



Highly educated but low paid: Youth in Macedonia, Montenegro and Serbia

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Key messages

- Youth underemployment lowers wages by 14% in Macedonia, 12% in Montenegro and 8% in Serbia.
- To address underemployment, policies are needed to reduce the mismatch between skills supply and demand.
- Meanwhile, policy action is needed to mitigate the negative effects of underemployment on monetary welfare.

Over-educated or under-paid?

Underemployment a problem for youth in Macedonia, Montenegro and Serbia

Youth underemployment is a problem in Macedonia, Montenegro and Serbia. According to the ILO definition (see below), underemployment rates are two to eight times higher among youth than those of the overall working-age population.

The issue escalates when the broader definition of youth underemployment is considered, with at least two out of five underemployment conditions applicable to between half and two thirds of employed youth in the analysed countries. Despite the high youth underemployment rates in the three countries (see table), the issue is largely ignored by the general populations and policymakers.

Underemployment rates in Macedonia, Serbia and Montenegro

Shares in total employment	Macedonia	Montenegro	Serbia
Underemployment (15-64)	2%	1.8%	9%
Youth underemployment (15-29) – ILO definition	12.5%	14.3%	19.4%
Youth underemployment (15-29) – broader definition	57.1%	68.3%	60.9%

Source: ILO (first indicator); ILO School to Work Transition Surveys (SWTS) (the other two indicators).

What is underemployment?

The International Labour Organization (ILO) defines the underemployed labor force as those working less than 35 hours per week but wishing to work more.

The research team proposes a broader, multidimensional approach¹ based on the literature that defines the underemployed labor force as those working less than 35 hours per week but wishing to work more; over-qualification for a given job² insecurity on a job³; underpayment i.e. salary is below the reservation wage⁴; lack of formal working conditions i.e. the person is with temporary or no written contract⁵; or is in involuntary part-time or contingent work⁶.

The more underemployment definitions that apply to a person, the greater their underemployment intensity.

References

- ¹ Feldman, 1996; McKee-Ryan and Harvey, 2011
- ² McKee-Ryan and Harvey, 2011
- ³ Clark et al. 2010; Prause and Dooley, 2011
- ⁴ Verhaest et al. 2015
- ⁵ Ruiz-Quintanilla and Claes, 1996
- ⁶ Bashshur et al. 2011



The analysis

A team of local researchers in Macedonia sought to investigate the effect of youth underemployment on wages in three Western Balkan countries: Macedonia, Serbia, and Montenegro. For this purpose, the research team used data from the ILO's School to Work Transition Surveys (SWTS) where youth 15-29 are surveyed on various aspects, including demographics, education, household conditions, employment, and inactivity status.

The team analyzed data from the 2014 survey for Macedonia and the 2015 surveys for Montenegro and Serbia. Regional statistics from the three countries' national statistical agencies provided the regional unemployment rates.

Using a range of cutting-edge econometric techniques, the team analyzed how personal characteristics (gender, age, marital status, education and experience) and job characteristics, including the sector (i.e. industry, construction, market services and the public sector) affect the likelihoods of being employed and of being underemployed. The researchers also assessed the monetary welfare of youth in the three countries based on their real hourly earnings.

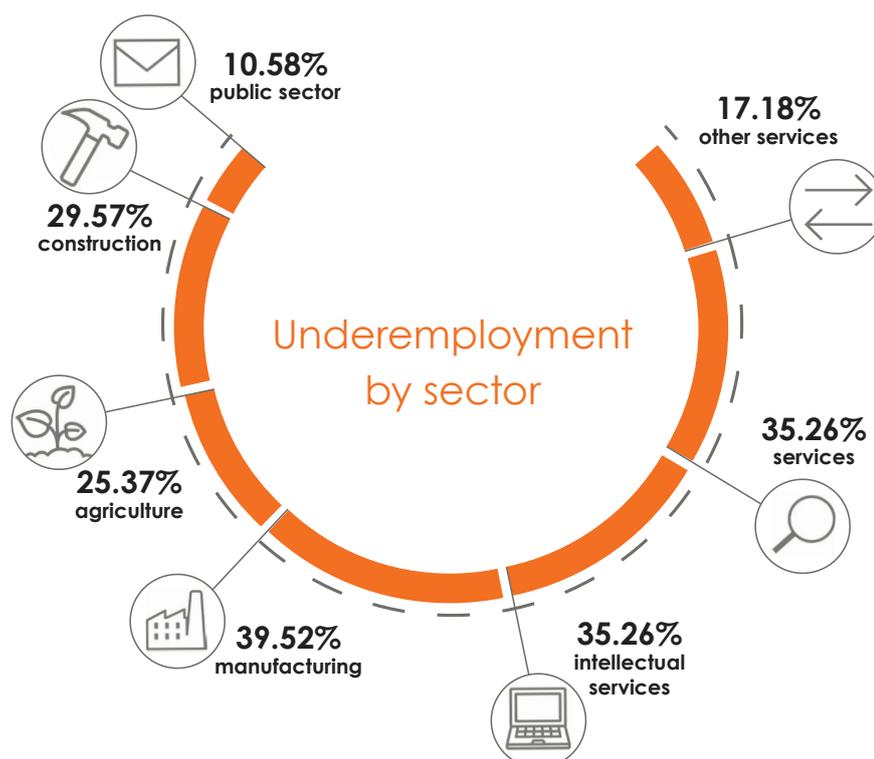
Key findings

Based on their analysis, the team found that **underemployment intensity lowers wages.**

- Underemployment (broadly defined) in Macedonia has the largest negative effect on wages of the three countries. Compared to full employment, underemployment decreases youth wages by:
 - 14.3% in Macedonia
 - 11.8% in Montenegro
 - 7.8% in Serbia

The results suggest that underemployment becomes less frequent as a person gains experience. However, the effect is convex meaning that, above a certain level of experience, individuals become increasingly likely to be underemployed.

Youth who are employed full-time are found to be more experienced than those who are underemployed by the ILO definition, and more than twice as experienced than those who are underemployed according to the broader definition.



Women are found to be more affected by underemployment than men:

- On average 19% (39% by the broader definition) of females are underemployed compared to 14% (32%) of males.
- Females have a 1.7% higher probability of greater underemployment intensity than males.
 - This is not surprising considering the fragile position of women in the labor markets in all three countries (women's low participation in the labor force and high unemployment, high gender pay gaps and the traditional role of women to take care of the household).

Underemployment differs between labor market sectors:

- Compared to industry, underemployment intensity is slightly lower in the public sector, and higher in market services.
- According to the ILO definition, average underemployment in the three countries is the highest in agriculture (38.1%), intellectual services (26.3%), and other personal service activities and activities of households as employers (26.8%).
- According to the broader definition, highest underemployment is in the services sector: on average, 41.8% of the employees in this sector are considered underemployed.

...findings continued

Differences in the education levels of young people are linked to varying levels of underemployment:

- Youth with primary and secondary education have lower underemployment intensity compared to tertiary-educated youth.
- 27% of youth with primary education work less than 35 hours per week but want to work more, compared to about 15% of youth with secondary and tertiary education.
- However, almost half of youth with tertiary education are underemployed according to the broader definition
 - Mainly driven by the self-perception of over-qualification and the limited duration of contracts.

Rural youth are also more likely to be underemployed.

Conclusions and policy messages

The results suggest that underemployment impairs financial welfare. Additionally, the result that youth with primary and secondary education have lower underemployment intensity compared to tertiary-educated youth suggests that labor market skills and supply/demand mismatches are more prevalent at higher levels of education in Macedonia, Montenegro and Serbia.

These findings highlight a **need for more aggressive youth employment policies to reduce the mismatch between skills supply and demand, increase the demand for job formalization, and ensure realistic wage expectations.** The literature indicates that measures to achieve these aims could include internship and traineeship programs, qualification, and re-training and profiling of the youth into sectors and occupations that need (or will need) additional workforce.

Concurrently, the team's findings also support a **need for policy action to mitigate the negative effects of underemployment on wellbeing.** A number of policy options or programs could provide the desired results:

- Career counselling for youth who say they are over-qualified in their workplace, to overcome mismatches or promote faster transitions to another workplace/role;

- A multi-sectoral traineeship grant, under which the company will allow newly employed young people to spend at least three months in three different jobs related to his/her skills within the company. The company and employee can then agree on which best fits his/her skills;
- Skill certification. Certification may be offered by state certification agencies for different levels and types of skills, which may not be covered by academic diplomas. Skill certification can provide employers with guidance on the specific skills that employees possess;
- Promoting Vocational Education & Training (VET) schools and encouraging youth into high-skill occupations through dual school-company programs, mandatory internships during schooling; promoting non-formal education, and subsidizing high-tech companies to design and deliver short-term courses for youth who are not in education, employment or training (NEET).
- Providing various very specific trainings (e.g. argon welding), which will create opportunities for underemployed people to learn related skills in case of underemployment;
- Encouraging education completion, particularly for disadvantaged groups (e.g. females).

Further research is now needed to identify the best solution for each country.



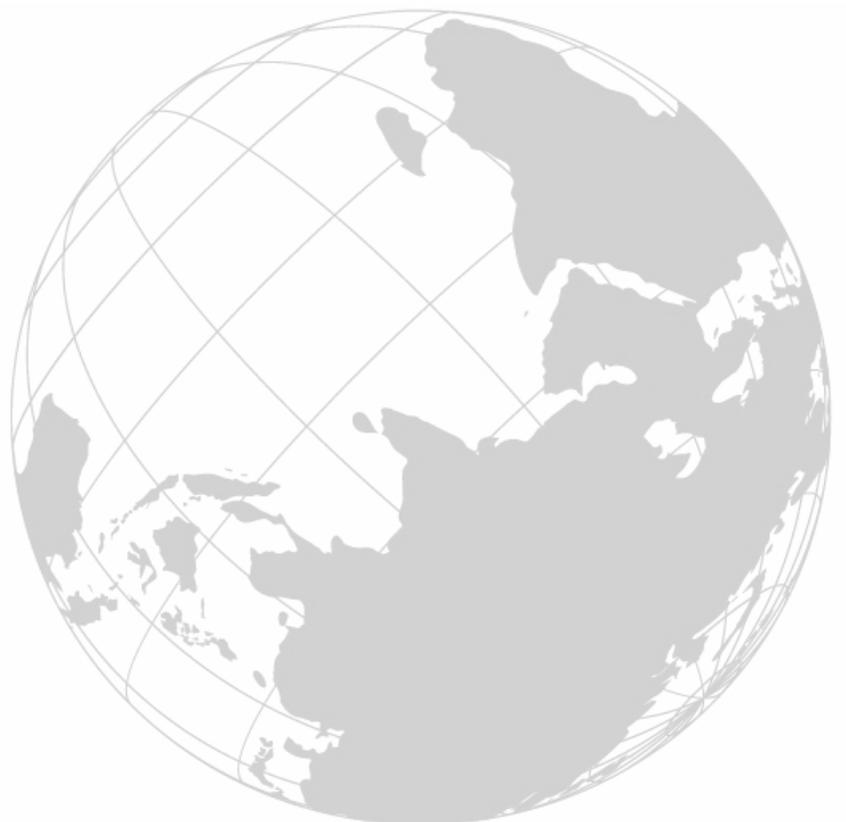
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