ANALYSIS OF UNEMPLOYMENT REGULATION TOOLS IN LITHUANIA

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Abstract

The article was prepared to analyze the problem of unemployment regulation. Recently while unemployment rates in most of EU countries are growing appears the necessity to review the tools that are used in various countries to manage the labour market. The article was prepared analyzing different foreign author’s opinions and researches about unemployment regulation tools and their effect towards the unemployment and state economies. The variety of tools used in different countries allows make a choice from the alternatives that could be useful in nowadays economic situation. There are identified tools that are used in Lithuania to control and regulate increasing unemployment rate and supplied suggestions how to expand regulation possibilities by using good practices of different countries. The research in this article leads to conclusions about the necessity to review and change unemployment regulation policy in Lithuania. There are identified unemployment regulation tools that should be priority for efficient results and tools that supply possibilities to manipulate unemployment benefits.

Keywords: unemployment regulation tools, unemployment, unemployment benefits, labour market.

Introduction

The growing unemployment figures in most of European Union countries provide the need to overview possibilities to strengthen control and more efficiently regulate unemployment. The changes in labour market show the need to review unemployment regulation tools used by various countries. The used tools provide different efficiency results. There was hypothesized that usual unemployment regulation tools used by various European countries have to be reviewed and re-ranked and eventually stated new priorities in unemployment regulation systems.

The main objective of the article is to review unemployment regulation tools used in the world and Lithuania also sort them by the possible effect towards unemployment.

Seeking for the main objective of the article was analyzed various author’s articles about situations when the unemployment regulation tools were used in their countries and what results were achieved. Comparing the different countries situations and regulation experience was ranked the unemployment regulation tools by the long – term effect, efficiency and costs.

As the research methods were used analysis of the scientific publications and also statistical data comparison and analysis.

The recent years when unemployment figures in Lithuania and other countries mainly were dropping governmental institutions were actively providing labour market with the information about free work places and were using various unemployment regulation tools. The objectives of long term unemployment regulation policy were to control situation in labour market and safeguard the most sensitive groups of workers. Last year situation in Lithuanian labour market changed sharply. There are great changes not only in the total unemployed people figures but also have changed the structure of unemployment statistics by gender; age groups and social groups. Some of the earlier existed but not efficiently working programs for labour market support became more popular then before the changes in states economy. Lithuanian Labour Exchange office is actively using various unemployment regulation tools which are concentrated more on existing labour market situation control and support. The existing regulations in labour market are still suitable for employers that can easily reduce their work force not facing any resistance from workers side. The unemployment regulation tools are helpful but also there are not enough regulations stopping various groups to abuse the unemployment regulation programs.

The Meaning of Unemployment Regulation Tools

The necessity for unemployment regulation appears more important in the world because of the growing unemployment rates in nearly every country. Only a few countries managed to keep unemployment figures not changed after finance crisis. Although there are scientific discussions about the methods clarifying the route of a companies towards bankruptcy (Kaplinski, 2008), but because of the economic slowdown and crisis in various EU countries the number of small and medium business companies could not foresee or do anything about coming bankrupts. This part of business companies are the greatest employers
in most of the states. Also the downturn of the average demand caused problems for the big companies in nearly all sectors and those companies eventually started providing the labour market information about mass walking-papers submissions. All the closed work places caused the cyclical unemployment which provides the great economic losses for the states as well as unemployed people.

There is growing need to take more attention to various unemployment regulation tools and especially non financial because just by unemployment benefits can not be solved appearing problems. As the various authors G. Acs, E. Toder (2007), A. Alesina, E. Glaeser (2004), H. G. Bloemen, E. G. F. Stancanelli (2005), D. Gallie (2007) and others state unemployment benefits and grants can cause and negative effect with appears as the abuse of welfare programs.

According to various authors like V. Snieska, I. Simkunaite (2009), D. Grundey, B. Toluba (2008) economic welfare can make impact towards social and economic development of the state as well as various enterprises and institutions. P. Ziliukas and E. Katiliute (2008) state that state institutions and enterprises react to changes of the environment conditioned by globalization and integration processes.

The expenditures for social welfare and unemployment regulation are every countries decision. The receding GDP in some states and also the shrinking income to state budgets show the need to look for the possibilities to review unemployment regulation policy and possible tools. As Ciegiis, R., R. Jurgaityte (2008) state there are very clear relation between GDP and the unemployment. Unemployment can cause a chain of effects towards state economy such as not collected taxes and increase of governmental expenses such as transfer payments. The foreign authors Christian E. Weber (2000), L. Gallaway and R. Vedder (2002) also were researching affects of various transfer payments towards GDP. Ch. E. Weber (2000) in his article concludes that to have maximum impact on growth in state should be increased government purchases that can be done only by decreases in transfer payments and not by increases in tax rates.

The main goal of unemployment regulation nowadays must help to control the cyclical unemployment and protect people from loosing their work places in the future.

The Research of Active Labour Market Policy Tools Affectivity (2007) split unemployment regulation tools into the active and passive tools of Labour market policy. The unemployment expenditures involve unemployment insurance benefits, training allowance for unemployed, vocational training, consulting and etc. There are implemented active tools such as vocational training, work rotation and sharing work places helping to employ unemployed people in existing work places and replacing previous workers. Also there can be implemented promotion of employment which supplies possibilities to employ target groups places that are in high risk to loose jobs either help them remain in existing work. As a possible active tool can be identified start-up promotion for unemployed people who would like to establish their own business and ensure work place for them. As the inactive tools of Labor market policy are indentified the support of unemployed income and keeping the level of income they had before either early retirement allowance.

As the authors L. Cekanavicius and G. Kasnauskiene (2009) state the unemployment rates can be related and with the emigration from the state. Although emigrated citizens do not require unemployment benefits in the country but the loss for the economy of the state is double as they stop working and producing GDP and also emigrants not earning income in the state do not pay taxes here.

According Employment in Europe (2006) the payments made to regulate unemployment can be split in to the payments for individuals (direct payments for unemployed, cash payments and taxation duties reduction), payment for employers (direct payments either tax reductions) and payments for service providers who supply services for individuals either employers.

Small or medium size enterprise (SME) is one of the most important economics growth factors having the basic impact on the general development of the country's economy and social stability, creation of new work places, therefore its development is one of the most important country's economic politics' trends (Tamosiunas, Lukosius, 2009). According to the authors most of the enterprises meet the lack of financial resources in Lithuania and governmental support stimulates not always enough. The expansion of private enterprises depends on entrepreneurship skills. Olsson (2008) presents that Sweden after 2006 pays great attention towards entrepreneurship as the possibility to reduce unemployment in the state.

The differences between woman and man business establishment were analyzed by G. Startiene and R. Remeikiene (2008) and concluded that in Lithuania man established businesses are bigger and exist longer than the ones managed by women.

Lithuanian scientists B. Martinkus, S. Stoskus (2009) are offering to use labour market segmentation that would enable to survey the possibilities of the different groups of people in the labour market and organize training and re-skilling courses. P. Ziliukas and E. Katiliute (2008) state that the need for qualified specialists of economics will increase. A. Savanaviciene and D. Stukaite (2008) are analyzing the importance
of workers competences and its importance to effective work in particular working environment. All those scientific studies should be discussed implementing unemployment regulation by vocational training and organizing re-skilling courses.

Also B. Martinkus and S. Stoskus (2009) suggested that the labour market segmentation can help to distribute political means through the different territorial units of the labour market.

Possibility to associate economic and politic decisions is criticised by C. Gomez and A. Ibarra-Yunez (2007) who stated that any transfer payments as governmental aid to various groups of individuals can be given to assure the volume of the voters whose support politicians are expecting.

Authors D. Diskiene, B. Galiniene (2008) in their article justify the structure of the strategic management model for rational economic development by evaluating the new challenges facing the national economy development. The recommendation for the government is to base all decisions on the national economic development strategy.

The problem of the inefficient decisions in unemployment regulation can cause the various results. As the possible result can be identified the abuse of the funds, not changed situation and the growing unemployment rate.

It is very important to review possible to use tools that are implemented in various countries to recommend the package of tools that could be used for unemployment regulation policy during various economic cycle periods.

According to Acs and Toder (2007) transfer payments introduce economic distortions because they must be financed by taxes and labour and/or the return to saving. Alesina and Glaeser (2004) state that redistribution of governmental revenue can occur by means of certain types of government spending like unemployment subsidies and can become certain type of labor and goods market regulation.

As Marsden states (1999) it is important to resolve constructing a stable framework for employment: those of providing a suitable means of aligning job demands and worker competencies. A competence can be defined as the entirety of knowledge, abilities, skills and attitudes, which are necessary for an individual to work effectively in particular working environment (Savaneviciene, Stukaite, 2008).

Seeking to ensure possibility for unemployed to become suitable for the labour market government should organize the vocational training which will allow for people to get higher chances to get employed and keep workplaces in the future.

P. Ziliukas and E. Katiliute (2008), B. Martinkus, S. Stoskus (2009), D. Gallie (2007), D. Howell (2005) and other authors discuss the changing needs of specialists in the market and that not appearing suitable for the labour market unemployed are sentenced to stay unemployed if they wont get new skills and competencies. According to A. Savaneviciene and E. Katiliute (2008) this can be professional, social and conceptual competences. Authors identify that professional competence in the long-term perspective are very dynamic due to fast changing technologies but they also notice that those competence can be easily defined and acquired quickly.

The well being of SME’s is depended on skilled and experienced employees (Gallie, 2007) that’s why it is so important to invest in life long training that can reduce chances in bankrupts of various enterprises. The meaning of managers competences that are mainly general either conceptual is discussed in A. Savaneviciene and E. Katiliute (2008) article. This competence is important in changing business world and enables the enterprises to survive due to the human factor. Gallie (2007) highlight the need to foster, through strong initial vocational training systems, specialized skills across the broad spectrum of the workforce (skilled manual workers, technicians, and engineers). Such skills should combine both industry-specific technological knowledge with company-specific knowledge of organization, processes, and products (Gallie, 2007).

The training programs for unemployed according to Acs and Toder (2007) and Howell (2005) may enable individuals to develop new skills and provide possibility increase their income in the future comparing to their current market wages and also facilitate labour market flexibility as the economies are being transferred to services and high technology.

One of the unemployment regulation tools can be restrictions of unemployment benefit if unemployed do not apply for appropriate vacant jobs in are which is less than 12 h absence, including travel time, from the current home address during a normal working day (Olsson, 2008). Those rules for jobseekers are implemented in Sweden. It allows increase geographical mobility and as a consequence of not applying for the rules would be a reduction of benefits.

Olsson (2008) indentify that the main accent in Swedish unemployment regulation is that every employer seeking for worker should meet one as well as unemployed people should get their work places.
This is very important because studying unemployment figures of various states can be noticed that in some areas there are vacancies that can not be filled because of the missing specialist either lack of competence in some fields. The subsidizing mobility of workers government solves the problem of work supply and demand equity in labour market. According to Olsson (2008) there are only two targets for unemployment policy: the number of new vacancies and the number of new jobseekers each period. Sweden implemented mobility rules in 2006 and after this can be noticed better balance in labour market.

Klepinger, Johnson, Hoesch (2002), Bloemen and Sranacelli (2005) in their articles as positive points of unemployment benefits identify possibility to smoothen consumption that is under the risk after people loose their work places. The whole the Unemployment Insurance program is designed to provide temporary income support to involuntarily unemployed individuals while they search for work. Swedish scientist Olsson (2008) also states that the active search for work while benefits are paid is compulsory.

The authors Clark and Lee (2008), Gottschalk (1988) noticed that sometimes unemployment benefits can cause and negative outcomes. Sometimes unemployed refuse work offers seeking to use utility to stay on the transfer program either end up substituting publicly provided income for private income.

Gottschalk (1988) notices that the possibility to smooth consumption for certain period by receiving unemployment benefits would not guarantee the work offers. Acs and Toder (2007) highlight the possibilities that welfare programs supply. They identify positive consequences after single parents can stay with children and show them appropriate care.

Authors Alesina and Glaeser (2004), Clark and Lee (2008) reminds situations when growing unemployment and its regulation by the generous programs of unemployment compensation created a significant strain on the fiscal balance.

As the various authors articles analysis showed the unemployment regulation can be provided by various tools can bring positive as well as negative outcomes to society and also gives an effect towards states fiscal balance.

The Research of Unemployment Regulation Tools in Lithuania

The research was made to study the expenses for unemployment regulation, regulation tools and the changing figures of unemployment in Lithuanian Republic.

The main goal of the research is to study Unemployment regulation tools and their expenses in Lithuania identifying possible gaps between planned positive results and actual outcomes.

As the tasks for the research were raised:

1. To collect and study the statistical data of Lithuanian Republic unemployment and governmental expenditures for unemployment regulation during period from 2004 up to 2009.
2. To analyze the unemployment regulation tools in Lithuania and to indicate possible changes of the used tools in short and long term.

The data for the research was collected in Department of Statistics to the Government of the Republic of Lithuania (Statistics Lithuania) and Lithuanian Labour Exchange office at the Ministry of Social Security and Labour in Lithuania. There were used methods like data grouping, analysis of statistics and situation.

Lithuanian Labour Exchange office is the official institution that been delegated by the Ministry of Social Security and Labour in Lithuania to control the unemployment regulation policy. Using active and inactive tools financed by government and European funds the Labour Exchange office is seeking for the best results in the labour market.

Before analyzing statistical data of 2009 when Lithuanian labour market figures started changing rapid, should highlight that period from 2004 up to 2007 can be introduced as example of minimum unemployment rates in Lithuania.

According to LR Darbo birza (2009) and Statistics Lithuania during the period from 2004 up to 2007 the Lithuanian economics was booming and all the main indicators of the level of living like GDP, consumer price indices, average monthly earnings in whole economy, minimum monthly earnings, basic pensions and old age pensions were growing consequent. The unemployment rate was declining and dropped up to 2.8 percent during 2007 09 (www.ldb.lt).

The main law that regulates unemployment benefits and other passive unemployment regulation tools is the Unemployment Social Insurance law (No. IX-1904). This law is stating under which circumstances unemployed can claim for unemployment benefits and grants.

Analyzing statistics of unemployment in Lithuania and expenditures for the regulation tools research should be split into two parts. One important to analyze period is 2004-2008. During this period situation in
labour market changed from the unemployment rate 11.4 in 2004 up to 4.3 during 2007 and started growing up to 5.8 during 2008. Although during last year of this period unemployment figures started growing situation in the labour market was still very close to natural unemployment situation. This period can be described as labour force migration between existing and open work places period.

The unemployment statistical data and expenses that government was facing during this period can be seen in the Table 1. It can be seen that the amount of money spent for active unemployment regulation tools like ex-prisoners’ teaching programs, local initiatives, administrating of social companies, professional reinstatement, vocational training, employment programs subsidizing work places and others during all this period was quite high and kept growing despite the fact that unemployment was decreasing. Also it have to be noticed that data in this table covers only Active unemployment regulation tools costs that were covered just funds assigned from Lithuanian Republic budget. The other part of costs is covered by various other funds like EU and others are not included.

### Table 1. Statistics on Unemployment and Unemployment Expenditures in Lithuania

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate, Labour Force Survey data, percent</td>
<td>11.4</td>
<td>8.3</td>
<td>5.6</td>
<td>4.3</td>
<td>5.8</td>
</tr>
<tr>
<td>Unemployed receiving unemployment insurance benefit, thousand (average a month)</td>
<td>14.9</td>
<td>15.4</td>
<td>15.5</td>
<td>18.0</td>
<td>23.4</td>
</tr>
<tr>
<td>Allocated unemployment insurance benefits a year, thousand</td>
<td>33795</td>
<td>38825</td>
<td>43889</td>
<td>50138</td>
<td>76295</td>
</tr>
<tr>
<td>Full unemployment benefit, LTL thousand</td>
<td>31454</td>
<td>58385</td>
<td>74791</td>
<td>98592</td>
<td>153118.5</td>
</tr>
<tr>
<td>Active unemployment regulation tools costs, assigned from State budget, LTL thousand</td>
<td>6077.7</td>
<td>14690.5</td>
<td>23777.3</td>
<td>40556.0</td>
<td>69524.0</td>
</tr>
</tbody>
</table>

As it can be seen from this table the greatest expenses were allocated for the passive unemployment regulation tools – unemployment insurance benefits. Although labour market was not in equilibrium because of the shortage of various specialists, the unemployment insurance benefits were assigned for nearly everyone who entered and registered in Labour Exchange office. Lithuanian Republic law of The Unemployment Social Insurance (No.IX-1904) after some complements were made stated that the unemployed person can get unemployment social insurance always except if that person work contract in previous work place ended because of person’s fault after which company could not do anything else except to stop the work contract of that person. All other ways of braking work contract are acceptable including leaving the work on personal will. The difference between Lithuanian labour market regulation and other states is that other states indicate as one of the factors to receive unemployment benefit – the job loss should be involuntary.

The decline of main economic indicators during 2008 also changed the situation in Lithuanian labour market critically. Unemployment rate for the 1st of January, 2010 reached 12.5 percent (www.ldb.lt). Situation at the end of 2009 can be called quite stable comparing to changes during 2009. The state faced the problem called cyclical unemployment. Lithuanian government reviewed possibilities to pay unemployment insurance benefits and because of the shortages in fiscal budget reduced passive unemployment regulation tools expenditures per person. Labour Exchange office pays more attention towards active unemployment regulation tools. The unemployment regulation tools like special consulting for unemployed who are willing to become self-employed, discounts for business licences for not longer than 6 months period became more popular and effective during recent period. The Labour Exchange office is trying to find work places for registered unemployed people. The difference between 2009 and 2008 is that during 2009 were made more short-term work contracts (2.1 times) and long-term work contracts figure decreased by 15 percent that can be indentified as the result of economic decline when many companies close their businesses either are not sure about the future and prefer not to make long-term obligations.

The statistical data in the Table 2 shows that situation in Lithuanian labour market during 2009 changed and the decline of various regulation tools results figures shows the seriousness of the situation. Although situation is sharp the active unemployment regulation tools allowed to slow down the unemployment rate growth during the year and to keep some of existing work places.
### Table 2. Unemployment Statistics in Lithuania December, 2009

<table>
<thead>
<tr>
<th>Indicators</th>
<th>December, 2009</th>
<th>Changes comparing to December, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Quantity</td>
</tr>
<tr>
<td>Registered Unemployed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>During December</td>
<td>27680</td>
<td>1436</td>
</tr>
<tr>
<td>Since January</td>
<td>369378</td>
<td>155171</td>
</tr>
<tr>
<td>Taking part in temporary employment programs</td>
<td>18772</td>
<td>11810</td>
</tr>
<tr>
<td>Unemployment rate at the end of the month</td>
<td>12,5</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated unemployment benefits during the month</td>
<td>14207</td>
<td>1644</td>
</tr>
<tr>
<td>Paid unemployment benefits at the end of the month</td>
<td>74145</td>
<td>41503</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total during the month</td>
<td>8429</td>
<td>2067</td>
</tr>
<tr>
<td>Total since beginning of the year</td>
<td>121830</td>
<td>-729</td>
</tr>
<tr>
<td>Active unemployment regulation tools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vocational training</td>
<td>966</td>
<td>651</td>
</tr>
<tr>
<td>Occupational rehabilitation</td>
<td>94</td>
<td>72</td>
</tr>
<tr>
<td>Subsidised employment</td>
<td>1832</td>
<td>1655</td>
</tr>
<tr>
<td>Grants for new work places</td>
<td>86</td>
<td>-33</td>
</tr>
<tr>
<td>Working with business licences</td>
<td>120</td>
<td>-335</td>
</tr>
</tbody>
</table>

There were 18,8 thousands of unemployed people occupied in various short-term employment programs that changed their unemployed status for a while. During 2009 there were 2,2 thousands of worker who’s companies were facing economic problems and because of that they were working only half a day and the other part of the working time were employed by various employment programs. Those programs allowed keeping some work places.

There were 47,5 thousand unemployed people participating in various active unemployment regulation tools and programs which is about 30 percent more than during 2008. About 18 thousand unemployed were taking part in public works. 13.9 thousands unemployed were taking part in vocational training.

After situation in Lithuanian labour market has changed the possibilities to regulate unemployment by passive tools which are paying unemployment insurance benefits for every unemployed became too hard hardship for state budget. The need to solve cyclical unemployment problem is initiating active tool to become more common. Although can be noticed that not enough is escalated entrepreneurship that could be one of the possible solutions in this unemployment rate rise situation.

### Conclusion

The study of various authors’ articles about possible tools of unemployment regulation shows that there is variety of active and passive tools that can be used. The passive tools like unemployment insurance benefits are supposed to smooth consumption for those who lost their workplaces but can be used for short time and also do not guarantee possibility to find vacancy. Paid financial grants for unemployed can cause the abuse of benefits and also in the same time can cause fiscal problems in budget.

Active unemployment regulation tools are more efficient and provide long-term effect. Vocational training, professional skills upgrading, consulting unemployed and employers can ensure work places in the future. The greatest attention should be paid towards entrepreneurship and support for small and medium business because that causes possibilities for some unemployed people to become self-employed and open some more new work places.

### References


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