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Is Informal Employment a Safety Net in Times of Crisis? Evidence from Serbia

Anna Jaskova

ABSTRACT

This paper deals with the analysis of movements and causes of the informal employment in Serbia from the period of 1990s until the present time. Based on the results of the survey, it is not possible to confirm the assumption that informal employment rises in the years of economic crises and falls during economic recovery. Since informal employment can have the same trend as formal employment i.e. to fall in the times of crisis, it cannot be the safety net for those who are formally unemployed. Economic growth, however, cannot secure the decrease in absolute nor relative level of informal employment. Inadequate economic policies and labour market institutions can countermand the positive impact of economic growth on the labour formalisation. Therefore, the creation of proper labour market policies and institutional environment should be the central goals for policymakers in both economic crisis as well as economic growth periods.

KEY WORDS

informal employment, formal employment, economic crisis, institutions

JEL Code: J01, J08, J21

1 INTRODUCTION

The investigation of informal employment is relatively new area of the economic research initially developed in 1970s. The existence of unregulated work in large cities conducted by low- paid workers was previously recorded by a few eminent economists- Marx and Engels, Lewis, Myrdal (Samal, 2008, p. 23-24). However, its features and structure remained unknown until the empirical analysis of the employment in Africa conducted by Hart in 1971. Hart presented his results in the same year at the Sussex conference, where term "informal sector" was used in scientific literature for the first time (Chen, 2012, p. 2, Hart 2005, p.7). In his largely influential work from 1973, Hart described the variety of informal legal and illegal informal activities consisting informal sector, such as rentier activities, shoemakers, barbers, musicians, bribery, petty theft etc., unable to get employment in formal sector (Hart, 1973, str. 69). According to the author himself, the main contribution of his paper was to show that people working in the informal sector were not unemployed as previously conceived by policy makers and authorities (Hart, 2005, p. 7).

Hart's view on the informal sector as a way of earning for a living in a circumstances where formal economy (formally established firms and state) do not create enough working places was accepted by International Labour Organization (ILO). In highly influential report on the employment mission in Kenya, dealing mainly with the informal sector, ILO indicated its efficiency and innovativeness, as well as its role in creating employment (ILO, 1972, Bangasser, 2000, p. 8-10). With their positive attitude toward informal sector, Hart and ILO were first to stress the importance of informal sector as source of employment in the circumstances of low formal employment possibilities.

In the following years, ILO continued with the research on the informal sector as well as the development of its statistical monitoring. The formal conceptualization of the informal employment was formulated in the Resolution concerning decent work and informal economy, where it was defined as all employment that lacks legal or social protection, whether in informal enterprises, formal enterprises or households (ILO, 2013, p. 1).

CONTACT INFORMATION:

Anna Jaškova / University of Belgrade / Serbia / ajaskovamail@gmail.com

The goal of this paper is to analyse whether informal employment serves as a safety net for those who cannot find or have lost their jobs in formal sector. The presumption on the informal employment as a safety net is in line with the above mentioned results of Hart (1973, 2005) and ILO (1973). Furthermore, the experience of the countries in transition (Johson, et. al., 1998, Enste & Schneider, 2013, p. 56) as well as some developing countries i.e. Zimbabwe (Saungweme, et. al. 2014) shows that informal employment can mitigate the consequences of economic crisis by providing employment opportunities for a large number of formally unemployed people. On the basis of the previously stated, we can formulate the following research question: *Does the informal employment rise in the period of economic crises and decline during the years of economic recovery?*

In respect to the research question, the movements in the informal employment in the Serbia economy will be investigated during three different periods: i) civil war and economic crisis in 1990s ii) economic reforms and prosperity (from 2000 to 2007); iii) the period starting with the Global Economic Crises (from 2008 to 2015). Taking into account the nature and the goal of the survey, we have chosen to use historical and comparative analysis as the main scientific methods, with the stress on qualitative analysis, descriptive statistics as well as trend analysis. Since there was no continual statistical monitoring of informal employment in Serbia prior to 2008, the collection of the data on its level and trends was especially challenging. The movement and causes of informal employment in this period were analysed on the basis of the results of various separate researches and reports. Starting with 2009, the data on informal employment in Serbia have been regularly provided by Statistical Office of the Republic of Serbia and presented in the Labour Force Survey report. This report was the main source of data for the research on the period from 2008 to 2015. In order to get detailed insight into the structure of informal employment, additional informal employment indicators were calculated on the basis of the data from the Survey for each year. The level and trend of the informal employment for all of the three analysed periods are explained in the context of macroeconomic situation in the country in order to answer the research question that tackles its rise in the period of economic crises and its decline during the years of economic recovery. The paper is organized as follows. The first part deals with macroeconomic trends in the last decade of the previous century, as well as with their influence on the grey economy and informal employment. The second part of the paper refers to the period of transition reforms at the beginning of the 2000s until the onset of the economic crisis. In the third part, movements in the amount of informal employment, as well as its structure in the years after the economic crisis will be analysed in detail. The last fourth part refers to final considerations and policy recommendations.

2 THE LAST DECADE OF THE 20TH CENTURY: INFORMAL EMPLOYMENT AS A WAY OF SURVIVAL

The breakup of the Socialist Federal Republic of Yugoslavia was very difficult for the economies of all republics that comprised it and caused economic and social crisis in these countries. Political events in the 1990s were crucial for the economic situation in Serbia, including the occurrence and development of grey economy and informal employment. Its high growth in this period was affected not only by internal but also by external shocks. One of the most important factors was the sanctions imposed by the UN in the period 1992-1995. The embargo, from which only food, medications and humanitarian aid were excluded, as well as the hyperinflation which occurred in the same period, caused shortages of almost all products, the decline in economic activities and great impoverishment of the population, which resulted in blooming of grey (informal) economy. The informal economy was most widespread in 1993 when it reached the level of 54.4% of the GDP. After the sanctions had been lifted, the sharp decline to the level of 40.8% occurred and in 1997, it amounted to 34.5% of the GDP (Krstić et. al., 2002, p. 116). During this period, the state also contributed to spreading of informal economy, not just by tolerating it (Uvalić, 2012, p. 91) but also through direct participation in the field of customs and foreign trade (Arandarenko, 2015, p. 7).

The unfavourable situation in the economy also affected labour market developments. The official unemployment rate in 1994 was 22.5% (World Bank). However, this information does not give a real picture of the number of people who were really out of work for two reasons: firstly, the category of employed people in this period did not include persons who worked in the informal sector and secondly, the calculated percentage of unemployed people did not include workers on "forced leave". The huge fall of production, especially in the industrial sector that employed the largest number of workers then, the policy of "forced leaves" and devaluation of real incomes due to hyperinflation, represent the most significant macroeconomic factors that affected the growth of informal activities. Furthermore, many employed workers were forced to find additional jobs, most often in informal economy, because of very low wages in the formal sector. The decline in real earnings was mostly caused by hyperinflation, which lasted for two years (1992-1994). It is estimated that the number of people involved in the informal economy was 2.3 million, including almost one third of formally employed persons (Krstić et. al., 2002, str. 119). Farming and dealing with other areas of agriculture, primarily for own needs, was one of the ways to overcome problems of large shortages and poverty. The phenomenon of a peasant -worker existed in other countries of the Eastern Europe but at the

territory of the former Yugoslavia during the years of armed conflicts, it was much more widespread (Sörensen, 2006, p. 325).

One of the most important institutional factors that encouraged informal employment was the *Labour Relations Act* of 1996. This Act contributed to the rigidity of the formal labour market, which greatly complicated employment but also the dismissal of workers. This was a particular problem for companies that due to difficult economic conditions were considerably weakened and the reduction of costs was necessary for their strengthening. The restrictive legal regulations which were aimed at achieving the highest possible employment had completely opposite effects on the private sector. In order to avoid legal restrictions, private companies opted for informal employment, employment through youth employment agencies, temporary employment, as well as for the conclusion of other informal or quasi-formal contracts with employees (Mijatović, 2005, p. 300).

Consequently, in the 1990s, the informal economy was extensively widespread and included almost all social classes. As opposed to other former socialist countries, the high prevalence and growth of informal employment was not the result of transitional recession but rather the result of armed conflicts, sanctions, hyperinflation and inadequate institutional environment. Based on the example of Serbia, we can conclude that although informal employment is generally undesirable, in some specific circumstances, it can have positive effects: during the war and difficult economic circumstances in the 1990s, informal employment represented the only source of income for a large part of the impoverished population.

3 THE BEGINNING OF THE NEW MILLENNIUM AND TRANSITION REFORMS: (UN)EXPECTED GROWTH OF INFORMAL EMPLOYMENT

At the beginning of the 2000s, there were radical changes in political and economic spheres in Serbia, which marked the continuation of transition towards market economy that stagnated during the entire previous decade. Until the economic crisis in 2008, Serbia was going through a period of a relatively intensive economic recovery. The average growth of real GDP from 2001 to 2008 was 5.4% whereas there was positive growth trend during the whole period (National Bank of Serbia - NBS). Political changes enabled definite withdrawal of sanctions, as well as Serbia's membership in international organisations. Inflation, which was in the previous decade one of the biggest causes of macroeconomic instability and drastic fall in real earnings remained at a relatively high level, especially in 2001, when it was 91.8%. However, in the following years, there was significant decrease of inflation whereas the average inflation rate for the period 2002-2008 was 12.56% (Ministry of Finance). Despite relatively high inflation, there was also high positive trend of real wages growth. The average growth of real net salaries from 2001 to 2008 was as much as 13.91% (Ministry of Finance). Although there is a possibility that data on the growth of real wages in this period were overstated, it is certain that inflation did not bring to their devaluation. In addition to important economic changes, there was progress in the democratisation of the society by gradual return of confidence in state institutions, as well as in the process of their reforms. On the basis of above mentioned data about economic and political situation at the beginning of the 2000s, it can be concluded that there was great progress in reducing major causes of informal economy and employment during the 1990s: the GDP increased significantly, inflation stabilised, real earnings in the formal sector were growing, the efficiency and thrust in institutional environment also grew. However, transition reforms did not have substantial positive effects on reducing either informal economy or informal employment.

According to the research undertaken by Krstić and Sanfey (2011), the informal employment in 2002 was 27.6% out of the total employment while in 2007 it was at the level of 34.9%. In addition, it is also determined that salaries of employees in the informal economy were significantly lower than in the formal sector: after education, employment in the informal sector represented the most important factor of inequality in earnings in 2007 (Krstić & Sanfey, 2011, p.16). From this, it follows that informal employment has taken on a completely different character in relation to the period before the beginning of transition reforms. While average incomes in the formal sector in the 1990s were not significantly higher than in the informal sector (Krstić et. al., 2002, str. 118) at the beginning of the 2000s, employees in the informal sector were at the bottom of the distribution of salaries. One of the reasons for that can be found in already mentioned high growth of real salaries in the formal sector, primarily in the public sector.

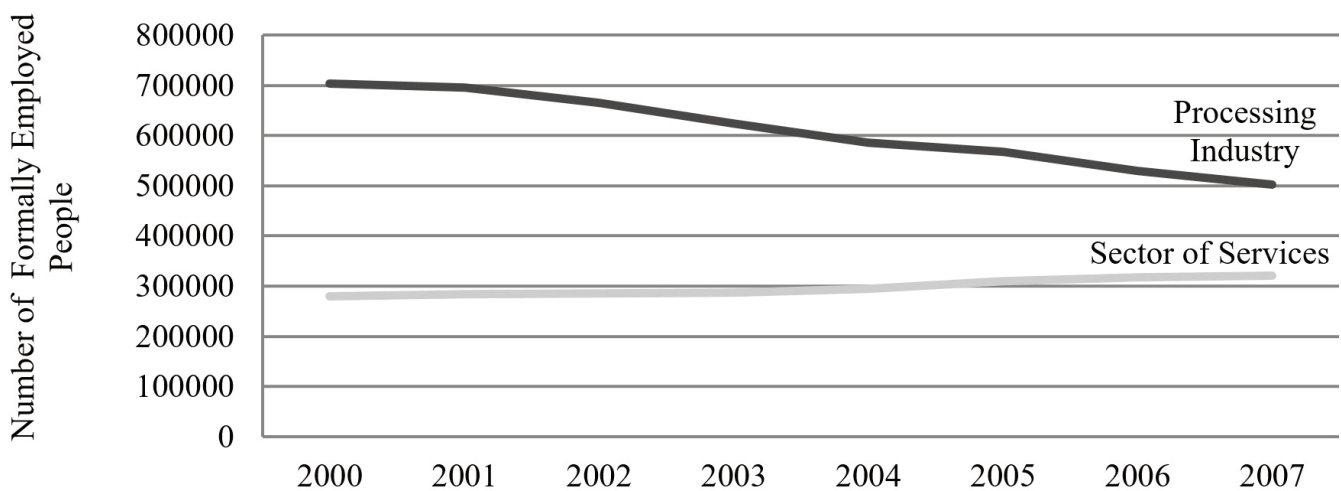
Taking into account significant improvement of economic, political and social circumstances in relation to the previous decade, such a high proportion of the informal employment represents, at the first glance, an unexpected result. In addition, the proportion of the grey economy in relation to the GDP is only slightly lowered from 33.2% in 2001 to 30.1% in 2008 (Schneider et. al., 2015, p. 54). It is possible to identify several factors that contributed to the growth of informal employment in this period:

1) *Regressive tax on salaries* - The system of the taxation of salaries in Serbia in the period from 2001 to 2007 had a regressive character. At the level below 40% of the average salary the regressivity existed due to: 1) the lack of tax deduction up to a certain fixed level of income; 2) the existence of the mandatory minimum base for social

security contributions (SSC) (Arandarenko, 2011, p. 156). These specific characteristics of the tax design (lack of tax deduction, mandatory minimum SSC base) had negative effect on the formalisation of low-paid jobs (Arandarenko & Vukojević, 2008), which is also evidenced by the results of the survey conducted by Randelović and Žarković Rakić (2013): the abolishment of the mandatory minimal SSC base would lower both Effective Marginal Tax Rate (EMTR) and Average Marginal Tax Rate (EATR), specially for lower income groups. That could lead to decline in tax evasion (Randelović & Žarković Rakić, 2013, p. 171), respecting informal employment. High tax burden at the bottom of salary distribution is one of the potential reasons for a drastic decline in formal employment in processing industry of 24.55% in 2007 compared to 2002 (SORS), which means that the number of formally employed persons decreased by 163,229 workers. Such a fall of formal employment was not recorded in branches in which employed workers had higher levels of education and higher salaries such as financial activities, sectors of information and communications, innovations and technical activities and the like (Diagram 1).

Although this change in the sectoral structure of employment cannot be fully attributed to tax incentives, they represent an important factor in the process of decision making about investments, restructuring, new employment and/or reduction of employment. Apart from negative impact on investments and formal employment in labour intensive branches, the regressivity of the wage system is considered to be one of the main factors for the overall growth of informal employment in this period (Krstić & Sanfey, 2011).

Diagram 1: Movement of formal employment in processing industry and in the sector of services



Source: SORS: Registered Employment 2000-2014, Revised Data

2) *Inadequate labour market institutions*- In the previous section, some of the shortcomings of the Labour Relations Act of 1996 are indicated. Since this Act represented serious institutional obstacle for formal employment in the private sector, at the beginning of the reforms, a new Labour Law of 2001 was passed. This Law enabled substantially greater freedom of decision making by employers relevant to recruiting and dismissing workers. The enactment of this Law was an important step towards the liberalisation of economic activities, as well as for achieving greater flexibility of the labour market. However, relatively liberal Labour Law of 2001 was not in force for long. The new Labour Law of 2005 significantly increased employees' rights and their protection. Also, the new Law provided for some unusual restrictions on employment. On the occasion of workers transfer from one company to another, a new employer was required to observe the provisions of the contract that the worker had with the previous employer for the period of at least one year, as well as the provisions of the collective agreement concluded with the previous employer. The aim of this provision was to protect workers from the possibility of reduced salary after the transfer to a new company. However, this reduced the mobility of workers in the labour market by means of negative incentives for taking over workers from other companies.

One of specific provisions of this Law referred to severance payments. The Law prescribed that severances were paid on the basis of the total years of service and not on the basis of service with the relevant employer. Although the aim was to protect workers with many years of service that were transferred to other companies, this provision had negative consequences on these workers. The not-intended effect of this Law was the cautiousness of employers in hiring workers with longer work experience (Arandarenko, 2011, p. 179).

From the above stated, it is possible to conclude that the Labour Law of 2005 protected employees much more than in relation to the first reform law from 2001 and limited the flexibility of the labour market. According to empirical researches, the increase of regulation in the labour market and the protection of employees positively

affects the growth of informal employment (Heckman et. al., 2000; Lehman & Muravyev, 2012). In order to avoid legal restrictions, the employers have opted for informal employment of workers. These workers do not have any legal protection taking into account the fact that they are “invisible” from the standpoint of competent authorities. In this way, specific policies aimed at providing greater security and protection of employees, can have completely opposite effects. Therefore, greater protection of employees after changed law can be one of the factors for the increase of informal employment in 2007 compared to 2002.

3) *Slow reforms and private sector growth*- The beginning of transition started in Serbia with a relatively rapid process of reforms but, it was soon greatly slowed down. In the period 2000 -2007, more than two-thirds of reforms were achieved during the first two years and less than one-third over the next five years (Cerović, 2012, p. 603). Slow reforms, as well as some additional problems (e.g. regressive tax system, restrictive labour market policies) caused relatively low inflow of Foreign Direct Investments (FDI), as well as their unfavourable structure: in the period from 2004 to 2007, only 18% of FDI went to processing industry while “greenfield” investments almost did not exist (Uvalić, 2011, p. 248-249). The private sector, which was supposed to be the main driver of growth and employment, was growing very slowly. Its proportion in the total GDP was raised only by 15 pp in the period from 2001 to 2007 whereas at the end of the relevant period, it amounted to 55% (EBRD). The low level of Foreign Direct Investments, their unfavourable sectoral structure, slow growth of the private sector, as well as the lack of adequate employment policies, resulted in the decline of formal employment and the rise of unemployment, which after 2004 exceeded the level of 18% (Ministry of Finance). The fact that the private sector employed less than 950,000 workers in 2007 (out of totally 2,650,000 employees and nearly 5 million working age population) (Arandarenko, 2009) indicates relatively small capacity of the private sector to contribute to the growth of employment. Unfavourable developments on the labour market and the inability of workers to find formal employment have lead to a situation that workers “do not have other choices” but to accept to be employed informally. The long-term absence of employment opportunities in the formal sector can be one of the reasons for the growth of informal employment in this period.

Above mentioned three factors (regressive tax on salaries, inadequate institutions of the formal labour market and slow reforms and growth of the private sector) are just some of the potential reasons for the increase of informal employment. In addition to these, some other explanations are also possible, such as freewill (voluntary) transfer of workers in the informal sector, what can occur if the employer is willing to offer higher salary as a compensation for lost benefits that a worker would have as formally employed. In case of inadequate inspection control, failure to implement laws and inefficient judicial system, formal institutions do not present great “threat” for business operations in the informal economy. However, definite conclusions about the factors affecting the growth of informal employment in this period require further research of these issues.

4 ECONOMIC CRISIS AND ITS CONSEQUENCES

The global economic crisis that began in 2008 has had considerable negative effects on the growth of the Serbian economy. One year after the onset of the crisis, the GDP was for the first time in decline (-3.1%). In the following years, its mild recovery followed but the economic growth was again negative in 2012 and 2014. This suggests that the crisis has had long term consequences on the economic progress in Serbia. The decline of economic activities has further worsened already unfavourable trends in the labour market. In 2009, the unemployment rate was 16.1% whereas it was constantly increasing until 2012 when it reached the level of 23.9%. After that, there was a fall of the unemployment rate but it remained at a high level (above 16%) until the end of the observed period. The unemployment of young people has grown the most. It was the highest in 2011 and 2012 (over 50%). The rate of total employment was declining up to the level of 35.5% in 2012 and after that, it started to grow gradually. Negative trends in overall economic activities, as well as in the labour market, have affected developments in the informal employment.

Finding information about the amount of informal employment represents a great challenge for researchers. The most reliable data can be obtained on the basis of surveys according to which respondents can be categorised into formally and informally employed persons. Since 2008, information on the amount of informal employment has been contained in the report of the Labour Force Survey (LFS) conducted by the Statistical Office of the Republic of Serbia (SORS). According to the definition of the SORS, informal employment includes:

- 1) Employees of the non-registered firm
- 2) Employees of the registered firm however, without formal employment contract and without social and pension insurance
- 3) Unpaid family workers

This concept is based on the possession / non-possession of formal employment contract: persons who work without formal employment contract are *informally employed* and the *informal employment rate* represents their proportion in the total number of employees.

According to the methodology of European Social Survey (ESS) which was applied also by Hazas (2011), informal employment should also include those who are *informally self-employed* i.e. employers with 5 or fewer workers and all non-professional self-employed. Although the definition of informal employment by the ESS does not include self-employed professionals, it is assumed that their number is relatively low. Therefore, the movement of overall self-employment can be a good approximation of the movement of informally self-employed persons according to the previously mentioned definition.

Informal employment will be also calculated as the difference between the total number of employed persons (LFS) and revised data of the number of formally employed persons (SORS). This is at the same time the oldest and the simplest way for estimating its amount. Informal employment calculated in the above manner represents in fact *residual employment*. However, it is necessary to bear in mind that such a procedure will produce only an approximate number of informally employed persons. In this case, it is important to observe its trends and not its absolute figure. The proportion of residual employment in the total employment represents the *informal employment imputed rate*.

On the basis of information on the size of informal employment (LFS) and its sectoral structure, it is also possible to obtain information about *non-agricultural informal employment* (informal employment outside agriculture), as well as *non-agricultural informal employment rate* (the proportion of informal employment outside agriculture in total employment outside agriculture). And the last, for the purpose of getting an insight into movements of *informal employment outside households* (the sum of employed persons in non-registered firms and employees in registered firms without formal contracts and pension and social insurance), we are going to calculate its absolute amount (the difference between the total informal employment and the number of unpaid family workers) and based on that, *the rate of informal employment outside households* (the proportion of informally employed persons without unpaid family workers in the total number of employed persons without unpaid family workers).

Table 1: The amount of informal employment

	2009	2010	2011	2012	2013	2014	2015
Total Employment	2,616,437	2,396,244	2,253,209	2,228,343	2,310,718	2,421,270	2,558,407
Informal Employment (LFS)	559,918	469,664	423,603	389,960	445,969	533,723	497,899
Informal Employment Rate according to LFS (%)	21.4	19.6	18.8	17.5	19.3	22	19.5
Self-Employment	609,250	583,276	499,137	509,017	572,048	584,557	563,155
Total Employment (LFS)	2,616,437	2,396,244	2,253,209	2,228,343	2,310,718	2,421,270	2,558,407
Formal Employment (SORS)	1,984,740	1,901,198	1,866,170	1,865,614	1,864,783	1,845,494	N/A
Residual Employment	631,697	495,046	387,039	362,729	445,935	575,776	N/A
Informal Employment Imputed Rate (%)	24.14	20.66	17.18	16.28	19.30	23.78	N/A
Informal Employment Outside Agricultural Sector	156,069	112,042	111,875	105,494	138,499	N/A	N/A
Total Employment Outside Agricultural Sector	1,993,214	1,863,275	1,775,098	1,761,239	1,818,766	N/A	N/A
Non-Agricultural Informal Employment Rate (%)	7.83	6.01	6.30	5.99	7.61	N/A	N/A
sUnpaid Family Workers	231,602	192,717	179,129	168,206	177,590	213,377	207,409
Informal Employment (without Unpaid Family Workers)	328,316	276,947	244,474	221,754	268,379	320,346	290,490
Total Employment (without Unpaid Family Workers)	2,384,835	2,203,527	2,074,080	2,060,137	2,133,128	2,207,893	2,350,998
Informal Employment Rate (without Unpaid Family Workers) (%)	13.77	12.57	11.79	10.76	12.58	14.51	12.36

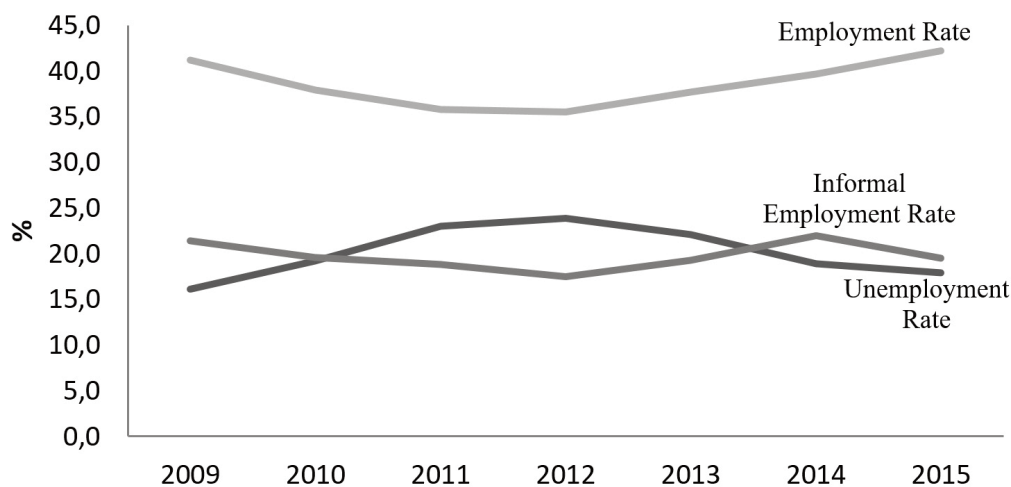
Source: Calculated according to the information provided by the Statistical Office of the Republic of Serbia: Labour Force Survey (2009-2015); Formal Employment 2000-2014 (Revised Data)

According to the information in the LFS, several years after the onset of the crisis (until 2012), *informal employment* decreased both in absolute and in relative numbers. The number of informally employed persons was lower by 170,000 in 2012 compared to 2009, which represents a drop of 30%. If workers with formal employment contracts but without paid social security contributions were included in the informally employed persons, the

informal employment rate would be increased to 26% in 2010 and to 24% in 2011 (Krstić, 2012, p. 308), but the trend would remain negative. Taking into account the fact that the same methodology for the calculation of informal employment has been used in above mentioned paper of the authors Krstić and Sanfey (2011), the last stated data are comparable with the results from 2002 and 2007. By their comparison, we can conclude that the informal employment rate was reduced by as much as 11 pp in 2011 compared to the period immediately before the crisis (2007), whereas its level was also lower in relation to 2002 when it amounted to 27.6%.

In the observed period (2009-2015), the total employment rate was reduced and the unemployment rate was increased. Data about the movement of absolute amount of the residual employment, as well as Informal Employment Imputed rate also show downward trends, which confirms the credibility of obtained results regarding the fall of informal employment. Informal employment was at the lowest level in 2012 at the same time when overall employment was at its minimum and when unemployment reached its maximum. In the following year, basic indicators of the labour market (employment rate, unemployment rate, activity rate) were improved but also the participation of informal employment was increased (Diagram 2).

Diagram 2: Rates of employment, unemployment and informal employment



Source: SORS

Informal employment followed total employment trends, as well as formal employment trends until 2013 when formal employment dropped and the informal employment increased compared to the previous year (SORS). This indicates the existence of a *complementary connection* between informal and formal employment which was prominent in the period immediately after the crisis. Since informal employment was in decline after the onset of the crisis, it could not have the role of a “safety net” for workers who were left out of formal employment due to difficult economic situation. Moreover, percentage decrease of the number of informally employed persons was significantly higher than the percentage decrease of the number of formally employed persons (until 2013) thus, suggesting that informal employment was much more affected by the crisis and/or it was more “vulnerable” than the formal employment. It is estimated that the main reasons for its reduction in that period were the contractions of aggregate demand and supply of informal jobs, as well as the high negative impact of the crisis on the building construction sector (Krstić, 2012, p. 306).

The movement of *self-employment* has also been significantly changed. In contrast to the pre-crisis period when the self-employment grew (Arandarenko, 2009), in 2009 the number of self-employed persons decreased by 100,000 compared to the previous year and it had a negative growth trend until 2012. The percentage decrease in the number of self-employed persons in 2011 compared to 2008 (28%) was higher than the fall of total employment (20%), which indicates that the crisis has had relatively severe consequences on this category of (informally) employees. High sensitivity to the crisis indicates the unsustainability of the pre-crisis growth of the number of self-employed persons who opted for this category not because of the quality of the workplace and lucrative business but primarily because of the fact that they did not have any other possibilities (Arandarenko, 2009). In other words, the high number of self-employed persons in Serbia (over 20% of total employment) is not an indicator of numerous profit making opportunities for entrepreneurs but of the lack of jobs in a more stable, formal sector.

As a rule, informal employment is generally very high in the agricultural sector in all countries, while in Serbia, over 60% of those who are employed in agriculture falls into this category. Based on these data, it is possible to conclude that the formalisation of work in agriculture is at a relatively low level. Taking this into account, it is clear that for the reduction of the volume of total informal employment, it is crucial to formalise employment in the the agricultural sector. When it comes to the informal employment outside this sector and/or *non-agricultural*

informal employment, it is relatively low in comparison to the total informal employment. Its proportion in the total non-agricultural employment is 6-7%, whereas in the period from 2009 to 2013, it did not change much.

The relatively high proportion of informal employment (about 40%) comprises of **unpaid family workers**. According to the definition of the SORS, this category includes “persons who help to another member of the household in running family business or agricultural household and at that they are not paid for their work”. An important piece of information is that over 90% of unpaid family workers performs their work in agriculture. Also, there are much more women than men (the proportion of women employed in households who do not get salaries is 13-14% while in case of men, this percentage is around 3-4%). Unpaid family workers belong to a particularly vulnerable category of employed person because they do not get any income for their work. Based on data from the LFS, we can see that the number of unpaid family workers was decreasing until 2013, which means that it had the same trend as the total informal employment. Since there was unemployment growth in this period, as well as due to general economic conditions, it is quite possible that one part of these workers tried to find some kind of a paid job and was, therefore, moved into the category of unemployed persons. In case unpaid family workers are excluded when calculating informal employment, it will be possible to obtain the number of **informally employed persons outside households**. These employed persons acquire income by working informally, but not all the benefits which formally employed persons obtain (e.g. pension and health insurance). Their proportion in the total employment and/or the informal employment without unpaid family workers was in the range between 10% (2012) and 14.51% (2014).

At the end, it is important to emphasise that the level of informal employment regardless of its fluctuations was at a relatively high level during the whole observed period. Also, it is necessary to bear in mind that the definition of informal employment by the SORS is fairly “narrow” which can be illustrated by the following example: if a person has a formal employment contract but his employer does not pay social security contributions, according to the methodology of the SORS, he is still formally employed. If we apply the “wider” concept of informal employment, which includes all employees who have formal employment contracts but not paid social security contributions (see Sanfey & Krstić, 2011), the rate of informal employment would be undoubtedly much higher.

5 CONCLUSION

Difficult economic and political situation of the last century has contributed to the growth of the grey economy and informal employment in Serbia during the last decade of the nineties. Unlike other former socialist countries, their growth was not the result of the transitional recession but of armed conflicts, sanctions, hyperinflation and inadequate institutional environment. In this period, the informal employment had the role of a safety net for workers who lost their jobs in the formal sector as well as for a large number of those who were on a “forced leave”. At the beginning of the 2000s, transition reforms that stagnated in the entire previous decade were continued. In this period, there was great progress in reducing the major causes of the informal economy and employment during the 1990s. However, the positive influence of these changes did not lead to the decrease of informal employment. Regressive tax on salaries, inadequate labour market institutions, as well as the slow pace of reforms and the growth of private sector are identified as the main factors of informal employment increase during this period. In the years after the onset of the economic crisis in 2008, informal employment was declining faster than formal employment, which indicates its greater sensitivity to adverse economic shocks. Because it was also in a relatively high decline, informal employment could not mitigate negative consequences of the economic crisis on labour market trends.

On the basis of above stated results, *it is not possible to confirm the assumption that informal employment rises in the period of economic crises and declines during the years of economic recovery*. Its rise in the period of considerable economic growth in the beginning of 2000s, as well as its fall after the onset of the Global Economic Crises in the case of Serbia clearly contradicts the starting assumption. The implications for the economic policy are clear: policy makers should not count on informal employment as a safety net during the periods of crises. Contrary to the conventional belief, the informal employment could be more vulnerable to decrease in the aggregate demand that follows the downturn in the overall economic activity. The formulation of the adequate labour market policies are indispensable instead. Lowering tax on wages and social contributions, tax reliefs for the employees in the case of hiring new workers and entrepreneurship support are some of the policies that could moderate negative labour market trends in the crisis periods. Furthermore, economic growth does not inevitably lead to the fall in the absolute nor relative level of informal employment. Adverse economic policies, such as inadequate tax system, labour law and other labour market institutions can neutralize or even overcome the positive impact of economic growth on the labour formalisation, as indicated in the case of Serbia. High level of informal employment, however, means lower government incomes as well as poor safety and social protection of the workers. Therefore, the employment formalisation should be one of the high priority goal for policymakers. Consequently, future surveys should be oriented on finding the most effective labour market policies for stimulation of the employment in the crisis and post-crisis periods.

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