

## EMPLOYMENT POLICY AND UNEMPLOYMENT PROBLEMS IN GEORGIA

*L. T. Osadze, Doctor of Economics, Professor, Gori State University (Georgia),  
l.osadze@gmail.com, orcid.org/0000-0003-1394-3633*

**Methods:** The study of the labor market is based on the analysis of the data of the National Department of Statistics of Georgia and studies conducted by international organizations. In the research process, the methods of scientific abstraction were used – when defining the labor market and the essence of the concepts «unemployment» and «employment»; comparative analysis – when comparing the employment situation of the population of Georgia and some other countries; statistics – when determining the dynamics of the main indicators of the labor market.

**Results.** The current state of the labor market in Georgia was analyzed and the dynamics of its main indicators for the period 2017–2023 were determined. The main problems in the field of employment of the Georgian economy were identified, which include incomplete use of labor resources, differentiation of population incomes, imbalance between demand and supply of professions. The analysis of the labor market in Georgia revealed that the majority of jobs in the national economy are created in industries that do not use modern technologies and, therefore, do not require highly qualified specialists; employees with a high level of qualification cannot find a job in their specialty for a long time, as a result of which they lose their qualifications or are forced to work in low-skilled jobs; the level of education received and real knowledge often turn out to be incompatible with each other. The components of state policy in the sphere of employment regulation are considered. A comparative analysis of this policy was carried out in such countries as: Georgia, Latvia, Estonia, Hungary, Austria. Prospects for increasing the effectiveness of employment policy in Georgia are outlined.

**Novelty.** As a result of the study of the employment policy, it was found that its tools have different effects on solving the problem of unemployment with regard to the short-term and long-term periods. Job search assistance programs have been shown to have the same results in both the short and long term, while vocational training programs have been shown to perform much better in the medium and long term.

**Practical value.** The results obtained during the research can be useful in the formation of employment policy at both the regional and state levels of the functioning of the national economy.

**Keywords:** unemployment, employment policy, employment policy instruments, active and passive employment policy, international organizations, state.

**Statement of Problem.** Unemployment is the most acute macroeconomic problem in the whole world, which can be alleviated and more or less regulated as a result of the right employment policy of the state. States deal with this problem in different ways. Scientists, through economic theories, assert the role of the state in solving labor market and employment policy problems. J. Keynes proved that there is no automatic mechanism of full employment in the capitalist system. His recommendation to the government was: to

increase spending to expand production and thereby create additional jobs for the unemployed (Dogonadze, 2009).

Employment policy can be defined as a set of programs, measures and services through which the state tries to increase the rate of employment in the country. According to the classification of the European Union statistical service – Eurostat, employment policy is defined as «state intervention in the labor market, the main objective of which is to ensure its effective functioning and overcome

inequalities». There are different classifications of employment policies. The most common is the distinction between active and passive employment policies. Passive employment policy implies financial support for the unemployed during the period of unemployment; Its main tool is the unemployment insurance system. And active policy involves the offering of various employment services to the unemployed by public employment services (Employment Policy in the Context of Development, 2020).

According to the classification of the Organization for Economic Cooperation and Development, active policy instruments include the following: Public Employment Services; Labor Market Training; Employment Incentives; Sheltered and Supported Employment and Rehabilitation; Direct Job Creation; Start-up Incentives. Passive policy includes the following tools: 1. Unemployment insurance 2. Early retirement [5]. Each instrument of employment policy is different and its use requires an individual approach by the state.

**Theoretical background.** Unemployment is the most pressing problem facing the whole world. In solving this problem, the right employment policy implemented by the state plays a major role. When researching the problems of unemployment in Georgia, it is important to consider the experience of abroad regarding the results of the implementation of employment tools in practice. In this regard, the study prepared by McKenzie in 2017, which evaluates the effectiveness of active labor market policies in 13 developing countries, based on the reports of 24 studies, is worth noting. Below are facts about the results of active policy instruments in different countries.

1. Vocational training programs. McKenzie evaluates the effectiveness of traditional vocational training programs based on the results of 12 studies conducted in eight countries. Attanasio (2012) evaluates the results of a 6-month vocational training program in Colombia aimed at youth of both sexes. The program had a significant impact on women. In particular, vocational training increased women's wages by about 20%. The probability of employment for men participating in the training increased by 5.3%,

for women – by 7.1%. In Kenya, the training program was aimed at young people aged 17-29 and included 3 months of training and 3 months of internship in private companies (Honorati, 2015). As a result of participating in the program in the short term (14 months), the participants' chance of employment increased by 5.6% compared to the control group. The long-term effectiveness of the programs varies from country to country. In Turkey (Hirshleifer et al, 2016), Argentina (Alzúa et al. 2016) and the Dominican Republic (Acevedo et al. 2017), the effects of programs were observed only in the short term, in Colombia (Attanasio et al, 2015) and the Dominican Republic (Ibarrarán et al., 2015) the results of retraining were sustainable even in the long term (Standard estimates of the return to an additional year of schooling around the world show an average return of 10%, with returns to tertiary schooling averaging 21% in Sub-Saharan Africa (Montenegro and Patrinos, 2014).

2. Wage subsidies. Firms' wage subsidy reduces the cost of employing an employee, thus reducing unemployment during the period of the subsidy.

3. Helping with job searching (Search and Machining). The McKenzie report is based on the results of nine studies conducted in seven developing countries, which include the following types of programs: employment forums (Ethiopia, Philippines), transportation subsidies (Ethiopia), testing in different skills (Ethiopia, Jordan, Uganda), promoting the use of letters of recommendation (South Africa), providing job seekers with information about vacancies (India, Peru). According to studies, programs to help job seekers and employers by informing them had a statistically significant effect in only two cases - employment increased in India and Peru, respectively, by 2.4% (based on 3 years) and 6.2% (based on 1 month) ) [6].

According to the research analysis, the state's employment promotion is more expensive than professional training and wage subsidies. The use of other recruitment tools (recruitment forums, letters of recommendation, testing in different skills, etc.) is associated with relatively lower costs, but is less effective.

Card, Kluve and Weber (2017) analyze the results of active labor market programs based on 207 research reports. The studies cover 47 countries (including developed and developing). It was revealed that the effect of the active labor market policy in the short term (less than one year after the completion of the programs) is small compared to the medium term (1-2 years) and the long term (more than 2 years). Active labor policy is associated with 1-3%, 3-5% and 5-10% increase in employment in the short, medium and long term, respectively [6].

**Aim of the paper.** The purpose of the article is to research employment policy and unemployment problems in Georgia.

**Materials and methods.** In the research process, desk research materials, theories developed by scientists about unemployment and employment policy, statistical data and studies conducted by international organizations are used. As a result of the analysis, the research hypothesis was confirmed. In the elimination of unemployment problems, the involvement of the state and the determination of the right employment policy play a major role. The help provided by international organizations and the experience abroad are important.

**Findings.** *Examples of state employment policies in comparable countries of Georgia.* The choice of employment policy instruments is determined by the economic situation of the countries, political and social factors. In this regard, the approaches are different and the world experience is quite diverse. The data show that there is no ready-made recipe for the optimal arrangement of the employment mechanism. For optimal institutional provision, it is necessary to make decisions based on the needs of the labor market of a specific country, analysis of economic and financial potential and consideration of important aspects of practical experience of foreign countries.

In the process of developing an employment mechanism for Georgia, it is interesting to analyze the state employment services of Latvia and Estonia, as countries of the former Soviet space. Kalvane (2015) analyzes the models of public employment services in Latvia, Estonia and Denmark and notes that unemployment prevention measures

in Latvia and Estonia account for a negligible share of total employment policy costs. Estonian SDS is an independent public institution. It is managed by three apparatuses, which are composed of representatives of the government, trade unions and employers' organizations.

In 2011, employment policy expenditure in Latvia amounted to 0.686% of GDP (in comparison, in 2015 Latvian SDS expenditure was only 0.56% of GDP), and in Estonia - 0.719% of GDP. In 2009 and 2010, the majority of expenditures on employment policy in Latvia were passive employment measures, and in 2011 and 2012, the share of passive and active measures was equalized (it should be noted that in 2015, the share of passive policy increased again, and the expenditures on it in Latvia's GDP amounted to 0.41%, while only 0.15% of GDP was spent on active politics).

Risak & Kovacs (2017) offer a comparative analysis of employment mechanisms in Austria and Hungary. Risak & Kovacs (2017) attribute Hungary to the Eastern European flexicurity system, the authors of which also consider the Baltic countries as part of it. This system is characterized by a low level of social security. (weak social assistance system), with medium to high labor market flexibility and medium to high taxes.

According to Risak & Kovacs (2017), constant structural changes and redistribution of powers did not have a positive impact on the transparency and efficiency of the SDS. In order to alleviate the consequences of unemployment in Hungary, there is a mandatory social insurance mechanism, which is financed from the payroll of the employees (1.5% of the salary) and the social tax paid by the employers (27% of the paid salary). Unemployment insurance covers not only the employed, but also the self-employed, who are obliged to pay 1.5% of the monthly declared income. The passive labor market policy in Hungary is mainly based on two unemployment assistance programs, «jobseeker's assistance» and «pre-retirement jobseeker's assistance».

Based on empirical studies, Risak & Kovacs (2017) note that in solving the employment problem, employer subsidy and unemployed retraining programs are more effective than public works programs.

If we evaluate the experience of the countries of the world, we will see that the short and long-term effects of the employment policy depend on the type of program. For example, job search programs have the same effect in the short and long term. The impact of vocational training and employment programs in the private sector on employment is greater in the medium and long term. Employment in the public sector has an insignificant and often negative effect both in the short term and in the long term. Program effects also vary by participant group—largest for women and long-term unemployed, and smallest for young and old.

#### *Employment policy of Georgia.*

According to the statistical data published by the National Statistical Service of Georgia and the World Bank, since 1992, in terms of the structure, dynamics and trends of unemployment, the high level of unemployment in Georgia has been maintained even in the conditions of rapid economic growth. Since 1992, GDP per capita has been growing sharply and reached US\$4,000 in 2016, while the unemployment rate has consistently hovered between 10-12%. The level of employment is less responsive to economic growth. The increase in the volume of production was mainly due to the increase in the rate of productivity and not of employment.

Unemployment is particularly high in urban areas of the country, where the unemployment rate is 28%. The mentioned indicator is 3 times higher than the level of unemployment in rural areas. The mentioned circumstance is caused by the high number of self-employed people in rural areas (50 percent of the total number of employees).

However, it should be noted that their farming is so low in terms of productivity that it is not even able to meet its own requirements. The level of unemployment among young people is also particularly high in Georgia and this figure is 36%. Almost a third of young people (aged 15–24) are not in education, are not employed or are not undergoing professional training. This indicator is 2-3 times higher than the corresponding indicator of most European countries.

As a result, the productivity potential of young workers is underutilized. High youth

unemployment is a result of weak demand for labor, but skills mismatch also contributes. Many of the unemployed in Georgia have higher education. More than 50% of the unemployed have secondary education, and 40% have higher education. 46% of the unemployed in urban areas have a university degree.

In contrast to European countries, where unemployment is concentrated among less educated individuals (the unemployment level in Georgia is calculated taking into account the criteria of the International Labor Organization). Since 2012, Georgia has started creating labor market institutions and developing relevant programs. This, to a large extent, was due to the bilateral cooperation with the EU and the commitments made to it. Europe in 2013 [15].

Within the framework of the neighborhood policy instrument, the EU budget aid program for the years 2014-2017 was signed, which meant helping the Georgian state in the reform of professional education and employment. Obligations in the field of labor and employment increased further in 2014, when Georgia signed the Association Agreement with the EU.

The specific goals of the professional education development strategy developed by the Ministry of Education and Science of Georgia are:

- Establishing a flexible professional educational network corresponding to the requirements of the labor market.

- Preparation of competitive personnel for the international and local market. Providing full and equal opportunities for professional and personal development.

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- Preparation of economically active population for employment and self-employment, with the perspective of sustainable career development and self-realization [1].

In the study «Unemployment structure and structural unemployment in Georgia» (2016) carried out by the Georgian Strategy and International Relations Research Foundation with the support of the South Caucasus Regional Office of the Friedrich Ebert

Foundation, trends characteristic of the Georgian labor market, such as underemployment and hidden unemployment, are identified.

In order to effectively overcome the challenges in the employment market, the Government of Georgia approved the strategy of active labor market policy and the 2016–2020 action plan for its implementation by the resolution of April 4, 2016 (#167). The aforementioned strategy and action plan were based on the results of the Georgian labor market survey conducted by the Ministry of Labor, Health and Social Protection of Georgia in 2015, the survey of vocational school graduates conducted by the Ministry of Education and Science of Georgia in 2014, and the unemployment level survey of 2014 by the National Statistical Service of Georgia.

The structure of Georgian employment is dominated by agriculture, which accounts for 46% of total employment and only 10% of GDP. The industrial sector is small, with 11% of the total number of employees. The service sector is relatively large, accounting for 25% of the total number of employees, although the leading position in it is held by trade, which is largely an activity with low added value, as well as the public service sector. The role of the modern business and financial services sector in employment is small. Thus, the majority of jobs are in traditional, low-productivity sectors,

and a minority of jobs are in modern, high-productivity sectors. Such a traditional employment structure limits the demand for a highly educated workforce.

The State Employment Services Service – SIP Social Services Agency offers the following types of services to job seekers in order to promote employment: Professional training of job seekers - state program of retraining and qualification improvement; Individual and group consultations for job seekers; Labor market information management system [www.worknet.gov.ge](http://www.worknet.gov.ge). Employment forums; Supportive employment [6].

It should be noted that the professional training-retraining program is the largest of the employment services. The main goal of the program is professional training of the unemployed in the most demanded professions. Within the framework of the program, the participants will be given a 1500 GEL state voucher, which they can use to take a course at the relevant professional college. The list of in-demand professions and course providers is compiled annually by the Department of Labor and Employment. The number of participants in the training-retraining program is increasing year by year, accordingly, the budget of the program is also increasing [3]. According to the data of the National Statistics Service, the result of the state's active employment policy is confirmed:

Table 1

Employment and unemployment

	2017	2018	2019	2020	2021	2022	2023	2023 I	2023 II	2023 III	2023 IV
Employment power, thousand men	1641.4	1605.2	1572.8	1523.7	1533.6	1551.6	1596.3	1551.1	1594.3	1618.5	1621.3
Employed, thousand men	1286.9	1296.2	1295.9	1241.8	1217.4	1283.7	1334.6	1271.9	1327.4	1366.3	1372.7
Unemployed, thousand men	354.5	309.0	276.9	281.9	316.2	267.9	261.7	279.2	266.9	252.2	248.6
Unemployment level, %	21.6	19.2	17.6	18.5	20.6	17.3	16.4	18.0	16.7	15.6	15.3

Source: National Statistical Service of Georgia, 2023

As a result of the analysis, it is determined that as a result of the active employment policy implemented in Georgia, in 2023 (16.4%), the unemployment level, compared to 2017 (21.6%), decreased by 5.2%.

**Conclusions.** As a result of the employment policy research, it was revealed that employment policy instruments affect unemployment problems in different ways. The results are different in the long term and in the

short term. However, job search assistance programs have the same results in both periods. The results of vocational training programs are greater in medium and long-term periods.

Countries use active and passive recruitment tools according to their labor market analysis, mainly based on the labor supply and demand. As a result of the analysis of the World Bank research, it appeared that the Georgian employment market is facing three

main challenges. These challenges are: unused work resources; income inequality; imbalance between demand and supply of professions.

As a result of the analysis of the implemented employment policy, it was revealed: most of the jobs generated in the labor market of Georgia do not require high qualifications, because the economy of Georgia is not able to create high-skilled jobs; it is difficult to find a job according to the qualifications received in Georgia, which may be due to the following circumstances: the level of education received and real knowledge are not compatible with each other. as a result of long-term unemployment, job seekers lose their qualifications or are forced to work in a low-skilled workplace.

The recommendations: based on the analysis of foreign and local studies, the recommendations of the employment policy of Georgia were developed:

- The state should develop a unified state employment strategy, the ministries involved in the implementation of which should act in a coordinated manner within the overall strategy.

- The registration processes of the unemployed should be improved, the priorities should be sorted in such a way that there is no duplication of processes in the market and therefore inefficient spending of resources.

- The state employment program should take into account the motivation of the population for vulnerable groups (such as young people, women and long-term unemployed). World experience has shown that the effectiveness of employment promotion programs is highest among the mentioned vulnerable groups.

- The social service agency should increase the awareness of state employment services in the regions, and the services should be made available to those who do not have access to modern technologies.

- The state should promote and encourage deficient professions in the education market. The Ministry of Education must act in coordination with the Ministry of Economy.

- Creation of additional jobs is a necessary condition for overcoming unemployment. It is necessary for the state to

offer the population such incentive programs that will be adapted to regional needs. The development of the small and medium segment needs active support.

The state should strengthen the empirical studies of the employment market, the collection of statistical data, the accounting and evaluation of state expenses in terms of employment [5].

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## ПОЛІТИКА ЗАЙНЯТОСТІ ТА ПРОБЛЕМИ БЕЗРОБІТТЯ В ГРУЗІЇ

*Л. Осадзе, Горійський державний університет (Грузія)*

**Методологія дослідження.** Вивчення ринку праці базується на аналізі даних Національного департаменту статистики Грузії та дослідженнях, проведених міжнародними організаціями. У дослідницькому процесі використовувалися методи наукової абстракції – при визначенні ринку праці та сутності понять «безробіття» й «зайнятість»; компаративного аналізу – при порівнянні ситуації з зайнятістю населення Грузії та деяких інших країн; статистики – при визначенні динаміки основних показників ринку праці.

**Результати.** Проаналізовано сучасний стан ринку праці в Грузії та визначено динаміку основних його показників за період 2017–2023 рр. Виокремлено основні проблеми у сфері зайнятості грузинської економіки, до яких належать неповне використання трудових ресурсів, диференціація доходів населення, дисбаланс між попитом і пропозицією професій. Аналіз ринку праці в Грузії виявив те, що більша частина робочих місць створена в галузях, які не використовують сучасні технології, працівники з високим рівнем кваліфікації не можуть довготривалий час знайти роботу за спеціальністю, внаслідок чого втрачають кваліфікацію або змушені працювати на низько кваліфікованих роботах; рівень отриманої освіти та реальні знання часто виявляються не сумісними між собою. Розглянуто складові політики держави у сфері регулювання зайнятості населення. Проведено порівняльний аналіз цієї політики у таких країнах, як: Грузія, Латвія, Естонія, Угорщина, Австрія. Окреслено перспективи підвищення дієвості політики зайнятості в Грузії.

**Новизна.** У результаті дослідження політики зайнятості виявлено, що її інструменти по-різному впливають на вирішення проблеми безробіття з огляду на короткотерміновий і довготерміновий періоди. Продемонстровано, що програми допомоги в пошуку роботи мають однакові результати і в коротко- і в довготерміновій перспективах, а результативність програм професійного навчання демонструють набагато кращі результати на середньострокових та довгострокових часових проміжках.

**Практична значущість.** Результати, отримані під час дослідження, можуть бути корисними при формуванні політики зайнятості як на регіональному, так і на державному рівнях функціонування національної економіки.

**Ключові слова:** безробіття, політика зайнятості, інструменти політики зайнятості, активна та пасивна політика зайнятості, міжнародні організації, держава.

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