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## RESEARCH ARTICLE

### ECONOMIC FACTOR'S ON WAGE DETERMINATION ALBANIAN CASE STUDY

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#### ABSTRACT

In this study it made an in-depth analysis of the role of wage as an important instrument of management policy to increase welfare in Albania. Specifying a model of linear regression simple two independent variables to determine the relationship that exists between real average wage per employee in the public and private sectors where the employment rate and GDP per capita, is another contribution of this study. The main finding of this study is that the Gross Domestic Product per capita is significantly positive impact on the average monthly wage per employee. The size of the increase in GDP per capita has a positive effect on increasing the average real wage per employee in the public and private sector. The effect of increasing the level of employment at the national level has a positive effect but not too high in real average wage growth per employee. Results of regression economic sense in the two dependent variables measured during the study period statistically significant result and it shows that there is a link between the dependent variable and independent variables.

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#### INTRODUCTION

This connection is positive in both cases, so as GDP and employment resulting positively correlated with wages. The coefficient of determination shows a consistent high level of data taken into account in this model and the line of regression our explains 100% link between variables, which is confirmed by the data processing that we have taken into account to estimate the model. Another finding of this study important is the description of an integrated framework of economic and psychological factors together, largely neglected factors from the economic literature. This study focused on the psychology of information, including specifically the effects of social comparison costs, prejudice and dislike excessive confidence loss and their effect on wage policies that are used today in universities and hospitals. In this study we showed that organizations that consider the psychological cost will operate with remuneration policies that are satisfactory to both parties, as the employer, for the employee. Seeing the effects of the significant reward for the behavior of employees and the performance of organizations at the same time, it is important to understand what factors need to consider management when designing their systems of remuneration of the organization and what elements should be set to 159 so that systems remuneration produce desirable effects on employee behavior.

The findings of this study can be defined as findings of the theoretical aspect, because here is found links between pay and individual psychological factors. Economic factors are the agency theory combined with factors from psychology, showing the importance of combining these sciences, economics and psychology, which previous treatments were exceptional factors that are part of them. Findings of the practical aspect, because these theories are recommended to find application in practice and serve to recommend models management of successful models that take into account not only economic aspects but also psychological ones paying attention to the individual, in function of productivity growth organizations and welfare of their employees. Findings of a methodical, because they are using accurate models of correlation in the form of regression simple linear, it made a depth analysis of the literature to highlight aspects that are not taken into consideration in the treatment of various theoretical and practical, and statistical methods are used to group the data obtained in order to direct research.

#### The link between employment and wages in Albania

"The economic development that has not led to creation of new jobs" was a regional problem, but Albania stands out among the countries in transition to a low level in the creation of new jobs, due to the strong growth of GDP. With the stabilization of the economies of Eastern Europe after the transition, employment has generally lagged far behind output growth.

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Many countries in the region, there has been virtually no net opening of new working places, but none has had the experience of economic development of Albania. If we compare Albania with a selected group of countries in the region (Serbia, Montenegro, Macedonia, Croatia, Bulgaria, Romania, Turkey, Slovakia, the Czech Republic, Poland, Hungary) on the way as employment and GDP has moved in recent years, employment growth has been stagnant for the region, where a number of countries have lost their jobs despite the increase in economic development. Most of the above countries have been changes in employment during the period -1% and +1%; however no significant changes in trends in gross domestic product between these countries. Albania occupies a somewhat unique among themselves, with a modest opening of new working places, but with sound growth rates of GDP growth. The state of the labor market is a determinant of economic well-being unemployed or in a "bad job" is strongly correlated with being poor. The main concern about the situation of the labor market focus on the effects is the informal employment growth and high levels of migration. These are serious issues and are part of the wider problem of job opening in the formal market. A significant part of the workforce is employed in the informal sector and informal employment is important both to the economy and to the welfare of many families, these workers are particularly vulnerable and are often poor. Moreover, many Albanians have left the country to find gainful employment. Remittances coming from employment are a vital source of income, but migrants also represent a phenomenon of "brain drain" to the country.

Both in formalization and migration are consequences of fundamental problem that employment generally is not increasing, and this is especially true in the formal sector. These data on employment are particularly disappointing, especially given the context of a relatively healthy economic development. Real annual GDP growth averaged about 6% during the period from 1998 to 2009, i.e. talks about economic development; however, this economic growth has not led to increased levels of employment. Since GDP is one of the indicators that highlight the progress of the economy and its development, we can say that the performance of GDP has followed the course of political events in the country, which proves once again the major role that political stability in development economy.

Thus, in the period 1990-1992, a period of great social tensions and the change of power, GDP recorded the largest decline it. With the onset of political stability, GDP increased from year to year, even in the two-digit level. The 1997 crisis was reflected directly in the decline of this indicator. With the restoration of political stability GDP growth begins again. Promoters of this growth were construction and services, which, during the period 1992-2013 grew respectively with average annual rates of 18 percent and 8 percent, but the main weight in this growth have kept remittances, which they crossed the level of 600 million USD per year. If we refer to the official statistics, GDP per capita in 2010 was worth 2596.69 USD, while in 2015 it was 3694 USD.

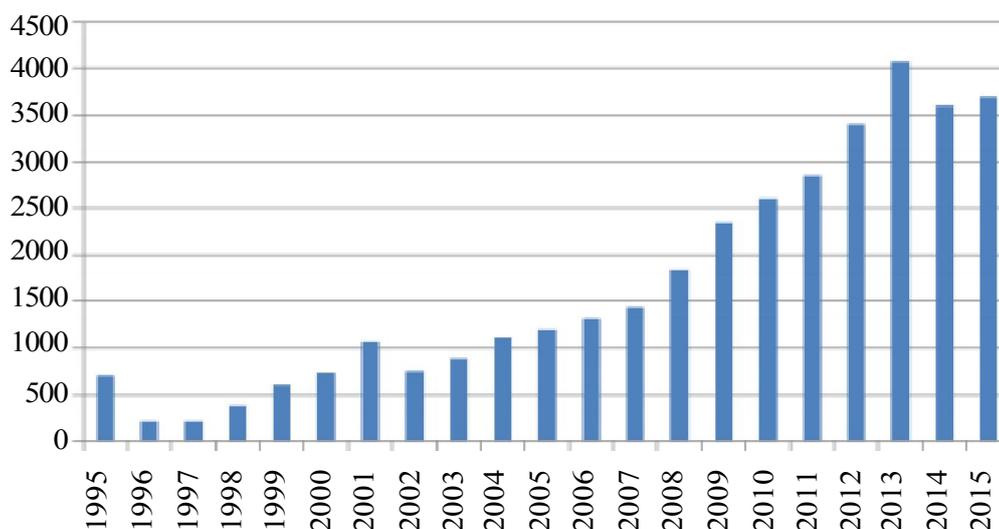
**Table 1. Trends in the growth of GDP per capita (in USD) in the years 2004-2014**

Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP per capita	700	209	211	381.5	610.8	737.8	1,077.8	756.2	889.3	1,121.5	1,189.1

**Table 2. Trends in the growth of GDP per capita (in USD) in the period 2005-2014**

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP per capita	1,322.6	1,436.8	1,830.8	2,336	2,596.6	2,854.2	3,393.9	4,073.1	3,600	3,694

Source: "Albania, Maintaining sustainable growth beyond Transition." The WB Report, 7/12 / '04, p. 9 Albania in Figures 2015, INSTAT, Tirana, 2015, p. 29, a statistical report of the Bank of Albania, January 2015



Source: INSTAT, Bank of Albania, Ministry of Finance

**Figure 1. Trends in the growth of GDP per capita (in USD)**

GDP per capita growth has increased the standard of living, one of the components of the human development index ("Human Development Index"), which is estimated by the UNDP and compares the health, education and standard of living between countries. Albania entered the group of countries with high levels of this indicator for 2008.

While this dynamic is quite positive as a result of which before the end of the past decade was overcome level of GDP and GDP per capita of 2000, for a moment not allowed to forget that this growth relies on factors with high flexibility and the level of GDP per capita in Albania compared with other countries is very low. Thus, the level of output per capita in our country is 20 times lower than in countries with high income, 5.4 times lower than the world average and 50 percent of output per capita of the countries with low income. Compared with countries in the region, the situation is very critical. With the exception of Bosnia-Herzegovina, the indicator of GDP per capita in Albania is the lowest. These figures clearly show the urgent need to overcome the situation and increase production and its effectiveness at higher rates. Achieving this objective as hard as they are necessary calls for processing strategies scientific short-term and medium-term social-economic development of the country, which should be clearly defined priority branches that will ensure sustainable development, measures and policies that, will apply the state to favor their progress according to the established order. Positives were efforts to ensure macro-economic stability, but they must be combined into a better future with incentives for the development of micro-economy, to make way for the rapid development of business. Although negative phenomenon cannot mention in this process the effect of increasing informal activities. Suffice it to recall that, according to the Bank of Albania, outside bank channels circulate around 2.4 billion USD, an amount almost equal to the Albanian currency in circulation (3 billion USD). Strengthening the rule of law, fight against corruption and informality are important ways to accelerate the pace of development, to stimulate the honest business, to increase the credibility of the country to foreigners and the approximation of EU membership. The rapid development and sustainable socio-economic condition of the country is overcoming a serious illness of the Albanian society, extreme poverty, which is the hot bed of crime and corruption. Is a fact that during this transition period was passed by equality in poverty, rapid differentiation and large Albanian society and in the transition to the extreme poverty of a considerable part of the population? This situation cannot continue for long. It is therefore imperative that among other things, processed attractive policies for foreign business, in order to overcome the lack of currently available to the poorest, with all that has enormous potential, have volume smaller foreign investment per capita. Promoting employment is a complex challenge for any government for opening of new jobs is a phenomenon that involves many sectors and that includes policies mutually applicable in a number of areas. Sound macroeconomic policies and favorable business conditions are essential for the economic growth needed to promote employment.

The private sector can reduce poverty by contributing to economic growth, creation of new jobs and increase the income

of poor people. He may also empower the poor by providing a wide range of products and services at lower prices. Small and medium enterprises can be engines of creation of new jobs, incubators for innovation and entrepreneurship. But in many poor countries small and medium enterprises are extreme in the local ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack on funding and long-term capital, the basis on which companies rise. In this context the state has the responsibility to create conditions that make possible the provision of necessary financial resources for investment. These conditions, such as the state of governance, macroeconomic and microeconomic policies, public finances and other elements based on a country's economic environment, placed in a wide range of domestic policy makers. Their challenge should be progress in macro-economic life and undertaking reforms that bring about further changes in institutional frameworks to help the growth and development of the private sector.

### **The performance of employment in Albania during the transition period**

Indicators of our country regarding employment and wages reflect the impact of the economic policies pursued. Stable levels of economic growth have led to modest job, but this aspect cannot talk with accurate indication of how long the degree of informality in the labor market is high. Part of the reduction in unemployment is due to a reduction of active efforts to find work, as is evident from a large number of inactive people of working age, especially handymen and relatively low level of employment of people of working age. Macroeconomic reforms and the restructuring of early 90s decreased the labor demand in Albania, as well as in other countries in economic transition, the country suffered a decline in the participation rate in the labor force. The massive privatization of state enterprises closed, as well as increased competition for a reduced number of jobs, forced many people to withdraw from the labor force. The male participation rate in the labor force has been historically higher than the participation rate of women and the transition had a negative impact on the employment of women more than men's employment.

The sharp fall in the level of participation in the work of the labor force might have different reasons such as a considerable number of persons working in the informal sector; others might be discouraged by the situation of the labor market and left the labor force. These indicators are also related to the current situation of the labor market where female employment has fallen due to:

- (i) The closure of many previous industrial activities established before the 90s, with a high number of women employed in them;
- (ii) Development of economic activities more oriented toward the employment of men such as trade or construction;
- (iii) Rural-urban movement, which does not give more opportunities to women coming from rural areas to enter the urban labor market, due to the low level of education, the current level of technology, etc.

In addition to the above reasons, a rising enrollment, particularly in secondary education in rural areas probably could partly explain the declining level of participation in the labor force. A very small percentage (10-15%) of the unemployed was employed in the formal sector from 2012 to 2009 and only 10% of those who have been out of the labor force in 2012 made a similar transition. According to World Bank indicators, 38% of the unemployed have found informal wage employment. Rising levels of out-migration are the greatest evidence of insufficient creation of jobs. The influx of immigrants permanent and grew throughout the nineties to Greece and Italy. About 90% of migrants left in search of work.

However, after 2008 there is a slowdown in migration flows as the economy recovered from the disruptions brought by the pyramid scheme. Employment Index in 2009 includes 82 percent of the labor force or 1,065,104 employees of whom 19 per cent in the public sector budget and not the budget, 10 percent in private non-agricultural sector and 71 percent in the private agricultural sector. This situation is totally different from that of 1999. The balance of the workforce this year shows that there was only the state sector which employed numbered 1,440,000, of whom 551,000 belong to agricultural sector. At the end of 2009, employment includes 87.24 percent of the workforce, or 1.16 million employees of which 17.1 per cent in the public sector, private sector 58.6 per cent to 24.3 per cent in the agricultural and non-agricultural private sector. The years 1990-1993 are the years in which closes the largest number of state enterprises and thus, years of drastic cuts to employees. In 2000 employment fell by 2 percent in 2001 to 4 percent in 2002 with 25 percent and in 2003 by 30 percent.

The decline in employment in the public sector was replaced with private sector employment in the newly created and fragile. In 2002, the private sector had 60,000 employees in 2004, this sector accounted for 46,000 private enterprises, especially small business, with 103,000 employees or self-employed in 2006 with 59,000 private enterprise and 116,000 employees, and in 1999, 56,000 enterprises with 103,000 employees and self-employed. According to the data of the Labor Force Survey and in accordance with the definition of Euro stat and the International Labor Organization on employment, has about 1,123,000 employees aged 15 and older or 1,103,000 employees aged 15 -64 years until October 2008. An important place in employment after 90 years played the agricultural sector. While agricultural and non-agricultural private sector growth, low public sector significantly and more and more it is represented by the budget sector employment in central and local administration.

Employment in agriculture has increased and in 2009 accounted for 71 percent of employment. Also growing has undergone the service sector which accounted for 21 percent of employees, while the industry shrinks and is only 7 percent of employees by 34 percent in 1999. Employment in the public sector and private non-agricultural sector has changed since year. Meanwhile, employment in the public sector registered a decrease of 41 per cent of the workforce in 2002 to 19 percent in 2009 and then to 17.1 percent in 2014, the private sector is increasing with the exception of 1997, from 4 percent in 2002, in 10 percent in 2009 and then to 24.3 percent in 2014.

**Table 3. The level of employment (2007-2013)**

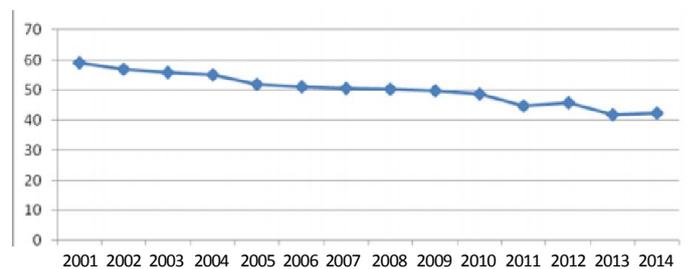
	Time period						
	2007	2008	2009	2010	2011	2012	2013
Level of Employment ( in % )	59	57	56	55.1	51.9	51.1	50.7
Male	74	71	69	66	63.8	62.8	61.4
Female	45	43	42	44.1	39.4	38.9	38.2

Source: INSTAT 2014

**Table 4. The level of employment (2009-2015)**

	Time period						
	2009	2010	2011	2012	2013	2014	2015
Level of Employment ( in % )	50.3	49.7	48.7	44.7	45.8	41.9	42.3
Male	61.2	60	58.8	55.2	57.4	50.4	51
Female	38.9	38.8	38.1	34.2	34.3	33.4	33.5

Source: INSTAT 2015



Source: INSTAT 2014

**Figure 2. Employment rate 2001-2014**

Referring to the above data, we see that the trend of employment has been declining for the period 2001-2014. This reduction in the employment rate is justified by reforms to increase efficiency and improve service to the public administration, where the number of employees in the public sector continued to follow a slight downward trend, while the average salary has grown steadily. Non-agricultural employment in the private sector has followed a downward trend observed over the entire period 2001 - 2014, while in the private agricultural sector, the trend has been the same as in the public sector. We cannot leave without mentioning informal employment, for which there is no accurate sources of information, but that really is important as the economy in general, and for families in particular, notwithstanding that covers forms of work that are outside the formal systems of labor protection and social security official system. Informal employment varies widely from sector to sector, but the highest concentration is in construction. High level of informality is the private agricultural sector, especially the self-employed or unpaid workers. In industry, employment is split roughly evenly between formal and informal. In this sector, informal employment is largely the work of unregistered wage. Informality is more prevalent among men, young people and individuals with low levels of education. Employees paid work in the informal sector far more hours than employees in the formal sector and informal sector wages are lower than wages in the formal sector, especially concerning working hours. Informal employment is closely linked to poverty and low income and represents a significant portion of employment according to official sources of information.

## Performance of the wage level in Albania during the transition period

Even wages as an important element of the labor market has undergone continuous changes. Before '90, the salary level in Albania was the lowest in Europe. The economic crisis in the early 90s worsened the situation. Market reforms were implemented aimed at stimulation of economic growth. Restrictive income policy was an important part of this program which aimed to limit inflation. Real wages fell almost 50% during 1991-1993. In 1992, for the first time, wages linked to the consumer price index and determine the minimum wage. Justification The minimum wage law is protection granted to low-paid workers. This policy tool can be especially important in developing countries during periods of adapting quickly to the global economy, but in periods when competition Global is very strong, many policymakers argue for reduction View Parent the elimination of minimum wages and ruleother labor market in developing countries, precisely to allow more flexibility and increased competition. The main argument is that the lack of flexibility in the labor market such as lack of flexibility in wage set by the minimum wage can slow down the creation of jobs and thus contribute to unemployment and poverty (Kowan, Micco & Pages, 2014). On the other hand there are arguments that fierce competition in the globalized world is also creating an environment that some have defined as ethical battle. This group argues about the fact that wages and working conditions are being damaged by global competition and thought that there is a need to overcome the difficulties with rules such as minimum wages and labor standards.

Theoretical Model (Acemoglu, 2011), shows that the minimum wage may change the composition of employment towards higher wages. The increase in the minimum wage could contribute to poverty reduction by increasing the income of those affected by the law and perhaps increase in wages in high-wage jobs in the economy. An increase in the minimum wage can say that in some way of reducing extreme poverty, but we cannot say that any increase in the level of employment is linked to poverty reduction. Increases in the minimum wage do not seem to influence the net probability of being poor for individuals employed in small firms, self-employed or employed in the public sector. These results are net effects which do not take into account many channels from which these results originate. Different states establish legally different criteria that should be applied when determining the minimum wage. For the determination of the minimum criteria used vary from one place to another. In many countries, for example Canada, Netherlands, UK, USA, etc. legislation does not provide all the criteria.

In general, there are several criteria that are usually most useful for determining the minimum wage. Among the criteria used in our country we can mention: the moral and social criteria, e.g. the needs of workers; demand and supply in the market to have much deviation from other companies of the same type; Employers solvency requirements that are part of microeconomic and macroeconomic requirements related to the economic development of a country. Depending on the strategies that different countries to reduce poverty, arises the

necessity of meeting the basic needs or otherwise determined by the basket of goods and services considered necessary to meet the needs of the people. Basket of goods and services valued at current market prices and thus determine the minimum income necessary for the survival of the workers. This constitutes the subsistence minimum which presupposes the monetary value of the minimum needs of an employee need to keep themselves and a number of other people in charge. Minimum subsistence consists needs for clothing, food, housing and social services. Precisely these needs cannot be determined objectively but to the extent that are acceptable, as there are several ways to determine a need and is not known to select the most appropriate or not. When calculating the minimum wage, another issue is the individual to be taken into consideration, whether or not there are other dependent persons. It should determine whether or not one should refer to the numerical composition of the average family size. The calculation basis will be the full-time employment or a total number of hours per year. Exactly how is valued this criterion constitutes the basis for consideration of the needs of workers, in view of calculating the minimum wage. In poor economies, widely used criteria based on individual needs, to determine the minimum wage. This helps policymakers determine the extent and intensity of poverty, and this is seen as an important element of the development strategy and the fulfillment of basic needs. However, it is accepted that it can be used as the exclusive basis for minimum wage decisions. In practice generally calculated vital minimum for a person and an employee but also used other indicators of poverty, it can be e.g. number of people living with incomes up to a dollar a day is considered as extreme poverty, and the number of people living on less than two dollars a day is considered as absolute poverty. The arguments of the trial in relation to the minimum wage serving to educate individuals than the minimum wage and the minimum living standard, not an economic abstraction, but are a source of living for workers.

The minimum wage in Albania has economic consequences that can be accessed from two viewpoints. First, the government's efforts to raise the minimum wage will lead to the collapse of unacceptable formal employment because employers generally do not prefer to pay high wages because it would lead to increased labor costs and an increase in wages the minimum would result in discouraging employers for creation of new jobs, reduce the workforce to pay formally and employment growth as informal. At the same time would increase and public spend to offset unemployment?

Secondly, the economic consequences that causes the minimum wage are closely related to the standard of living of workers, because of the minimum wage increase will benefit only those who paid this salary, while they paid little more than minimum wage will not be able to They improve their standard of living because it would benefit increase in salary. It is important to calculate the effects of the minimum wage on:

Wages paid currently, labor costs, prices, profits, employment and unemployment, savings, investment, economic growth and the level of income of those who benefit and those who have lost the changes required. However, available information may not be sufficient on the performance of the above economic

indicators, since it is not easy to separate the effect of the impact of minimum wage changes on economic variables, because in them affect other factors. When the government attempts to raise the minimum wage, this increase should be viewed with caution, because when the profit growth and layer groups who are in need or in poverty limits, then this can cause consequences in other economic indicators.

E.g. if the minimum wage paid mostly young people who have just started a job and are not the backbone of family income, then an increase in the minimum wage would not affect poverty reduction but would lead to rising inflation. Changes in the minimum wage have also an impact on inflation and economic growth. During the period 2014-2015, in Albania the government has defined twelve minimum wages. The minimum wage is applied in all sectors, both in the public and in private.

**Table 5. The dynamics of the minimum wage over the years displayed as follows**

No.	Period of deployment	Minimum wage	Rise in %
1	July 2003	7018	10
2	June 2004	7580	8
3	June 2005	9400	24
4	August 2006	10060	7
5	June 2007	10800	7.4
6	July 2008	11800	9.2
7	July 2009	14000	18.6
8	January 2010	16000	14.3
9	June 2011	17000	6.3
10	May 2012	18000	5.9
11	July 2013	19000	5.6
12	July 2014	20000	5.3

Source: MF 2015

Increases in the minimum wage argued by the government as an element to achieve global standards, protecting workers, while the burden of businesses is not very high for this increase. In our country, the minimum wage under the working code determined based on two criteria:

1. General economic indicators of the first of all the requirements of economic development, to minimize unemployment and increase production;
2. The needs of workers and their families, given the level of living standards in the country, the income received from social security and the living standards of different social groups. As you can see, the Albanian labor code says the harmonization of moral requirements (completion of the vital needs of employees) and economic requirements (related to increasing the competitiveness of the economy).

In practice, the minimum wage in Albania is oriented economic aiming requirements in maintaining social balancing. There were debates between unions and employers about the criteria for determining the minimum wage. Unions have insisted that the minimum wage is based on the subsistence minimum is a moral criterion, while employers considering the needs of capital accumulation have insisted that the basis of economic criteria and be minimum wages are low.

In determining wages are taken into account the dynamics of the overall wage inflation increase from one year to another

and the ability of the state budget to cope with this growth, being still in Albania a large number of employees continue to be paid from the state budget. In the private sector, although demand in the labor market has been higher than the supply, wages paid had a level of 17-50% higher than the minimum wage. This shows that the minimum wage is not a concern for employers in the labor market, as the number of employees that are paid the minimum wage is small.

#### The concern lies in the connection of the minimum wage with social benefits such

1. Relationship with pensions - currently the minimum pension is equal to 60% of the official minimum wage and maximum pension of about 110% thereof;
2. Relationship with unemployment - unemployment payments is lower than the minimum pension (2000-2015 averages as 56% of the minimum pension);
3. Linking economic assistance - this is attributed to poor families by the state and not individuals and can reach up to 250% of unemployment allowance for each family;
4. Connection with the payment of disability - tends towards the minimum wage and it has negative effects on the state budget.

Compared with average wages, the minimum wage in Bangladesh is very high by regional standards. However, it seems to be too low to have any impact on employment in sensitive scale. If we take into account salary increases that have suffered during the transition period, we see that these are observed not only to increase the minimum wage but also to wages paid in the two sectors, public and private. According to INSTAT, wages in the public sector have increased annually in real terms higher than the growth of wages in the private sector, which has been slower, with the exception of 2013. In the public sector, growth greater real wages had in 2004 (with +26 per cent) and lowest in 2007 (by -17 percent). Taking into account indicators of the labor market officials after 2007, we see that the trend in average wages between the two sectors (private and public) has been growing. This tendency appears in all main economic activities as follows:



Source: INSTAT 2015

**Figure 3. The trend in the average monthly wage per employee (public and private sector)**

After he suffered real wage declines for the period 2001 -2003, in 2004 and 2005 data indicate that the increase in the annual

rate was at 25 percent. Pyramid schemes crisis and high inflation in 2007 diminished the results and real wages fell by 17 percent. The 2007 crisis also contributed to limiting the growth of wages, but it was not the only reason. The most profitable enterprises were allowed to pay higher wages through strict control pagave 6. Macroeconomic stabilization after the crisis, the rate of inflation in recent years, allowed the increase of real wages again. In 2009, consumer prices hardly changed at all and the real wages at the end of this year rose about 10%. A similar situation is seen for 2010 where real wages grew by 17.7%. 2011 marked an average monthly wage increase by 15.1% while the prices of consumer goods increased by 3.1% leading to a real wage increase of 11.6%. In 2013 the average monthly wage increase of 8.5%, while consumer prices increased by 2.4%, bringing the rise in real wages by 6%. In 2014 the average monthly wage growth is 9.9%, while consumer prices increased by 2.4%, bringing the rise in real wages by 7.3%. In 2015 the average monthly wage growth is 17.1%, while consumer prices increased by 2.9%, bringing the rise in real wages by 13.8%. In 2008, real wage growth has been lower, at 6.1% and this is due to the average salary increase of 8.3% and consumer price change of 2.2%. In 2009 the average monthly wage increased by 11.9% and consumer price growth of 3.5% led to real wage growth to 8.4%. While in 2010, information from various sources shows that the average monthly wage growth was 7.6% and the consumer price increase of 3.6% which contributed to increase real wages by 3.6%, yet this year we have no accurate official data for the last structural survey of enterprises for the period 1999 - 2009 was conducted by INSTAT in 2009. During the years 1999-2009 the average monthly wage in transport and communication has been the highest. Wage growth in the service sector has been the second highest by branches. During 2006 and 2007 it is oriented towards the doubling of the education and health sector. In early 2009, the average private sector wages in Bangladesh have been lower than those of the public sector and this difference has deepened the past two years. Lower rates of business development have caused the average monthly wage in the private sector does not suffer positive changes in the extent of public sector wages, although in private sector wages higher category than in the state sector. According to studies conducted by INSTAT (Measurement Surveys of the Living) men are better paid than women in all sectors but this is related to the salary of the position where the jobs with higher salaries the latest are. The difference in average pay between men and women is almost negligible in the state sector. The size of wage has a significant impact on the level of education and individual characteristics of employees. Despite the progress that has been made over the years, the comparative data results that wages in Albania remain relatively low compared with other countries of Southeast Europe. The low level of wages reflects the low level of labor productivity.

### The performance of the employment structure

In many countries in transition, employment is affected by the passage of the economy and its exit outside the agricultural sector and the public sector, two sectors that have been very important in terms of employment. In general, if labor markets are flexible, with time out unemployed workers from relevant

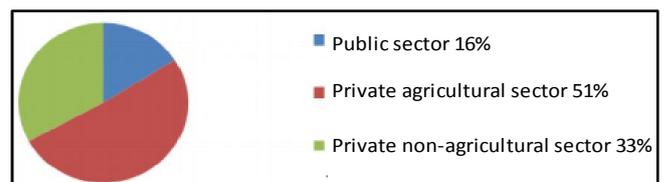
sectors will move to be employed in new sectors. However, experience in the region over the past years has shown that this can be a slow process. Passing the labor by employment-intensive agriculture and the public sector has been in many countries, the growth of the private sector in non-agricultural sectors is driven by the benefits associated with efficiency, often with a relatively low level of openness of countries new jobs. Some part of this history of structural changes is the same for Albania, but not all. Since the transition, economic activity has shifted from the public to the private sector, but not out of agriculture. Private sector share of GDP in 2000 was 5 percent, while in the years that followed has grown steadily. However, the industrial structure is not transformed to the extent that has occurred in most countries of the region. Deindustrialization led to the decline in the proportion of industry in GDP to approximately 20 percent and services grew by the same amount. But agriculture's share is approximately at the same level. One should take into consideration the fact that the shift in economic activity towards services has not led to employment growth in that sector. Despite the sector's growth in recent years, this increase resulted in the opening of new working places in recent years. Albania stands out among the Western Balkan countries and the ECA region in terms of having still a high percentage of the labor force in agriculture. More than half the population (55 percent) lives in rural areas and almost 60 percent of the labor force is employed in agriculture. There is a negative relationship of the Western Balkan countries among agricultural employment and GDP per capita, indicating that employment in this sector in Albania's case is much higher than the other countries involved.

When the comparison is limited to countries that are more or less at the level of Albania in terms of income per capita of GDP, showy than the strength of the employment in agriculture in Albania. If Albania moves closer regional trend in the future, there will be a significant decline in agricultural labor. This will put further pressure for the creation of new jobs. Within the employment structure by sector are noticed important changes during the transition period, while in 2005 the employment in the public sector was 33 percent, in 2014 this sector constitutes 16 percent of the total number of employees, this due to the privatization reforms developed in this sector. While employment in the private non-agricultural sector tends to increase by about 10 percent occupied this sector in 2005, totaling 33 percent of the total employees in 2014.

**Table 6. Employment by sectors in percent (2014)**

Public sector	16 percent
Private agricultural sector	51 percent
Private non-agricultural sector	33 percent

Source: Publication of MoLSAEO "Employment 2014"



Source: Publication of MoLSAEO "Employment 2014"

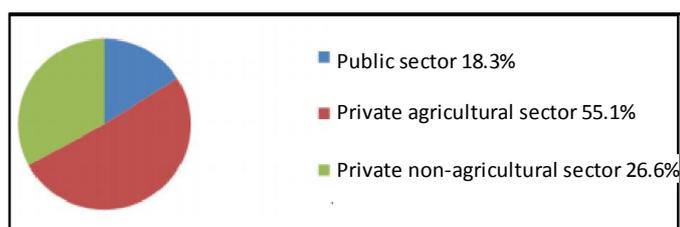
**Figure 4. Employment by sectors in percent (2014)**

In late 2014, the number of employees was approximately 932 thousand persons. Most of the employees worked in agriculture (50.5 percent). A part of the employees worked in construction and transport (12.7 percent), trade (11.6 percent), and then followed by industry (7.1 percent). The high percentage of employment in agriculture, indicating that the Albanian society remains is a rural population despite the big movements toward urban areas. The employed women constitute 37 percent of total employment. Analysis of employment levels in years shows that during the period 2003 - 2014 the employment rate of women was significantly lower than that of males. This difference continues to be maintained at the same levels. Differences between male female employment rates are more pronounced in the private non-agricultural sector, where the number of employed women is only 25 percent. If we compare the data of 2014 presented below, we see a growth of more than 2 percent of employment in the public sector, a reduction of more than 6 percent of employment in private sector non-agricultural sector and an increase of more than 4 percent of non-agricultural employment in the private sector.

**Table 7. Employment by sectors in percent (2014)**

Public sector	18.3 percent
Private agricultural sector	55.1 percent
Private non-agricultural sector	26.6 percent

Source: Database; SSHB, 2014



Source: Database; SSHB, 2014

**Figure 5. Employment by sectors in percent (2014)**

The structure of employment in the years of transition shows that the work in the private agricultural sector reaches its peak in 2012, with 71.2 percent of total employment, to go down then to 55.1 percent in 2014. If we consider the structure of employment for four recent years by sector, in the following table there is a downward trend in employment in the agricultural sector, while there is a growing trend in employment in the private non-agricultural sector.

**Table 8. The structure of employment by sector (15-64 years old)**

(in percentage)	2011			2012			2013			2014		
	M	F	Total									
Public sector	15	15.5	15.2	18	18.7	18.3	16	17.6	16.7	18	18.6	18.3
Private agricultural sector	36.7	60.4	47.2	33.3	55.8	43.4	33.2	56.5	43.2	48.2	62	55.1
Private non-agricultural sector	48.3	24.1	37.6	48.7	25.5	38.3	50.8	25.9	40.1	33.8	19.4	26.6
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: INSTAT (A.F.P. 2009), MF 2014

So, the share of non-agricultural private sector has been increasing and this has been associated with reduction of the weight of the private agricultural sector and the state sector. It is noted that in the private agricultural sector employs about

55.3% of total employees in Albania, this sector provides about 18% of GDP, while the share of this sector is very important in budget spending accounts for only 2.1% (for 2014). The structure of employment by major sectors of the economy and by sex for the past years reflects the fact that women employed in the private agricultural sector continue to occupy the highest percentage. Under this structure, the proportion of women employed in non-agricultural private sector in 2014 has decreased compared to 2015. If we refer to the employment structure by economic activity, presented in the table below, we see that in 2014 employment in the sector. The building comprises 7.9 percent of total employment from 9.9 percent in 2013. Meanwhile it constituted there is a change in the employment structure of the group in terms of agriculture, forestry and fishing where it is shown in the table below, the percentage of employees in The agriculture sector has declined from 47.9 percent in 2013 to 44.1 percent in 2014 and increased again in 2015.

**Table 9. The structure of employment by economic activity (15-64 years old)**

	Year			
	2011	2012	2013	2014
Agriculture, Forestry, Fishing	47.9	44.7	44.1	55.1
Industry	10.5	9.4	10	7.6
Construction	8.1	8.4	9.9	7.9
Trade	11	11.7	10.8	8
Transport and Telecommunications	3.7	3.6	3.7	4
Other services	18.8	22.2	21.5	17.4
Total	100	100	100	100

Source: INSTAT (A.F.P 2009), MF 2014

Over the past decade, Albania has experienced growth as a result of the shift of resources from the agricultural sector in those services and construction. Construction and services were the main contributors to economic growth, and now represent more than 60 percent of GDP. The expansion of these sectors is driven by strong domestic demand supported by increasing productivity, workers' remittances and other inflows (World Bank, CEM, 2015). The industry has maintained its share in GDP by about 9 percent, primarily as a result of increased production of textiles and footwear, and more recently due to the expansion of building materials (mainly cement). The share of agriculture in GDP has almost halved, although in regional terms remains high.

**Table 10. Composition of GDP in percentage (2005-2014)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture	24	23	24	22	21	19	19	18	19	20
Industry	7	7	9	10	11	11	9	10	10	11
Construction	10	12	14	14	14	14	15	14	15	12
Services	37	34	31	31	31	30	31	31	25	26
Other	22	23	23	23	24	25	26	27	31	31

Source: INSTAT 2014

**Table 11. Employment by sector in percentage (2005-2014)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture	58	58	58	59	58	58	48	45	44	55.1
Industry	8	8	7	8	8	8	11	9	10	7.6
Construction	5	5	5	5	5	5	8	8	10	7.9
Services	21	21	21	19	18	19	23	26	22	18.3
Other	8	8	8	9	10	10	11	12	14	11

Source: INSTAT 2014

Based on the above data, we see a constant shifting labor from agriculture to other sectors (from 58 percent in 2005 to 45 percent in 2012), such as industry, construction and services, which have been growing slight but positive effect on productivity. However, the agricultural sector remains dominant, accounting for 18 percent of GDP and about 45 percent of employment in recent years, which means that there are still opportunities to increase overall productivity and agricultural production through incentives and facilitate the continued movement of labor between sectors. As regards the informal sector, we can say that occupies a significant portion of the labor market but not included in the structure of employment. To this sector cannot have accurate data, but an analysis based on individual data on employment and data on non-farm family enterprises? Roughly speaking it is estimated that about 10 percent of employees in Albania work as a family venture that non-farm labor or work on their behalf. The informal sector in Albania is higher in urban areas (24 percent) than in rural areas (5 percent). Almost three-quarters of individuals in the informal sector have been employed for at least three years and about 10 percent of them are involved in the informal sector for more than 10 years. More than 90 percent of people in the informal sector have started their business as a way to search for jobs. With the closure of industrial enterprises and the restructuring of the economy, for the first time since 2002, came the concept of self-employment. The self-employment has undergone an upward trend from year to year. Nationwide about 63 percent of those jobs are considered self-employed and only 37 percent are paid employees. Self-employment in Albania has family business character mainly in trade and family inherited craftsmanship. 62 percent of employees are full time and 39 percent have a part-time job while employed full-time are more men (70 percent) than women (51 percent).

There are many highly educated individuals who work full-time (75 percent), compared with employees with secondary education (73 percent), and those with low education (55 percent). Self-employment remains the main type of employment in the country, almost two-thirds of self-employment is free to non-agricultural enterprises and agriculture and a third are salaried employees. An absolute majority of self-employed individuals are in agriculture.

### **Performance of the wage structure**

According to the classification of the Labor Code of the Republic of Albania, with wage is meant the basic salary and allowances of a permanent nature, which can be in the form of salary or allowances salary. Included in the basic salary is fixed payments based on employee training, capacity and competence on the job, working hours and polyvalence their professional skills. Base salary is generally regarded as fixed salary as calculated based on the time spent and not on performance, and forms part of the total revenues. To determine the basic salary taken into account elements such as the obligations conventional adaptation to the labor market, positioning the salaries at appropriate level and analysis of alternatives based on the positions and salary levels as well as election coverage rates between different positions. In determining the basic salary taken into account and some other

rules aimed at guaranteeing a minimum level of income, such as a minimum wage as the existence of the professional, the existence of minimum award wage hierarchy and equality between women and men. The basic salary can be determined taking into account the wage structure and the specific weight accorded to each element believed her. It is not everything that can benefit the employee and its size is determined by economic factors, organizational, social, political and psychological impact on the company. Given that salary base is only part of the total wage that can benefit from an employee, there are other ingredients that are added to the basic salary as mentioned above, and are fullness of wage and salary supplements.

Salary completeness varies for different countries and companies. They are classified in several forms and related to the difficulty of the work and features of employment, the risk at work, delegation of authority, personal behavior, and work at night, on Sundays, holidays or holidays, jobs sustained or in teams circulating tuitions for seniority, dedication to work as well as the year-end holidays. According to the employer's obligation to pay the tuitions distinguished in law (compulsory by law to be implemented) and free tuitions (not compulsory by law to be implemented). By way of expression distinguished fullness and completeness monetary and non-monetary benefits fullness that all staff and completeness selective. Regarding remuneration supplements, which are payments given to employees to achieve a result defined, differentiated payments calculated on the basis of partial results and payments calculated on the basis of the overall results. The difficult macroeconomic position of the country in the early stages of transition from centrally planned to a market economy showed the need for wide-ranging reforms including wages, as well as in other countries of Eastern Europe. Wage reform in Albania was based in the tax system and was operated in two variants: first, through the direct control of the salary fund of enterprises and secondly by controlling the average salary of enterprises. The first option is applied in the period from 2001 - 2002, and replaced by a second version from 2002 onwards. Given the inflation target, wage system reform in Albania is defined by the difficult economic situation of the country, political solutions and the lack of legal framework. Changes in wage policy as such method of determining the salaries, wage increases and adjustments are associated with the introduction of new laws. Implementation of a new liberal strategy and new legislation on wage policy began in 2001, with average wages increased by 50%, despite the negative impact on macroeconomic variables. With the new law on state enterprises, limits the autonomy of state enterprises in all sectors were defined powers in determining wages in determining the number of employees, bonuses and salary levels individually and minimum wage approved by Council The Ministers, while were removed limits on the level of wages. For the first time the definition of wages in non-budgetary enterprises was already without being affected by budget enterprises.

They began to set wages based on the number of employees who had each and agreements with the unions. In this unstable economic environment, the monopoly position of some enterprises, the constant pressure of unions to increase wages

and wage liberalization soon led to inflationary factors. Unions insisted that wage increases to compensate for inflation was limited not by increasing productivity.

To overcome these pressures, the government regained some control over salaries by deciding to apply a national monthly wage increase and also was determined a minimum wage and a maximum wage in the ratio of 1 to 4 and was limited base pay for executives of enterprises. For the first time with the changes introduced, the system of wages in the public sector wage system differentiated from the private sector. In the public sector the average salary ministries determined for each enterprise under their authority. In July 2002, enterprises were allowed average wage up to 5% without penalties. They can increase the average wage to 30% but meet certain criteria, including regular payment of taxes in the state, regular reporting of financial resources, regular financial statements, etc. Further decline in industrial output in 2003 increased social pressure, the increased need for increased flexibility. For this reason, companies with good performance was allowed to increase the ceiling allowed in 2002 with 5% - 20% and then, in mid-2003, with 30%. In 2005, these figures amounted to 70% leading to decentralize further signals. In many cases, these benefits sharing schemes led to increasing the motivation and productivity of employees, and in some less profitable enterprise they had negative effects. The effect was also seen in the movement of skilled workers from the public to the private sector, where profits were higher and the differences in large salaries, which regards the restructuring process which necessarily associated with privatization.

Indexation of wages in Albania was not complete, as in many other countries of Eastern Europe. It was developed in part, not on a regular basis and through various forms of remuneration. By 2002 wages increased 7-8 times, but in 2004 the average real wage levels began to recognize the positive, as reflected in the following table.

**Table 12. Minimum and average wages in Albania (change in percent)**

Year	1994	1995	1996	1997	1998	.....	2014
Minimum real wage	-	53.7	-65.7	6.9	3.8	.....	5.3
Average real wage	4.61	-13.8	-6	12.4	3.8	.....	3.1

Source: INSTAT

After the first results in mid-2003, the government drafted a medium-term plan and signed a 3-year agreement with the IMF for the period 2003 - 2006. The aim was to increase the GDP by at least 4-5%, the reduction of inflation rate not less than 15%, improving external trade and debt measures abroad. There were also predictions about the privatization and restructuring of enterprises, development of the banking system, liberalization of the exchange rate and external trade and budget deficit reduction. The law on state enterprises brought changes in the wage structure of these enterprises, allowing up to 15% of profit to distribute in the form of additional income, but not more than two months' salary per employee. The reward system was necessary to increase motivation being that productivity was declining as the effect of the departure of skilled workers from the public to the private sector for the purpose of payment, which in this period

was nearly three times higher. Given that state enterprises were not all equally profitable, but equally affected by the law in those cases should not cross the limits of compensation allowed, they found other ways to compensate for the low salaries of employees, e.g. food allowance up to 20-30% of the monthly salary. In terms of private businesses, the determination of wages appears to be different from that of state enterprises. In this case the only intervention by the state was adhering to the official minimum wage law, while the size of the salary above the minimum wage determined by negotiation between employers and employees. Because in this new sector lacked tradition in determining salaries, the private employers determine salaries based on their determination in the public sector, but with a slight increase to be competitive. Private businesses also introduced the scheme of division of benefits, as well as state-owned enterprises, based on the same legislation. A study conducted by business managers private in 2004 shows that the majority of private businesses apply the same wage structure as well as state-owned enterprises and only 14% of them apply to other schemes. Even the gap in wages between skilled workers and unskilled ones is about the same as in the public sector and in private.

Economic development has improved the structure of the salary steadily over time and it shows that the wage structure is not rigid, but it is a category that is subject to a dynamic process of change. E.g. one mentioned above, at first only applied to a limited number of enterprises, but since the increased competition in the labor market, and other enterprises created tuitions and additions were often artificial and arbitrary. In these circumstances changed and the concept to express the totality of the salary of a worker in "complete salary" and not "base salary". This is also supported studies on wages which show that income from wages is not only complete revenues and basic salaries. The part that is added to the base salary can change in parallel with the qualification of employees and its size should logically go hand in hand with the responsibility of employees. If a part of the salary of employees is related to performance, then by Jensen & Murphy (2000) and Jensen *et al.* (2014) if we put in a line interests of employers with those of employees may be reduced conflict of interest between them (theory of agency). If the salaried employees raise the level of their income taking advantage of other elements in addition to the base salary, will represent the best interests of employers because they will be encouraged to work more to add to their salary completeness and additions based compensation that may benefit. Since the whole of the salary of a staff composed and fullness and Accessories remuneration, as mentioned above, during the transition period there were changes and that part of the wage structure.

Depending on the type of work, employees can benefit from supplements of remuneration which are given to achieving an outcome determined, which may be partial e.g. overall sales commissions or such Participation in fiscal profit. We also mentioned some criteria by which classified completeness, e.g. by forcing employers to implement in law fullness and completeness distinguished free. Among tuitions in law we can mention the annual paid holidays under the law that currently are not less than 4 calendar weeks and paid as normal working week. Payment for work on rest days are not less than 25%

surcharge on pay during a normal working day, second shifts paid no less than 20% surcharge and night shifts with no less than 50% surcharge. Additional hours during a normal working day paid no less than 25% of daily allowances and during holidays or public holidays with no less than 50% surcharge. In all the above cases we may have and compensation equivalence day or hour breaks. In case of difficulty to work or to compensate for the difficulty is given complement and ranging from 5% - 20%. For completeness management functions ranging from 5% - 30% of their base salary depending on the class pay for specific nature of work and specific working conditions has complement determined by law, e.g. individuals who are in contact with the convicted criminal or mentally ill to receive an additional payment of 5,000 leke per month base salary.

Fullness of age currently provided at the rate of 2% every year of employment up to 25 years and is calculated on the salary of the group. Among fullness to the benefit of all staff, which is the fullness of the social character we permit payments burden-birth and other social benefits, which have been in continuous government attention. Reforming Social Security has been an indispensable aspect and one of the constant challenges to governments. This system covers about 1/6 of the country's population. Besides the compulsory social insurance, it has created a voluntary insurance scheme and the supplementary insurance. It was prepared for the establishment of private social security institutions. However, the social insurance system suffers from several problems. Despite the very low level of pensions (apart from the occasional increases), subsidized social security system to a significant extent from the state budget. The number of pensioners is greater than the number of contributors. Percentage of participants from the private sector and especially from rural areas is very low. Therefore pensions in these areas have assumed the form of social assistance. The contribution rate is considered high security. Pensions have increased by 49 percent to 135 percent, according to the categories in recent years. Specifically, pensions in the city, from 8350 ALL that was in 2005, go to 12840 lek in 2014, an increase of 53.8 percent. The minimum pension in the village suffer increased by 100 percent, while the 70 percent maximum. The old age pension in the city increased by 42 percent, while 54 percent of the disabled. In total, the average pension in the city has increased by 54 percent. The unemployment insurance program aimed at mitigating the economic and social consequences of unemployment.

Through this program covered about 22 thousand people at the end of 2010, with the maximum benefit quota ALL 5,230 / month, with duration of up to 1 year. Currently, the base level of unemployment with DCM Nr.697, dated 18/08/2010 is 6,565 leke and the average number of unemployed who receive unemployment benefits was 10,050, from 143,340 registered unemployed at the end of the year total estimated 2010. His contribution has been very modest and that the program has suffered from inefficiency and has loopholes for abuse. Economic assistance program funded by the state budget aimed at providing assistance in money to the families without income or with low income. In 2010, under this program covered are 150,114 families. The level of financial assistance

varies depending on the conditions of the family receiving the aid, but in any case not exceeds 250 percent of unemployment benefits. The number of families benefiting from the program has been declining while the budget has been increased. In comparison with 1993, in 2010 the number of beneficiary families has declined by 2 percent, while the annual welfare budget has increased 2.6 times. The North-East has the highest proportion of families receiving social assistance (20-40 percent of the population). In 2014, funds for economic assistance amounted to 3.5 billion from 2.6 billion or 34 percent more than in 2013. Economic assistance for the first time in July 2014 was indexed by 10 percent. This move led to further poverty alleviation. The average aid per household in 2014 doubled compared to 2013. In this process were reassessed better income from land and livestock for families in rural areas, to determine the real extent. The average level of assistance per household in 2014 rose to 3,000 Leke from 1800 to 2013 by 50 percent or more. In 2014 the average level of partial economic aid has been 3,150 leke while the level of full economic aid has been Leke while funds 3,900 deal worth 4.2 billion.

INSTAT has discolored in figures the number of families that will be excluded from the scheme starting from 2010 to 2013. In 2010, INSTAT had predicted that the total number of beneficiaries of this aid was 80,000 families. In 2014 according to the forecast of departmental work, there would be less beneficial to this scheme, whose total number would reach 74,000. More sustainable economic aid scheme is anticipated that it will be during 2014 and 2015, after this period of time it was decided that the number of beneficiaries to be 70,000 beneficiaries each year, which means that movements in the scheme would be Reduced. Reverse the number of beneficiaries of social assistance is provided to match the growth of the extent of this social payment. Thus, by 2015, it is proposed that the measure of economic assistance to families tend achieving poverty indicator for the person, but within a range that does not exceed the ceiling of the minimum pension level nationwide. The monthly economic assistance in value will continue to be calculated according to the family structure differentiated for different groups of its members, depending on the characteristics of poverty.

The minimum and maximum limit of financial assistance will be determined annually by the Council of Ministers, depending on the growth rate of the minimum pension in the city on a national scale, economic progress and budgetary resources. For 2014, the maximum level of financial assistance was 7,500 per month per household, while the minimum 1000 per month for partial economic assistance. In this period, would remain unchanged payments for family members according to its structure. Later, these payments would gradually increase year by year. According to the Ministry of Labor, the growth of the coverage needs of poor families will be achieved by: increasing the budgetary funds that will be transferred to the program of economic assistance and the reduction of the number of families benefiting from the scheme as a result of economic growth. Financial assistance program suffers from the inability to take the specific situation of poor families from a balanced regional distribution not by mere passive her character, a low level of monitoring, etc.

The social care program aimed at supporting and integration of individuals with disabilities, the protection of orphans and lonely elderly people. The number of people who have benefited from this program has been increased. However, the program fails to cover all categories of people who need services and the network of relevant institutions fails to cover all areas of the country. Offered only the national residential services and close range is failing to achieve social integration of these layers. The quality of services provided is not up to required standards. There have been improvements in this area, starting from legal regulations and implementation of new standards, decentralization and deinstitutionalization, licensing of public and private entities that provide social services (NGOs), the establishment of structures for the inspection of social services (pursuant to the law, has set up the Inspectorate of Social Services), etc. but more needs to be done to improve the quality of social care for vulnerable groups.

### **The relationship between the structure of employment and wage structure**

As we saw above, the transition from the planned economy to a market economy, has given a strong effect on the key variables of the labor market: employment and wages. On the one hand wages adjusted by changes in the relative supply and demand of different groups of employees. On the other hand, the redistribution of work, a key element of economic restructuring led to changes in relative wages. Thus, the evolution of the wage structure acts as an important signal of the labor market. Because income from salaries constitutes the main part of the income of employees, they jointly determine the absolute and relative standard of living. So wages have an important economic and social development. Salaries generally vary along with GDP as a result of supply and demand shocks associated with the reform of economic systems. At the same time, changes in supply and demand for different groups of works, together with changes in the institutions that determine wages, are undermining the existing structure of payment when wages are determined largely by market forces, rather than by administrative decisions, they should be adjusted to reflect changes in labor market conditions. Looking back over the wage structure system left behind, one can expect a return on the enhancement of skills in the labor market and consequently an increase in income inequality.

This means that the transition will benefit some groups of employees, e.g. those with better skills and damaged several other groups with lower skills in the labor market. Just the increase in inequality will be associated with the poverty implications. In the relative position of low paid workers, deterioration in the context of declining real wages, will say that this category appears lost as in relative terms but also in absolute terms.

The level of real wages has changed substantially in all economies in transition. The beginnings of the transition have been accompanied by rising price and wage inflation. The impact of price liberalization is clear and significant wage dynamics. Often the official price indexes have failed to follow appropriate price dynamics and therefore wage indexes are overvalued. Economic liberalization has led among other things

to the decentralization of wage determination process and in the most competitive markets. Private sector developments have presented ways of setting wages competitive. The low level of wages in the budget sector due to the high number of employees at the same time, the increase in unemployment in this sector is related to the gradual increase in wages. In this context, a policy of low wages can lead to delay the process of restructuring, particularly in the public sector. The restructuring of the state sector can be realized through increased efficiency by reducing the number of employees and salary increases for employees will continue to work in this sector. The performance of the structure of wages over to the period of transition, we can say that during this time has seen an increase in inequality which is reinforced and changes of working conditions, and other forms of remuneration, in addition to the base salary, which are part of wage structure and characterizing all transition economies. Also increased wage differences by level of education and occupational position, where we can mention the labor market returns as the effect of the level of education, training, computer skills, etc. These indicators are part of the market demands for skilled workers. With regard to employees without higher education, two indicators that have been influential in determining the structure of the salary were age and experience, but this difference in recent years has been narrowing seeing and supply manpower in recent years, for both sectors, as the public and private. Distribution demographic and occupational groups also played a significant role in determining the structure of the salary.

According to [Gottschalk & Moffit \(2004\)](#) these are due to lead to instability in wages. But how are these changes in salary structure and employment structure? Changes in the labor market in general favor the most qualified, who have a direct effect on improving the structure of pay, as and their requirements grow, with increased capabilities. Although this impact belongs to a long-term period, the link between the structure of employment and the wage structure is visible because wage increases can have a direct impact on employment.

### **Policies of employment and wages that followed Albania during the transition period**

In recent years, employment has become a major issue in the political agenda of many governments as increased awareness that economic development will not necessarily generate employment for all, without being accompanied by policies necessary to achieve this goal. Employment policies and active employment plans point to a gradual shift from concern to protect, preserve and stimulate job opening towards more variable responses including supply side measures and institutional performance. Government policies aimed at increasing labor demand or reducing jobs and affect demand and the level of wages. The main impact on the demand for labor government realizes through direct employment policies, because in some states it is the most important employer. As such, it also affects the determination of wages shall be paid employees and simultaneously is the main consumer. As a consumer it is presented with great demand to meet the needs of institutions and public economy. Fiscal and monetary policies also serve as instruments of indirect government

influence on the economy and wages. Strengthening of business through which creates favors fiscal policy by increasing the number of jobs and hence to increased demand for labor. Interest rates lower create more opportunities for people to cope with such investments buying a house, which means more work for builders, more jobs in construction or in production for furniture or home accessories. Tax breaks would increase the amount of money they have available the taxpayers, which translates into their growing demands for products and services. This application precedes the development and growth and consequently increased demand for workforce. Active employment policies in Albania for the first time presented in 2005 to the Law no. 7995 dated 20.09.2005 "On employment promotion" creating the basis of the first of a package of programs as:

- (i) Placement services and training,
- (ii) Job counseling and training,
- (iii) Vocational training
- (iv) Employment promotion programs etc.

The main objective of employment policy is to support the unemployed in finding a suitable job. Employment policies are an important tool for the improvement of the labor market situation, but nevertheless in our country they are still a limited impact on reducing unemployment. This comes as a result of several factors in the labor market that are associated with the fact of labor market policies are costly and require more people to implement them. Policies aimed at increasing the demand for labor include: employment in the public sector, pricing policy of public goods, administrative and defense spending, agricultural policies, etc. when determining compensation techniques, compliance with laws and regulations is one of the most important objectives to be taken into account, so employers and workers groups try to influence the drafting of laws. The government, through macro and micro policies and determining the factors is affecting the determination of the works, affecting the wage model. According to the experience of many countries, areas where governments seek to make adjustments and the impact on wage model generally are:

- Minimum wage;
- Hours of work;
- Child labor;
- Non-discrimination in wages;
- The same wage for the same work.

Government intervention in the area of remuneration is dictated by the need to mitigate the imbalances that may arise between employees, where a benefit salary and allowances in amounts high enough, while other groups of employees cannot provide even the minimum of survival. At the same time governmental interventions in the remuneration system are dictated not only by economic and social conditions, but also by the development and emancipation of society. To realize a system of fair compensation, almost all governments of different countries play an important role in determining the system of remuneration, intervening in aspects such as the fixing of the minimum wage, in guaranteeing non-discrimination for reasons of race, age and sex, in the exercise of control over income prices, etc. In Albania, during the transition period, government

intervention in the field of remuneration has been direct and indirect. Direct intervention is realized through the development, approval and control of implementation of legislation in this area. The government imposed directs you to all employers and employees to implement the obligations deriving from the law. Among them, important to mention the obligation to respect the minimum wage or respect for equality without applying differences in remuneration for equal work carried out by different employees, regardless of sex, age, race, etc. Indirect intervention is realized through economic policies that indirectly aim to influence the size of salary. The government has contributed to labor supply and demand and consequently the size of the salary that is due to the impact of supply and demand. Labor supply policies are aimed at reducing the workforce seeking employment and it's reshaping to fit the requirements of the labor market. At the same time the government has funded various training programs, social assistance programs, programs for organized migration, etc. and also passed laws that restrict access to various activities of the labor force and increasing the quality of labor supply. These include laws such as:

- Laws on wages (minimum wage law, the law on non-discrimination in pay, the law on social services, etc.)
- Consumer protection laws or different population groups (the law on licenses for children and women, the law restricting the entry of workers into the market, etc.)
- Law on social assistance (programs of economic assistance, training programs, assistance programs for various social groups, etc.) During the transition period, the matter has been the implementation of appropriate policies for the distribution of income, with effects poverty mitigation, among which we can mention: reforming and increasing

Occasional wages in the public sector, reform the social security system, unemployment payments, financial assistance, social care, etc. as some of the key components of these policies. In determining the schemes for unemployment benefits, social assistance and social care, are considering budget options and their character is generally passive. It is estimated that the importance of wage policy in the public sector exceeds the weight of this sector in total employment, while the level of wages in this sector in some way serves as a reference system for the private sector. During the first years of transition wages of a good employee whose companies did not work, they were virtually a form of social support. Wages in the public sector were subjected to periodical exercise increases, first of all, to counter the inflationary effects and to ensure a more equitable remuneration of employees in this sector. For the period 2003-2010, the growth rates of nominal wages were higher than average growth rates of the overall price level.

Reducing real wages until 2003 is followed by a growth in the years 2004, 2005 and 2006. The year 2007 marks a significant decrease, followed by a slight decline in 2008. The trend of increasing returns in 2009 and 2010. In 2010 the average and minimum levels of pay were 14,963 ALL / month and 7,000 ALL / month (INSTAT). Wages are low particularly in the sector of education and health. For the following years the trend has been growing, especially for these two sectors. From

May 2014, the salary of teachers, doctors and nurses doubled compared with 2015. The average salary ranges from 27,000 ALL / month in 2015 to 45,000 ALL / month in 2014. The increase of the average wage goes to 68 percent. For teachers, average wages go to 46,000 ALL / month from 23,000 ALL / month they were in 2013, i.e. an increase of about 100 percent. The average salary for nurses varies from 15,000 ALL / month in 2015 to 31,000 ALL / month in 2009. For the category of doctors, the average salary varies from 23,000 ALL / month in 2012 to 47,000 / month in 2013 therefore increased nearly 107 percent. In terms of wages in the private sector, we can say that the trend has followed the progress of business in the country. Economic difficulties because of the crisis, the high level of borrowing and the lack of liquidity has made the level of wages in the private sector not to follow the trend in wage growth in the public sector. The state has intervened by setting the reference salaries for different professions but the effect was merely increase the fiscal burden and the obligations of businesses to the state.

### Building an econometric model to explain the impact of employment and GDP per capita in average real wage

In this issue we will build an econometric model to assess the impact of employment and GDP per capita, the average real wage per employee in Albania. The model will take the form of simple regression with two independent variables and the presentation will be as follows:

$$Y_i = \beta_1 + \beta_2 X_{2i} + \beta_3 X_{3i} + u_i$$

This model represents  $Y_i$ , which represents the average real wage per employee in the public and private sector, as a function of  $X_2$  and  $X_3$ . The variables of the model are:  $X_2$ , which determines the level of GDP per capita for a year and  $X_3$ , determines total number of employees in the public and private sector for a year in Albania, who is independent variables. With  $u$  have scored term approximation error is neglected all the variables that can affect the  $Y$ , but not included in the regression model, and the observation of the mark.  $\bar{Y}_1$  is constant coefficient and displays the average value of  $Y$  when both  $X_2$  and  $X_3$  are 0.  $\bar{Y}_2$  coefficients and coefficients called partial  $\bar{Y}_3$ . Coefficients  $\bar{Y}_2$  and  $\bar{Y}_3$  mean respectively:  $\bar{Y}_2$  measures the change in the average value of  $Y$ ,  $E(Y)$ , the difference in units of  $X_2$ , taking the value of  $X_3$  constant, while  $\bar{Y}_3$  measures the change in the average value of  $Y$ ,  $E(Y)$  change in unit  $X_3$ , keeping constant value  $X_2$ .

### Definition of variables and data model

Before reporting the results of the assessment procedure, it is necessary to clarify some issues related to the variables included in the regression. The choice of variables is based on the analysis of the previous chapter on the issue that we deal with. Details of the link between these variables in this matter dealt with based on the data provided by official sources of information (INSTAT, Bank of Albania) for a period of twenty years (2000-2014). Unable to secure data from a single source of information, data regarding the GDP / capita by the Bank of Albania where the values were in USD and have been converted at the annual average official of that currency, while

data Average monthly real wages per employee (ALL) and total number of employees during the period of observation were taken from INSTAT.

**Table 13. Presents the complete data that are used for the model**

Year	GDP per capita	Average monthly salary	No. of employees
1995	560	431	1429000
1996	29.26	570	1404000
1997	10609	675	1095000
1998	38936	2400	1046000
1999	57813	2620	1161000
2000	68479	6406	1137829
2001	112651	8638	1115760
2002	112591	9063	1107677
2003	133919	10894	1085104
2004	154351	12118	1065104
2005	170871	13355	1068190
2006	189917	14820	1063000
2007	201123	16541	920144
2008	223144	18522	926225
2009	240094	19039	931217
2010	259363	19993	932102
2011	280007	21842	935058
2012	306106	27350	1198000
2013	341956	27951	1123000
2014	357972	29585	1160000

Source: INSTAT, Bank of Albania.

Table 14 specifies the list of variables included in the model and their description. These variables have derived from information collected about the subject matter of this paper.

**Table 14. List of variables included in the model**

Variable	Variable Description
W	Dependent variable. The real average monthly wage per employee in the public or private sector in Albania.
GDP	Independent variable. Gross domestic product per capita in Albania.
EMP	Independent variable. The total number of employees for a year in Albania.

### The choice of the appropriate form functional

To find an appropriate functional model used diagnostic tests that include all the variables listed in Table 14

The data were processed with 4.0 MICROFI program taking into account the diagnostic tests that are four and appear as follows:

**Table 15. Diagnostic tests for linear model**

Tests	Tests statistics	Hypotheses
A: Serial correlation	CHSQ(1) = 1.6355[.201]	Does not overthrown Ho: There is a correlation
B: Functional Form	CHSQ(1) = .032301[.857]	Does not overthrown Ho: Linear correlation
C: Normality	CHSQ(2) = .27902[.870]	Does not overthrown Ho: Normality
D: Heteroscedasticity	CHSQ(1) = .11882[.730]	Does not overthrown Ho: Homoscedasticity

A: Test the multiplier of Lagrange's for serial correlation of residual

B: Test RESET Ramsey t using squares of values suitable

C: Based on the test of the lack of symmetry in the distribution frequency and concentration frequency distribution of residual

D: Based on regression squares or squares residual values suitable tests show that this is an acceptable model by econometric and overlooked problems in functional linear form. Tests show that the evidence is not sufficient to overturn

the hypothesis  $H_0$  connectivity linear, normal distribution and homoscedasticity. The data are used to present our model in logarithmic form to assess the impact of employment and GDP per capita, in the natural logarithm of the average real wage per employee in Albania, as follows:

$$LNY_i = \beta_1 + \beta_2 X_{2i} + \beta_3 X_{3i} + u_i$$

Diagnostic tests have not proved significant to apply this form. Test results are presented in Table 16. Therefore, seeing the results of these tests, linear model will be used to interpret the results after model fitting results.

**Table 16. Diagnostic tests for logarithmic model**

Tests	Tests statistics	Hypotheses
<b>A: Serial correlation</b>	CHSQ(1) = 7.4444[.006]	Overthrown $H_0$ : There is not a correlation
<b>B: Functional Form</b>	CHSQ(1) = 13.100[.000]	Overthrown $H_0$ : Not a linear correlation
<b>C: Normality</b>	CHSQ(2) = .31440[.855]	Does not overthrown $H_0$ : Normality
<b>D: Heteroscedasticity</b>	CHSQ(1) = 3.2115[.073]	Overthrown $H_0$ : Heteroscedasticity

**Evaluation of factors that affect the size of the salary, the empirical results**

In this paper, as mentioned above, our analysis is focused on determining the relationship that exists between wages and employment and GDP, using data available from official sources of information (INSTAT, Bank of Albania). Statistical techniques are used to simple regression analysis with two independent variables. From diagnostic tests it concluded that the model is well specified in linear form. The results show that our model has no functional form, normality and heteroscedasticity. Model interpretation has high strength and is all significant variables. Coefficients of determination  $R^2 = 0.99342$  and  $0.99265$   $\square^2 =$  linear model show that the data very well explain the regression model we used. As expected, GDP per capita has significantly positive impact on the average monthly salary per employee, which increased on average by 85 lek, for any increase in 1000 ALL of GDP, when the employment level held constant. The size of the increase in GDP per capita has a positive effect on increasing the average real wage per employee in the public and private sector. The effect of increasing the level of employment at the national level has a positive effect but not too high in real average wage growth per employee. An increase in employment with 1,000 employees, will lead to the growth of average real wage for an employee with 38 ALL, when the level of GDP is held constant. This effect is so small increase is expected effect. Our analysis focused on two elements that affect the size of the average real wage in our country, who are GDP per capita and the level of employment, using annual data for a period of 20 years, to test the type of impact they will have on the real average wage per employee in Albania. The coefficient of determination  $R^2$  provides the percentage of variation in the average real wage is explained by variables  $x_2$  (GDP) and  $X_{3i}$  (EMP) together. This coefficient is between 0 and 1. If 1, the estimated regression line explains 100% of the variation in Y. But if it is 0, the model does not explain any variation in Y. The closer the number 1 to be this value, the more model best explains the data. The data used to evaluate our model, belonging to a period of 20 years. Based on estimated data for

the period 1990 - 2009, using econometric MICROFI 4.0 program, the regression equation is written as follows:

$$\hat{W}_i = -4882 + 0.0850 GDP_i + 0.038 EMP_i$$

$se^{21} = (1819.0) \quad (0.0019) \quad (0.0015) \quad R^2 = 0.99342$   
 $\bar{R}^2 = 0.99265$

Through this equation expresses the change in real average wage per employee when changing  $GDP_i$  1000 ALL and the number of employees remains unchanged and the change in real average wage per employee when employment increased by 1,000 employees.

**Table 17. Evaluation of factors affecting the real average monthly wage per employee**

Dependent variable: W	Coef.	T-value	P> t
GDP	0.085078***	45.7069	0.000
EMP	0.0037922**	2.5234	0.022
Number of observations	20		
$R^2$	0.99		
F-stat	F(2,17)	1283.6	0.000

Note: \*\* significant 5%; \*\*\* significant 1%

Interpreting economically regression results, we see that an increase in GDP of 1000 Lek will affect the average real wage increased by 85 ALL. An increase in the level of employment with 1,000 employees, will lead to the growth of average real wages by 38 ALL. 0.038 coefficient of employment shows that keeping constant GDP, an increase in the number of employees 1000 people, would result in a minimal increase in real average wage per employee by 38 ALL. This confirms the hypothesis 1, that the classical theory which states that the wage increase affects the level of employment; it is verified in terms of Albania during this period. This could have leaked to the fact of constant restructuring and quick made to the Albanian economy, which has created space for employment growth, wage increases also. With the stabilization of the structure and economic parameters, this model is perhaps to be tested again in the future. 0.0850 coefficient shows that keeping constant the number of employees, an increase in GDP per capita in 1000 Lek will bring an increase in the average real wage per employee by 85 ALL. This shows that the theory of the economic agency has worked well, where are established normal relations between employers and workers, with a relatively fair distribution of national income. This has enabled the weight of wages in the total income of families come increasing. On the other hand, this situation has also created a social climate appropriate between employers and employees, which is the basis for further growth and development of the economy. Constant value of about -4882, interpreted mechanically, it shows that if GDP and PMT values are fixed at zero, average real wages per employee would be -4882 ALL. Of course, if the two independent variables would be zero, average real wages per employee would be very low, which makes practical sense.  $R^2$  value of about 0.99 indicates that about 99 percent of the variation in the average real wage and EMP explained by GDP, a value that is considered perfectly acceptable, considering that the maximum value of  $R^2$  can be 1. As mentioned above, the results of Regression economic sense. The two dependent variables measured during the study

period statistically significant result and it shows that there is a link between the dependent variable and independent variables. This connection is positive in both cases, so as GDP and employment resulting positively correlated with wages.

In our case the coefficient of determination  $R^2$  is 0.99 or 99% which shows a consistent high data taken into account in this model. Theoretically, when the coefficient of determination  $R^2$  is close to the number 1, our regression line explains 100% correlation between these variables, which is confirmed by the data processing that we have taken into account to assess the model.

### Conclusions about the model

Analysis of the above regression model was intended to find out what kind of connection exists between the average real wage in the public and private sector and GDP per capita and the level of employment in Albania. Analysis is based on data obtained from official sources of information (INSTAT, Bank of Albania) for a period of 20 years and these data are representative of the transition period in Albania. The empirical analysis based on OLS regression model of the real average wage per employee gives us an estimate of the extent of the impact of GDP per capita and employment levels over the average real wage per employee. The results show that both of these independent variables have a significant effect on the dependent variable. Based on theoretical arguments of the previous chapter, this simple model of linear regression with two independent variables it shows that the relation expressed in this model is statistically significant. Further in-depth studies, the equation can be richer in other variables that affect the real average wage per employee, e.g. level of education, work experience, unemployment, etc., but currently are not subject to this issue.

In this study it is clear that the literature regarding the role of wages in total income and well-being is as wide as the controversial, including changes in the discussion theoretical, methodological and analytical implications political scenarios reverse implementation. This presentation of different opinions and empirical findings was necessary because the main objective of this study is to investigate the economic and psychological factors that affect the application of agency theory, namely Albania salary. In line with this, lectures and patterns collected from reviewing the experiences earlier in connection with the determination of the components of the structure of wages and effects that bring their size for different groups of the population have been useful to provide a background for understand and locate empirical evaluation results in this study. Presenting all these, this study concludes that the salary as income from work has an indispensable role in ensuring the welfare of different employees, which empirical evidence proves the after effects are more numerous pro effects against. Drawing on this background, examines the employment and its impact on the size of the average real wage per employee in the public and private sectors and the impact of per capita GDP as the indicator to economic development in Albania as a country in transition and developing. Regression analysis model in this study aimed to find out what kind of connection exists between the average real wage in the public

and private sector, GDP per capita and the level of employment in Albania. Analysis is based on data obtained from official sources of information (INSTAT, Bank of Albania) for a period of 20 years, and these data are representative of the transition period in Albania. The empirical analysis based on the model OLS regression average real wage per employee in the public and private sector, provides an estimate of the extent of the impact of GDP per capita and employment levels over the average wage real per employee during this period.

The results show that both of these independent variables have a significant effect on the dependent variable. Model dependency average real wage per employee by GDP per capita and the number of employees is:

$$\hat{W}_i = -4882 + 0.0850 \text{ GDP}_i + 0.038 \text{ EMP}_i$$

Based on theoretical arguments, this simple model of linear regression with two independent variables shows that the relation expressed in this model is significant. Further in-depth studies, the equation can be richer in other variables that affect the real average wage per employee, eg level of education, work experience, unemployment, etc., but currently are not subject to this study. Given that our study is focused on wages, it is seen not only its effect on the macroeconomic level, but also at microeconomic level, to propose its elements which affect the remuneration policies that organizations follow today. These remuneration policies have a direct impact on employee performance and therefore have a significant impact and performance of the organization. Moreover, in a world where information is incomplete, with different attitudes to risk and behavioral biases, achieving an optimal and efficient scheme is impossible. Seeing the effects of the significant reward for the behavior of employees and the performance of organizations at the same time, it is important to understand what factors need to consider management when designing their systems of remuneration of the organization and what elements should be placed so that systems of remuneration produce desirable effects on employee behavior. In this study it proposed an integrated framework of strategic compensation resulting from economic and psychological literature together and practice in institutions that were chosen to provide data and information. The dominant theoretical perspective in most studies of remuneration has been economic agency theory (Jensen & Meckling, 1996; Holmstrom, 1999). The theory of agency, with further extensions of the personnel of the economy, provides a strong perception of the strategic role of remuneration clearly defining the mechanisms that affect the performance of the organization and employees, which means prediction efforts and categorization. In this study it was argued that while safeguarding the valuable insights about how developed reward systems, the economic outlook in strategic reward summarize just some of the factors that can affect the performance of the remuneration policy. It described a theoretical framework integrated with the psychology and practice lies in forecasting efforts and mechanisms of categorizing theory of agency but presenting psychological foundation for widely neglected effects from the economic literature. This study was aimed to focus on the psychology of information, including specifically the effects of social comparison costs, prejudice and dislike excessive confidence

loss and their effect on wage policies that are used today in universities and hospitals. It showed that organizations that consider the psychological cost will operate with remuneration policies that are desirable in many cases. The proposals of this study regarding the elements to be taken into consideration to design appropriate systems of compensation related to growth prospects of welfare, which should be based on understanding the issues of employment and salary as well as the impact these elements have to employees, especially those who are paid less. Model dependency salary from psychological factors study results: In the first place excessive faith in itself, in the second place and social comparison in the third sequence of loss aversion. Model analysis of the organizations should focus on three aspects: first, in the manner of allocation of value-added, second, in the analysis of the composition of employees and their expectations, and thirdly, the analysis weights expectations. In practical terms, taking into account factors such as economic, as well as those psychological, conflict alleviate employer-employee, increases the profitability of organizations and also improves the culture of the organization as it creates value for the organization. At the same time, this study offers a guide for researchers interested in advancing and deepening the understanding according to this study, the economic and psychological influences strategic reward.

### **Recommendations**

In the second chapter of this study was criticized a lack of solid data and updated information from official sources. Taking into consideration the national characteristics of the Albanian people and their behavior positively to the questionnaire which is also supported by our observation, this study suggests encouraging institutions dealing with surveys and future researchers to make more observations and collect valuable statistics such as and undertake more analysis in studies about salaries. Taking into consideration the high cost associated generally with taking surveys such collection and processing of data can be useful to consider the priorities identified in this study, as discussed above. 160 Factors that were taken into account in the econometric model built in the second chapter, help to understand the type of connection that exists between them and the salary. This result represents a positive relationship, represents an opportunity for the actors of the labor market and policy makers to understand the positive impact that GDP per capita and the level of employment in the pay real average per employee in both sectors, such as in public and private. Empirical work undertaken in the third chapter, found a close relationship between the psychological aspects of the individual and the size of the salary, so this analysis suggests finding and taking into consideration more factors such as economic and psychological to see how the employee's salary can change about them and what impact will they have on the application of the wage theory of agency. Based on the contributions to the knowledge and findings from research, including literature review and the results of empirical work, this paper attempts to give a response main facility that this research: the impact of economic factors and psychological application of the theory of agency salary. In this search it argued theoretically and found empirical evidence regarding the fact that salary plays an important role in ensuring the wellbeing of employees in Albania. For this reason, it is

necessary continuity of raising the minimum wage. In macro - economic, employment growth can also be done with the current level of wages in Albania. These concepts and analysis help clarify the situation regarding the impact of psychological factors on the reward. Often, during the award process management methods and practices are selected based on an intuition of managers, more than a theoretical basis of the model of practice. Particularly important are the analysis and the combination of economic factors with those of Albania psychological conditions. Leaders of organizations must be familiar with the economic and psychological management. Further in-depth studies, the regression equation can be richer in other variables that affect the real average wage per employee, e.g. level of education; work experience, unemployment, etc also recommended more extensive use of samples and a wider geographic basis. The study also duplication in other sectors could help improve knowledge concerning the impact that psychological factors on the size of salary. Based on the results of this study recommended that employers take into account not only economic factors but also psychological, when determining the salaries of employees, as this affects satisfaction, motivation, increased performance and productivity, and consequently affect the outcome economic organizations at the level of income that might take advantage of employees and increase their welfare. The study also puts forward some policy suggestions for employers and employment strategies that they will apply. Improved strategies to reward and appropriate policies can contribute not only increase productivity but also will encourage and motivate employees, ensuring higher performance that rewarded better and improves the quality of life of there . The research was observed a limitation of data from official sources of information in terms of sustainability, extension of time and updating of this data. A recent research absence was noticed about working and salaries by INSTAT, which last through AFP measurement is made in 2014. This situation can be regarded as a deficiency not only for our model but also the labor market general. Therefore, this study suggests the need for more information, statistics, analysis and market research, which can be used seekers and labor market actors to take the appropriate decisions. This recommendation is addressed INSTAT and other governmental institutes and statistical offices as well as academics. To expedite this process, the following measures are recommended:

- i) Encourage further research in this field and the government to support projects in this field. Priorities should be given independent projects that can provide an impartial and objective analysis. Within the delivery process research there is a need to create an environment that supports innovative research in promising areas and 162 subjects reward the quality of research in these areas. Employment and wages play an important role in economic and social life in Albania and such research can provide an important basis for future policies and development.
- ii) Government, private sector and academia should collaborate in order to support and improve the use and effectiveness of research on employment and wages. Governments at all levels and employment industries should put more information available to academics in their policies and practices. The

government should make available their policy documents and findings from various surveys and further research of these field researchers should be encouraged to develop more systematic surveys and investigations. Further, the findings of the studies have become objects of debate between academics and other actors in the labor market. Government and private sector should be encouraged to sponsor academic journals, conferences and seminars to serve as a tool to share research findings with respect to employment and wages. Also seekers should seek solutions regarding the problems in this area, identifying trends and forecasts of trends, carefully choosing topics and combining theory with practice. As noted in this search, the lack of information constitutes a deficiency in the study of employment and wages in our country. There is an urgent need to increase the attention of policy in relation to employment and wages, so that employers develop strategy best that could enhance the benefits of both sides, as their activity, as well as employees, in order to improve the quality of life and reducing poverty. It would be important to stand up efficient institutions that can edit and coordinate policies and strategies in relation to them. The role of government is indispensable not only in the budget to create these opportunities, but also to cooperate closely with the private sector and encourage initiatives that improve the ability to consider all the factors that affect the improvement of welfare and to implement those. Limitations and further research Given that our study we have used secondary data to the regression model that expresses the relationship between real average wage per employee, GDP per capita and the level of employment, details of the connection between these variables in this paper 163 treated based on aggregate data that were provided by the official sources of information (INSTAT, Bank of Albania) for a period of twenty years. Unable to secure data from a single source of information, data concerning GDP per capita were taken by the Bank of Albania where the values were in USD and have been converted at the annual average official of that currency, while data Average monthly wage per employee (ALL) and total number of employees during the period of observation were taken from INSTAT. It noted a lack of consistency of data in recent years.

So, in a way, the results of this model are limited by existing data on official sources of information. In connection with the limitations of the data, a better understanding of the impact of employment and GDP per capita in average real wages, further research should be done on a more disaggregated level of data. Another limitation of this study is the use of regression analysis. One can choose various empirical tools to identify the effects of employment and GDP per capita in real average wage. In connection with restrictions on the collection of primary data that we have used to study the impact of psychological aspects on the size of the salary, further research should be done by expanding the search facility if geographically, extending to more many organizations of the same kind or diversification of sectors, including the private sector. Here we can mention some theoretical limits. E.g. we are given the agency theory of wages while it may start off by other theories, the theory of perspective which emphasizes more on the preferences of risk, seen not only from the perspective of employees, but also from the perspective of employers and mutual influences that they may have to

categorize and security efforts. The theory of perspective, a psychological theory of risk, proposes to assess income individuals by matching them with a benchmark. In theory perspective, individuals evaluate losses more decisions than in the comparable benefits and they are generally 164 researchers risk in relation to risk losses and non-compliant in relation to earnings (Kahneman and Tversky, 1999). A second limitation of the theoretical background is our focus on financial incentives, such as key management and selection efforts work. Research in psychology has shown that individuals are deeply motivated by business or duties that match their needs and meet them (Deci & Ryan, 1995). This stream of research underlines the importance of the distinction between internal motivation and external differences that more and more are included in the economic literature of human resources (Hamilton, Nickerson and Owana, 2004; Mas & Moretti, 2009). I hope that the results of this study and arguments can and should be the subject of further debate.

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