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The Need for Policy Coherence  
and New Partnerships



## Human Development in Southeast Europe

Author:	Edvard Jakopin, PH.D.
Co-Author:	Sonja Tontic
Institution:	Republic Development Bureau
Address:	4 Makedonska, Belgrade, Serbia
E-mail:	edvard@yubc.net sonja.tontic@razvoj.sr.gov.yu
Telephone:	(381) 11 3345-233, (381) 11 3345-423

*Practice has shown that investing into human resources is endless, in the same way as the effects of knowledge are important for the successful operation of every company (P. Draker)*

## **Abstract**

The concept of human development is a response to the period of mass dread, armaments, destruction and conflicts. Can the human development concept settle problems of non-development, global poverty, population pressures, and non-existence of the awareness of environment degradation? How to balance economic, social and ecological demands in a transition society?

Southeast Europe is the least developed area in Europe. Economies of all countries in Southeast Europe are being transformed and adapted to the market match. Development strategies of each SEE state prioritize issues such as competitiveness and enforcement of market principles. Does the promotion of economic growth on the territory of SEE deepens existing problems and creates new ones as regards human development?

The paper consists of two inter-related wholes.

The first part analyzes transition progress made by each SEE by means of basic macroeconomic indicators. In the wake of severe political and economic crisis in the past decade, states of SEE have for years been in the phase of relatively stable economic trends and developments. Proper balanced development, coupled with the reduction of disparities between earnings of citizens and regional inequalities, represents a complex goal. A series of social and economic indicators of SEE, which are relevant for development, will be presented and compared with the same indicators for other European countries and countries of the world.

The contents of the second part are primarily focused on a comparative analysis of human development in SEE with a special emphasis placed on misbalance between the economic and social dimension. Core differences between economic factors and factors of human resource development will be perceived through the structure of Human Development Index (HDI). Methodologically speaking, the analysis apart from typical indicators of human development (according to UNDP methodology) also includes qualitative indicators of the development degree of particular human development dimensions (gender equality, education and health care expenditure, regional cooperation, and infrastructure).

Main thesis, exemplified with the SEE region, is that: economic growing as a whole also means that society can offer compensation or transfers to those who suffer relative losses. Consequently, one of the main economic principles of equity that provides the basis for modern welfare economics, serving as an intellectual foundation of a social welfare state, says that only social change improves the welfare of some people while making no one worse off.

The necessity of promoting statistical monitoring, and that in two directions, for which special rationale was given: (a) permanent systematic defining of new indicators with the view of monitoring information performances of transition economies and other aspects of human development, and (b) unification of a statistical instrument set for the purpose of quality consideration and comparison of various mechanisms and measures aiming to raise most vital segments of human development to a higher level. Generally speaking, the defining of new indicators of human development should be aimed at quality monitoring of economic progress with social development, more rapid detection of growth potentials, more precise establishing of differences between social groups (HDI by classes, gender, ethnic groups and geographic regions), a timely alarming system for likely conflicts and hot-spots of numerous social segments.

## INTRODUCTION

The process of integration of the Balkans countries into the EU is still not completed. Its major characteristic is an unbalanced transition process since the Balkans is the most underdeveloped European area, burdened with a high unemployment rate and non-competitive economy. The economic growth is not sustainable and macro-economy still faces numerous challenges – most Balkans countries today produce less than in 1990.

This in particular applies to industrial output, structural changes, the level of foreign investment, and the structure of exports. As different from the Balkans countries, industrial output in most EU states plays a key role in economic growth, structural changes have been made and unemployment is reduced.

European economic developments resulted in the economic growth of the Balkans countries being recordable again. Solid growth rates were recorded, in some countries GDP of even above 6% (Romania 7.7% in 2006; Bulgaria, Turkey, and Bosnia and Herzegovina 6%)<sup>1</sup>, unemployment rates were reduced and inflation curbed.

A primary question that is raised at this point is: will the growth be sustainable in the period to come? The answer hinges on the source of growth, export performances of each individual economy and investment, i.e. industrial revival – how swiftly can economies of the Balkans countries increase their competitiveness (both on a macro and micro level), i.e. make essential structural changes to economy.

### 1. Economic lag and transition processes in SEE

#### 1.1. Economic lag trend of Europe

The latest OECD report states that *'average wages in EU-15 are by almost a third lower than in most efficient economies in OECD, while more than a third of labour active population is unemployed'*. According to the data released by the OECD, most reforms in the European Union that fostered economic growth were undertaken in 1990's. The OECD concludes that the progress has decelerated recently.

The research conducted by the OECD represents an evident signal for the review of dynamics of reforms after 2000. Europe lags behind the USA when it comes to the standard of living. Among EU countries there are rather large disparities in GDP *per capita* in comparison with most developed OECD countries, the gap having widened over the last decade. For instance, in most developed economies in Europe (Germany, Switzerland, France, Sweden, and Denmark) the standard of living equals only 75% of the one recorded in the USA (measured through GDP per purchasing power). If we look back, in 1946 West Europe had less than 50% of GDP in comparison with the USA. After 30 years, owing to a common market of EEA, the difference decreased to 80%, whereas according to the latest data (2005) the indicator dropped to 75%.

Reasons for such a state are primarily to be looked for in the sector of employment. The level of employment substantially lags behind the USA and Japan

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<sup>1</sup> On the basis of comparisons of GDP growth rates of some countries with GDP growth rates with the EU-27 countries (by using Pearson's correlation coefficients), the lowest or most insignificant correlation is registered in Bulgaria, Romania, Greece, Malta and Serbia. A large number of countries, Serbia too, went through a period of economic recession in 2003 (see more in *Serbian Economic Diagram – SED No 3/2007*, p. 8-9, RDB)

– more than a third of working age population (aged between 15 and 64) is inactive. The employed in Europe still have a tendency to start working late and to retire early. Thus, for example, 72% of working age population in the USA is employed, in Japan 70%, while in the EU less than 65%. Despite clear conclusions of the Lisbon Strategy (2000) that the goal is 70% of the employed, the progress was not made. On the other hand, the problem of unemployment is rampant. In the EU today 8% of the population is unemployed, while in the USA the rate is twice as low (4.2%). Apart from this, insufficiently open labour market represents a special problem. *'We condemn protectionism, both with trade and investment'*, (A. Guria, OECD Secretary General).

Another sector in which Europe lags is the sector of services. The trade of services between EU member states stands at less than 5% of GDP. Deregulation is still slow. Competition in energy, telecommunications, transport, and postal services sectors is low. In other words, through a stronger competition GDP would go up by almost 2%.

**Table 1: Time distances in years between the USA and EU-15<sup>2</sup> (2005)**

GDP per capita	Employment Rate	GDP per employed	GDP per hour	R&D per capita	Life expectancy females	Infant survival rate
-18	-25	-14	-5	-23	10	10

The analysis of time series affirms a large lag of Europe in relation to the USA.<sup>3</sup> Economic lag is especially marked in the segment of employment, and research and development funding. If other EU member states are included in the analysis, the lag expressed in years, through the method of time series (time distance), equals almost 30 years.

## 1.2. Economic underdevelopment and growth in SEE

Southeast Europe is the most undeveloped area in Europe. Economies of Southeast Europe lag behind not only developed European countries, but also lag significantly behind the EU-10 group, the countries that joined the EU in 2004. Despite statistical flaws, it is possible to consider the real size of economic gap through a comparative analysis. Results of a dynamic comparative analysis need to be considered in the light of transition processes that in most countries are only half way through.

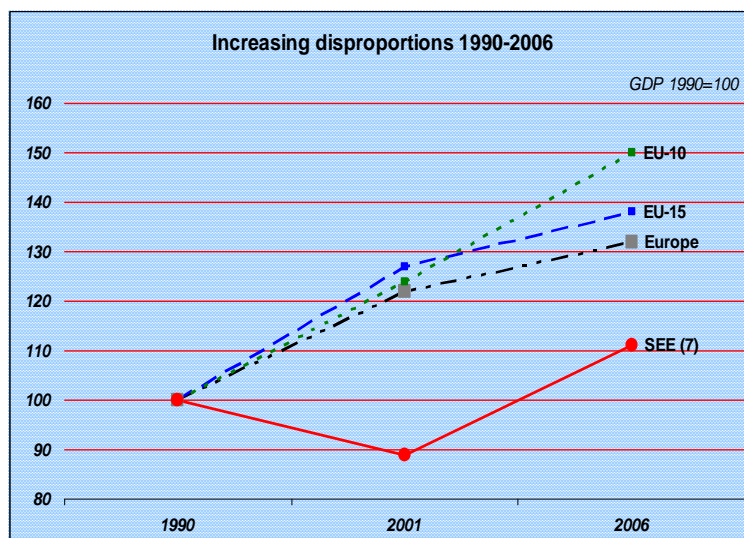
**A general conclusion might be that disproportions between SEE and most developed countries in Europe (EU-15) are increasing.** The EU-10 group had a very dynamic growth of GDP, i.e. the rise in GDP of a half (index 150). What is interesting is that only after 2001 on the territory of SEE a positive trend began, namely the revival of economies after 10 lost years.

*Chart: 1*

<sup>2</sup> Source: Presentation at the 10th IMAD and 38th CMTEA Joint International Conference 'National Reforms for the Implementation of the Lisbon Strategy: their monitoring, assessment and impacts', Kranjska Gora, Slovenia, June 14-16, 2007

<sup>3</sup> Source: P. Sicherl, A Comparison of European and US Economies Based on Time Distances, EUROCHAMBRES, Brussels, March 2005

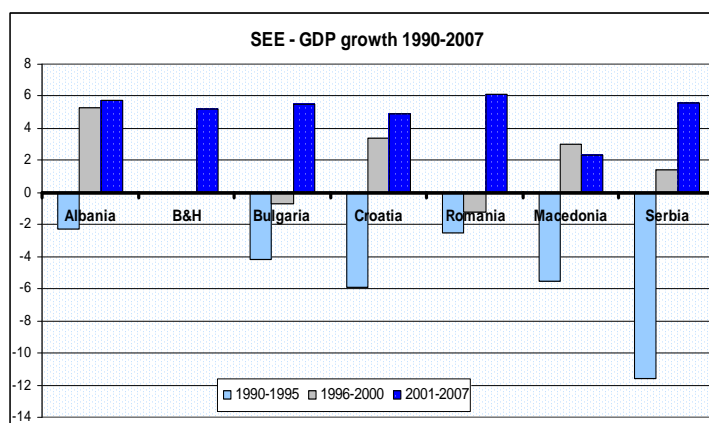
This is best illustrated with the *Chart 1*. While over the last 17 years GDP of the whole Europe rose by a third (index 132), and of most developed economies by 38%, the area of SEE increased its GDP by 11%. During the last decade of the 20<sup>th</sup> century, the entire area of SEE suffered economic ramifications of the disintegration of former Yugoslavia.



Source: <http://unstats.un.org/unsd>

Chart: 2

The following question is unavoidable: How long did the period of stagflation last in some countries of SEE? Effects of transition stagflation as the key element of economic transition in most countries lasted until 2004. The fall in economic activity was so dramatic that the recovery period lasted very long. How did the overcoming of destructive effects of transition stagflation evolve is best shown through growth rates of the period 1990-2006. It took some transition countries 15 years to re-reach the initial (base) transition 1990. Serbia has still not attained the economic level of 1990; in 2006 its GDP equals about 70% of GDP in 1990.



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Table 2: The period of transition recovery: GDP dynamics (1990=100)

Countries	1990	2001	2004	2006
Bulgaria	100	87	101	110
Romania	100	89	106	119
Croatia	100	89	102	111
Serbia	100	50	58	71
Macedonia	100	93	100	109

Source: <http://unstats.un.org/unsd>

The lowest transition spot on the territory of SEE was reached in 1999. Only in Macedonia consequences of the crisis happened in 2001 are still felt. After political changes that took place in Croatia and Serbia and after the recession in Romania ended, economic growth gathered pace also on the territory of SEE.

Risk factors still exist, but their intensity is ever lower. Economic growth is accelerating in all countries. In Romania average growth for the period 2001-2007 stood at almost 6.1%, in Serbia at 6.6%, and in Bulgaria at 5.5%. High growth rates are recorded in Croatia, Bosnia and Herzegovina, and Albania, while Macedonia is still in the phase of recovery from the crisis of 2004.

The most important issue relates to whether the economic growth will be sustainable in the period to come too. Assessment is that due to a still low basis the

economic growth will be above 5%, but only if macroeconomic stability is sustained and risk factors are diminished (current account deficit, excessive public spending, etc.). The focus is certainly on structural changes and improvement of performances of human capital, which will be discussed in greater detail further on. However, first it is necessary to say a few words about major transition problems on the territory of SEE.

### 1.3. Transition problems in SEE

Analyses of international financial and development institutions indicate that the transition process in SEE states efficiently continues and that more-less all of them are on a sustainable road to growth and development. The EU states Bulgaria and Romania made the largest progress, but all other SEE states are also institutionally and structurally adapting. The total primary costs of macroeconomic reforms were dealt with in most countries. Reforms that are to be implemented primarily refer to: (a) competition policy, (b) development of the financial sector, in the first place of non-banking institutions, and (c) infrastructural reforms. The majority of countries need to complete their institutional reforms, but a hard work regarding the implementation of adopted systemic laws awaits almost all countries.

A dominant transition dilemma relates to the limits of social sustainability. Individual social support to transition processes, especially in countries that do not belong to the EU, is diminishing. The reform zeal is hard to sustain.<sup>4</sup>

Most reliable approximation of a relative progress made in implementation of basic reforms is provided for by EBRD standard indicators of transition effects. Basic indicators cover four areas:

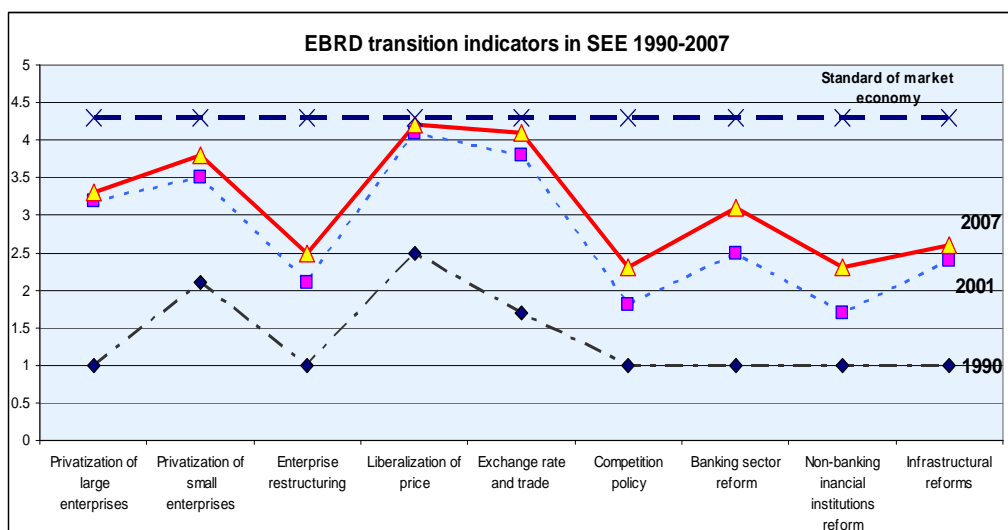
- ❖ Transformation of enterprises (through the index of large-scale and small-scale privatization, quality of governance, and enterprise restructuring),
- ❖ Development of market and trade (through indexes of price liberalization, liberalization of trade and foreign exchange, and the policy of stimulating competitiveness),
- ❖ Financial institutions (through the index of bank reforms and liberalization of interest rates, non-banking financial institutions), and
- ❖ Infrastructural reforms (through sector sub-indexes of electro-energy, railway, roads, water and sewage system).

A summary review says that states of SEE in 1990 had a very good initial position, owing to the index of small-scale and large-scale privatization (index 2.2) and price liberalization (2.5). The best initial position was in 1990 that of Serbia (average index 1.7) and Croatia (1.7). After a decade of economic devastation reform processes came to a halt in some countries (Serbia, Bosnia and Herzegovina, and Macedonia). Still, owing primarily to reform efforts of Bulgaria and Romania (average indexes above 3), the entire area significantly advanced in areas of privatization, price liberalization, and exchange rate policy. In 2007 the situation is similar, the only difference being that almost all countries completed their reforms in the so-called first phase (the first five indicators in the chart), and that all countries on the territory of SEE are to be faced with the second, hard reform phase, which refers to the policy of competitiveness and infrastructural reforms.

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<sup>4</sup> All efficient economic and institutional transformations go hand in hand with social shocks, both on the level of an individual and a social group (J. Kornai, 2006, *The Great Transformation of Central Eastern Reform*, p. 207-237).

Chart 3



Generally, efforts are to be put into:

- ❖ Competitiveness policy (an average index of 2.3 speaks volumes about non-competitive economy),
- ❖ Reforms of non-banking institutions (an average index of 2.3 speaks volumes about a large lag behind market economy standards), and
- ❖ Infrastructural reforms (an average index of 2.6 speaks volumes about very slow reforms; Romania is the only country with the index of 3.3).

Apart from various composite indexes of produced by relevant international institutions, very interesting scores are provided by **Investment Reform Index (IRI)**. Based on the OECD Policy Framework for Investment, the IRI measures reform in 10 main policy dimensions:

1. Investment policy
2. Investment promotion and facilitation
3. Tax policy
4. Anti-corruption and Business Integrity
5. Competition policy
6. Trade policy
7. Regulatory reform
8. Human capital and Employment
9. Corporate Governance
10. SME policy

IRI scores for 2006, showed across first 8 dimensions, indicate polarization among dimensions<sup>5</sup>.

<p>Dimensions where policy reform is more advanced are:</p> <ul style="list-style-type: none"> <li>❖ Regulatory reform</li> <li>❖ Trade policy</li> <li>❖ Tax policy</li> <li>❖ Investment policy</li> <li>❖ Investment promotion and facilitation</li> </ul>	<p>Dimensions where reforms have been slower are:</p> <ul style="list-style-type: none"> <li>❖ Anti-corruption and Business Integrity</li> <li>❖ Competition policy</li> <li>❖ <b>Human capital</b></li> </ul>
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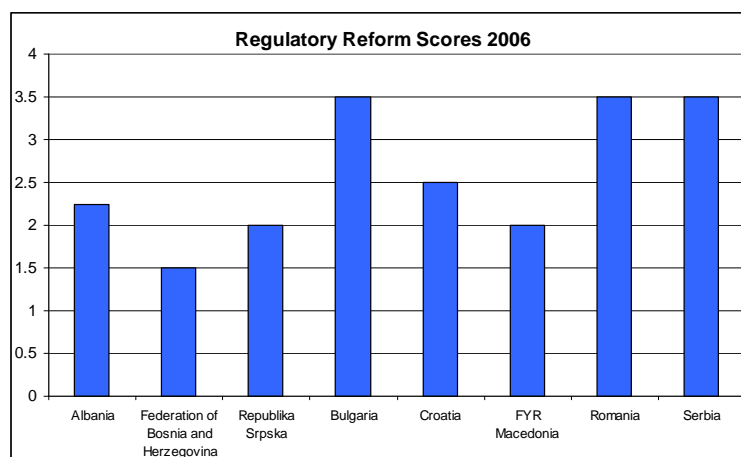
Scores for investment policy are high and there is little variation among SEE countries (average score for SEE is 3.75). However, differences between some sub-

<sup>5</sup> **Investment Reform Index** (2006), Progress in Policy Reforms - to improve the Investment Climate in South East Europe, OECD

indexes are very prominent. Thus, for example, with the sub-index Regulatory Reform, as one of primary pre-requisites of boosting investment, in SEE marked disproportions were registered.

Chart 4

The conclusion of the OECD research as regards the Regulatory reform is that Bulgaria, Romania, and Serbia are clearly ahead of their peers in the region, with solid strategies, relatively strong oversight bodies and the introduction of Regulatory Impact Analysis.



In general, the area of SEE is to face

anything but an easy road to completion of remaining institutional reforms and extremely hard structural changes so that risk factors that directly challenge sustainability of economic growth and development would be reduced. The problem is aggravated because of the fact that a number of countries are exposed to permanent political pressures exerted by an international community.

## 2. Human development in SEE – dimensions and problems

### 2.1. Economic dimension of human development in SEE

Economic thought is still dominated by the image of a person whose satisfaction of needs is constrained by two factors alone: relative prices of goods required to satisfy their needs, and their disposable income. Since relative prices are determined by the market and cannot be influenced by an individual, and the government is only entitled to regulate prices in specific circumstances (e.g. when off setting external effects or providing public goods and services, whereas in other cases intervention would disturb the operation of market forces), the only way to improve the satisfaction of needs is to increase income, both that of an individual and a nation.

Economy growing as a whole also means that society can offer compensation or transfers to those who suffer relative losses. Consequently, one of the main economic principles of equity that provides the basis for modern welfare economics, serving as an intellectual foundation of a social welfare state, says that only social change improves the welfare of some people while making no one worse off.

A basic analytical instrument, which enables measurement and comparison of transition and development efficiency, is GDP by purchasing power. In addition, the analysis of GDP by purchasing power parities is one of the three major elements of the Human Development Index (the other two are Life Expectancy Index and Education Index).

Chart 5

After 17 transition years the standard of living for a huge number of people in SEE deteriorated. In spite of a substantial rate of economic growth since 2001, regional disproportions in Europe are rising. Transition costs in almost all states of SEE are high.

The economic analysis of the standard of living differentiates three pretty homogeneous groups of countries (*Chart 5*):

1. Most developed states in Europe (EU-15), the average GDP per purchasing power of which is 12% above the EU-27 average,
2. Mid-developed states in Europe (EU-10), with an average GDP per purchasing power of 70% of the EU-27 average, and
3. A group of countries facing various development problems, in mid transition phase, with an average GDP per purchasing power of only 36% of the EU-27 average.

According to the EUROSTAT data, countries with the highest standard in 2006, expressed through the PPS index, were Luxembourg, Norway, Ireland, Iceland, and The Netherlands. The lowest standard *per capita* was in Albania, Macedonia, and Turkey.

The transition period casts ever more light on a long-term tendency in Europe. It refers to the dynamics of the rise in absolute differences between degrees of development of the standard of living. The analysis of *GDP per capita* indicates that ranges between EU-15 and SEE at the beginning of the transition period and in 2006 remained approximately the same (ratio 7:1), but at a much higher level. The temporary situation in 2001 was extremely unviable (10:1). A positive trend is registered in a largely non-homogeneous group EU-10.

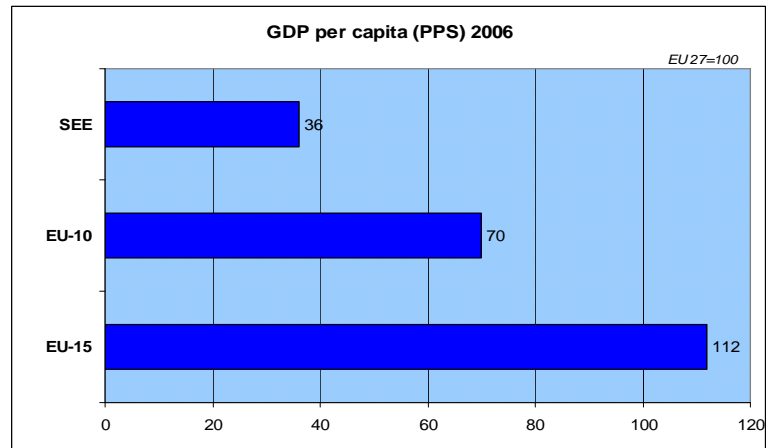
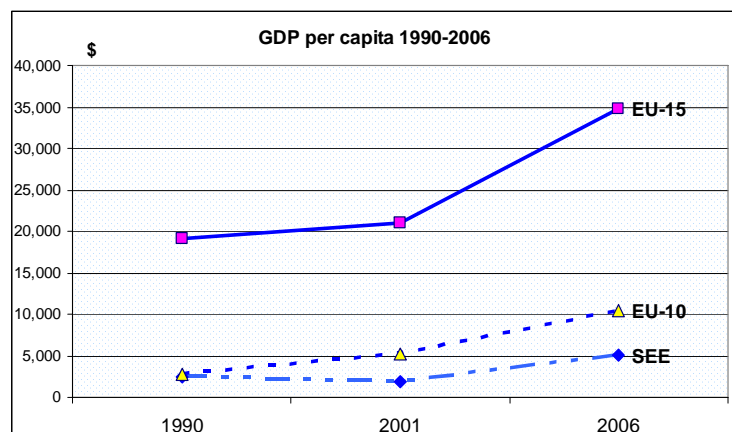


Chart 6

Extreme values of *GDP per capita* in Europe are best represented on the one hand by Albania, Macedonia, and Bosnia and Herzegovina (about \$3.000), and on the other by Luxembourg (\$88.000), Denmark (\$51.000), Ireland (\$52.000), and Sweden (\$42.000).



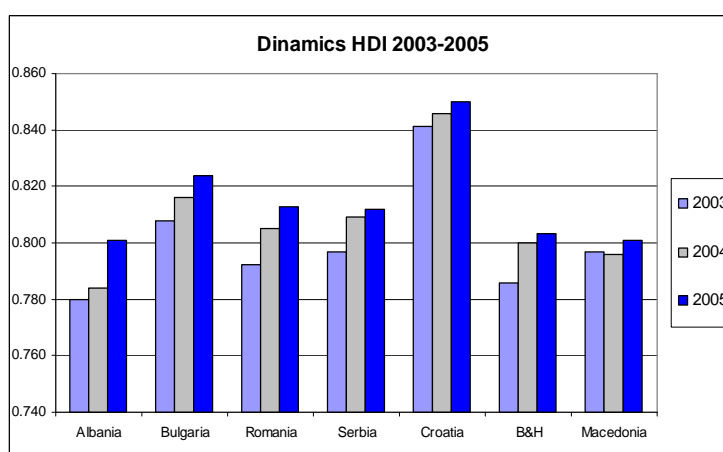
## 2.2. Improved level of human development in the SEE

The analysis of trend of Human Development Index indicates that in SEE from 2001 the value of the HDI continually rose. The rise in the value of Human Development Index is a characteristic of all countries of South East Europe.

**The analysis of HDI in the period 2003-2005 indicates that SEE experienced a substantial improvement in the quality of living, primarily owing to the rise in the education index and GDP by purchasing power per capita.**

Chart 7

According to the latest Human Development Report 2007/2008<sup>6</sup>, all countries of SEE are ranked and included in the group of High Human Development, since their Human Development Index is above 0.800. SEE countries are ranked between 47th (Croatia, with an index value of 0.850) and 69th (Macedonia with 0.801).



All countries of SEE traditionally provided good education.<sup>7</sup> 'However, a decade of wars, combined with international isolation, has seriously weakened the education infrastructure and has contributed to the deterioration of a relatively sound education system of the ex-Yugoslav states. According to the Stability Pact this is most visible in Bosnia and Herzegovina, where 70% of the educational infrastructure was destroyed during the war'.<sup>8</sup>

Table 3: HDI 2005

	Country	HDI	Life expectancy at birth (years)	Adult literacy Rate (%)	Gross Enrolment Ratio (%)	GDP pc (PPP US \$)	Life Expect. index	Educa-tion index	GDP index	GDP PPP rank minus HDI rank
1	Albania	0.801	76.2	98.7	68.6	5316	0.853	0.887	0.663	<b>30</b>
2	Bulgaria	0.824	72.7	98.2	81.5	9032	0.795	0.926	0.752	<b>11</b>
3	Romania	0.813	71.9	97.3	76.8	9060	0.782	0.905	0.752	<b>3</b>
4	Serbia	0.812	72.7	96.5	77.1	8176	0.800	0.900	0.740	<b>10</b>
5	Croatia	0.850	75.3	98.1	73.5	13042	0.839	0.899	0.813	<b>4</b>
6	B&H	0.803	74.5	96.7	69.0	7032	0.825	0.874	0.710	<b>17</b>
7	Macedonia	0.801	73.8	96.1	701.0	7200	0.814	0.875	0.714	<b>11</b>

A structural analysis of Human Development index of SEE in 2005 indicates two things:

- (a) A social dimension of human development is at a higher level than the economic one (all SEE countries are better ranked on the basis of a social component than on the basis of GDP per purchasing power). Due to a low

<sup>6</sup> Iceland and Norway are on top with a value of 0,968. After six years it surpassed Norway, which is a result of higher life expectancy. Norway is followed by Australia (0.962), Canada (0.961) and Ireland (0.959). African countries still record the lowest HDI values.

<sup>7</sup> Contribution given in the field of science and mathematics is well-known (e.g. the Serbian scientist Nikola Tesla, the Croatian scientist Vladimir Prelog, etc.)

<sup>8</sup> Stability Pact for South Eastern Europe, 2006

GDP per purchasing power, an extreme gap was registered in Albania (30<sup>th</sup> position in the rankings), and

- (b) Differences between SEE countries within the economic development level (GDP PPP *per capita*) are greater (between Croatia and Albania the ratio is 1:2.5) than differences between education levels, i.e. Education Index (the ratio between Bulgaria and Bosnia and Herzegovina is only 6%).

### 2.3. Gender equality

*'Gender equality and advancement of women is one of the eight Millennium Development Goals. The stress on gender equality is based on the fact that improvement of a woman's life represents at the same time the improvement of a family and a country itself. In other words, a progress for all.'*  
(Toraja Ahmed Obaid, UNFPA)

Having in mind that HDI presents only the degree of average achievement in human development, it is necessary to analyze the accomplished level of human development between genders. The problem is resolved by means of the GDI index, presented in 1995. This index measures achievements and uses the same indicators as the Human Development Index, but indicates inequality present in the attained level of human development between men and women.

GDI index could have a lower value than the HDI, i.e. the larger the deviation the larger the disparity in the attained level of human development between genders.

**Table 4: GDI 2005 in SEE**

Country	GDI		Life expectancy at birth (years)		Adult literacy Rate (%)		Gross Enrolment Ratio (%)		Estimation of income pc (PPP \$)		HDI rank minus GDI rank
	Value	Rank	F	M	F	M	F	M	F	M	
1 Albania	0,797	61	79,5	73,1	73,1	98,3	68	69	3728	6930	2
2 Bulgaria	0,823	50	76,4	69,2	97,7	98,7	81	82	7176	11010	1
3 Romania	0,812	54	75,6	68,4	96,3	98,4	79	75	7443	10761	2
4 Serbia	0,808	56	75,4	70,0	94,3	98,9	81	76	5766	10722	3
5 Croatia	0,848	46	78,8	71,8	97,1	98,3	75	72	10587	15687	0
6 B&H	..	..	77,1	77,8	94,4	99,0	..	..	2864	4341	..
7 Macedonia	0,795	64	76,3	71,4	94,1	98,2	71	69	4676	9734	0

Source: HDR 2007-2008

On the basis of a structural analysis of GDI in SEE, several conclusions can be made:

- ❖ Female population lives on average 5.5 years longer than male. In countries with the highest value of GDI (Iceland 0.962 and Norway 0.957), the difference is lower (3.7 and 4.9 years) and on a significantly higher level;
- ❖ The rate of literacy of female population in SEE is 6.2% and is less favourable in comparison to the male literacy rate. In the first 27 ranked countries by GDI, differences between rates of literacy of male and female population do not exist;
- ❖ Disparities between earnings of male and female population are extremely high, which is a characteristic of most developed European countries too (in Ireland, Spain, Belgium, and Italy they are twice as high to the benefit of men);
- ❖ Rankings of countries by HDI and GDI show slight differences.

A particularly interesting indicator of gender inequality is also the estimation of salary per capita. None of the countries in the world displays the ratio in favour of women, i.e. women earning on average more than men.

Although almost all other indicators display the ratio in favour of the female gender, to a smaller or larger degree, this indicator is characterized by most drastic disproportions to the benefit of the male gender.

It seems that countries with the lowest differences between salaries of women and men are the poorest ones. Kenya is at the first place (83.5%) due to the lowest value of the mentioned disparity, while in Saudi Arabia (15.4%) the disparity is the largest. **In SEE salaries of men are on average 40% more than the salaries of women.** If the ratio of GDI as a % of HDI is closer to one, it can be inferred that the equality of achieved human development between genders is more balanced.

By calculating Pearson's coefficients, it is possible to arrive at several conclusions:

- ❖ Countries with a higher rate of overall enrollment significantly correlate with higher disproportions of enrollment by gender;
- ❖ A higher GDI value (as well as HDI) is tightly related to higher disparities of enrollment by gender;
- ❖ In addition, a higher value of GDI is most closely related to anticipated life expectancy of women and men, then to a combined enrollment rate of women and men and, eventually, of salary by gender.

## 2.4. GEM – Gender empowerment measure

The Gender Empowerment Measure indicates whether and to what extent women have an active role in the political and economic life of a country. The focus is on defining participation, which is the expression of inequality, in three key areas: economic participation, political participation and participation in decision making.

This indicator is based on determining the following indicators: the percentage of women in the parliament, percentage of women at leadership, managerial positions, percentage of women in overall employment and gender disparity in realized income.

Results presented quantitatively in the form of the GEM index are the extension of discussion of gender equality, partly presented in the form of the GDI index.

*Table 5: GEM in SEE 2005*

Countries	GEM	Seats in Parliament held by women (%)	Female senior officials and managers (%)	Female professional and technical workers (% of total)	Ratio of estimated female to male earned income
Norway	0.910	37.9	30	50	0.77
Sweden	0.906	47.3	30	51	0.81
Lithuania	0.669	24.8	43	67	0.69
Estonia	0.637	21.8	37	70	0.62
SEE*	0.577	20.0	28	47	0.61

*\*SEE includes average 5 countries (Serbia, Bulgaria, Romania, Croatia and Macedonia)*

The analysis of GEM in SEE countries shows large non-homogeneousness: countries are ranked in the range from the 35<sup>th</sup> place (Macedonia) to the 68<sup>th</sup> place (Romania); seats in Parliament held by women in Macedonia is 28%, in Romania only 11%; the greatest ranges are with indicators *Female professional and technical workers*, and they stand at 1:2.5 (Croatia and Bulgaria).

By calculating Pearson's coefficients, it is possible to arrive at several conclusions:

- ❖ Rankings of countries by GEM index values is highly correlated with the rankings by HDI index value, which is indicative of the fact that countries with a high level of human development boast marked and larger gender equality;
- ❖ A close relation between the level of income (PPP US\$) and the GEM index also indicates that in countries where the standard of living is high, the role of female population in all segments of the social life is larger. This is exemplified by Scandinavian countries that all have high values of the GEM index, but also the standard of living measured with the income of purchasing power parity (PPP US\$);
- ❖ Finally, strong relations between the GEM index and enrollment rate of female population should be noted, which can be a road sign, but also leads to a conclusion that a higher degree of education of male and female gender creates solid basis for development of gender equality.

## 2.5. Public spending on education

Education is the most important segment of the society and is expected to contribute to the overall social development of a country. Individual education and education of interest groups will enable easier adjustment to changes in the globalization process. Therefore, it is necessary to create such a system of education that will be capable of meeting the challenges of modern society. Over the past decade in SEE, the reform of the education system has started for the purpose of improving the quality of education by keeping up with the development trends in EU countries.

*Table 6: GDP expenditure on education<sup>9</sup>  
2002-2005*

Croatia	4.7
Bulgaria	4,2
Serbia	3.6
Macedonia	3,5
Romania	3,4
Albania	2,9
EU-10	5,2
EU-15	5,1

Countries of SEE increased their funds for education over the last few years, but the gap between needs and abilities is evident. 'However, a decade of wars, combined with international isolation, has seriously weakened the education infrastructure and has contributed to the deterioration of a relatively sound education system of the ex-Yugoslav states'<sup>10</sup>. The most visible is in Bosnia and Herzegovina, where 70% of the educational infrastructure was destroyed during the war (Stability Pact for South Eastern Europe, 2006). The need for infrastructure improvement in education is obvious across the region (OECD, 2003).

A substantial increase in education funding was registered in the group of countries EU-10 (Cyprus 6.3%, Slovenia 6%, and Hungary 5.5%), which shows that these countries are undergoing the final transition phase and education reforms in keeping with the needs of economic restructuring. Some countries in the most developed group EU-15 try to catch up with the USA (average public spending in Denmark is 8.5%, Sweden 7.4%, and Finland 6.5%).

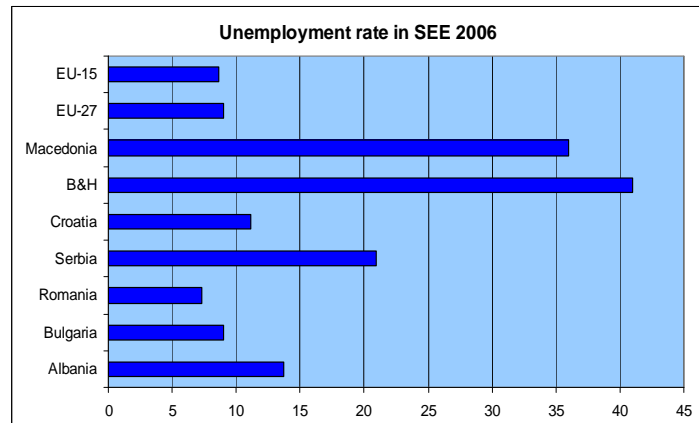
<sup>9</sup> HDR 2007/2008, UNDP, p 265

<sup>10</sup> Investment Reform Index 2006, OECD, p. 170

## 2.6. Unemployment as the key structural problem in SEE

Chart 8

Unemployment represents the greatest economic, social, and development problem SEE is encountering. The structural dimension of unemployment is particularly problematic. The share of long-term unemployed, the young, unskilled, and women is high. Unemployment is the key reason of migrations. The trend of economic migrations from all SEE countries, especially from Albania, Bosnia and Herzegovina, Macedonia, Bulgaria, and Serbia is still prominent.

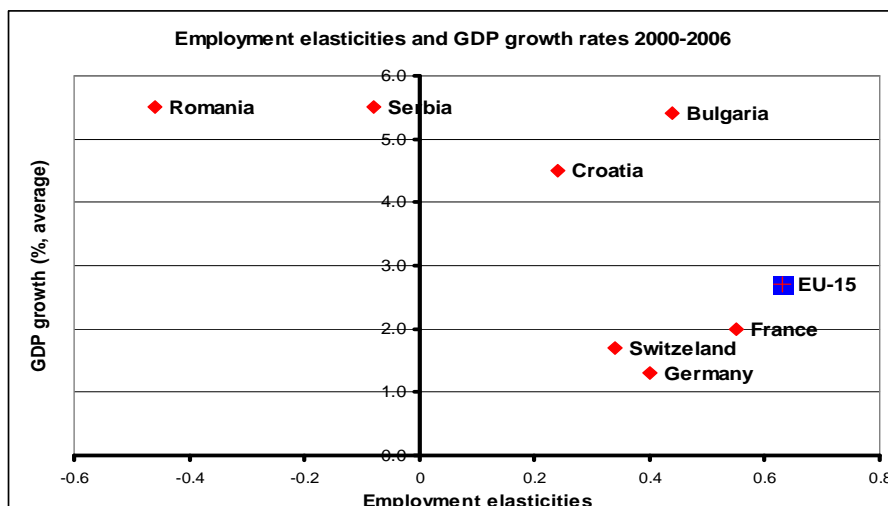


### Transition employment elasticity

In performing transition analyses the indicator of employment elasticity is widely used since it enables the review of relations between economic growth – measured with GDP – and its two base variables that contribute to the growth, changes to employment and productivity.

Contribution of the indicator is mirrored in the research about how the rise in production affects the rise in employment in the course of time. In addition, it provides explications as to the trend of labor productivity, employment and the analysis of structural changes of employment over a period of time. Being a reliable internationally used indicator, it involves employment elasticity by gender and sector employment of the population by analyzing three economic sectors: agriculture, industry (with construction), and services. Overall employment elasticity represents variability of overall production in relation to overall employment. Elasticity with the value one means that each one-percent growth of GDP leads to a one-percent rise in employment. Employment elasticity of women and men shows how the rise in production has an effect of employment of women and men rising differently in the given country.

Chart 9



**Some SEE countries (except for Bulgaria and Croatia) over the period 2000-2006 reported the overall negative employment elasticity. For example, the coefficient of employment elasticity over the period 2000-2006 in Romania was 0.46 and in Serbia -0.08**, which means that 1 percentage point of added growth of GDP leads to the fall in overall employment of 0.46, i.e. of 0.08%. Elasticity above one is registered in Italy (1.89) and Spain (1.30). In 27 countries of the European Union average employment elasticity is 0.46%. Elasticity higher than the average is registered in: Cyprus (0.98), Ireland (0.63), France (0.55), and Belgium (0.49).

The main reason for negative employment elasticity in Serbia is economic transition in the course of which, despite the growth of GDP, employment is in decline due to privatization and enterprise restructuring. One should note that over the last few years the link between economic growth and the rise in employment has apparently been weakening in developed countries as well (i.e. the growth of GDP does not automatically entail new jobs).

The sector analysis of elasticity indicates that almost all countries of SEE (except for Bulgaria) **had a negative employment elasticity in sectors of agriculture (Romania -0.77, Croatia -0.14, and Serbia -0.97) and industry (Romania -0.04, Croatia -0.20, and Serbia -1.52)**. In 27 countries of the EU average employment elasticity in agriculture is negative and stands at 0.15. Elasticity above -1 is registered in Sweden (-1.51) and Czech Rep. (-1.14). A major reason for declining employment in agriculture and industry is the tendency of global employment making a shift from the sectors of agriculture and industry to the sector of services.

## **Extent of youth unemployment in SEE**

The age structure of the unemployed, especially the analysis of the unemployed young<sup>11</sup>, confirms this is a particularly heavy long-term problem.

According to the latest data (on the basis of the Labor Force Survey), **the rate of youth unemployment<sup>12</sup> in SEE is the highest in Europe and in 2006 stands at more than 30%**. In Europe it ranges between 7.7% in Denmark, which is the lowest rate, to as high as 47.8% in Serbia.

For the sake of comparison, in 27 countries of the EU an average rate of unemployment of the young is 17.5%. An above average rate of unemployment is registered in: Poland 29.8%, Croatia 28.9%, Slovakia 26.6%, Greece 25.2%, France 22.6%, Italy 21.6%, etc. Unemployment rates lower than 10% are registered in: Denmark 7.7%, Switzerland 7.8%, The Netherlands 7.9%, Iceland 8.3%, Ireland 8.6%, Norway 8.7%, and Austria 9.1%. The analysis of unemployment rates by gender shows that there are substantially more unemployed young women than men.

The rise in employment is an ever more significant issue in all transition economies. Youth unemployment is burdened with numerous additional problems: inadequate employment, searching for an additional job beside the existing one, working hours longer than the official, temporary and unsteady jobs that offer no opportunities for specialized training, work far below their abilities, underpaid jobs, low-skilled jobs with no opportunities for professional advancement, an occasional or seasonal and often poor and hazardous job within illegal economy both in a village and town. Generally speaking, the rate of youth unemployment exceeds rates of unemployment of adults in all countries, but in our case this huge problem is twice as

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<sup>11</sup> According to the ILO methodology, the young are defined as persons aged 15-24, while adults are persons aged 25 and up.

<sup>12</sup> Structural indicator – the overall rate of youth unemployment – is calculated as the share of unemployed young aged 15-24 in the same contingent of the working age population.

large. On the other hand, young employees require less investment for specialized training, the training of young people is more comprehensive, less time-consuming and cheaper than with the employed.

## Conclusion

The greatest lag of Europe in comparison with the USA is of an economic character, which is in the first place a consequence of the employment model (one third of working age population is inactive, while the employed in Europe prefer to start working late and get retired early). The unemployment problem is ever more prominent, in spite of the Lisbon goals. It is of a particularly pandemic nature in countries of SEE. Costs of social sustainability in states of SEE are larger and larger.

**Economic disproportions between SEE and most developed countries in Europe (EU-15) are increasing (ranges in 2006 relative to GDP *per capita* between EU-15 and SEE remained the same like in 1990, the ratio being 1:7, but at a much higher level).** Transition stagflation in most countries of SEE lasted until 2004. It took SEE countries 15 years to reach the initial (base) transition 1990 (Serbia has still not reached the economic level of 1990). Economic collapse of huge proportions required a long-lasting economic recovery.

SEE countries have been very quick to transform themselves after 2001. They boast a high rate of economic growth, macroeconomic stability, transformation of almost all sectors, rapid institution building, and introduction of EU standards. According to some assessment, economic growth will be sustained in the period to come too, but on condition that, apart from political, economic risk factors are diminished too (current account deficit, excessive public spending, etc.). Structural reforms and promotion of performances of human capital are given the highest priority.

The analysis of human development in SEE countries (by means of HDI) showed that social dimension of human development is at a higher level than the economic and that differences in SEE within economic dimension of development are much larger than differences between education levels. A gender structure of human development (GDI and GEM) signals that female population lives on average 5.5 years longer than male, but that education dimension of female population is extremely unfavorable and inclusion of female population in the political and economic life very low. In addition, differences between wages of male and female population are very high.

A strategic development objective of SEE countries is to **boost competition capacities of their economies**. This requires resolute implementation of all transition and reform processes. A dynamic economic growth is not possible to attain without structural changes, the rate of which will largely depend on two factors: (1) the rise in investment, and (2) education reforms. Investment represents a key word for structural transition problems in SEE countries. Only new investment can create competitive production and sustainable economic growth based on the creation of new jobs. Without education reforms it is impossible to cope with structural problems: to establish competitive economy and decrease the number of the unemployed. Because of the needs of a modern market, it is estimated that in 2010 almost a half of newly created jobs will require a university education degree, 40% secondary school degree, and only 10-15% jobs will be possible to perform with a primary school degree.

Unemployment in SEE represents the largest long-term development problem which derogates all aspects of human capital. All analyses show that SEE countries

are half-way through to finding the solution to this problem. Namely, experience of transition economies (some states in EU-10) demonstrate that this process lasts for six to ten years, that is, over the initial years the rate of unemployment increases, then levels off, and for the last two years substantially declines. 'The problem of unemployment is multi-sectoral and must be resolved in several fields at the same time'.<sup>13</sup>

Over the last 17 transition years SEE countries have been encountering permanent challenges:

- ❖ defining and regulating labour force policy in line with market economy,
- ❖ increasing human capital costs of economic transition, and
- ❖ Revising education policy in keeping with requirements of market economy.<sup>14</sup>

To conclude with a few methodological notes on the last Human Development Index:

- ❖ Arguments that methodological framework is focused on less developed countries, that is, countries with low human development, are rather powerful. However, Human Development Index still demonstrates a strong correlation between income and welfare.
- ❖ According to the base concept, HDI measures welfare through three key dimensions of human development. However, these three dimensions are not sufficient to differentiate the progress made by highly developed countries. This in particular refers to *education index*, which sparks many controversies, in countries with a high HDI.
- ❖ Basic reasons of data availability, enrolment in education is measured in gross rates (the numerator includes *all* participants regardless of age) rather than net rates, which only count full-time participants<sup>15</sup>.
- ❖ The most developed countries attach weight to that the methodology for measuring literacy is also inappropriate, especially since the literacy rate accounts for as much as two thirds of the education index value. The indicator literacy rates in countries with high human development typically reach close to 100%. The index excludes various types of literacy (numerical, reading, functional, etc.) as significant development indicators, and hence does not show the actual literacy of the population in low human development countries.

Although it does not involve some aspects of development, HDI is still one of the most dependable tools for measuring and comparing development of human capital. Methodological perfecting should target formulation of additional indicators that measure inter-relatedness of economic and social dimension.<sup>16</sup>

Finally, it is necessary to say that permanent promotion of the statistical instrument set in all SEE states in keeping with the Istanbul declaration<sup>17</sup> has a great weight, especially when it comes to the '*sharing best practices on the measurement of societal progress and increasing the awareness of the need to do so using sound and reliable methodologies; stimulating international debate, based on solid statistical data and indicators, on both global issues of societal progress and comparisons of such progress; and, producing a broader, shared, public understanding of changing conditions, while highlighting areas of significant change or inadequate knowledge*'.

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<sup>13</sup> Simon Gray, Director of World Bank in Belgrade, EU Market 1/2008, p. 12

<sup>14</sup> Investment Reform Index, 2006, OECD, p. 170

<sup>15</sup> SEM, 1/2008, IMAD

<sup>16</sup> Vujosevic, M., Dzelebovic, O., Spasic, N., 2007, *Sustainability In The Use Of Natural Resources And Spatial Development*, p 65-67

<sup>17</sup> Signed during the II OECD World Forum on "Statistics, Knowledge and Policy", 2007

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