

UNEMPLOYMENT REGULATION BY PROMOTING ESTABLISHMENT OF NEW WORKPLACES

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crossref <http://dx.doi.org/10.5755/j01.em.17.4.3008>

Abstract

There appear to be more discussions about unemployment regulation in Lithuania after 2008 when unemployment rate started to grow sharply. One of the ways to regulate unemployment is to increase demand of labour force by opening new work places. There are instances when employment increased after changing employment laws, tax rates and also general business environment. Unemployment could be reduced by promoting small and medium enterprises. SME's are very sensitive towards changes in the market. The survey of SME results indicates problems in business environment, laws of employment, tax system and even existing unemployment regulation tools for unemployed people like unemployment benefits. The research allows making a conclusion that Lithuanian unemployment regulation policy should be not only more oriented towards unemployed, but also give more attention to SME problems and to promote more effectively different programs for the establishment of new workplaces.

Keywords: unemployment regulation, unemployment, unemployment benefits, SME.

JEL Classification: J08, J21, J60, H50, K31.

Introduction

The threat of incoming new economic slowdown and even economic crisis in Europe keeps governments of various states engaged in evaluating situation and planning. The problems with governmental debts and unbalanced state budgets create a chain of various economic problems including collapse of some banks, lost confidence in euro as well as growing migration and unemployment. State government should prepare in order to control possible changes in the financial, labour and other markets. Indicators that usually show crisis are decreasing GDP and growing unemployment rates. Unemployment means not enough of workplaces and, besides decreasing production in state, extra expenses from state budget for unemployment regulation. It is very important for all states to pay attention towards unemployment problem because of this double loss that state budgets face when unemployment rate starts growing.

Every country has different sets of unemployment regulation tools that are used in different phases of economic cycle. Unemployment regulation tools can be directed to unemployed people offering them direct and indirect financial support (unemployment benefits), re-skilling, etc. Unemployment regulation can include tools used by local unemployment agencies subsidized by government, and sets of employment laws that influence employment. The threat of economic crisis increases the importance of discussions and research answering the question what unemployment regulation tools can be most effective during economic slowdown and crisis.

Unemployment occurs in the market when work supply does not meet work demand. According to various authors there can be indicated a variety of possible reasons why unemployment appears, and every state having economic and cultural differences faces difficulties solving this problem. General business environment in the state can influence both opening new and closing existing work places. By subsidizing the employment of special unemployed groups, providing financial support for enterprises that open new work places and employ people that were officially unemployed for long term, organizing re-skilling or training of unemployed people by giving them special skills needed for certain enterprises, the government can achieve positive results in regulation of business environment, unemployment and eventually increasing income into the state budget.

The objective of the article is promotion of new workplaces establishment in Lithuania.

The main goal of the article is to survey SME's opinion about possible tools for unemployment regulation and promoting of new work places. There was done the research of theoretical tools for unemployment regulation also tools used by governmental Labor Exchange offices in Lithuania and statistics of unemployment regulation expenses. Also there was done qualitative survey of experts in Small and Medium Enterprises in Lithuania.

The theoretical and empirical research showed that unemployment regulation can be effective by promoting new work places establishment. Empirical survey helped to indicate problems in business

environment, laws of employment, tax system and even existing unemployment regulation tools for unemployed people like unemployment benefits.

Unemployment Regulation Orientated Towards Employers

The economic crisis, which hit world's economies at 2008, changed labour market in most of European states. Unemployment regulation became even more important because of growing migration between countries where economics establishment level is not equal. The single state can solve the unemployment problems and reduce unemployment rates by not solving emigration from the state problems (Cekanavicius, Kasnauskiene, 2009). The same time unemployment in other states still will be growing.

Unemployment regulation tools can be split into the active and passive tools of Labour market policy (The Research of Active Labour Market Policy Tools Affectivity, 2007). Besides passive tools like unemployment insurance benefits, training allowance for unemployed, vocational training, consulting, etc., can be used 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.

Growing unemployment and regulation that provide unemployment benefits can create significant strain on the fiscal balance (Alesina & Glaeser, 2004; Clark & Lee, 2008). Any of unemployment benefits allow unemployed people to smoothen their consumption when they have no other income (Klepinger, Johnson, Hoesch, 2002; Bloemen & Srancanelli, 2005; Gottschalk, 1988). Many authors identify that financial benefits, grants and welfare programs can cause negative outcomes (Gottschalk, 1988; Alesina & Glaeser, 2004; Clark & Lee, 2008) even welfare programs abuse (Oyer & Schaeferm, 2000; Gallie, 2007).

The market changes are constant and high-speed. Anyone who became unemployed and spend more time in Labour Exchange can be less competitive that those who kept their work places during economic recession. D. Howell (2005), D. Gallie (2007), P. Ziliukas and E. Katiliute (2008), B. Martinkus and S. Stoskus (2009) discuss that some unemployed are sentenced to stay unemployed if they will not update their skills and competencies. The competences that are needed for the employment are split into professional, social and conceptual competences (Savaneviciene & Katiliute, 2008). The vocational training systems (Gallie, 2007) for unemployed people could help them 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 economics (Acs & Toder, 2007; Howell, 2005).

It's important to identify that long term unemployment changes not only skills of unemployed but also make them emotionally affected (Krueger & Mueller, 2011).

Small or medium size enterprise (SME) is one of the most important economic growth factors (Tamosiunas & Lukosius, 2009). The SME's are employing two-thirds of all employed people in Lithuania (Statistics Lithuania, 2012) and have the basic impact on the general development of the country's economy and social stability. Some countries pay great attention towards entrepreneurship skills (Olsson, 2008), that are needed nowadays when globalization and integration processes are constant (Ziliukas & Katiliute, 2008). Economic welfare can make impact towards social and economic development (Snieska & Simkunaite, 2009; Grundey & Toluba, 2008).

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

The payments for employers are orientated towards promotion of employment which supplies possibilities to employ target groups of unemployed people either help them to keep an existing workplaces (The Research of Active Labour Market Policy Tools Affectivity, 2007). Also can be identified one more active unemployment regulation tool such as start-up promotion for unemployed people who would like to establish their own business and ensure work place for themselves.

Development of country's economics can be ensured by creating new work places. This is possible only if SME's can employ skilled and experienced employees (Gallie, 2007). Unemployed people prefer to work when unemployment benefits become less attractive than employment income (Saunders, 2007). Employers face too many expenses by reducing unnecessary or low qualified workers and it becomes a reason not to employ new workers (Oyer & Schaeferm, 2000). Employment laws are needed to protect the workforce and also to make attractive to open new workplaces.

Theoretical discussions are leading towards necessity to overview situation of State economics and receive response from SME's about needed regulations that would encourage opening new work places.

Unemployment Regulation Oriented Towards Employers

The research was made to study the situation of labour market in Lithuanian Republic. Results of unemployment regulation can be used as a basis for improvement offers.

The main goal of the research is to study recent unemployment situation in Lithuania and identify the problems in the existing unemployment regulation system, as well as general impact of unemployment towards economics of Lithuania.

As the tasks for the research were raised:

1. To collect and study the statistical unemployment data of Lithuanian Republic during period from 2009 up to 2012 February.
2. To analyze the unemployment tendencies in Lithuania and to indicate possibilities for promoting establishment of new work places more efficiently.

The data for the research was collected from 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.

The main information about unemployment was taken from Lithuanian Labour Exchange office, because this institution is officially delegated by the Ministry of Social Security and Labour in Lithuania to control the unemployment regulation policy. Unemployed people must register in Lithuanian Labour Exchange office after they lost their work places also must inform office about signed new employment contracts. This allows to trust official unemployment data from Labour Exchange (www.ldb.lt) because statistics provided by Statistics Lithuania (www.stat.gov.lt) are different. This mismatch appears because of different unemployed citizens accounting methodologies. .

As can be seen in Table 1 (www.ldb.lt), unemployment in Lithuania was highest during 2010.

Table 1. Statistics on Unemployment in Lithuania

	2009	2010	2011
Unemployment rate (end of the year), Labour Force Survey data, percent	12.5	14.4	11.0
Male unemployment, percent	14.4	15.8	11.3
Female unemployment, percent	10.5	13.0	10.7
Youth unemployment, percent	8.1	9.5	6.8

Lithuanian unemployment statistics are interesting because during 2009 unemployment increased by 6.8 percent comparing to the end of 2008 when unemployment was only 5.7 percent. Should be highlighted the male unemployment which was higher than female unemployment during whole period 2009-2011.

Also it is very important to pay attention that official statistics show decrease of youth unemployment during surveyed period. The emigration can be stated as a reason for this decrease. It is very popular between young people to leave Lithuania and look for employment in other European states. The most popular Lithuanians emigration directions are United Kingdom, Ireland, Germany and Spain (www.stat.gov.lt). Popularity of emigration to Germany increased after 2010 when this state liberalized employment for foreigners.

The high male unemployment rate was a result of building industry collapse. The situation during this period was not stable but could be seen decrease of unemployment at the end of year 2011, which shows that situation in labour market was stabilizing and Labour Exchange office managed to reduce total quantity of unemployed people in Lithuania.

The budget deficit during period 2008-2011 was growing and it effected unemployment regulation allowances in Lithuanian Republic. The lack of funds does not allow Labour Exchange office to concentrate on passive unemployment regulation tools using unemployment grants and benefits. 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, entrepreneurship encouragement, discounts for business licences for not longer than 6 months period became more popular and effective during analyzed period.

The general tendencies of 2011 in labour market of Lithuania can be described following: labour supply decreased and unemployment rate dropped down by 3,4 percent during the year. Also decreased quantity of unemployed receiving grants and unemployment benefits. The demand for labour force increased and the local employers with Labour Exchange office help employed more people. More of signed work contracts were constant rather than fixed term contracts. The greater demand could be seen for high qualified specialists in various industries. The fastest growth of workplaces was notices in service sector and sales.

The statistical data in the Table 2 shows that situation in Lithuanian labour market during beginning of 2012 changed comparing to February of 2011. Situation is still problematic comparing to 2008, but can be seen total decrease of unemployment rate.

Table 2. Unemployment Statistics in Lithuania February, 2012

Indicators	February, 2012 Quantity	Changes comparing to February, 2011	
		Quantity	Percent
Registered Unemployed			
During February	28099	10251	57.4
Total since beginning of the year	63300	22898	56.7
Taking part in temporary employment programs	22732	-3605	-13.7
Unemployment rate at the end of the month	11.8	-2.4	
Unemployment insurance benefits			
Allocated unemployment benefits during the month	7682	453	6.3
Paid unemployment benefits at the end of the month	38870	-6186	-13.7
Available open workplaces			
Constant workplace	10729	775	7.8
Short term workplace	2620	-838	-24.2
Employment			
Total during the month	11232	-2166	-16.2
Total since beginning of the year	24326	-4473	-15.5
Active unemployment regulation tools			
Vocational training	0	-389	-100
Occupational rehabilitation	73	55	305.6
Subsidised employment	2138	-909	-29.8
Grants for new work places	436	407	1403.4
Working with business licences	2918	104	3.7

From the table above can be seen that unemployment rate in Lithuania during February 2012 comparing to the same month 2011 decreased by 2,4 percent. Although quantity of registered unemployed during February increased, but total amount of unemployed people receiving unemployment benefits decreased by 13,7 percent comparing to February 2011. During February 2012 were offered more constant workplaces than a year ago and there also decreased quantity of short term workplaces. This tendencies show that companies want to sign long term employment contracts and are looking for workers that would be qualified for offered work places. This year were offered 435 grants for new work places. It means that Labour Exchange office in Lithuania could allocate more funds for promoting of new work places establishment.

Quantity of unemployed people, using possibility to work with business licences, increased only 3,7 percent comparing to February 2012.

The unemployment rate changes can be related with the recovery of some businesses and complex solutions for labour market, new possible relations between employers and employees, also general macroeconomic regulation of the Lithuanian economy.

One of unemployment regulation tools is subsidizing employment of special unemployed. Lithuanian Labour Exchange office offers some programs, that help companies to cover part of work places costs and this way to keep those work places available. Also there are programs promoting new work places. Governmental Employment Initiatives program subsidize new work places with conditions that at least 35 percent of costs for new work place should be covered by private enterprise. Private enterprise should keep new subsidized work place at least for 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 were opened 583 work places by using Governmental Employment Initiatives projects and subsidized employment during 2011.

The subsidized employment of people that belong to certain unemployed groups covers part of employers costs for salaries and part of work places costs. The subsidized groups are handicaps, long term unemployed people, older than 50 years unemployed people, persons who take care of younger than 8 years old children, people who came back from prisons, young people up to 29 years old, etc. The program covers from 50 percent up to 75 percent of all accounted costs for salaries, including social insurance tax. The payments can be allocated at period from 6 up to 12 months.

Willing to support the employment government renewed the employers and employees legal relationship regulating law and also employment rules in 2010. There were made some amendments for conditions signing work contracts and closing work contracts. 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 worker status). 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 were made easier and the costs became less. There were made some changes that are useful and for employees, for instance if employee did not pass trial period, notice period for closing work contract was prolonged from 3 calendar days up to 3 work days.

The easier employment procedures should encourage employers to make decision to open new workplaces and employ workers.

Whole Europe is already using e-work as one of the possibilities to employ more people from disadvantaged groups. It helo to cut on both sides – employer and employee expenses such as costs for workplaces and traveling to work, parking costs, etc. Lithuania also made changes and included in to the Lithuanian Republic Labour Code the new type of work contract – telework work (this term is also known as distance work, e-work). Telework contract can state that agreed work functions either part of work functions worker will perform in other locations that are comfortable for employee, not in the employers.

There was made qualitative research and were done interviews with employers from production and service industries. The results of informal interviews showed that about a half of interviewed enterprises does not have enough of information about governmental programs for financing new workplaces establishment and possibilities to get subsidized for employing some groups of unemployed. Companies that have heard about possible financing for new workplaces establishment have not enough of information and still think that procedures are too long and too difficult to try to use the offered programs. The lack of information causes that existing programs for unemployment regulation by promoting to establish new workplaces are not used as they could be. Service sector companies that are using the programs the most are situated in Vilnius, Kaunas and Klaipeda. Those companies faced the problem, that they cannot get enough of subsidized workplaces as they would like to. The minority of companies stated that they have enough of information and are using the programs. Those companies were situated in smaller towns.

Another problem that was identified by companies and makes an effect towards employment and establishment of new workplaces is high taxes for employers. A few companies stated that some unemployed people prefer to wait until period when unemployment grants are paid will finish and only then accept the work offer. Also some companies noticed that because of lack of flexibility in work laws they prefer to use subcontractors services rather than to open new work places and employ their own new workers. To describe lack of laws flexibilities companies identified difficulties of braking work contracts although stated that recent changes (during year 2010) in Labour Code of Lithuanian Republic were good.

The greatest problem that can be identified in labour market is that companies noticed the shortage of qualified and low skilled workers. Employers state that there is mismatch in labour market. There is a difficulty to find high skilled employees with needed competencies because those who have lost their work places in 2008 have already lost some of their skills. Enterprises prefer to recruit workers that already have their work places in other companies instead of employing young specialists or unemployed people registered in Labour Exchange. Young people and unemployed people are not popular because they have no experience either lost their competences because of longer unemployment period.

There were indicated that more new workplaces could be opened if SME's could improve their entrepreneurial competencies and expand their businesses in local and international markets.

Conclusions

The promotion to establish new workplaces can be used as alternative for passive unemployment regulation tools and would initiate bigger effect towards state economics rather than smoothen consumption for unemployed people by paying grants. The effect would be the increase of business enterprises and work places quantity that eventually would increase GDP.

Unemployment in Lithuanian Republic was highest in 2010 and was decreasing since 2011. The male unemployment is greater than female unemployment during whole period since 2009.

The promotion of SME's can come not only in financial ways but also by supporting them with information needed to work in state, various areas market information.

The lack of high qualified labour force make an effect towards employment - enterprises prefer to by certain services from subcontractors instead of establishing new work places in their businesses. Also companies prefer to buy services because they are not satisfied with unemployed people attitude towards offered work places, also their attitude better to receive unemployment grant instead of salary.

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