is the reason why the existing production facilities are used up to 20%, why the workers are massively dismissed and why we have a decades' long technological regression.

In fact, the unreasonableness of such a policy lies in the fact that it substituted its own development potentials with imports, i.e. it allowed combination of resources to be conducted in the way as if we had been a very rich country. In doing so, it underestimated its own riches - labor resources and undermined the perspectives of future generations placing them into a debtor's trap, i.e. involving them in the Pontius game.

Trade Balance Deficit of FYROM (1992-1996)

1996	-660
1995	-518
1994	-374
1993	-144
1992	-8 millions

Source: National Statistic

The phenomenon of Southern Cone Syndrome (Bruno 1988:227) is most drastically manifested in the external economic relations of FYROM. The trade balance pyramid has a completely distorted static, its tearing down *via facti* will bring the country to a complete pauperization.

Thus, trade is a key destabilizing factor of the economic course of relations "borrowing-investment-economic growth-repayment". Even more, it is being metamorphosed into a retrograde substitute "borrowing-disinvestment-expenditure-economic decline- insolvency".

Conclusions

Economic reformers in FYROM faced a paradox: instead of reducing a role of the state in economic affairs, they undertake state actions, the scope of which is unprecedented in history and the nature of which is without any fundamental orientation. So it happens that centuries long experience is forgotten, that a simple fact that progress starts and ends with a human being is erased and that, in the meantime, all revolutions, reforms and transitions lose any meaning, if the people and their economic, cultural, and moral rise are not designated as priority aims. Insufficiency of reforms that would have a well-established attitude towards employment and profit distribution was a root for economic system diversion and its qualitative degradation, through the process of social polarization of unprecedented dimensions. In fact, marginalization of a human being in society eliminated the dialectical substance from reform processes and placed them on a metaphysical foundation - turning the processes of privatization, stabilization, liberalization into a dogma. Since dogma is resistant to critiques, i.e. it does not leave any room for flexible adaptation of strategy, in the spirit of critical information, the need for radical change in politics is neither perceived nor announced.

Thus, the transitional social engineering was apparently much more complex issue and the enthusiasm by which its realization was addressed did not suffice. At the level of practice, the assertion of one of perhaps the most distinguished reformers in the Eastern Europe V. Klaus is very interesting: "When I became involved for the first time in the reform process in Czechoslovakia, I believed that the designing and sequence of reforms may be controlled. Since I have become part of that process, I am now convinced that I have been mistaken". This suggests that the capabilities of reformers, their cultural and moral identity, and - before all- the established sociological character, will give the main tone to reforms, and let me paraphrase the famous Hayek's saying that transition of socialist into market economy will be first and foremost the result of man's action and not of his planning.

NOTES

- ¹ Source: Statistical Yearbook of the Republic of Macedonia 1996
- ² Short-term statistics on economic trends in the Republic of Macedonia, Skopje, 1997
- ³ A renown economist Owkenn used mathematical methods to calculate dependence between unemployment and unrealized social product. Thus, if unemployment exceeds the tolerable level of 1%, GDP growth is by 2.5% decreased.

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