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## LITHUANIAN LABOUR MARKET – POLICY PRIORITIES IN THE CONTEXT OF THE EUROPEAN UNION

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The article reviews the situation in the Lithuanian labour market and changes which took place in it from the restoration of state independence to the post-crisis period. Based on the analysis of statistical data and legislation, development stages characteristic of the Lithuanian labour market are identified and decisions related to labour market management are overviewed. The article also provides the analysis of legal regulation of Lithuanian labour relations and reveals the fundamental legal features of labour relations, which may be useful in order to achieve greater flexibility and security in the labour market.

The article reveals that the Lithuanian labour market was subjected to a few distinct development stages, which determined the measures of the labour market policy. The changing economic situation resulted in changes in the labour market policy, which are indicators of the relevance of labour market issues and the need for their solution.

**Keywords:** labour market, labour market policy, labour relations, employment

### 1. INTRODUCTION

Changes, which constantly take place in the labour market, induce the necessity to analyse the impact of economic, governance and social phenomena on employment. In 2008, Lithuania, like many other European countries, experienced the most severe economic and financial crisis, which irreversibly affected the labour

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market – employment and production dropped, whereas unemployment and emigration of human resources increased (Labour market statistics, 2011).

In order to restore the effects of the economic and financial crisis, to stabilize the situation in the labour market, to reduce unemployment and increase compliance of labour relations with the economic globalization trend, the EU countries have actively introduced measures to increase employment flexibility. However, liberalization of labour relations and increases in employment flexibility were often ahead of the development of social security measures, which increased dissatisfaction of employees and contradictions between capital and labour at the national level. This was the situation in Lithuania. Since 2014, the liberalization of labour relations in the country has drastically decreased employment security; however, measures of social security remained almost unchanged during the period. It can be argued that social welfare measures in Lithuania are not effectively coordinated with the labour market policy and one of the reasons thereof is the low funding of social security measures. In 2014-2015 only about 14.5 percent of GDP was allocated to social security and this was one of the lowest in the EU, where the average expenditure amounted to approximately 23.4 percent (IMF Republic of Lithuania, 2016). Low social security benefits hardly compensate the loss of income of the unemployed and do not reduce the growing inequality in living standards.

The relevance of the analysis of labour market issues in the global context is growing rapidly. This is exemplified by the Nobel Prize for the first time in history awarded in 2010 in the field of labour market research for Peter A. Diamond, Dale T. Mortensen and Christopher A. Pissarides.

The effects of economic financial crisis on the labour market policy were addressed by Cazes, Verick, Heuer (2009), Calmfors (2009), Anastasakis, Bastian, Watson (2011). Research on the post-crisis labour market throughout Europe was conducted and the new trends were evaluated by Dimian, Ileanu, Jablonsky, Fabry (2013). Unemployment and economic growth developments were examined by Bernanke (2012), Aceleanu (2013). Trends after the economic-financial growth were researched by Auzima-Emsina (2014), Heyes and Hastings (2016) et al.

Issues of the labour market policy and its regulation in Lithuania were analysed by Gruževskis (2011), Aleksandravičius and Raupelienė (2012), Bilevičienė (2014). In the post-crisis period in Lithuania more attention was given to the increase in flexibility and employment – Mačernytė Panomarovienė (2011), Bitinas and Usonis (2013), reduction of long-term and youth unemployment – Beržinskienė and Būdvytytė-Gudienė (2010), socially vulnerable groups and poverty – Okunevičiūtė Neverauskienė and Česnūtytė (2009). Changes in the labour market in the wake of the economic financial crisis were examined by Gruževskis, Moskvina, Okunevičiūtė Neverauskienė (2013).

A number of public authorities deal with the issues of the Lithuanian labour market and conduct monitoring of the labour market: the Government, the Ministry of Social Security and Labour, institutions under the Ministry of Social Security and Labour, including the Lithuanian Labour Exchange and the Department of

Statistics. The majority of the research is carried out by the Lithuanian Social Research Centre of the Labour Market Research Institute.

Despite the increasing focus on the Lithuanian labour market, research on the current labour market policy, its developments, and political, social and economic factors, scientific generalizations is scarce.

Gražulis and Gruževskis (2008) (2009) were among the first researchers who analysed characteristic features and development stages of the Lithuanian labour market from the restoration of independence to the onset of the economic financial crisis and examined labour market management by the relevant periods.

**The problematic issue of the article** is: Was the labour market policy, implemented in the post-crisis period in Lithuania, able to improve the labour market indicators?

**The aim of the article** is to evaluate the labour market situation in Lithuania and to overview trends in the development of the labour market during the post-crisis period.

**The objectives of the article are:**

- To conduct an analysis of the situation of the Lithuanian labour market policy;
- To identify the stages of development, characteristic of the Lithuanian labour market, and to evaluate trends of the labour market policy development by stages;
- To analyse the basic changes in the main indicators of the Lithuanian labour market during the post-crisis period and to establish the reasons for their change;
- To conduct an analysis of the legal regulation of Lithuanian labour relations and to establish the main legal characteristics of labour relations;
- To evaluate the perspective of future development of the legal framework regulating labour.

An expert survey was conducted to analyse the labour market situation in Lithuania during the post-crisis period and to identify the effects of measures of the labour market policy taken to suppress the crisis. The seven competent and authoritative experts<sup>1</sup> are directly involved in the formulation, organization and implementation of the Lithuanian labour market policy and drafting legislation and scientific publications on the subject.

## 2. DEVELOPMENT OF THE LITHUANIAN LABOUR MARKET

The rapid progress of science and technology, competitiveness of the country, changes in consumer demand, changes in labour supply and demand, which have an impact on the unemployment rate and its length, fluctuations of the economic

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<sup>1</sup> The expert status was assigned taking into account the selection method based on such criteria as competence, experience, and interest in the area. The authors of the article are aware of the names of the experts.

cycle, government policies, the legal basis which regulates labour relations – all these, as Gražulis and Gruževskis (2008), Davulis (2008) note, result in certain changes in the labour market.

Many scholars, who study theoretical foundations of the labour market, observe that the labour market is viewed as a certain environment where labour supply, demand, and wage, which are related to the purchase and sale of labour force, are formed.

To make the labour market function properly, it is important to ensure social security to all participants and to regulate fluctuations in labour supply and demand. For this reason, the state implements the labour market policy which has an impact on the unemployment rate and duration, and ensures social protection of the unemployed by active and passive measures.

Moskvina and Okunevičiūtė Neverauskienė, who analysed principles of formation of the active labour market policy, note that the system of measures to be applied has to embrace all labour market participants, help create jobs and provide opportunities to acquire professional knowledge and skills, contribute to the strengthening of human resources, and help the unemployed maintain a certain level of income (Moskvina and Okunevičiūtė Neverauskienė, 2011, p. 234).

Active labour market policy measures vary according to the impact they have on different groups of the unemployed. Jakštienė and Beržinskienė, who analysed employment issues, emphasize segmentation of the labour market into different groups, which are united only by features and behavioural characteristics typical of those groups (Jakštienė and Beržinskienė, 2011, p. 51).

The changes, which took place during the last 26 years (since 1990), have highlighted certain development stages of the Lithuanian labour market, which provide a more detailed insight into various factors which have influence on its status and allow to assess development trends of the applied labour market policy during the respective stages (Fig. 1).

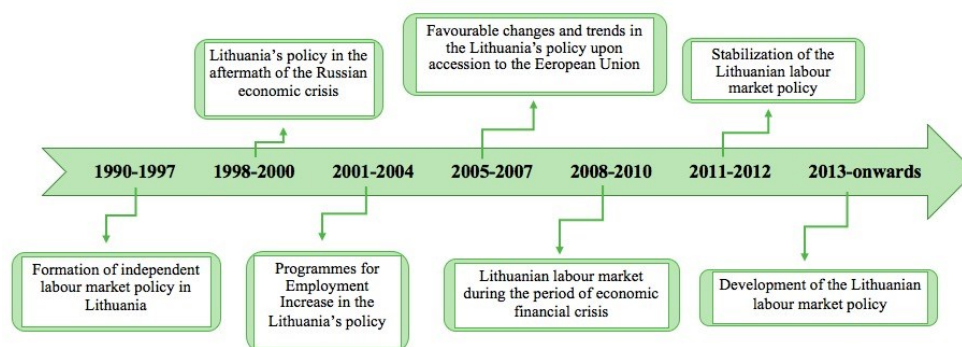


Fig. 1. Stages of the Lithuanian labour market development (compiled by the authors on the basis of Gražulis and Gruževskis (2008), Gražulis and Gruževskis (2009), the Lithuanian Labour Exchange (2001-2015), Statistics Lithuania (1990-2015))

Formation of the independent labour market policy in Lithuania started in **1990-1997**, when the system of the use of planned labour resources in the labour market was replaced by the use of human resources under free market conditions (Gražulis and Gruževskis, 2008).

Upon removal of the centralized sector management system, production volumes and the number of jobs decreased, whereas corporate bankruptcies and mass dismissals increased. The stage of the new labour market formation was marked by a new problem of labour supply and demand incompatibility, because prior to the restoration of independence of Lithuania persons with education used to be provided with jobs by the state (Gražulis and Gruževskis, 2008).

During the stage of the labour market stabilization, which started in **1998-2000**, the Lithuanian economy was affected by the economic crisis which took place in Russia in 1998. At that stage the Lithuanian economy was still heavily oriented towards Russia; therefore, the consequences of the crisis affected Lithuania's private sector as well, payments for production were delayed, production volumes decreased, whereas the number of redundancies increased. To remedy this situation in the labour market, the state took some temporary economic measures to facilitate the export of goods from Lithuania: a temporary centre was set up in Russia to monitor and analyse crisis effects, and a commission was formed to minimize possible social consequences of the Russian crisis in Lithuania. Lithuania started to actively use funds which promote and support entrepreneurship, more often implemented active labour market policy, whose priorities were support for employment and reduction of unemployment. To strengthen social security, in 1999 the Lithuanian Poverty Reduction Strategy was drawn up. Under the programme of Lithuanian-Danish cooperation in the field of labour market, Youth Labour Centre was set up in 1999 (Socialinės apsaugos ir darbo ministerijos Socialinis pranešimas 1998, 1999, p. 37).

Since 2000, Lithuania started intensive preparations for accession to the European Union. To that end, it had to reform the labour market institutions. Government policy was focused on employment support, local employment initiatives, and establishing labour market policy training centres. In 2001 the government approved the Republic of Lithuania Programme for Employment Increase for 2001-2004, which defines the national strategy of employment and the labour market policy. During that period the legal regulation of labour relations in Lithuania was reshaped, which, due to the unfavourable situation in Lithuania, was implemented only in 2003 upon the entry into force of the legal act governing labour relations – the Labour Code. The new Labour Code, as compared to the one in force since 1972, regulated flexibility of labour relations and more or less was in line with the labour market governance principles of the European Union member states (Lietuvos Respublikos darbo kodekso projekto aiškinamasis raštas, 2011, p. 1). Thus, the Lithuanian labour market policy during the period of **2001-2004** can be described as a stage of positive results of the Programme for Employment Increase (Gražulis and Gruževskis, 2008, p. 52).

Extremely favourable changes and trends in the Lithuanian labour market took place in **2005-2007**, after Lithuania became a full member of the European Union. The Lithuanian labour market became focused on more flexible and open labour relations between employees and employers, whereas promotion of employment and reduction of unemployment became the priority of the state. Following Lithuania's accession to the European Union, social integration programmes were developed, labour market regulation was improved, the minimum monthly wage, pensions and other social benefits were increased, and expediency of payment thereof was discussed (Socialinės apsaugos ir darbo ministerijos Socialinis pranešimas 2004, 2005, p. 7).

Table 1. Key indicators of the Lithuanian labour market in 2001-2007 (Statistics Lithuania)

Indicators	Pre-crisis period						
	2001	2002	2003	2004	2005	2006	2007
Unemployment rate	17.4%	13.8%	12.4%	10.9%	8.3%	5.8%	4.2%
Employment rate	48.3%	49.9%	50.8%	50.7%	51.6%	52.1%	53.2%
The number of emigrants	27 841	16 719	26 283	37 691	57 885	32 390	30 383
The minimum monthly wage	125 EUR/430 LT	125 EUR/430 LT	130 EUR/450 LT	145 EUR/500 LT	159 EUR/550 LT	174 EUR/600 LT	203 EUR/700 LT
The ratio of registered unemployed persons and the working-age population	11.1%	9.8%	8.2%	6.9%	4.9%	3.6%	3.4%
The rate of labour force activity	58.4%	57.9%	58.-%	56.9%	56.2%	55.3%	55.6%

In terms of overall changes of labour market indicators in the pre-crisis period, we observe an annual decline in the unemployment rate, slightly increasing levels of employment, and a slowly improving financial situation of employees (Table 1).

In 2007, the global economy was affected by the economic financial crisis that had begun in the United States, which, by its scale and consequences, was compared by Bernanke (2012), Anastasakis, Bastian, Watson (2011) to the Great Depression of the 1930s. In 2008, the effects of the economic financial crisis became apparent in Lithuania. According to the statistical data analysis and a comparative study conducted by Auzima-Emsina on the situation of Lithuanian, Latvian and Estonian labour markets in the pre-crisis and post-crisis periods, **from 2008 to**

**2010** Lithuania experienced a decline in employment, an increase in unemployment and an unregulated process of emigration from Lithuania (Auzima-Emsina, 2014).

In 2008 a new important step was made to reduce differences between territorial unemployment and employment. Due to high fluctuations in territorial unemployment, in 2008 the Government of the Republic of Lithuania approved the Programme for Promotion of Labour Force Migration in the Country for 2008-2010 (Socialinės apsaugos ir darbo ministerijos Socialinis pranešimas 2008-2009, 2009, p. 24). In 2010 the proposal package to reduce unemployment was approved, which provided more opportunities for those starting work activities and small businesses, enabled the expansion of funding public works, provided for exemptions for young people who take up employment for the first time, etc. (Socialinės apsaugos ir darbo ministerijos Socialinis pranešimas 2010-2011, 2011, p. 38).

Table 2. Key indicators of the Lithuanian labour market in 2008-2010 (Statistics Lithuania)

Indicators	The period of economic financial crisis		
	2008	2009	2010
Unemployment rate	5.8%	13.8%	17.8%
Employment rate	52.6%	48.8%	46.7%
The number of emigrants	25 750	38 500	83 157
The minimum monthly wage	232 EUR/ 800 LT	232 EUR/ 800 LT	232 EUR/ 800 LT
The ratio of registered unemployed persons and the working-age population	3.7%	10.2%	15.9%
The rate of labour force activity	55.8%	56.5%	56.8%

The unemployment rate, which grew rapidly since 2008 at 5.8%, reached its highest point in 2010 – 17.8%. The unemployment rate in the European Union was not that severe. In 2008, the unemployment rate in the EU was 7.1%, whereas in 2010 it rose to 9.7%. The employment rate, which was significantly reduced during the period from 2008 to 2010, in 2010 was 46.7%. The economic financial crisis became the reason of high unregulated emigration from the state. In 2010, compared to 2008, the number of emigrants leaving the state increased almost three-fold (Table 2).

In Lithuania, like in Estonia, in 2008-2011 the minimum monthly wage did not change. The minimum monthly wage (MMW) in Lithuania during the economic financial crisis was 232 EUR, which was on average 90 EUR less than in Poland, 46 EUR less than in Estonia and 23 EUR less than in Latvia (Eurostat Statistics database, 2008-2011). As for this feature of the Lithuanian labour market, since

2005 researchers have noticed a strange phenomenon – although MMW in Lithuania was rather low, quite a big number of residents were paid this amount of money, i.e. 12% of the employed. MMW was paid to more employees than in Lithuania in such countries as Luxembourg (18%) and France (over 15%), but in these countries MMW itself was one of the highest in the EU (Wach, 2007).

In 2011 the Lithuanian labour market entered into the post-crisis period, which, as the experts pointed out, was characterised by two stages of the labour market policy: 2011-2012 – the stabilization stage of the Lithuanian labour market, and from 2013 up to now – the development stage of the Lithuanian labour market policy.

In **2011-2012** the first indications that the economic financial crisis was under control were observed. The stage of the labour market stabilization may be related with the growing number of programmes promoting employment at that time in Lithuania, amendments to the law on employment promotion, which demonstrated the government's efforts to change and to stabilize the labour market situation. In May 2012 the National Progress Strategy "Lithuania 2030" was approved, on 28 November 2012 the National Progress Programme for Lithuania for the period 2014-2020 was approved, and in December 2012 the Programme of the Sixteenth Government of the Republic of Lithuania for 2012-2016 was confirmed.

Table 3. Key indicators of the Lithuanian labour market in 2011-2015 (Statistics Lithuania)

Indicators	Post-crisis period				
	Stabilization stage		Development stage		
	2011	2012	2013	2014	2015
Unemployment rate	15.4%	13.4%	11.8%	10.7%	9.1%
Employment rate	48.6%	50.0%	51.2%	52.6%	53.8%
The number of emigrants	53 863	41 100	38 818	36 621	44 533
The minimum monthly wage	232 EUR/ 800 LT	246 EUR/ 850 LT	290 EUR/ 1000 LT	300 EUR/ 1035 LT	325 EUR/ 1122 LT
The ratio of registered unemployed persons and the working-age population	13.1%	11.7%	10.9%	9.5%	8.7%
The rate of labour force activity	57.4%	57.7%	58.0%	58.9%	59.2%

As the situation in the labour market after the crisis was stabilized, the indicators related with problems caused by the economic downturn started to improve. The growth of the Lithuanian labour market was noticeable **as early as at the end**



**of the year 2012.** This stage of the labour market development was characterized by higher indicators and development of implemented strategies and programmes. Characteristic and positive features of this stage are: the increasing number of job vacancies, the increasing employment, new jobs and investors' interest in the Lithuanian market (Lietuvos Darbo rinka 2015/12, 2016, p. 1-7). In 2013 the Programme for Increasing Employment for 2014-2020, whose implementation is related with the solution of current issues of the population and employment by bringing together business, education, and labour market sectors, was confirmed.

Thus, the Lithuanian labour market during the post-crisis period experienced fundamental changes in indicators, which were detected via analysis of the secondary data. The decreasing employment rate, which started during the stabilization stage in 2008-2010, in 2011-2012 increased again (unlike in Lithuania, in the European Union unemployment in 2011 and 2012 was rising and in 2012 reached 11.8%), emigration decreased, the Lithuanian gross domestic product noticeably rose, the unemployment growth rate and wage decline/stagnation was brought under control (Table 3). According to the data of the Lithuanian Department of Statistics, in 2011 the monthly gross wage in total by economic activity types was 592.5 EUR, i.e. since 2010 it increased by 16.7 EUR, whereas in 2012 it increased by 22.5 EUR (Statistics Lithuania, 1990-2015).

The issue of payment is also strongly related with the policy of personal income tax applied in Lithuania. High income taxes can promote labour migration and push people to live on benefits (Skačkauskienė, 2013). The state has several times changed the income tax in order to create a modern taxation system in Lithuania and to avoid drastic consequences of raising taxes such as withdrawal into the shadow market. Until 2006 income tax tariff rate was 33%; however, since 2009 the basic income tax tariff rate has been 15% and has not changed in seven years (up to 2016).

Skačkauskienė (2013), who performed a comparative research on tax-free income and personal income tax in the Baltic states, notes that in 2009-2012 the minimum monthly wage in Lithuania was on average lower by 21% than in Estonia and by 16% than in Latvia. Meanwhile, the amount of tax-free income in Lithuania was on average higher by 2.5% than in Latvia and lower by 5% than in Estonia. Thus, an assumption can be made that in Lithuania the burden of taxable income in 2009-2012 was the lowest and in such conditions employees, who received minimum monthly wage (232 EUR), paid relatively less income tax than in Latvia and Estonia.

During the development stage the employment rate started to increase. In 2014 the employment rate grew to the level it had reached at the beginning of the economic financial crisis, i.e. in 2014 the employment rate was 52.6% (Table 3). In 2015 the demand for labour in the labour market increased (Lietuvos Darbo rinka 2015/12, 2016, p. 5).

Although the prevailing situation after the crisis can be viewed as favourable, the situation in the labour market was not positive yet. The experts' opinion survey

showed that the changes in the labour market were too slow and the level of poverty was still too high (in 2015, 29.3% of the population of Lithuania lived on the poverty threshold), income inequality in the country was significant, structural unemployment was high, wages did not secure decent living, and intensive emigration in 2015 increased again (in 2014-2015 the number of people emigrating from Lithuania increased by almost 8 thousand). These indicators show that the Lithuanian labour market policy measures were not effective enough.

Summing up this section, we have to admit that during 26 years of independence, Lithuania has failed to create an effective labour market policy. Consequences of the economic crisis of 2008 for the labour market (in 2008-2010 unemployment rate in the country increased by more than three times) revealed that the implemented labour market policy has been ineffective. Hundreds of thousands of people have lost their jobs without any social guarantees. Due to the rising unemployment, the amount of unemployment benefits was reduced and the requirements to obtain it were increased (from 12 months of insured length of service to 18 months). For these reasons, thousands of residents became recipients of social support (94 thousand in 2008 and 307 thousand in 2010). Neither the measures of the national labour market policy of 1998-2000, nor of 2008-2010 alleviated the adverse economic effects of the recession on employment.

### **3. THE NEW LEGAL FRAMEWORK FOR LABOUR RELATIONS – WHAT ARE THE OBJECTIVES?**

The increasing pace of development of the society has formed a demand for a new working environment and labour relations. Both in Europe and around the world the new trends of regulation of labour relations make it necessary to update and as much as possible rationalize the labour law of Lithuania. Researchers, who compared regulation of the Lithuanian labour law, very often indicated low flexibility and wide restrictions in the labour market (Wach, 2007, Kryńska and Kwiatkowski, 2013, Stremiński and Bednarski, 2014). This has become even more relevant in recent times when Lithuania is experiencing an economic and financial crisis and is making an attempt to eliminate its consequences. The new trends require a more flexible and more liberalized legal regulation of labour relations.

The main legal act which regulates labour relations in Lithuania is the Labour Code (2003), which was amended only once during the period from formation of the independent labour market to the end of the crisis; however, Lithuanian labour law reforms took place twice during this period. The first stage following the restoration of state independence was marked by improvements of individual laws. Meanwhile, the second stage of the reform is considered to have come to an end upon entry into force of the Labour Code of 2003.

The Labour Code enacted in 2003 provided for collective agreements which secured more flexible working conditions (Table 4). Legalisation of the legal status of a group of employees and their representatives as subjects of labour law, was introduced to solve the problem of collective representation of employees (Lietuvos Respublikos Darbo kodekso projekto aiškinamasis raštas, 2001, p. 3).

Table 4. Strengths of legal regulation of labour relations in Lithuania

Strengths	
Labour Code of 2003-01-01 – 2017-07-01	Labour Code of 2017-07-01
Legalisation of the legal status of a group of employees and their representatives as subjects of labour law;	Legalisation of new forms of labour relations and more flexible working hours;
Establishment of conditions of material responsibility and principles of its application;	Regulation of the possibility to combine work, family and education;
	Working conditions which correspond to the needs of employers and employees;
Introduction of temporary work contracts, additional work contracts, contracts with homeworkers, and contracts on supply of services;	More opportunities for education and training;
	Regulation of collective bargaining procedure;
Introduction of severance pay on the basis of the employee's length of service in the enterprise;	Legalisation of employee participation in the enterprise management;
Regulation of imposition of strict reprimand sanction;	The right to declare free strikes.
Legalisation of paternity leave;	
Introduction of shorter working time before holidays.	

One of the innovations of the Code is a new redress procedure which provides for material responsibility of not only employees, but also employers. To create a more flexible labour market that satisfies the needs of all participants, new types of employment contracts were introduced, e.g. temporary work contracts, additional work contracts, contracts with homeworkers, and contracts on supply of services, to facilitate the process of establishing labour relations between the employee and the employer as a natural person. This Code aimed to provide employers and employees with a possibility to agree on shorter working time before holidays and the amount of severance pay which depends on the employee's length of service in the enterprise rather than on the grounds for termination as it used to be (Lietuvos Respublikos Darbo kodekso projekto aiškinamasis raštas, 2001, p. 4). The Labour Code of 2003, in comparison with the previous one, became more liberal with respect to parenthood, as new paternity leave was introduced. Prior to that only maternity leave was provided for; paternity leave was provided only if a child was

brought up by a single farther. Since 2010 there has been a trend of a decrease in the number of maternity benefit recipients (from 44.2 thousand people to 29.9 thousand people), and since 2012 an increase in the number of paternity benefit recipients (from 2.9 thousand persons to 7.8 thousand persons) (SODRA statistical data 2009-2015).

The previous Labour Code, which was in force since 1972 and promoted the use of planned labour resources, was replaced by the new one in 2003, which was accommodated to solve the most relevant problems of that period. The reform and enactment of the Lithuanian labour law opened up new opportunities for Lithuania in regard to the implementation of priorities identified by the European Union (Lietuvos Respublikos darbo kodekso projekto aiškinamasis raštas, 2001, p. 2).

The ongoing changes in the labour law have to timely respond to changes in the society; therefore, the strengths of the Labour Code, which entered into force in 2003, were not sufficient to ensure flexible and secure labour relations over time. When the strengths lost their relevance, several key aspects, which hindered the state from successfully achieving the set objectives, came into the foreground (Table 5).

Table 5. Weaknesses of legal regulation of labour relations in Lithuania

Weaknesses	
Labour Code of 2003-01-01	Labour Code of 2017-01-01
A small number of legal forms of employment contracts;	Lack of security of employees with regard to contract types of uncertain or indeterminate scope, a shorter period of notice in case of dismissal and a smaller severance pay.
Inflexible regulation of working hours and rest time;	
A complicated procedure for dismissal of employees;	
Absence of social dialogue and collective agreements;	
Incompatibility of an employee's family and employment relations;	
Absence of preconditions for lifelong learning and training/retraining;	
Lack of the system of transparent forms of employment.	

The lack of flexibility and security of labour relations in the labour market became most apparent during the economic financial crisis. Due to highly developed business and technology, participants of the labour market lacked a variety of legal forms of employment contracts, a more flexible regulation of working hours and rest time. The former complicated procedure for dismissal of employees did not encourage employers to create new jobs. Employees were not mobile in the labour market, i.e. the Labour Code allowed the employee to stay in workplaces which were not viable. All these limited the freedom of choice and the opportunity to

move to a better-paid workplace (Darbo santykių ir valstybinio socialinio draudimo teisinis – administracinis modelis, 2015).

Stagnation of social dialogue and the absence of collective agreements do not promote social partnerships and do not reinforce the cooperation of employees and employers with the trade unions. Employees lack flexible work schedules that would allow them to combine work and family. Employers are not interested in providing employees with free time for education and training, and give training leave only on the condition that it is not paid. The extent of illegal and undeclared work was large in the labour market particularly during the economic financial crisis.

The apparent weaknesses encouraged the state to take on a new legal regulation of labour relations once again. In 2016 the Government of Lithuania approved a new Labour Code which should provide for a flexible and secure regulation of labour relations, fast return to the labour market, more efficient and transparent assistance of the state in finding a job, and fight against undeclared work (Table 4).

More attention to flexibility and security in the labour market would mean legalization of new forms of labour relations, the possibility to combine work, family life and education, easier access to employment, more flexible working hours, strengthening and development of social dialogue, and an easier right to strike. To provide greater financial security for dismissed employees, a reform of the social security system will be carried out, which will focus on reducing the risk of exclusion of social groups, ensuring dignified retirement, promoting participation in the social insurance system, and greater financial security for families (Darbo santykių ir valstybinio socialinio draudimo teisinis-administracinis modelis, 2015).

The analysis of strengths of both labour codes reveals a considerable implementation continuity of strategic programmes, which is characterized by the implementation of major progress-oriented priorities.

The new Code has received lots of public attention and gave rise to considerable debate. Experts note that upon the entry into force of the new Labour Code employees can become the weaker party in labour relations, who will not be able to protect themselves with regard to shorter period of notice in case of dismissal, a smaller severance pay, and abolished security for pregnant women who work under fixed-term contracts (Table 5). The provision which prohibits dismissal of pregnant women has now been replaced – they can be dismissed after the employment contract has expired. The debate also focuses on the fact that the Lithuanian labour market will not be safe if new types of employment contracts, such as contracts of uncertain or indeterminate scope, enter into force (Council recommendation, 2015).

The attempt to balance the liberalization process of labour relations reveals not only the weaknesses of the code, which the public is dissatisfied with, but also, as pointed out by the experts, some **threats** such as:

- *proliferation of shadow payment* due to the introduction of contracts of unlimited scope of work. There is a threat, that the new Labour Code can substantially worsen the situation of employees, further reduce the labour income share of

GDP, reduce investment in human capital and further cheapen it (Lazutka and Navickė, 2016);

- *threat to the growth of the number of well-paid jobs*; due to the fact that the number of persons with higher education is growing (in 2001-2015 the number of persons with higher education increased by 255.7 thousand people, Statistics Lithuania), but wages are not, human capital is devalued. The country's economy will not develop if competitiveness will be not supported by paying minimum wages only for unskilled work (Lazutka and Navickė, 2016);
- *an increasing emigration process* due to the unattractive labour market for young people, as low wages and unfriendly labour relations encourage emigration of skilled workforce;
- *threat to investment*, because the Lithuanian labour market is not flexible (it lags behind and is only in the 106th place in the world), has no favourable tax system (according to tax burden it takes the 92nd place), and does not provide an adequate administrative policy for business (according to the administrative burden imposed on business it takes the 105th place). Foreign investors in Lithuania do not find a sufficient number of suitable and qualified professionals, whereas labour taxes and labour market regulations reduce investment capabilities ("Lietuva 2030" Pažangos ataskaita 2009-2014, 2014, p. 9).

Thus, due to new unregulated and unforeseen weaknesses and threats, the new Labour Code will enter into force only after removal of the existing shortcomings.

Modernization of the Labour Code, as well as the signed commitments, will provide for new opportunities (Table 6). Lithuania has favourable conditions for the implementation of the National Progress Strategy "Lithuania 2030", whose main aim is related to changes in three areas – the society, economy and governance (Lietuvos pažangos strategija "Lietuva 2030", 2012). Upon implementation of the National Progress Programme 2014-2020 (2012) the Lithuanian labour market will be provided with possibilities to become flexible and secure, which will improve the lives of people, strengthen social cohesion and create favourable environmental conditions for growth and competitiveness.

Table 6. Opportunities of legal regulation of labour relations in Lithuania

Opportunities	
Lithuania	European Union
National Progress Strategy "Lithuania 2030";	Economic Growth Strategy "Europe 2020";
National Progress Programme for Lithuania 2014-2020;	Council recommendation on the 2016 National Reform Programme of Lithuania and delivering a Council opinion on the 2016 Stability Programme of Lithuania.
Stability Programme of Lithuania for 2016;	
National Reform Agenda for 2016.	

The Stability Programme of Lithuania for 2016 is expected to solve the problem of a decreasing working-age population, to reduce tax significantly for low-income earners, and to facilitate access to employment (Lietuvos stabilumo 2016 metų programa, 2016).

Lithuania has favourable conditions for the implementation of possibilities provided by the European Union. After implementation of priorities of the Economic Growth Strategy “Europe 2020”, the country’s economic advancement, sustainability and integration will be developed (Europe 2020 indicators, 2013). Implementation of the Council recommendation on the 2016 National Reform Programme of Lithuania and delivering a Council opinion on the 2016 Stability Programme of Lithuania will definitely reduce the tax burden on low-income earners, will secure greater investment in human capital and will address the issues of the lack of qualified professionals (Council recommendation, 2015).

On the other hand, Lithuania, like other new EU member states (e.g., Latvia, Bulgaria, Romania) should take into account the lessons of the past when improving labour market policy mechanisms. The past has shown that ignorance of the problems of the labour market, inhibits economic development in the future, while socially irresponsible liberalization of labour relations in small and open economies in the long run may bring more harm than economic benefits, as illustrated by the example of Lithuania (Kołodko, 2013, p. 35). The “effective” management of the 2008-2009 crisis (stabilization of the state budget and control of the economic downturn), in 2-3 years’ time ruined the attractiveness of the Lithuanian labour market to the national labour resources. For this reason, since the end of 2014 emigration started to increase (although GDP and average wage have steadily grown since 2011).

#### 4. CONCLUSIONS

1. The Lithuanian labour market policy since 2001 can be divided into three stages – pre-crisis (2001-2007), economic financial crisis (2008-2010) and post-crisis (from 2011 onwards).

2. The period of the pre-crisis Lithuanian labour market policy was marked by slow but increasing common indicators of the labour market which were partly due to: abolition of the system of the use of planned labour resources in 1990-1997; more thorough implementation of the active labour market policy and programmes which promote entrepreneurship in 1998-2000; active implementation of programmes for employment increase in 2001-2004; noticeable changes upon Lithuania’s accession to the European Union due to developing social integration programmes and improving labour market regulations in 2005-2007.

3. In 2008, when the economic financial crisis started, the Lithuanian labour market was faced with an extremely high unemployment rate, which during the period of 2008-2010 grew three-fold, and an increased number of emigrants, which during the three years of crisis grew more than three-fold, etc.

4. The post-crisis period of the Lithuanian labour market, which started in 2011, can be divided into two stages of the labour market policy: the stabilization stage, which in 2011-2012 was marked by growing employment, an increasing demand for labour force and payment, decreasing unemployment and emigration; and the development stage, which from the second half of 2012 up to now has been marked by rising employment, increasing investors' interest in the Lithuanian labour market, the growing number of programmes which promote employment, and new amendments to the employment promotion law.

5. The analysis of the Lithuanian labour market in the post-crisis period reveals significant gaps in the labour market policy – predominance of slowly rising wages, high long-term unemployment, the inability to align the principles of flexibility and security in the labour market, etc. Increasing social guarantees and prospects for faster growth of wages so far have failed to ensure employment flexibility; therefore, since 2014 emigration from Lithuania began to grow again.

6. Due to the ongoing changes, from July 2017 legal regulation of labour relations will be amended by norms of the new Labour Code. Implementation of the new Labour Code will provide for more flexible working hours, the possibility to combine work, family and education, and more opportunities for employees to learn and improve their qualifications.

7. The expert opinion survey showed that innovations proposed by the government, will not be able to fully ensure the security of employees upon introduction of contract types of uncertain or indeterminate scope, a shorter period of notice in case of dismissal, a smaller severance pay and the abolition of security for pregnant women who work under fixed-term contracts.

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## LITEWSKI RYNEK PRACY – PRIORYTETY POLITYKI W KONTEKŚCIE UNII EUROPEJSKIEJ

### Streszczenie

W artykule dokonano krótkiego przeglądu sytuacji rynku pracy na Litwie oraz zachodzących w nim zmian od odzyskania niepodległości Litwy (1990 r.) do okresu po kryzysie gospodarczym (od 2011 r.). Według danych statystycznych i analizy przepisów prawnych na litewskim rynku pracy są zidentyfikowane etapy rozwoju oraz dokonany przegląd odpowiednich decyzji politycznych. Artykuł również zawiera analizę prawnej regulacji stosunków pracy na Litwie, odsłania podstawowe cechy stosunków pracy, które mogą mieć korzystny wpływ na elastyczność i bezpieczeństwo socjalne na rynku pracy.

W artykule zauważa się, że Litewski rynek pracy przechodził przez kilka wyraźnych etapów rozwoju, od których była uzależniona stosowana polityka rynku pracy. Zmiany sytuacji gospodarczej wpływają na zmiany polityki rynku pracy, które wskazują na pilność problemów rynku pracy oraz konieczność podjęcia odpowiednich decyzji by zwiększać efektywność funkcjonowania rynku pracy oraz wykorzystywania wciąż kurczących się zasobów kapitału ludzkiego kraju.

**Słowa kluczowe:** rynek pracy, polityka rynku pracy, stosunki pracy, zatrudnienie

