



LABOR MARKET POLARIZATION AND ITS SPECIFICITIES IN GEORGIA

– Challenges to Social Policy

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Labor Market Polarization and Its Specificities in Georgia - Challenges to Social Policy

(Policy Document)

Human Rights Education and Monitoring Center

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1. Introduction

Unemployment is considered number one problem in Georgia, however it is important to conduct the in-depth study of the labor market and engage in the structural analysis of the issue in parallel with discussions concerning the sheer number of the unemployed. Accordingly, the purpose of this policy document is to analyze the degree of labor market polarization in Georgia based on the available data.

Polarization, or contestation between "good" and "bad" jobs in the labor market, has been cited as a major problem in developed Western economies. This analysis shows that in the case of Georgia, as in other transition economies, the degree of polarization is much higher. In other words, this means that the transition opportunities from low-skilled jobs to higher-skilled ones are reduced and the vertical mobility of the workforce becomes more difficult. This, in turn, makes it strenuous for most of the workforce starting their career on an "entry-level position", without appropriate state policies, to move up from entry level jobs and find "good" employment opportunities in the later stages of their career. Thus, access to life-long learning programs aimed at improving skills and qualifications is crucial for the labor force.

2. What is labor market polarization?

In the early 2000s, a team of authors¹ found that middle-skilled jobs in the European and the US labor markets were rapidly declining. At the same time, the number of high- and low-skilled jobs was growing fast. (See Box 1). Goos and Manning called this phenomenon "job polarization." Later on, the concepts of "lovely" and "lousy" jobs have emerged, suggesting segmentation in the labor market: "lovely" jobs are created at the top tier of the labor market; These include full-time, middle- and / or high-paid, contracted persons whose jobs are characterized by a high degree of social security.

As for the "lousy" jobs, they are created on the bottom tier of the labor market and lack the privileges listed above. Employees in these positions are barely able to sustain themselves from one short-term contract to another, and, because of the lack of stable jobs, their social security levels are low, not to mention difficult working conditions and low pay.

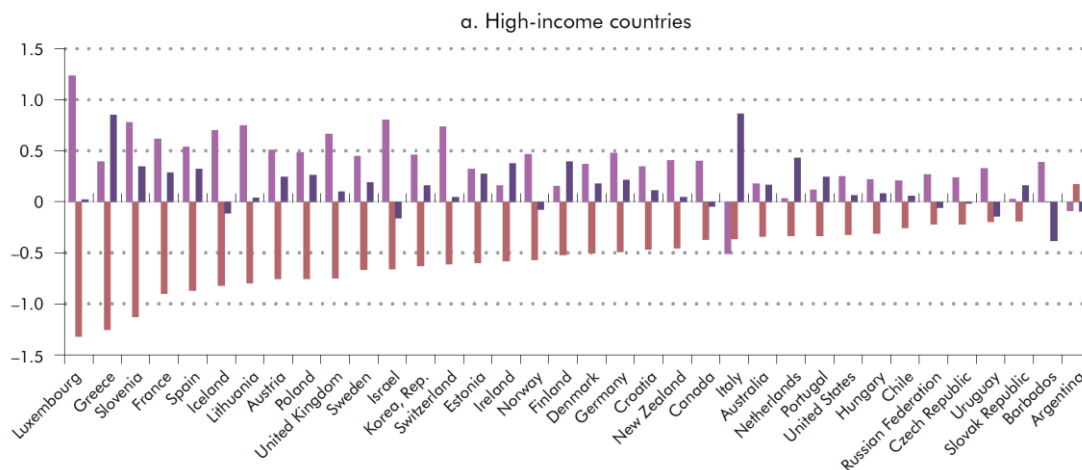
¹ Autor, Katz & Kearney (2006), Goos and Manning (2007), Goos, Manning and Salomons (2009)

Workplace classification

Most researchers classify jobs according to the skills and qualifications required. For this purpose, the International Standard Classification of Occupations (ISCO) is often used, which distinguishes 4 levels of skills. Jobs that require Level 1 skills (simple physical tasks) are considered low-skilled jobs. Examples are cleaners, kitchen help, fruit pickers, etc.). Jobs that require second- and third-level skills are of mid-level qualification. They require higher arithmetic and literacy skills, but routine physical tasks are also common here. These jobs include: secretary, accountant, tailor, crane operator, etc. Finally, 4th level skills include problem solving, decision making and other analytical skills. Jobs that require similar skills are highly skilled and include, for example, managers of different profile, programmers, teachers, etc.

Sources: https://osp.stat.gov.lt/documents/10180/2905525/ISCO_88COM_A_Guide_for_Users.pdf

Figure 1: Labor market polarization in developed economies



The purple column represents highly-skilled jobs; Orange – medium-skilled jobs; Dark blue column – low-skilled jobs.

Source: World Bank, World Development Report, 2016

Given that the polarization of the labor market is directly related to the qualifications required for a particular job, we can get a clear picture by the distribution of the labor force by qualifications. In the case of Europe, we find that, according to the International Standard Classification of Occupations, the number of mid-level employees declined in the period from 1995 to 2010 (see Figure 2).

It is also important to note that employees are not randomly assigned to the 'lovely' and 'lousy' jobs. Obviously, their skills and qualifications play an important role, but it is critical to note that the latter itself is due to the extent to which different social groups have access

to education and training. Thus, the status of a person in the labor market is largely determined by their social status, marital status, age, sex, etc.

In the literature, we can identify two main factors causing the polarization of the labor market. The first factor² focuses on the practice of multinational companies to transfer production processes to relatively low-cost developing countries, due to globalization (so-called offshoring). As a result, the mid-level positions in the manufacturing sector in the West are in decline. The second important argument relates to the development of technology that enables the replacement of physically performed routine labor with tasks performed by robots / machines, so called job automation process.³

Figure 2: Average Share of Employment by Occupational Groups in Europe⁴

Occupation	1995	2010	Change %
Low Paying	24.1%	27.9%	3.8
Elementary occupations ⁵	11%	12.3%	1.3
Service and Sales Workers	13.1%	15.7%	2.6
Middle Paying	48.3%	36.6%	-11.7
Clerical Support Workers	17.6%	14.9%	-2.7
Craft and Related Trades Workers	18.2%	12%	-6.2
Plant and Machine Operators	12.5%	9.7%	-2.8
High Paying	27.6%	35.5%	7.9
Managers	4.9%	5.9%	3.3
Professionals	8.9%	12.6%	3.7
Technicians and Associate Professionals	13.7%	17%	1.0

Source: European Commission, 2018

² Oldenski, 2014

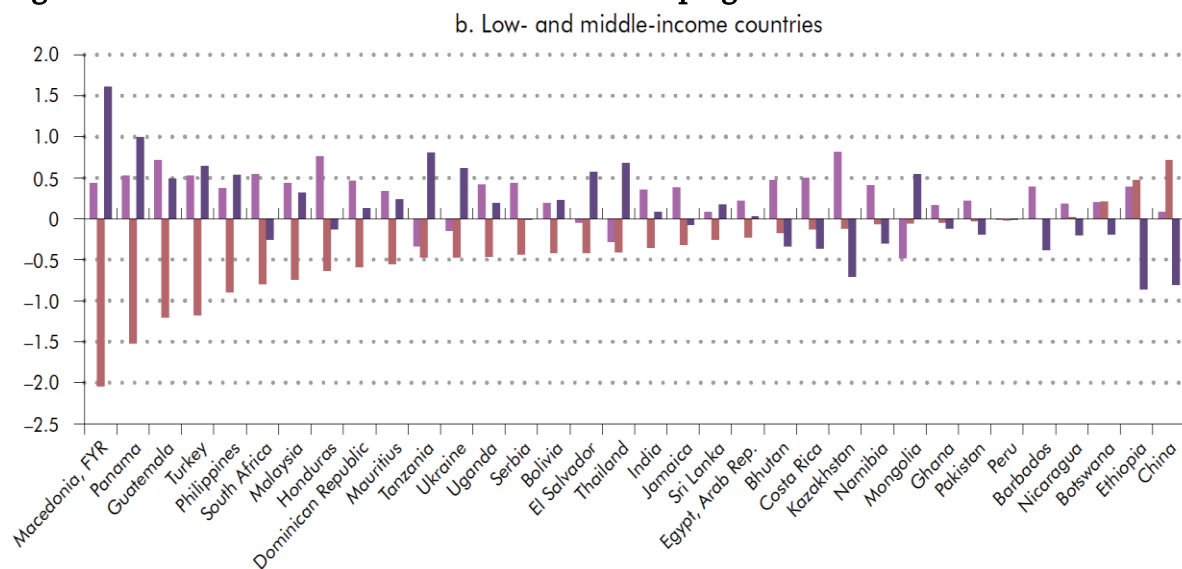
³ Autor & Katz, 1999, Goos et.al. 2014

⁴ <https://www.oecd-ilibrary.org/docserver/06804863-en.pdf?expires=1576217100&id=id&accname=guest&checksum=007237DC8DC8D751B43E596926351AB9>

⁵ According to the International Standard Classification of Occupations, "Entry-level Qualification Workers" include the following unskilled jobs: helpers, janitors, manual laborers, transport, extractive and manufacturing industry workers, etc.

Automation, in the first place, threatens jobs that require routine tasks, mainly for those with middle-skilled jobs. Thus, we get the picture that the mid-level tier is shrinking either because it is being replaced by machines / technology, or because the workflow is completely being transferred offshore. It is also worth noting that low-skilled positions are less threatened because they are mostly in the service sector (service offshoring is not possible) and often require physical, non-routine work (e.g. maids, babysitters) which is difficult to automate. That is why the labor market polarization in developed countries takes the form of a sand clock.

Figure 3: Polarization of the labor market in developing countries



Note: The purple column represents highly skilled jobs; Orange – medium skilled jobs; Dark blue column – low skilled jobs. Source: World Bank, World Development Report, 2016

Polarization of the labor market has long been a phenomenon characteristic of developed countries. However, in a report published in 2016, ⁶ the World Bank showed that polarization is also evident in developing countries (see Figure 3). It is also interesting that the degree of polarization of the labor market in developed economies varies according to different studies (in some cases it is very high, in other cases less so). The discrepancy in the results of the studies is due to the difference in methodologies. However, it is important to note that in emerging economies, the labor market polarization rate is very high regardless of which methodology researchers use.⁷ According to the World Bank, this suggests that polarization is much more acute in developing countries, as there are many jobs that require routine work and are therefore easily susceptible to automation.

3. Labor market polarization in Georgia

⁶ Digital Dividends, World Development Report, World Bank, 2016

⁷ Raja, Khan (forthcoming) - Risk of Automation for Jobs in the Developing World, World Bank

Researchers use different methodologies to determine the degree of polarization in the labor market and there is no single defined approach. This paper presents statistics that can provide an initial idea of polarization in Georgia. For example, Figure 4 shows the distribution of employees by occupational groups. It is created according to the table presented in the first section of the paper, which illustrates the degree of polarization in the labor market across Europe. As in the first table, in the case of Georgia, the distribution of occupational groups is represented in accordance with the International Standard Classification of Occupations (ISCO).

It is important to note that the distribution of employees in Figure 4 does not include agricultural workers. In 2017, they accounted for 53.3% of the total number of employed persons, and in 2018, the number was 47.3%. According to the ISCO, this group of employees is considered to be medium-skilled workers, however, given the Georgian context, including them in this group would be irrelevant. This is primarily due to the fact that agricultural workers are not represented in the formal labor market at all. The vast majority of them are engaged in natural farming and are officially classified as self-employed.

Table 4: Distribution of Employees by Occupational Groups in Georgia

Occupational Group	2017	2018
Low-skilled	15.1%	16.7%
Entry level workers ⁸	6.5%	7%
Service and sales workers	8.6%	9.7%
Middle-skilled	12.7%	16.7%
Office administrators	2.9%	3.6%
Craftsmen and related field workers	5.5%	7.6%
Plant and machinery operators	4.3%	5.5%
High-skilled	18.9%	19.3%
Managers	3.7%	3.6%
Professionals	9.5%	9.3%
Technicians and associate professionals	5.7%	6.4%

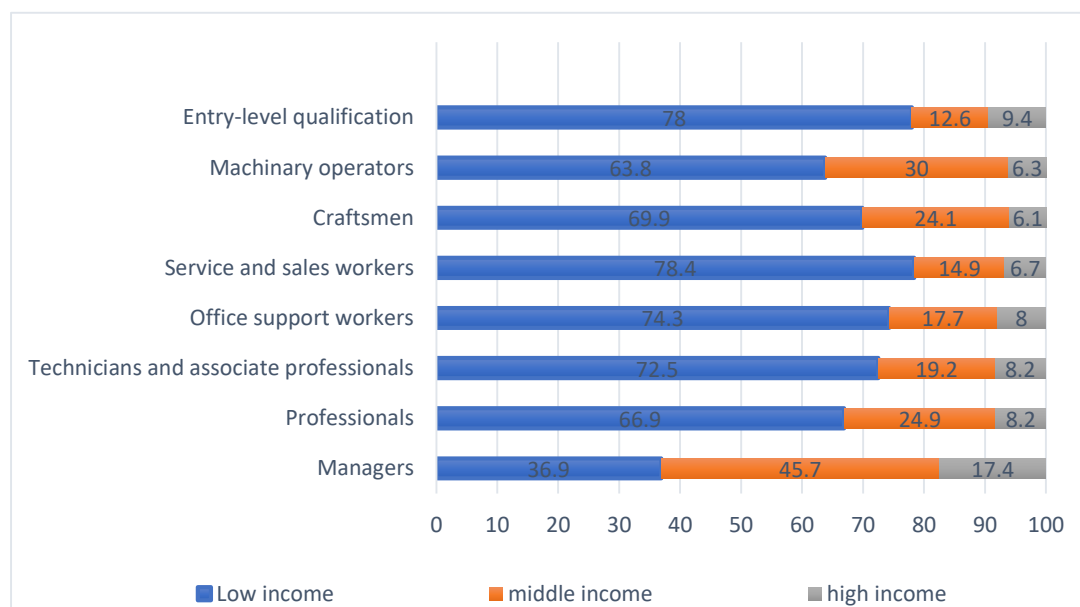
Source: Labor Force Study 2017, 2018, National Bureau of Statistics

⁸ According to the International Standard Classification of Occupations, "low-qualified workers" include the following unskilled jobs: helpers, janitors, manual laborers, transport, extractive and manufacturing industry workers, etc.

Figure 4 indicates very weak polarization. For example, as of 2017, the middle-skilled jobs tier is the smallest, but in 2018 the middle- and low-skilled jobs are quantitatively equal. However, it should also be noted that observing the two-year dynamics is not sufficient enough to identify the trends. This requires a much longer period of data observation; however, we currently do not have the capacity to do so. Statistics on the distribution of employees by occupational groups in Georgia are available only from 2017.

It is important to note that in Georgia, unlike in Europe, the distribution of occupational groups, alone, cannot give us a clear picture of the polarization in the labor market. In the case of European and American studies, the distribution of jobs by qualifications (e.g. by ISCO) also implies their distribution by income. This is due to the fact that the remuneration in these countries corresponds to the qualification level of a worker and therefore the distribution of workers under these two variables is more or less identical. *In Georgian reality, however, these two characteristics are not logically linked. Moreover, as it is demonstrated in Figure 5, low-paid jobs make up the largest share of any professional group in Georgia.*⁹

A high-skilled job does not automatically mean a high salary. For example, in the managerial group (which includes managers from all sectors as well as senior executives, government officials, etc.), 37% are paid up to GEL 600 per month, almost half of the managers get average pay, and high salaries (1500 and more) are paid to only 17%. These are one of the better results compared to other professional groups. In other groups, the share of low-wage earners varies from 64% to 79%. Thus, in Figure 4, the division of job positions into low, middle and high pay groups is artificial. It would be more relevant to divide jobs into very high- or very low-paid groups. Accordingly, these figures indicate that there is polarization in the Georgian labor market, but it is much more severe



⁹ In the framework of this analysis, the remuneration levels are divided as follows: low - GEL 600 or less, average - GEL 601-1500 and high - GEL 1501 or more.

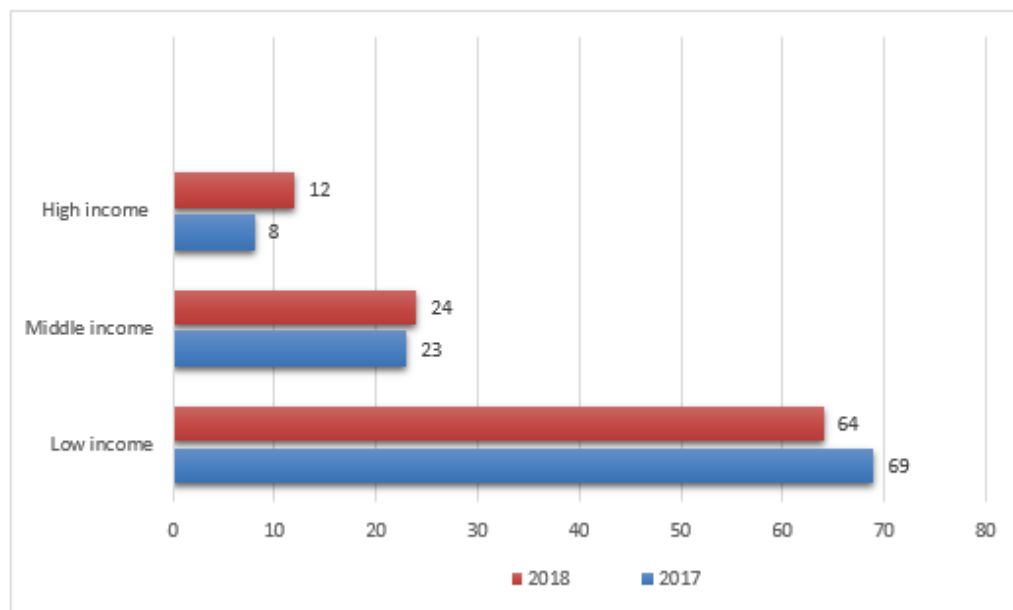
Figure 5: Distribution of jobs by income in Georgia (%)¹⁰

Source: Labor Force Study, National Statistics Office, 2018

than in developed countries: If in the case of the latter both low-paid and high-paid jobs grow equally and the middle tier is disappearing, low-skilled jobs in Georgia are disproportionately higher in number than high-paying ones (see Figure 6). *Thus, if polarization in the developed world has the shape of a sand clock, it would take a form of a pyramid in Georgia!*

¹⁰ It is important to note that the payroll data is based on information from the labor force study, so this is information provided by the employees. For impartiality, it is important to extract remuneration related information from the results of enterprise surveys, but regrettably the survey of enterprises in Georgia does not provide disaggregated payroll data.

Figure 6: Distribution of jobs by income in Georgia



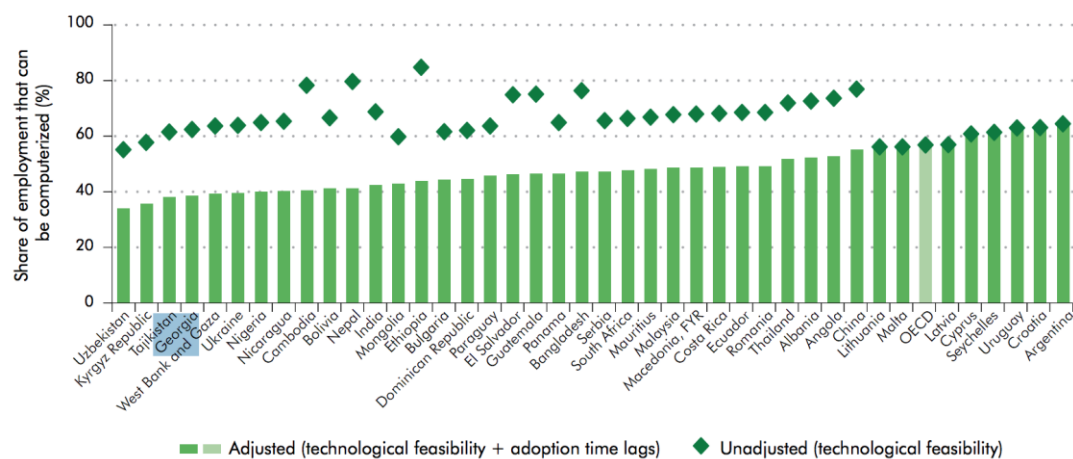
Source: Labor Force Study, National Statistics Office

It is difficult to give an exact answer to the question of what causes labor market polarization in the case of Georgia. However, offshoring mid-level positions is unlikely to be a reason, considering that production level in the country is minimal. Accordingly, it does not create a critical mass of mid-level jobs which is the case, for example, in Europe and the US. However, it is clear that Georgia's place in the global value chain significantly determines the existing polarization of jobs.

We should not forget that technologies are considered to be the second major driver of labor market polarization. According to the World Bank, about 40% of jobs in Georgia are susceptible to automation (replacement by machines) (see Figure 7).

Figure 7: Estimated share of employment susceptible to automation

Estimated share of employment that is susceptible to automation, latest year



Source: World Bank, 2016

According to the same study, the higher the education / qualification of an employee, the lower the risk of automating their job position. It should also be noted that the advancement of technological processes has a different effect on workers with different qualifications. Technology is something positive for highly skilled workforce, as it increases their productivity and therefore their wages, and, on the other hand, it reduces the demand for low-skilled personnel (so-called Skills-Biased Technological Change). The same effect was also observed in Georgia, when they studied the impact of increased broadband internet access and companies' transition to e-commerce. ¹¹Thus, we can conclude that technological development plays an important role in polarizing the Georgian labor market.

4. What are the consequences of labor market polarization?

As the data discussed in the article suggests, labor market polarization has a negative impact for most employees. For highly skilled workers, technology enables increase in their productivity. And those who have low level skills and qualifications more easily become subject to replacement, further weakening their bargaining power in the labor market.

The "lovely" and the "lousy" jobs have always existed, but the specificity of the labor market polarization is that it weakens the chances of transitioning from "lousy" jobs to "lovely" ones! Decreasing the middle tier diminishes the vertical mobility of employees. Simply put, if you start your career with a low-paid, low-skilled job, it becomes more and more difficult to move your way up to a high-skilled sector! Polarization in the labor market paints the kind of reality, in which middle-skilled jobs, which are necessary for the existence of the middle class, are pushed away in favor of highly-skilled jobs, the requirements of which can only be satisfied by a small part of the workforce, or low-skilled jobs, where it is relatively easy to meet the employer requirements.

In a study of developing countries, the World Bank concluded ¹² that jobs susceptible to automation are predominantly represented by low-skilled workers, who represent about the bottom 40% of the income distribution. Consequently, the increased risk of automation makes unskilled workers even more vulnerable: as companies are prone to replace low-skilled workers with a fewer number of high-skilled personnel, due to technological advances, the unemployment rate among low-skilled workers will increase. This will increase competition within the low-skilled workers. In turn, the increase in competition leads to lower wages, as the only way in which low-skilled unemployed persons can compete with one another is to offer their employer a relatively low(er)-cost for their service.

¹¹ Coville et. al. (2019), Empirical Evidence for broadband as a skills-biased technology

¹² Raja, Khan (forthcoming) - Risk of Automation for Jobs in the Developing World, World Bank

Finally, it is clear that polarization in the labor market also increases the pay gap between low- and high-skilled workers, which is not a good thing for a country where the economic inequality rate is particularly high: the Gini Index in Georgia was 37.9 in 2017¹³. For comparison, in neighboring Armenia the ratio was 33.6 in the same year¹⁴.

5. How can we mitigate the negative effects of polarization?

Several important policies can be set out to cope with the negative effects described above:

1. **Research** - As recent literature indicates, the impact of technology on the labor market is not merely that certain jobs disappear and other (new) types of jobs emerge. It would be more correct to argue that technologies change the configuration of tasks performed by employees, in particular workplaces. Consequently, it is important to know what impact the technological development will and can have on different job positions: what part of the job assignments will be “replaced” by the technology or how the technology will help us in conducting workplace tasks (For example, data processing software helps analysts do their job; accounting software altogether reduces the need for an accountant as a worker).

2. **Investing in Skills and Qualifications:** low-skilled workforce is in a losing position in the labor market - the pay is low, the risk of losing a job is high! Therefore, the only way out of this situation is for them to increase their level of qualification. Generally speaking, this implies introduction of changes in the educational system, as a whole, and implementation of the relevant mechanisms that are geared towards enhancing the qualification of the workforce. The latter primarily refers to vocational training and retraining of the unemployed. In fact, citizens should be able to acquire new skills at any stage of their lives.

It is also necessary to note that the development of workforce skills will not be complete without the involvement of employers! Because they have accurate information about what type of worker is competitive in the labor market. Involving employers (private sector) in the training of the workforce is a very problematic issue as they either do not have the resources or the motivation to train employees. Given this, states have devised different ways in which they (private sector) can be involved in the training of the workforce. To sum up, there are two types of experiences in this regard: there are countries that have successfully implemented dual education¹⁵. In this system, companies invest heavily in the training of future staff (apprentices). However, in order to encourage companies to invest, in such countries (e.g. Germany, Austria), industry relations are tightly regulated, and sectoral wage adjustments are also being made, which reduces the risk for the companies to have their trained personnel poached by other employers.

¹³ <https://data.worldbank.org/indicator/SI.POV.GINI?locations=GE>

¹⁴ <https://www.indexmundi.com/facts/armenia/indicator/SI.POV.GINI>

¹⁵ <https://www.bmbf.de/en/the-german-vocational-training-system-2129.html>

In countries with more liberal market economies, such a model cannot be successfully implemented. However, here too there is an alternative experience of workforce development-oriented policy. For example, in the UK a Training Levy Scheme was introduced in 2017,¹⁶ according to which an employer, whose payroll is more than £ 3m annually, pays 0.5% of payroll expense to a Training Fund. They can then apply to the said Fund and request budgetary support for their apprenticeship / staff training. As for other small companies, they do not pay taxes in favor of the Training Fund. Small companies receive a subsidy of 95% by the state for apprenticeship training, and firms with fewer than 50 employees are fully subsidized by the state. Singapore, on the other hand, introduced the Individual Trainings Credits System in 2016¹⁷, under which every citizen over the age of 25 receives \$ 500 per year, which can be spent only in the state-authorized training centers for the relevant service.

3. Payroll Policy Revision - Workforce training is an important policy discourse, but it cannot solve the problem of polarization - for modern, service-based economies labor market polarization is an inevitable phenomenon. As a result of this, Western economies have begun to speak of a "basic minimum income" that is viewed as a compensatory measure against unemployment in the era of technology. However, the basic minimum income, as a social policy, is quite new and there is not enough experience of its implementation to draw conclusions about its effectiveness. Thus, it is much more appropriate in the Georgian context to have a discussion on the minimum wage, which is one of the most important tools to mitigate economic inequality. Minimum wage can also have a significant impact on the economic activation of social welfare recipients, as the wages currently received by this group of people are not much higher than the social assistance. Accordingly, their motivation to join the formal labor market is not so strong.¹⁸ Clearly, the minimum wage should be introduced taking into account the socio-economic characteristics of the country and should be based on prior research.

6. Recommendations

Based on the analysis presented in the document, the following recommendations are important to consider:

- The state should have a harmonious and consistent policy of developing the qualifications of the workforce, which, at any stage of the career, will enable a person to improve their qualifications or get a new type of qualification;
- Involvement of the private sector is critical in the process of training the workforce. In order to do this, it is necessary to identify incentivizing mechanisms that will motivate the private sector to invest in the training of the workforce;

¹⁶ <https://www.gov.uk/government/publications/apprenticeship-levy/apprenticeship-levy>

¹⁷ <https://www.skillsfuture.sg/>

¹⁸ <https://sao.ge/files/auditi/auditis-angarishebi/2016/tb-socialuri-daxmarebebi.pdf>

- Polarization of the labor market is inevitable even if these policies are successfully implemented. Thus, it is important for the government to consider the idea of introducing a minimum wage, which can be considered as a means of mitigating increased economic inequality.

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