

Nazira KakuliaE-mail: nazira.kakulia@tsu.ge

Doctor of Economics, Associate Professor

Ivane Javakhishvili Tbilisi State University

Georgia, Tbilisi

<https://orcid.org/0009-0002-8879-1339>**Irma Tkemaladze**E-mail: irma.tkemaladze@tsu.ge

Doctor of Economics

Ivane Javakhishvili Tbilisi State University

Georgia, Tbilisi

<http://orcid.org/0000-0001-7880-2562>

MACROECONOMIC EFFECTS OF LABOR MARKET REGULATION IN GEORGIA

Abstract: *The article discusses the impact of the changes on labor market resulting from the formation of the post-industrial economy and caused by the pandemic crisis, in particular the process of employment forms' transformation, response measures to the transformation of employment forms are analyzed, the stages of the employment policy for the study period are separated, the need to implement the employment policy necessary for the symbiotic development of standard and non-standard forms of employment is substantiated. We conclude that labor market policies are more "sensitive" in nature than other policies. Therefore, choosing the distortionist model emphasized by the World Bank or the interventionist model prioritized by the International Labor Organization will not lead us to the results that may have been achieved in other countries. In our opinion, it is recommended to use a more intermediate approach, which considers the labor market policy in the framework of the general economic policy, and the final goal of economic reforms is not only a high rate of economic growth, but also an increase in the well-being of the population. By studying the employment policy, it became clear that the course of the last period is actually aimed at providing effective employment, at the same time, complex measures are being taken to improve the current situation in the labor market. However, as determined by the conducted expert research, only the perfection of the legal framework is not enough for the effectiveness of the policy. It is necessary to strengthen the enforcement mechanism and control the results.*

Keywords: Remote employment, State employment policy, Economic development, Transformation of employment forms, overtime work.

JEL classification: A1, E0, E2, E5, J6, J8.

ნაზირა კაკულიაE-mail: nazira.kakulia@tsu.ge

ეკონომიკის დოქტორი, ასოცირებული პროფესორი

ივანე ჯავახიშვილის სახელობის თბილისის

სახელმწიფო უნივერსიტეტი

თბილისი, საქართველო

<https://orcid.org/0009-0002-8879-1339>**ირმა ტყემალაძე**E-mail: irma.tkemaladze@tsu.ge

ეკონომიკის დოქტორი, ივანე ჯავახიშვილის

სახელობის თბილისის სახელმწიფო უნივერსიტეტი

თბილისი, საქართველო

<http://orcid.org/0000-0001-7880-2562>

საქართველოს შრომის ბაზრის რეგულირების მაკროეკონომიკური ეფექტები

აბსტრაქტი. სტატიაში განხილულია პოსტინდუსტრიული ეკონომიკის ფორმირების თანმდევი და პანდემიური კრიზისისგან გამოწვეული ცვლილებების ზეგავლენა შრომის ბაზარზე, კერძოდ, დასაქმების ფორმების ტრანსფორმაციის პროცესი, განაალიზებულია დასაქმების ფორმების ტრანსფორმაციაზე საპასუხო ღონისძიებები, გამოყოფილია დასაქმების პოლიტიკის ეტაპები საკვლევი პერიოდისათვის, დასაბუთებულია სტანდარტული და არასტანდარტული დასაქმების ფორმების სიმბიოზური განვითარებისათვის საჭირო დასაქმების პოლიტიკის განხორციელების აუცილებლობა. შრომის ბაზრის მაღალი მგრძნობელობიდან გამომდინარე გაკეთებულია დასკვნა, რომ დასაქმების პოლიტიკის შემუშავებისა და განხორციელების პროცესი მეტ კვლევას და საკითხის ღრმა შესწავლას მოითხოვს. გამოვლენილია, რომ ინფორმაციულ, რეკრეაციულ და მომსახურების მოდელზე გადასვლის მცდელობის პარალელურად, დასაქმების და ეკონომიკის სტრუქტურული შეუსაბამობისგან გამოწვეული მიზეზებით, მოკლევადიან პერიოდში მიღებულმა ეფექტებმა დროში არასტაბილურობა აჩვენა. პანდემიურმა კრიზისმა ამ მიმართულებით ლაკმუსის როლი შეასრულა და კიდევ ერთხელ გაუსვა ხაზი ქვეყნის ეკონომიკაში რეალური სექტორის ზრდის აუცილებლობას. უნდა აღინიშნოს, რომ 2018 წლიდან ქვეყნის შრომის ბაზრის პოლიტიკის ღონისძიებები სრულად არის ორიენტირებული ეფექტიანი დასაქმების უზრუნველყოფისათვის საჭირო პირობების შექმნაზე, თუმცა, ჩატარებული საექსპერტო კვლევის შედეგად დადგინდა, რომ პოლიტიკის ეფექტიანობისთვის მხოლოდ საკანონმდებლო ბაზის სრულყოფა არ არის საკმარისი. სხვა ღონისძიებებთან ერთად მნიშვნელოვანია აღსრულების მექანიზმის გაძლიერება და პოლიტიკის შედეგების კონტროლი.

საკვანძო სიტყვები: დისტანციური დასაქმება, სახელმწიფო დასაქმების პოლიტიკა, ეკონომიკური განვითარება, დასაქმების ფორმების ტრანსფორმაცია, ზეგანაკვეთური სამუშაო

JEL კლასიფიკაცია: A1, E0, E2, E5, J6, J8.

Introduction and review of literature

The study of the state of the labor market in Georgia revealed various problems - a large number of unemployed, a passive workforce, a high level of ineffective employment, a large share of overtime work, large scale of the informal sector and related challenges, wage inequality, the revolutionary nature of the development of non-standard forms of employment, the unplanned nature of the transformation process of standard forms. The set of issues to be resolved clearly indicates the limitations of the labor market's ability to self-regulate and challenges the state to create full, effective, freely chosen jobs and decent employment opportunities. At the same time, its transformation is inevitable and the results are often ambiguous.

Methodology

In the process of studying the issue, scientific abstraction, systematic, synthesis and analysis, institutional approaches, structural-functional analysis, logical and historical unity, heuristic methods were used. Official statistical data of the National Statistics Office of Georgia (Geostat), Eurostat, International Labor Organization (ILO), International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD) are used as the database. In the research process, a questionnaire survey was conducted, a hypothesis was formed around the research question and tested with the Pearson correlation coefficient.

labor market regulation in Georgia

If we distinguish the transformational cycles of the labor market from the period of transition to the market economy, the stage of changing the economic status of the traditional subjects of the employment system, the institutional-declarative, shock and adaptation stages have already passed. The institutional, economic and social preconditions of the employment market system were more or less formed. The measures taken were carried out as intensively as possible, although the degree of their systematicity should be evaluated separately. In 2001, the Law on Employment was adopted, thus the Law on Employment adopted in 1991 was declared invalid (**Law No. 1084-I, 2001**). In the law, the authority of state bodies is presented in many aspects, the principles of the activity of the State Employment Office (created after the abolition of the Unified State Employment Fund) are defined, and the creation of an electronic database of unemployment benefit recipients becomes mandatory. (**Law No. 1084-I, 2001**).

The next stage of changes begins in 2004, in this year the State Employment Office created by the order of the President of Georgia No. 402 of 2002 was abolished and the State Agency for Social Assistance and Employment was established instead (**Law No. 959, 2004**). In 2004-2005, the training-retraining program for the unemployed was implemented.

The years 2004-2005 are more a stage of **institutional changes**, as well as an attempt to balance active and passive employment policies. Since 2003, the International Development Agency (IDA), which is one of the institutions of the World Bank and provides long-term, preferential loans, has determined that the prerequisite for obtaining a loan is to reduce the time and costs required to start a business in the country (EBRD & World Bank, 2006). They developed an index that calculated the

overall score of countries based on ten indicators, including the ease of firing and hiring. Since 2005, the "Employing Workers Indicator" has been used instead of the latter, which in its essence, focused on more qualitative parameters (**The World Bank, 2008**). Based on this, the national economic policy, including the employment policy completely focused on meeting these conditions in the following period. The stage of **complete liberalization of the labor market** has begun in the country. In 2006, a new Labor Code was adopted, simultaneously the Law "On Employment," "On Collective Contracts and Agreements," and "On Settlement of Collective Labor Disputes" was repealed (Law No. 3112, 2006).

Since 2007, the employment policy has focused on the growth of employment through the development of the service sector. This is confirmed by the resolution of the Government of Georgia "Employment Program 2007: Employment through Small and Medium Business Development" (**Decree #110, 2007**). The purpose of the program was to provide access to credit resources for small and medium-sized enterprises in the field of tourism in order to increase the number of employees in these fields (Kakulia, N., Tkemaladze I., 2022).

In June 2013, the Labor Code was changed once again, this time becoming a more employee-oriented law. The Code took into account the recommendations of the International Labor Organization. At the same time, the labor market management information system was formed, which is an integrated web portal (www.worknet.gov.ge)" (**Resolution No. 732, 2014**).

In 2014, the European Union program "Development of employment promotion service opportunities in Georgia" on Institutional and Human Resource Capacity of Public Employment Service Twinning was approved. The association agreement was signed in the mentioned year. The fourteenth chapter of this agreement is dedicated to employment issues, especially safe environment at workplaces and discrimination. The 2015-2018 strategy envisages the introduction of international labor safety standards, which will ultimately ensure the reduction of injuries at the workplace, the improvement of the quality of working conditions, and the prevention of accidents (**BedianaSvili, G. et al.**). In 2015, the Government of Georgia's Decree N38 approved the "State Program for Monitoring Labor Conditions" (**Decree N38, 2015**), according to which the goal and objectives of the program were determined. The purpose of the program is to help the employer create a safe and healthy work environment. In the same year, the first pilot study of labor market demand components was conducted (**Decree No. 2420, 2014**). One of the important parts of the demand components study was the study of foreign workforce employment trends in Georgia (labor market demand components study, Ministry of Labor, Health and Social Protection, 2015). An interesting trend emerged from the research - the positions they occupy require vocational or secondary education, but they have the skills needed to perform these specific jobs, which the local workforce lacks. In 2016, the "Study of Attitudes, Motivation and Employment Strategies of Young People" was conducted (www.lmis.gov.ge), which provides quite wide and versatile information in terms of determining the employment prospects of the given socio-demographic group and drawing up an action plan (Tsarsidze, M. 2019).

Against the background of institutional changes in the labor market of Georgia, it becomes clear that solving the problem of high unemployment, inefficient employment, and informal employment will not be possible without conducting an active employment policy. The above-mentioned circumstances were the basis for two important documents approved in 2016: "On approving the active labor market policy strategy and its implementation action plan for 2016-2018" (**Resolution No. 167, 2016**) and "On approving the state program for the introduction and development of the labor market analysis and information system" (Resolution No. 68, 2016).

In order to regulate working conditions, in 2018 the Law of Georgia "On Labor Safety" (Law 4283-II, 2018) was developed, "which at the first stage imposed a mandatory mandate to carry out inspections at facilities containing increased risk. As a result of the changes in 2019, the Labor Safety

Law was given the status of an organic law, according to which the mandate of the labor inspection was increased that means the right of the supervisory agency to carry out inspections without prior notice at any time of the day or night " (**Resolution #668, 2020**).

In 2019, the statute of the LEPL Employment Promotion Agency was approved (<https://matsne.gov.ge>, 2019). Its functions and powers are quite broad, including provision of intermediary services, registration of vacant jobs, collection of statistical and qualitative information about the workforce, promotion of legal employment of Georgian citizens abroad, cooperation with employers, their unions, private agencies and workforce. Provision of consulting services for the latter, organization of professional training-retraining events, organization of forums, promotion of employment of labor migrants returning to Georgia. In addition, to develop a proposal for the regulation of legal base related to the mentioned measures and perfection of the legislation. The agency has been operating since 2020 and actually takes on the function of solving any issues in the field of employment (Tkemaladze, I. 2023).

Active work is being done at the legislative level to ensure effective employment. In particular, the "2019-2023 National Strategy of Georgian Labor and Employment Policy" (Resolution N662, 2019) and "2020 State Program for the Development of Employment Promotion Services" (**Resolution N665, 2019**) were adopted. This important document declares the state's goals in the field of employment, defines a long-term action plan, and its effective implementation will help overcome challenges in the future.

In 2020, a new law "On Promotion of Employment" was adopted. "This law regulates state activities related to employment promotion, defines institutions responsible for active labor market policy and employment promotion issues" (**Law 6819, 2020**). In order to strengthen this direction for the following year, the "2021 State Program for the Development of Employment Promotion Services" was approved (**Resolution N2, 2021**).

At the current stage, significant changes have been made in the Code of Labor Laws; it is more focused on protecting the rights of employees. Another important step has been taken in the protection of the rights of employees by regulating the registration of overtime work. "The employer is obliged to record the worked hours of the employees materially and/or electronically on the working day and to introduce the monthly report to the employee, except when, due to the specifics of work organization, this is impossible. The employer is obliged to keep the record of working time (hours worked) for 1 year" (**Order No. 01-15/N, 2021**).

Macroeconomic effects of labor market regulation

Both overtime and part-time work have a negative impact on the process of reproducing the labor force, as well as on productive employment. Therefore, ensuring the balance between normal working time and work-life balance is an important task in the process of labor market regulation. The International Labor Organization records overtime as hours worked in excess of 48 hours per week, including primary and secondary employment. Countries can use the limit, but not above 48 hours. This standard corresponds to the Convention N1 of the International Labor Organization "Regarding the limitation of working time to 8 hours per day and 48 hours per week" (<https://www.ilo.org>, 1919).

Issues related to overtime work are one of the main demands of the International Labor Organization, human rights defenders and other international organizations. Article 27 of the Code of Labor Laws of Georgia defines the duration of overtime work, the maximum allowable limit. Also, from 2021, the obligation to register working hours was assigned to the employer (Order 01-15/N, 2021). Based on the fact that certain steps have already been taken in this direction, we tried to find out to what extent the changes were reflected in the working conditions and incomes of the employees. Accordingly, for the purpose of researching the results of the policy, we formulated the following hypothesis:

H1: Overtime work increases the amount of earnings.

According to the results of the survey, it became clear that overtime work is widespread. The respondents were asked a question about the work schedule, as a result of selecting the possible answers, the conclusions are as follows: the largest part of the respondents (44.3%) works 40 hours a week, of which 11% of the employees use the standard working week. Next comes shift work (13.7%), working without a schedule (19.2%), 5 days a week, more than 40 hours (overtime, 9.1%), 6 days a week 36-48 hours (9.1%), part-time workers (4.1%). It turns out that 44.3% work within the working hours provided by the law, and 18.2% of the respondents work overtime. Based on the results of the survey, the question arose whether overtime work leads to an increase in the employee's income.

Table 1. Dependence of overtime work and income level

	40 hour work week	40 hour work week standard working day	shift work	I adjust the time of arrival and departure from work	I work every day	I work 5 days a week, more than 40 hours, overtime	I work 6 days a week from 36 to 48 hours	I work part-time
Up to 300 GEL		8.3%	13.3%	7.1%	14.3%		4.8%	
From 300 to 500 GEL	20.5%		26.7%	3.6%	21.4%	15.0%	19.0%	66.7%
From 500 to 1000 GEL	45.2%	54.2%	40.0%	35.7%	35.7%	55.0%	57.1%	11.1%
From 1000 to 1500 Gel	16.4%	12.5%	13.3%	28.6%	14.3%	15.0%	14.3%	22.2%
From 1500 to 2000 Gel	5.5%	8.3%	3.3%	14.3%		5.0%	4.8%	
From 2000 to 2500 Gel	6.8%	8.3%		3.6%	7.1%			
From 2500 to 3000 Gel	4.1%	4.2%		3.6%	7.1%	10.0%		
more than 3000 GEL	1.4%	4.2%	3.3%	3.6%				

Source: Results of own research

The inter-group analysis revealed that regardless of the work schedule, the income of the majority of employees ranges from 500 to 1000 GEL. The salary of 67% of part-time workers is between 300 and 500 GEL.

Table 2. Pearson's ratio (between overtime and earnings)

	Value	Approximate Significance
Pearson's R	0.348	0.001 ^c

Source: Author's calculation

Hypothesis H7: There is a relationship between the variables at the 0.001 level. Attitudes are relatively weak. An increase in the performance of overtime work only in single cases leads to an increase in the amount of income. The level of remuneration remains unchanged despite the increase in working hours and is almost the same as the remuneration of those working on a standard schedule.

Conclusions

As we can see, since 2018, the measures of the country's labor market policy are fully focused on creating the necessary conditions for ensuring effective employment. At this stage, it is difficult to evaluate the results, however, the statistical data of 2019-2020 showed an improved situation, which would probably continue in the coming years even if there was no pandemic crisis.

In conclusion, we can say that labor market policies are more "sensitive" in nature than other policies. Therefore, choosing the distortionist model emphasized by the World Bank or the interventionist model prioritized by the International Labor Organization will not lead us to the results that other countries may have achieved. In our opinion, it is better to use more intermediate approach, which considers the labor market policy in the framework of the general economic policy, and the final goal of economic reforms is not only a high rate of economic growth, but also an increase in the well-being of the population. By studying the employment policy, it became clear that the aim of the last period course is to provide effective employment, at the same time, complex measures are being taken to improve the current situation in the labor market. The conducted quantitative research revealed that specific policies did not have significant results in the direction of improving the labor market situation, which indicates the need to change policy instruments.

References

1. Bedianashvili, G., Bichia, Q., Natsvlishvili, E. (2021). Development of Entrepreneurial Activity, Labor Market and Modern Challenges of Higher Education. Globalization and Business, 12,24-30 (In Georgian). https://www.eugb.esu.edu.ge/view_archive2.php
2. Kakulia, N., (2019). Assessment of Georgia's institutional environment using WGI indicators and its impact on economic growth. *Economisti*, 2,77-79 (In Georgian)
3. Kakulia, N., Chikobava, M. (2017). Comparative analysis of economic crisis theories. Collection of materials of the international scientific conference dedicated to the 50th anniversary of academician A. Gunia's birth, 177-187 (In Georgian). http://pgie.tsu.ge/contentimage/konferenciebi/2017_...pdf
4. Kakulia, N., Tkemaladze, I. (2022). State policy and perspective of employment transformation in Georgia, TSU Paata Gugushvili Institute of Economics, international conference dedicated to the 70th anniversary of Professor Giorgi Tsereteli, Tbilisi, 291-293 (In Georgian). <http://conferenceconomics.tsu.ge/uploads/images/konfkreb2022.pdf>

5. Kharashvili, E. (2018). The Impact of Preferential Agro Credit on the Development of Agribusiness in Georgia. ECOFORUM. Volume 7, Issue 1(14),6-8 (In Georgian). <http://www.ecoforumjournal.ro/index.php/eco/issue/view/16>
6. Lobzhanidze, M. (2022). The Impact of the COVID-19 Pandemic on Educational Migration and Its Socio-Economic Consequences. VII International Scientific Conference Dedicated to the 100th Anniversary of the Faculty of Economics and Business "Challenges of Globalization in Economy and Business", Tbilisi, 218-221 (In Georgian). <https://dspace.tsu.ge/handle/123456789/1448>
7. Papava, V. (2020). Coronomics and qualitatively new economic crisis. refereed and reviewed, international scientific-practical journal "Economy and Business", volume XII, N2, 13-17 (In Georgian). https://www.researchgate.net/publication/344218824_Coronomics_and_Qualitatively_New_Economic_Crisis_In_Georgian
8. Tkemaladze, I. (2022). Peculiarities of remote employment in Georgia. Journal "Economy, Business and Administration", 119-121 (In Georgian). <http://sciencejournals.ge/index.php/bu/article/view/306>
9. Tkemaladze, I. (2023). Modern labor market in Georgia - challenges and solutions. Journal Economics and Business", 3: 95-97 (In Georgian).
10. Tsartsidze, M. (2019). Effective employment - an important factor of human well-being and economic growth in Georgia. *Economisti*, 2, 82-97 (In Georgian). <https://dspace.tsu.ge/handle/123456789/2038?show=full>
11. Tukhashvili, M. (2021). Population of Hereti: Dynamics and Ethnostructure. *Migration*, 10, 35-40 (In Georgian). <https://el.ge/articles/23551>
12. Chassamboullia, A., Fontaine, I., Gomesc, P. (2020). How important are worker gross flows between public and private sector?", 1-10. <https://www.sciencedirect.com/science/article/pii/S0165176520301506>
13. European Commission. "Eurostat regional yearbook". Luxembourg: Publications Office of the European Union (2021), 66-81. <https://ec.europa.eu/eurostat/web/products-flagship-publications/-/ks-ha-22-001>
14. European Council. "European Neighbourhood Policy Annual report – Georgia". (2011),8-15 https://neighbourhood-enlargement.ec.europa.eu/news/georgia-eu-annual-report-notes-some-progress-association-agreement-implementation-while-highlighting-2022-08-13_en
15. Fetzner, Thiemo., Hensel, Lukas., Hermle, Johannes., Roth, Christopher. (2020). Coronavirus Perceptions and Economic Anxiety. forthcoming at Review of Economics and Statistics.13-35 <https://direct.mit.edu/rest/article-abstract/103/5/968/97656/Coronavirus-Perceptions-and-Economic-Anxiety>
16. ILO (2021). The role of digital labour platforms in transforming the world of work. World Employment and Social Outlook (2021), 10-12. <http://onlinelabourobservatory.org/paper/ilo-weso-report-2021/>