Regional unemployment regulation during economic slowdown in Lithuania

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Abstract

Unemployment rate during economic slowdown and crisis rise in whole Lithuanian economy, but there are regions where unemployment grew more the 3 times its usual rate in the area. Fighting with the unemployment in state must involve not only state’s government decisions, general unemployment regulation policy and tools, but also unemployment regulation should be supported by local council officials. One of the possible ways to fight unemployment is small and medium enterprises promotion because SME’s are very sensitive towards changes in the market. The survey showed that the unemployment problem consist from various factors and to solve it needed both governmental and local councils help. Also the unemployment this time period depends not only on existing and open work places but also it is effected by various transfer payments. The research allows to make a conclusion that Lithuanian unemployment regulation policy should be not only implemented by coordinating tools most common used in the state but also supported by local councils and adapted to specifics of region.

Keywords: unemployment regulation tools, transfer payments, unemployment benefits, SME.
JEL Classification: J08, J21, J60, H50.

Introduction

Unemployment rate rise more than twice after Lithuanian economy faced economic slowdown and crisis during 2009. While unemployment rate was growing in whole economy, separate areas unemployment figures were changing differently. There are regions where unemployment grew more the 3 times its usual rate in the area. Because of the changes in business and sectors when some enterprises or even whole business sectors stopped their operations in region it was faced different male and female, youth and various skills people unemployment. The Lithuanian government facing unemployment and also fiscal problems such as growing budget deficit was forced to review unemployment regulation policy and made adjustments in passive unemployment regulation tools such as unemployment’s benefits and grants. Also there were renewed employment rules and the law stating employers and employees relations. The changes were supposed to help to ease the employment and reduce unemployment. The other unemployment regulation tools such as unemployed people re-skilling, subsidizing employment of special unemployed groups are still valid and popular. High percent of Lithuanian citizens lost their income by losing their work places either their income were reduced because of general wage level reduction in various sectors and whole state. The governmental transfer payments for social needs had to grow to smooth consumption.

The governmental rules and tools implemented in Lithuanian labor market are used and allows to regulate unemployment which rate is slowly beginning to drop since middle of 2010. Although there were allocated significant resources for unemployment regulation in the state but results are not so impressive in general. Looking at different regions and main cities in the country can be noticed that unemployment rate there is different because it depends on the area’s economic activities structure and activity of local councils together with business society.

The objective of the article is to survey how local councils can improve employment in various areas and additionally support governmental unemployment regulation policy and regulation tools. Research indicates problems in labor market during economics recession and main changes in its structure. Because various regions have different causes of unemployment growth the ways to keep existing work places and open new ones are variant. The structure of economic activities in region effects male, female and youth unemployment and should be implemented various actions that depends on the regional specifics.

Preparing this article was done survey of unemployed people registered in governmental Labor Exchange office in Klaipeda city, officials working with unemployed people and employers in enterprises that are looking to fulfill an open work places.

The theoretical and empirical researches showed that unemployment regulation must be complex process including state government and local municipalities officials that would ensure that specifics of the region unemployment reasons are identified and all the tools are used efficiently.
The Meaning of Regional Unemployment Regulation

The reasons for growing unemployment might be various: changes in economic sectors, social structure, traditions and lifestyles of citizens. M. Fujimura (2009) state that changes in industrial structure and the labour market due to foreign pressures such as the influence of globalization, irregular employment increases, and unstable employment, still continue. Also he indicates that it is possible that unstable employment for young males and an increase in female workers form the background for later marriage and non-marriage. Authors L. Cekanavicius and G. Kasnauskienė (2009) state that the unemployment rates can be related and with the emigration from the state. As it can be seen the unemployment problem can cause and wider range of social and economic problems. There are groups of people that are excluded from a society because of lack of possibilities to get job and keep socializing. A. Long (2010) from Australia state that there is an important but restricted role for the state, which focuses entirely or dominantly on encouraging or coercing the excluded into the labour force. In the labour market centred approach, the state is not so interested in analysing why unemployment is linked to exclusion in the first place since, presumably, fixing unemployment should fix the exclusion problem anyhow.

As Ciegis, 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. 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. Authors 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.

The Lithuanian government facing growing unemployment rates and also fiscal problems such as growing budget deficit, which appeared because of decrease of tax inflow that mainly consist income and consuming taxes (VAT and etc.), was forced to review unemployment regulation policy and made adjustments in passive unemployment regulation tools such as unemployment’s benefits and grants.

The changes in business structure and sectors when some enterprises or even whole business sectors suspend their operations in region can cause structural changes in unemployment. The problem of youth unemployment, female unemployment and low skilled work force unemployment is relevant in every state. P. Emmenegger (2010) in his article writes that in some states with policies aimed at protecting male insiders, women are often relegated to non-standard employment or remain outside the labour force. The same author state that job security regulations are negatively correlated with female employment rates. Looking at the female unemployment rate statistics can be seen that in most of the areas it is higher than male unemployment rates although crush of building industry in Lithuania changed those rates opposite way. The unemployment of youth is high everywhere and attract a lot of attention in all the countries. Authors 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.

Looking at different regions and main cities in the country can be noticed that unemployment rate there is different because it depends on the area’s economic activities structure and activity of local councils together with business society. The various states government have their own policies how to help citizens to solve unemployment problem that leads towards social problems and poverty in local areas. The studies of various states practices how it can be solved the unemployment regulation problem allow to get more efficient possibilities.

J. Cherng-Tay Hsueh and Yeun-Wen Ku (2009) found that people aged 25–29 had the highest rate of unemployment. The majority of them are university and college graduates, who are expected to rank among the middle-income class. This suggests that if the unemployment rate of highly educated people remains relatively high, the middle class is more likely to decline in the near future.

According to Yuegen Xiong (2009) one of the ways to prevent poverty problem of graduates is the possibility that the universities will allow graduates to keep their dossiers and household registration in the cities where they studied for a maximum of 2 years. Also the author indicates possibility for local government to provide many opportunities for graduates to work as trainees in government and business sectors. The Australian author A. Clark (2009) is writing that the social policy can be more effective if it will be focused on communities and aim of it should be to increase social capital through social and economic participation.

Culture is proffered as a solution to a set of problems, ranging from inner-city unemployment and local labour markets stratified by class, ethnicity, and level of education, to the fragility of collective social
identities and values at levels ranging from the national cultural to the local communitarian (D. Stevenson, D. Rowe, K. McKay, 2010). So it can be seen that unemployment problem and its solution is complex and includes fiscal, cultural, legal and other changes. The same time J. A. Rodriguez Muguez (2009) state that the Competition Policy has a fundamental social dimension in the measure in which it promotes the efficiency of the companies and the best assignment of public resources, stimulating the economic progress and the well-being of workers and consumers.

Olsson (2008) studying unemployment figures of various states noticed that in some areas there are vacancies that are not filled because of the missing specialist either lack of competence in some fields. The Swedish unemployment regulation identify the main accent in that every employer seeking for worker should meet one as well as unemployed people should get their work places.

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. The subsidizing mobility of workers government solves the problem of work supply and demand equity in labour market.

J. Ferreiro, M.T. Garcka-del-Valle, C.Gomez (2010) indicates that discretionary fiscal policy is considered a key element for the stabilization of the economic activity and even for reaching a full employment level of economic activity. It is possible to regulate unemployment rate using various unemployment regulation tools. The Research of Active Labour Market Policy Tools Affectivity (2007) split unemployment regulation tools into the active and passive tools of Labour market policy. 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 that using financial tools like unemployment benefits and grants can cause side effects like the abuse of welfare programs. Swedish scientist Olsson (2008) states that the active search for work while benefits are paid is compulsory. Active labour market policies provide a link between social security entitlements and economic security and social participation through employment (J. Howe, I. McDonald, J. Moss, 2010).

The unemployment regulation tools such as unemployed people re-skilling, subsidizing employment of special unemployed groups are effective and used widely. 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.

D. 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). A. Savaneviciene and D. Stukaite (2008) in their article discuss that managers competences are mainly general either conceptual and is important in changing business world and enables the enterprises to survive due to the human factor. 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).

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 won’t get new skills and competencies.

The regulation of unemployment and welfare through social security policy is the assignments not only for local officials and state’s governments but also for European Union officials decisions. J. M. Robles (2009) writes that the Lisbon strategy has contributed to the creation of more and better jobs. European Union employment and social policies have improved employment conditions, including health and safety at work, promoted equal opportunities and social inclusion and fought discrimination, racism and xenophobia.

One of the possible ways to fight unemployment is small and medium enterprises (SME) promotion in various regions because those enterprises employ more than two thirds of all labor force in various states and the same time is very sensitive towards changes in the market. Small or medium size enterprise (SME) is one of the most important economic 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. G. Startiene and R. Remeikiene (2008) in their article analyze the differences
between woman and man business establishment and concluded that in Lithuania man established businesses are bigger and exist longer than the ones managed by women.

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.

As it can be seen from various publications of authors from whole the world unemployment regulation can involve various even non economic tools and unemployment rate can be effected by fiscal and general policies. Unemployment growth can have different reasons in various locations so the regulation is due not only to state’s government but also to local municipalities officials.

**Regional Unemployment Analysis and Results of Research**

Lithuanian economy since entering European Union was gradually growing and unemployment figures were getting better every year until the economy overheated. Average yearly unemployment rate for 2007 was 4.6 percent in Lithuania. Average unemployment rate during 2008 was 4.8 percent but the end of the year results were already not so optimistic and unemployment rate grew up to 5.7 percent of all work force in Lithuania. The greatest growth of unemployment rate was in 2009 when average yearly unemployment rate rise up to 9.4 percent but at the end of the year unemployment rate reached 12.5 percent. Following year was even worse comparing average figures and quantity of unemployed people registered in Lithuanian Labour Exchange office. The total quantity of unemployed registered reached 311,3 thousands at the end of 2010 and average yearly unemployment rate was 14.5 percent which is nearly three times more then 2007.

The governmental rules and tools implemented in Lithuanian labour market and used by Lithuanian Labour Exchange office helped to stop growth of unemployment rate and it slowly begun to drop since middle of 2010. Although there were allocated significant resources for unemployment regulation in the state but results are not so impressive in general. The unemployment rate changes can be related with the recovery of some businesses and complex solutions for labour market and relations of employers and employees also general macroeconomic regulation of the Lithuanian economy.

The economic crisis effected building sector which was growing sharp until 2008. This sector was one of the greatest employers for male work force and its failure left a lot of families without main income. The unemployment of female work force was always greater until December of 2008. Since then male unemployment rates are higher in Lithuania and especially in areas where the building companies were located mainly. Unemployment of youth also started growing sharply since end of 2008 and was growing until August of 2010 (www.ldb.lt).

While unemployment rate was growing in whole Lithuanian economy, separate areas unemployment figures were changing differently. The low unemployment rate areas faced unemployment growth that was not expected and shocked the areas economies. Reviewing unemployment changes in different regions and main cities in Lithuania, can be noticed that unemployment rates there depend on economics activities structure and also the local councils management and cooperation with business society.

The economic slow down and crisis effected and Klaipeda area. This region was always known for its low unemployment. The only sea port in Lithuania, the most popular and successful free economic zone and quite great concentration of various industries guaranteed people living in this area work places for a long time. According to Statistics Lithuania (2010), the unemployment rate in Klaipeda area 2007 was 3 percent of all working-age people. The following year 2008 the unemployment rate grew but not sharp up to 3,2 percent and in 2009 it rise nearly 3 times comparing to 2007 and reached 8,8 percent. The growth of unemployment rate continued and 2010 until it reached 13,8 percent of all working-age people in Klaipeda area. The growth of unemployment in this area was caused by row of bankrupts of companies in building sector, the reduction in the port business volume, bankrupts of industrial companies and eventually drop of consuming in area.

The Lithuanian government facing unemployment and also fiscal problems such as growing budget deficit was forced to review unemployment regulation policy and made adjustments in passive unemployment regulation tools such as unemployment’s benefits and grants. The changes included reduction of unemployment grants that are paid for 6 months after registering in Lithuanian Labour Exchange office. Also was changed that if both sides (employer and employee) agree about braking work contract and employer pay compensation for certain period, unemployment grant will be paid only after this period but not since unemployed person registers as it was before.
The other unemployment regulation tools such as unemployed people re-skilling, subsidizing employment of special unemployed groups are still valid and constantly used. After economic slowdown started Lithuanian enterprises could not keep the same amount of work places because of the high costs and less income. Lithuanian Labour Exchange office offers some programs, that help companies to cover some costs of work places and this way to keep those work places available. Also there are programs to promote new work places. Governmental Employment Initiatives program subsidize new work places with conditions that for new work place at least 35 percent of costs should be covered by private enterprise and that private enterprise will keep work place not less than 3 years. Since 2001 for this program government spend over 61 million litas. During 2010 was implemented 36 Governmental Employment Initiatives projects and opened 127 new work places.

There is a program that subsidize employment of certain groups of unemployed covering part of employers costs for salaries. The program covers from 50 percent up to 75 percent of all accounted costs for salaries including social insurance tax. The payments can be from 6 up to 12 months and depend on the subsidized group. Program subsidize employment of handicaps, long term unemployed people, older than 50 years unemployed people, persons who take care of younger than 8 years old child, people who came back from prisons, youth up to 29 years old and etc.

One of the possible ways to fight unemployment is promotion of small and medium enterprises (SME’s) in various regions because those enterprises employ more than two thirds of all labour force and the same time are very sensitive towards changes in the market. The promotion of SME’s can come not only in financial ways but also by supporting then with information needed to work in state and various areas market information. The support for SME’s as the biggest employers should come not only from state government but and from local council offices.

Government willing to support the employment renewed employment rules and the law stating employers and employees legal relationship. The changes were supposed to help to ease the employment and reduce unemployment. There were made consumptions that if it will be easier to make work contract and not so expensive to brake it from employers side there will be easier to make decision to open new work place either employ worker. Also changes were useful and for employees, for instance in the case of braking work contract if employee did not pass trial period of notice was prolonged from 3 calendar days up to 3 work days. One of the most important change of Labour Code of Lithuanian Republic is that now is set 2 month period for notice about termination of employment (earlier were 2 either 4 months and it depend on the workers groups). After the changes were done, employer can offer fixed-term contracts for employees even for constant type of work. This is the relief because the procedures of braking fixed-term contracts are easier and the costs are less.

There was included the new type of work contract – telework work (this term is also known as distance work, e-work) in to the Lithuanian Republic Labour Code. Telework work contract can state that agreed work functions either part of work functions worker will perform not in the employers office but in other locations that are reasonable for employee. This work contract type allows to employ more people from disadvantaged groups and also save costs for both sides – employer and employee, such as expenses for work places and traveling to work, parking costs and etc. Less costs means possibility to open new work places and keep existing also in support some groups of workers with flexibility of work hours and possibility to work at home in more comfortable environment for certain groups of society.

There was made qualitative research in this article, were done interviews with officials working with unemployed people in Labour Exchange office in Klaipeda city and private recruitment office experts that are looking to fulfill an open work places. Also there was done a survey of unemployed people registered in governmental Labor Exchange office.

Informal interview with Labour Exchange office in Klaipeda officials allowed to find out that during period 2004-2007 there were high need of work force in Klaipeda and the industrial companies located in free economic zone were even threatening to move to another areas either close because of the lack of available work force. The shortage of work force was noticed in the groups of qualified and low skilled workers. First of all it was a problem collecting enough of female not skilled workers for industrial plant producing spare parts for cars. Some potential employers did not chose Klaipeda free economic zone as the place for investment because of the lack of qualified industrial workers with technical skills and managerial competencies. The economic crisis effected Klaipeda labour market in the middle of 2008 when some of the companies gave notice for groups of workers about their plans to break work contracts. The collapse of building industry in the area cause bankrupts and growth of male unemployment figures at the end of 2008.

Before economic slowdown Klaipeda was always town where unemployment figures were very low and
growth of bankrupts and reduction of work places in town hit the labour market unexpectedly. The fast growing unemployment was hard to regulate because the structural unemployment that was common in town and which was controlled by vocational training and special programs was changed rapidly by the cyclical unemployment appearance. Now when the operations volume in the port growing again, the industrial companies start recovering getting back their foreign customers and markets, appear new work places but the changes are not as fast as they are wanted. The problem that Labour Exchange office face is the lack of open work places that they could offer for registered unemployed people not to allow them to become long time unemployed either leave the country looking for work abroad. There is a problem with mismatch in labour market – the structure of work demand and supply does not match because of the lack of competencies that employers are looking for. As the possibility to solve unemployment problem in Klaipeda was identified need to support more small and medium enterprises that could open new work places also to promote self-employment by teaching unemployed people for entrepreneurial skills.

The interview with private recruitment office experts allowed to find out that companies looking for high skilled workers face the problem that those who have lost their work places in beginning of crisis have already lost some of their skills and are not updated with the news from changing market. To fill existing either new work places companies prefer to recruit workers that already have their work places in other companies. As the problem for filling existing work places that are requiring high skilled work force was indicated problem of mismatch of labour market needs and education of young specialists, the lack of practice. As the experts of private recruitment companies noticed there was and still is a problem to find right workers for companies that are looking for motivated professionals having more than average skills.

There is no problem of finding average either low skilled workers for open work places as the experts answered but there is a problem between employers and employees agreeing about work conditions and especially wages. The average wages for unskilled work force during economic growth period was quite high comparing with higher skilled work force wages. This was influenced by the mismatch between labour supply and demand. The reduction of average wage in Lithuanian labour market after economic slowdown started was influenced by the changes in Lithuanian and foreign markets. Today employers face the problem finding workers for less paid workplaces.

The research of unemployed people registered in Labour Exchange office showed that they feel like there are no decent work places in Klaipeda labour market and that they get not enough of work offers from Labour Exchange office. Also that existing offers are not appropriate because the offered wages are too low. Some of unemployed people stated that it is more acceptable for them to stay in Labour Exchange office until they are keep receiving unemployment benefits and only then to look for work because as they got impression it is possible to get work place with official governments set minimum salary. Some of unemployed people answered that they would like to get more information and entrepreneurial skills to start their own businesses.

As it can be noticed from the research results the possibility to solve unemployment problem in Klaipeda region is to promote self-employment and various business enterprises offering them knowledge how to create higher added value that would lead to possibilities to offer higher wages. Also its can be indicated need to keep providing vocational training for unemployed to be able meet labour market needs.

The survey showed that the unemployment problem consist from various factors and to solve it needed both governmental and local councils help. Also the unemployment this time period depends not only on existing and open work places but also it is effected by various transfer payments.

Conclusion

The study of various authors’ articles about possible way of unemployment regulation shows that fighting unemployment should cover not only fiscal but also implementing various changes like cultural, legal and other changes.

The economic crisis in Lithuania effected labour market very much an unemployment rate during period from 2007 till 2010 increased more than 3 times. Since August 2010 unemployment rate started shrink slowly and to achieve this results government had to implement various changes including changes in laws regulating employment. One of the ways to keep reducing unemployment rates is for local councils to pay more attention to the specifics of regions and support SME’s as much as possible.

The research allows to make a conclusion that unemployment in Lithuania depend on not meeting supply and demand for work force in the context of existing competences, skills and expectations of financial results like wages for workers and created added value for employers.
References