

## TENDENCIES IN LITHUANIAN LABOUR MARKET UNDER THE IMPACT OF ECONOMIC RECESSION

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### **Abstract**

Under the conditions of globalisation countries can not function sequestered and be unaffected by the various processes in the world. The global crisis made the remarkable impact on the countries' economic and social spheres. The situation in European Union (EU) countries' labour markets became unstable. Under the pressure of global economic recession in all EU erected one of the biggest social and economic problems – unemployment, which is understood as misbalance of demand and supply of labour force. Increase of unemployment is entailed by many social, demographic, psychological problems.

During last year unemployment rate in EU countries increased very significant. According to the International Labour Organization (ILO) developed economies and the European Union saw the largest increase in the regional unemployment rate – about 3.5 million people lost their jobs in this region this year. For this reason this period is called „Global Job Crisis“.

From 2002 years Lithuanian economy has grown faster than in any period and there were seen positive development trends - GDP was rising, investments were growing up. Furthermore the labour market in Lithuania has in the recent past been characterised also by positive changes - the unemployment was falling, wages were growing up. Fast developing market was causing specific requirements for the human resources, especially for the universities' graduates. Furthermore, the business sector forms new and specific requirements for the human resources. At that time in politicians' and scientists' discussions the main problem was how to solve the lack of labour force which is the main brake for the development of country's economy. The shortage of qualified labour force was felt especially in the sectors which need highly qualified employees.

In the end of 2008 the economic recession affected Lithuanian labour market. The companies started to respond to the challenges which were rising under the influence of economic downturn. Some of the companies were looking for the possible ways to keep their qualified labour force or use the current downtime for more education and training but the big part of companies immediately reduced their workforces to cut costs, cut production or even closed the factories. The economic recession touched not only the segment of unskilled labour force but highly qualified labour force as well.

In this article the situation in Lithuanian labour market is analyzed. This article strives to identify the tendencies in Lithuanian labour market under the impact of global economic recession in EU context. The made research showed that the economic downturn influenced the big changes in Lithuanian labour market and it is also further widening employment gaps between Lithuanian regions. The overall challenge is to find efficient and sustainable responses to the economic slowdown and reduce the multiple short – term and long - term consequences on the labour market.

The analysis is made upon the scientific literature and research in this field, statistical data and comparative analysis of the labour market's indicators in EU countries and Lithuania.

### **Keywords:**

**Human resources, labour market, unemployment, economic recession.**

### **Introduction**

The 21<sup>st</sup> age is the time of radical transformations in strong correlative spheres – economic, social as well as political. It is time of new possibilities and, of course, challenges. The global economic recession, started in

2008 has a major impact on economic and social life. It is agreed (Soros, 2009) that this recession is one of the biggest from the 4 decade of 20 century and it has put a sharper focus on economic and social systems.

The phenomenon of labour market and it's correlations with economic situation was reflected in scientific works.

Undoubtedly the labour markets react to the economic recession very sensitive. Countries started to analyze the situation and create the plans how to help their economies to recover from the global economic recession. The EU was constrained to do steps as well. In the end of 2008, the Commission in order to solve the rising problems decided to respond to the current situation in EU and initiated the Plan for the European Economic Recovery. This plan is closely related with the renewed Lisbon Strategy, because there are scheduled the actions in the four priority areas of Lisbon strategy - people, business, infrastructure and energy, research and innovation.

Recent several months in Lithuanian labour market are characterized as a time of high unemployment and deep pressure. According to the statistical data, in April 2009, Lithuanian unemployment rate stood at 8,7 % compared with 4.3% in March 2008, making one of the highest increases in the EU. Current situation stimulates to analyze the **scientific problem** - what are the main changes in Lithuanian labour market facing the global economic recession.

**Research goal** of the article is to define the changes of Lithuanian labour market under the impact of global economic recession in EU context.

**The tasks of the research** were set as follows:

- to reveal the theoretical background of labour market and it's correlations with economic environment;
- to analyze the general tendencies in labour markets of EU countries;
- to identify current changes in Lithuanian labour market and highlight the main actions in order to come out labour market crisis.

**Research object:** tendencies in labour market

**Research methods:** the analysis of the research in the field as well as statistical data.

The article consists from four parts. First part presents the theoretical point of view on labour market's sensitivity to economic situation's changes. The second part analyzes the tendencies in EU countries labour markets. The third part is devoted to the analysis of the Lithuanian labour market situation under the impact of global economic recession. The fourth part presents possible ways in order to come out labour market recession.

### **Theoretical approach towards sensitivity of labour market to economic changes**

The labour market, the peculiarities of it's functioning is the research object in many scientific works. This object is analyzed by economists, psychologists, sociologists as well as political scientists. Labour defines the social status in society and is the basis for well-being and self-satisfaction (Barron, Loewenstein, Lynch, 1989). As it is stated in Martinkus, Beržinskienė (2005), Sakalas. A., Savanavičienė A. (2006), Campbell D., Craig T.

(2005) and others, the labour market is understand as the usual market where employer buys the labour force and employee sells his knowledge, skills and abilities. From the economic point view the labour market is like any other market.

In this context it could be mentioned the model of ideal market. Beržinskienė D. (2006) emphasizes that in ideal labour market labour force supply is totally adequate to the labour force demand. Another feature of ideal labour market is short time term from the moment when a person starts to look for a job. Beržinskienė D. (2006) agrees that there are impossible to find the ideal labour market. Nowadays labour markets are affected by many factors which made the imbalance between labour force supply and labour force demand.

On the theoretical point of view, the labour market is understood as the open and sensitive system, which is influenced by many factors. Keynes D. in his scientific works stated that there is strong correlation between the changes in economic environment and the employment. To sum it up it should be stated that when the economic is rising, the unemployment is going down and when the economy is going down, the unemployment is rising up.

Beržinskienė D. (2006) emphasized that factors which affect labour market could be divided to:

- *interior* (such as different and limited information; intensity of work search; tightness of an employer and an employee);
- *and exterior* (such as economic changes; changes in the labour market structure; changes of work).

Additionally, very important factor is the persons abilities and skills, which can change all organization in order to profit by recession and to start the activity in new economic wave.

Downes A. (2009) in his research on labour market's and economic crisis identified that labour markets effects occur through:

- a fall in production (output) which results in a reduced demand for labour (i.e., derived demand) direct effect;
- a decline in labour and non-labour income which leads to a fall in the demand for goods and services –induced effect and multiplier effect.

The main indicator mainly used in macroeconomic to represent the labour market is unemployment rate. This rate indicates which part of labour power is unemployed. Increase of unemployment is entailed by social, demographic, psychological problems. Incomes of families are reducing, unemployed suffer stresses, nervous strains, alcoholic problems are increasing, people are migrating to other countries looking for a job, and the birth rate is decreasing. As the rule, unemployment rises when is imbalance between the supply and demand for the labour. Under current conditions begins the crisis of employment which can be characterized by:

- increase level of unemployment;

– rising the expenditures on the improving of relevance of labour force to economic conditions.

When such situation rises, it is very important that employees' competences, skills and abilities would be adequate to demands of employers. The balance between employees competence and employees requirements is the key for labour market's successful functioning.

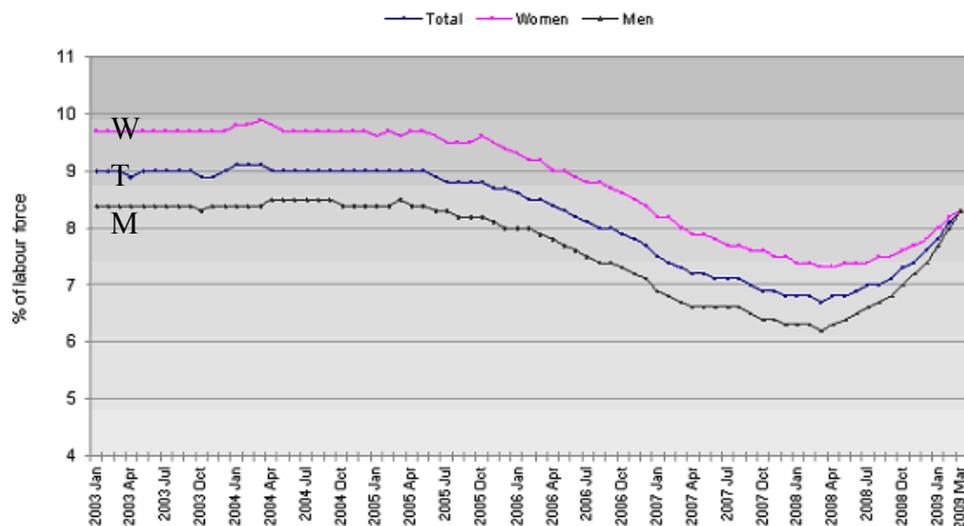
### General Tendencies of Unemployment in EU countries

According to the newest statistical data, the EU countries labour markets have suffered deep changes caused by global economic downturn which begins in

2008. However it should be stated that EU labour market has been less affected than United States labour market but much more than the labour market in Japan. On the other hand, it should be noted that one countries' labour markets was affected significant harder than others.

The figure 1 shows that unemployment rate which for long period was drooping now has been increasing very fast especially in recent months.

In figure 1 it is seen that there are significant differences between genders - in European Union level men have been affected by the downturn more than women, reflecting that many of the sectors hit hardest are predominantly male-oriented in terms of employment (European Commission, 2009).



**Fig. 1. Unemployment rates in European Union**

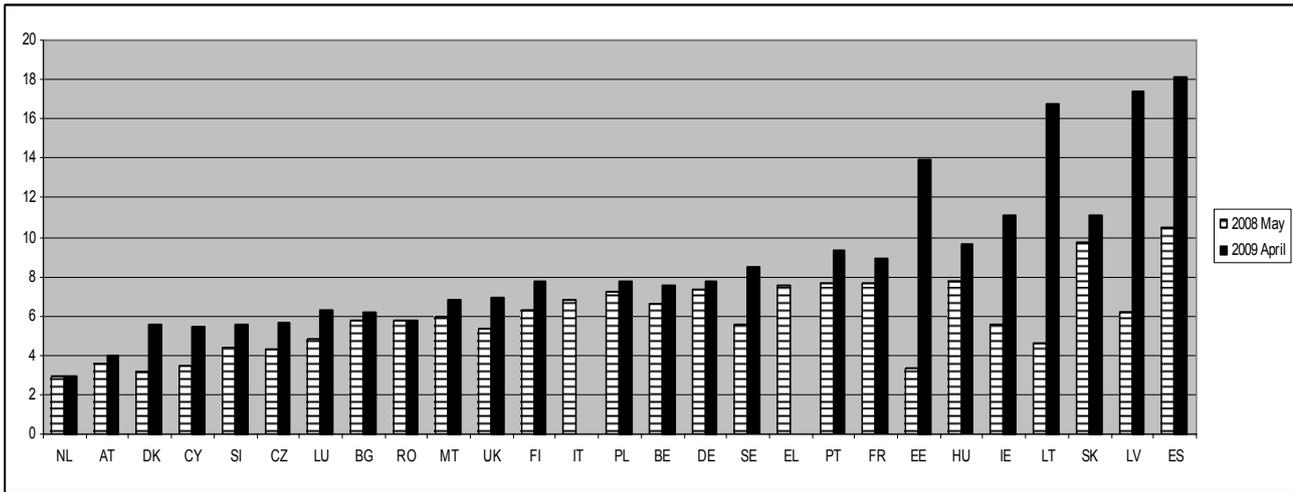
Source: Eurostat, European Commission (2009) Monthly monitor on the EU employment situation and social outlook.

Analyzing statistical data it is seen that there are significant differences between countries labour markets' reactions to the economic downturn – one group of the countries are increasing the investments to human resources quality in order to suspend the subsequences of economic downturn, another group of countries do not take any strategic actions. For this reason, although the downturn as characterized as the global, in some countries unemployment rates have not increased or increased insignificant. According to Eurostat among the EU member states, the lowest unemployment rate was recorded in the Netherlands (2.8%) (see figure 2). Rises of unemployment rate was insignificant in Austria, Bulgaria, Romania, Poland, Belgium. These labour markets could be characterized as traditionally strong labour markets which focus on the human resources preservation in workplaces.

Although statistical data shows that unemployment rates rose in almost all Member States, the worst situation is in such countries as Spain, Latvia, Slovakia, Lithuania (see figure 2). In these countries the unemployment rate's rise is fairly significant. The biggest unemployment

among European Union countries is in Spain. As it is declared in EU employment situation and social outlook (2009), In Spain unemployment has raised dramatically over the last year and alone accounts for around 40% of the total rise in unemployment in the EU since the crisis began last October.

In the end of 2008, the Commission in order to solve the rising problems decided to respond to the current situation in EU and initiated the Plan for the European Economic Recovery. This *European Economic Recovery Plan* is the Commission's response to the current economic situation. It should be stressed that this plan is closely related with the Lisbon Strategy, because there are scheduled the actions in the four priority areas of Lisbon strategy - people, business, infrastructure and energy, research and innovation. The one of strategic aims of plan is to lessen the human cost of the economic downturn and its impact on the most vulnerable. Many workers and their families are or will be hit by the crisis. Action can be taken to help stem the loss of jobs and then to help people return rapidly to the labour market, rather than face long-term unemployment.



**Fig. 2. Unemployment rates in European Union countries (percents)**

Source: Eurostat, European Commission (2009) Monthly monitor on the EU employment situation and social outlook.

There were also other initiatives how to respond to the challenges which are facing the global economic crisis. World Bank (2008, 2009) also has prepared comprehensive notes guiding countries in their labour market policy response to the current crisis. In the documents it is dealing with the question - how should labour market policy respond to the financial crisis?

All initiatives are the big step towards the rising problems solution, but in all initiatives should be the biggest attention paid to the question of human competency's quality and its conformity to economic situation.

### The Changes in Lithuanian Labour Market

Lithuanian labour market has hit very hard from the September, 2009. According to the data of Lithuanian Labour Exchange at the Ministry of Social Security in March the rate of unemployment in Lithuania climbed to 8,7 percent, which means that some 186.5 thousand of people are now seeking work and has the status of unemployed. In February in country's labour exchange registered jobseekers made up 8,2 percent registered jobseekers from all country's working age inhabitants. Comparing it is seen that during the month the rate of unemployment increased 0.5 percent. However, this growth is the lowest since the beginning of the year. During March the number of working age unemployed increased by 1.1 % point. On January unemployment grew 1.4 % point, on February – 1.3 % point. The number of unemployed who applied to the labour Exchange stays high and because of the limited possibilities to employ the unemployment rate was growing.

In Lithuania the unemployment rates differ greatly between and within regions.

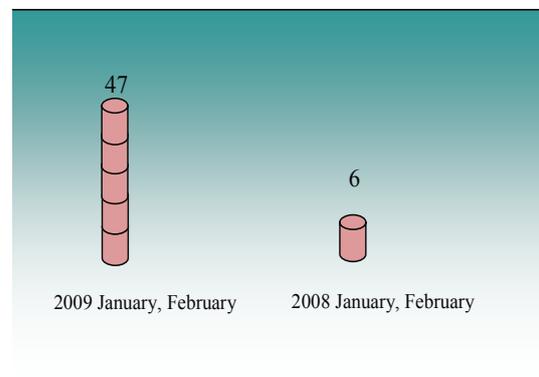
Statistical data shows that in April (2009), the biggest unemployment was fixed in Druskininkai (15,4 percent). During April the biggest increase was fixed in Šalčininkai - 1,9 percent.

**Table 1. Unemployment rates in Lithuanian regions (2009, April)**

| Municipality        | Unemployment rate (%) in April, 2009 | Changes with March, 2009 |
|---------------------|--------------------------------------|--------------------------|
| <i>Alytus</i>       | 11,4                                 | 1,5                      |
| <i>Druskininkai</i> | 15,4                                 | 1,0                      |
| <i>Kaunas</i>       | 8,1                                  | 1,1                      |
| <i>Raseiniai</i>    | 10,4                                 | 1,4                      |
| <i>Šiauliai</i>     | 9,2                                  | 1,5                      |
| <i>Kupiškis</i>     | 12,4                                 | 1,3                      |
| <i>Vilnius</i>      | 8,1                                  | 1,3                      |
| <i>Klaipėda</i>     | 8,1                                  | 1,1                      |
| <i>Šalčininkai</i>  | 13,0                                 | 1,9                      |

Source: Lithuanian Labour Exchange at the Ministry of Social Security, 2009.

Main factor which influences such increase of unemployment rate is group dismissals. In figure 3 it is shown the comparison with the previous years two months (January and February, 2008).



**Fig. 3. Group dismissals in Lithuania (2008/2009)**

Source: Lithuanian Labour Exchange at the Ministry of Social Security, 2009

During the February 2009, there were received 19 reports about group dismissals. During two months of 2009 (January and February), 47 reports about group dismissals were received, where 2195 employees were foreseen to dismiss. As it is seen from the figure 3 compared with the previous year the number of reports about groups dismissals increased by eight times. Furthermore, the number of employees warned about dismissal – nearly ten times. Analysis shows that the main reasons are:

- companies reorganization;
- bankruptcy;
- liquidation;
- other reasons.

In this context it should be emphasized the problem of inadequacy of human resources competence and employers requirements. In March in Lithuanian labour exchange data base there were 8.5 thousand vacancies registered, about 85 per cent of them for permanent jobs. Compared with March of 2008, demand of labour force decreased more than half, but unemployment rate stay high. This situation demonstrates the deep gap between competency of human resources (abilities, skills) and employers' requirements for the human resources competence. According to this it is necessary to make changes in order to help for jobseekers to obtain skills which are essential acting in nowadays labour market.

The such situation in labour market causes economic and social problems - such as the losses of GDP, highest expenses on fiscal outlay of unemployment (such as unemployment relief). Furthermore, there are losings in social context - the losses of human resources' competence, increase of crime, psychological problems. For these reasons the country's governments should assess their regulatory environments. In country is very important to protect labour market in order to preserve social harmony.

If the government does not take any strategic steps, according to nowadays situation, in Lithuanian labour market will be marked:

- increase the number of unemployed in near future (not so dramatically as last months);
- appearance of the remarkable differences between regions
- increase of the demand for the highly - skilled workers, especially for those who are able to create value added products and services.

### **Insights for strengthening of balance between labour force's competencies and employers' requirements**

Lithuanian government, business sector, universities should adequately react to the current situation.

First of all, it should be taken the actions and measures to deal with the consequences of the economic

downturn which could help to slow the growth of unemployment. In Lithuania number of the programmes for unemployed people has been increased. That was evoked by implementation of European Social Fund projects „Increase of employment opportunities“ and „Temporary employment support“. According to the data of Lithuanian Labour Exchange mostly, 1.6 thousand unemployed and warned about dismissals began to study under the Vocational Training Programs. Country should also consider introducing temporary youth employment programs.

Nowadays universities appear in new rapidly changing situation as well. Demographic changes, variations in labour market and professions, new challenges for functionality of civil society have increased influence to universities. Basically universities are at the forefront in meeting world changes and challenges, mostly stimulated by global economic recession (Keršytė J., Kriščiūnas K., 2008). In such situation the gap between the market requirements for skills and the skills portfolio which must have the graduates has recently started to become a problem.

Academic community understand their responsibility in accomplishing their fundamental mission – knowledge creation, concentration, and usage – for the programmes of studies and lifelong learning, staff and human resources, for the quality of research and innovative activity (Kriščiūnas K., Keršytė J., 2006). However under the pressure of business sector's requirements, the main task of universities becomes to keep the balance between university's fundamental missions and the business requirements for the graduates and researchers. In current situation the studies in universities should become students orientated.

Gielen P., Reitsma R., Wilbrink W. (2000) emphasize that education should be competence based and the influence of the market is significant. In learning process significant role plays not only universities, but business enterprises and others actors as well. The strong links between these segments should be ensured. It should be stressed that education and training remain the most important means of improving employment prospects. Maintaining the right skills for the labour market will ensure that, when growth returns, the skills the economy needs will be in place (International Organisation of Employers, 2009).

There are the actors which could make the influence in order to avoid the extremely serious negative consequences of global economic downturn in labour market – government, universities and business sector.

*Government* is responsible for:

- improving of the business environment;
- stimulating favourable environment for innovations;
- putting a sharper focus on the questions of human

resources quality and it's adequacy to labour market requirements.

*Universities* are responsible for:

- ensuring lifelong learning processes with the recognition of the unformal qualification;
- ensuring the obtaining and development of generic and transferable skills;
- cooperating and maintenance the dialog with business sector seeking for quality of human resources.

*Business sector* is responsible for:

- cooperating closer with universities and others higher education schools in the preparation of graduates with needed package of competencies;
- investments in the research and students studies.

### Conclusions

According to the analysis of scientific literature it could be pointed out that labour markets react very sensible to the economic changes. For this reason global economic downturn has hit European Union labour markets very hard. Nowadays no one country can protect it's labour market from such processes as global economic downturn.

It was estimated that the unemployment is one of the relevant indicator which shows the real situation in labour markets.

The result of the research showed that Lithuanian labour market was affected by global crisis. For this reason Lithuanian labour market distinguishes by big imbalance between the supply and demand for labour force. Qualifications, competencies need to match the demand on labour market.

It is clear that in Lithuania it is needed to strength the cooperation between government, business sector and universities. Avoidance of unemployment should be ensured by inducing business and by giving more resources to research.

The government, universities, business sector should take the actions in order to avoid the negative consequences of global economic downturn in labour market. The cooperation between universities and business sector become inevitability. For this reason universities must react to the signal of business sector, but herewith, they must implement their fundamental missions as must.

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The article has been reviewed.

Received in March, 2009; accepted in April, 2009.