

## **EMPLOYMENT AND LABOUR MARKET DEVELOPMENT IN NORDIC AND BALTIC STATES**

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***Abstract.** Employment is the main factor influencing welfare of the population. The scientific problem of this research is to identify the interrelation between employment development and labour market development and to foresee measures for increase of employment on a regional level. Seeking to solve this problem, it was made an analysis of the concepts of employment and labour market as well as EU unemployment policies. Empirical research was conducted on the base of Eurostat data on employment using method of multivariate statistical analysis. The results of the research, provided in this paper, show the changes employment and share of self employment in the period 2000-2013 in NUTS2 level regions of Nordic and Baltic countries EU member states. The recommendations provided in this paper offer ways to increase of employment in rural areas in regions investigated.*

***Key words:** Employment, entrepreneurship, labour market, regional development, EU policies.*

### **INTRODUCTION**

An employment is the main factor influencing welfare of the population. It is very closely related to economic development of the countries and particular regions. In face with a vast concentration of manufacturing and service provision very often working places are migrating from territories with low density of population to bigger towns or cities with higher concentration of population. But these tendencies very often are in conflict with the interests of inhabitants in the regions, who are wishing to find the job in living or neighbouring area. The scientific problem of this research it was formulated in following way – to identify the interrelation between employment development and labour market development and to foresee measures for retention of existing and (or) creation of new working places (jobs) in regions with rural areas. Seeking to solve this problem, it was made an analysis of the concepts of employment and labour market and EU unemployment policies. Empirical research was concentrated on changes in employment and labour market development and identification of critical points if changes and measures targeting an increase of employment in the regions were investigated.

The aim of research presented in this paper is to evaluate the dynamics of employment and labour market development in NUTS2 level regions of Nordic and Baltic countries, EU member states and to recommend the measures to increase of employment in these regions.

The tasks of research:

- 1) To analyse the concepts of employment and labour market and describe the interaction between these concepts.
- 2) To make an analysis of EU unemployment policies.
- 3) To create designs of methodology for assessment of interaction between employment and labour market.
- 4) To make an analysis and evaluation of the results of empirical research and to provide recommendations to increase employment in Nordic and Baltic countries EU member states.

### **MATERIALS AND METHODS**

The theoretical research deals with concepts of employment and labour market, factors, influencing levels of employment, critical points of economic development as well as EU policies in the area of employment.

An empirical research was carried out to identify the trends of employment, entrepreneurship and labour market development in Nordic and Baltic countries, EU member states and to prepare recommendations targeting to increase of employment on regional (rural) level.

For preparation of the theoretical part of this paper there were used an analysis of scientific literature and strategic documents, logical analysis, comparison, summarising and others research methods. For processing of empirical data there were used the method of multivariate statistical analysis and others.

Data for estimations are taken from the Eurostat database (extracted on January 5<sup>th</sup> in 2015). Data of both indicators – employment level and share of employees – for the NUTS2 regions in 2012 and 2013 are estimated. Additionally, data on employment level are estimated for Denmark NUTS2 regions in the period of 2000-2006 and for some NUTS2 regions in Finland (namely, Helsinki-Uusimaa, Etelä-Suomi and Itä- ja Pohjois-Suomi) in the period of 2000-2004. All the estimations are based on previous (or following) time series of the particular region using moving averages of the annual changes of the indicators.

Labour market development is measured by the level of employment. Labour force development (entrepreneurship level) is measured by the share of employees in the total number of employed persons. The assumption less share of employees – better entrepreneurship level, it was used.

## RESULTS AND DISCUSSION

Definitions of the basic concepts of the labour market are based on mainstream theories, completed by critical observations of authors challenging orthodox views. There are several definitions of the notion “labour”. Labour is a human activity that provides the goods or services in an economy [1]. Labour is a specific human activity, being the physical and intellectual capacity of the labour force, determined by the stock of people’s skills, knowledge and experience, used to obtain economic, cultural and social goods [2].

Labour market by Osoian [3] had to be defined as the economic space where the owners of capital, as buyers (labour demand), transact freely with the owners of the labour, as sellers (labour supply), and where equilibrium between supply and demand of labour is ensured through specific mechanisms (price of the labour force, the real wage, free competition between economic agents, negotiation and other mechanisms). However, the OECD “market” definition differentiates between two fundamental dimensions [4]: a) the product market, which groups together products (in our case, the product is labour); and b) the geographic market, which groups together geographic areas.

The neoclassical model assumes that labour markets are flexible and wages clear the market, the economy operates at full employment, where labour is paid its marginal product [5]. In reality, labour markets are imperfect, limited markets, jobs and workers are heterogeneous, employers and employees do not always follow the criteria of profit maximization, capital and labour are interchangeable, labour market information is costly and imperfect, labour market actors react with delay to the changes to the market, and there are several barriers (geographic, institutional and sociological) to labour mobility [6]. It also has been observed that markets and people do not necessarily behave in a rational manner, even if they have accurate and timely information [7].

Labour markets may be local, national or international in their scope and could consist of smaller, interacting labour markets for different qualifications, skills, and geographical locations. They depend on exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location [8].

Employment is on a contract based relationship between two parties, one of which is being the employer and the other is being the employee. Employment is a result of the complex evolutionary process of interaction between economic activities and labour force. Background of employment in a regional level, especially in rural areas, is based on availability of local resources (endogenous assets) and usually is targeted to maximise the internal potential of the region [9].

The interaction of the labour force and economic activities through the labour and labour contract agreement could be regulated by the government. The government in this case has a broad meaning – it is understood as a set of legislative and executive institutions, administrators, controlling and monitoring governmental bodies and etc. But government links with labour force is indirect and gets through the spending of public money on education, health, and trainings of labour force [9].

Comparison of labour market development between different regions is complicated because of several critical reasons. The essential reason is that labour market is a socioeconomic category, while rural area is physical and demographic category. In other words, the geographical boundaries of the labour market and rural area do not match. It is always a case that labour market goes beyond the boundaries of rural, municipality, county or national territory. The analysis of the rural area as a socio-economic category is constrained not by the number and structure of job places or labour force, but also by the geographical area in which the jobs are taking place or a labour force is living [9]. Another reason follows from the first one. As labour market boundaries are larger than the administrative territory of the rural area, the labour market expands in the neighbouring areas [9].

In March 2000 the European Council set out a ten-year strategy with the overarching aim to make the Union “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” [10], which is known as the „Lisbon Strategy“. The focus was shifted from the reduction of unemployment to regaining the conditions for full employment and concretised the aims: to raise the EU employment rate to 70%, to increase the share of employed women to more than 60% and of the labour force aged 55-64 to more than 55% by 2010 [10]. But implementation of this strategy met some challenges, the most significant of which it was economic slowdown in EU in 2003 and global economic recession in year 2008-2009.

As a result of economic slowdown unemployment has increased in a number of Member States in the year 2003. Due to this in the report “Jobs, Jobs, Jobs: Creating more employment in Europe”, which was presented in 2003, it was stated that the increase of employment and productivity in Europe depends on four key requirements [11]:

1. Increasing adaptability of workers and enterprises.
2. Attracting more people to the labour market.
3. Investing more and more effectively in human capital.
4. Ensuring effective implementation of reforms through better governance.

Employment rates at the end of 2008 in the EU reached 65.5% on average, 58.3% for women and 44.7% for older workers and thereby bringing the EU closer to the Lisbon targets [12]. Unfortunately, these positive changes were stopped by the global economic recession of year 2008-2009. Due to this in the Joint Employment Report for year 2009 the EU Member States there were recommended actions with particular importance in the short and medium term [13]:

- Contractual arrangements: reduce segmentation, harmonise conditions for temporary and permanent contracts;
- Active labour market policies: prioritise job subsidies and equivalent measures leading to rapid integration of the unemployed persons into a job;
- Effective lifelong learning systems: focus on short-term skills upgrading, and enhance matching of the skills of the unemployed with the available jobs;
- Modernise social security systems: reduce high marginal effective tax rates on the low paid.

The Draft Joint Employment Report for 2013 [14] shows the decrease of GDP stopped much earlier than grows of unemployment. Between year 2008 and the second quarter of 2013 the unemployment rate in the EU-28 increased from 7.1% to 10.9%, but the growth of unemployment was stabilised [14].

According to Marelli and Signorelli [15] many “old” European countries partly thanks to labour market reforms have been able to create more jobs in the post recession decade, but Lisbon strategy must be completed in two ways: 1) by paying much more attention to the “better” jobs specification (not only by the increase of employee’s welfare, but, also, by fostering their effort and motivation); and 2) by focusing more directly on productivity growth which, in several European countries, has been particularly lacking. Mentioned above authors also conclude, that after the recent global economic crisis, which had a deep impact on European labour markets, it is extremely important the future fiscal consolidation (necessary to offset the current increases in deficits and debts) should not be too detrimental to those public expenditures functional to economic growth and productivity dynamics, a long run prerequisite for achieving “more and better” employment [15].

According to Doran and Jordan it is advisable to consider that under the new economic geography theory and endogenous growth theory, it is desirable to produce agglomerations of economic activity as these allow for economies of scale and higher levels of living standards to be generated, what would not be possible if the agglomerations did not exist and provision of greater economic autonomy to regional levels may result in policies designed to attract large-scale employment from multinational corporations [16].

Employment as a concept is complex and dynamic. According to the model of the employment system labour and labour contract depends on supply of jobs and supply of labour force. Jobs places are “business” side of the employment system and supply of labour is “occupational” side of the employment system [9]. In rural areas most of institutional components have significant links with “business” and “occupational” sides of the employment system. The interaction of all these components brings results and effects which by itself are important for a viability and development of the employment system [9].

Important role in job creation in rural areas has entrepreneurship of rural inhabitants. Therefore, persons, occupied in rural areas are characterised not as high-growth entrepreneurs, but more as lifestyle entrepreneurs, who are in search of a (rural) lifestyle that enhances the quality of life in rural communities [17]. Policies

aimed at strengthening the rural economy through side activities should focus primarily on the people involved in the side activities and less on the environment. Secondly, the policy question related to the spatial land use regime is addressed. Side activities are small-scale activities located and in most cases do not claim or seek to claim much space and additional land [18].

The results of empirical research are based on usage of data from Eurostat database are presented in figure 1. The employment in different NUTS2 level regions in Sweden in the year 2013 it was in range from 63% till 70%. During the period of 2000-2013 employment slightly decreased in Stockholm and in Östra Mellansverige and insignificantly increased in the rest regions of the Sweden. The share of self-employed persons during this period decreased in all NUTS2 level regions in Sweden, except Övre Norrland region, where this level increased by 1.1 percentage points till 3.7% in 2013. In general the fluctuation of employment and share of self-employment there was not significant in NUTS2 level regions in Sweden.

The NUTS2 level regions in Denmark in the period of investigation had lower employment than in Sweden and this level in different regions ranged from 55% till 61% in the year 2013. Since 2000 employment level decreased in all regions. The most radical decrease by almost 8.0 percentage points is seen in Sjælland and Syddanmark regions, compared to the modest decrease by 1.3 percentage points in Hovedstaden and by 2.6 percentage points in Nordjylland. Like in Sweden the share of self-employed persons in NUTS2 level regions in Denmark is low, ranging from 4.9% in Hovedstaden to 7.3% in Sjælland. A trend of decrease of the level of employment and increase of share of employees fits to all regions in Denmark.

The relatively different picture is in NUTS2 level regions in Finland. While Helsinki-Uusimaa region is very similar to the most NUTS2 level regions in Sweden, other regions in Finland have lower employment level and higher share of self-employed persons. The range of the level of employment between the different regions in Finland in the year 2013 was 50-62%. In all regions in Finland has seen a decline in employment level since 2000. The share of self-employed person in period of investigation has increased in Helsinki-Uusimaa and Etelä-Suomi regions and significantly decreased in Åland region 3.0 percentage points till 12.1% and in Itä- ja Pohjois-Suomi region by 2.4 percentage points till 14.2%. In summary the dynamic of changes in regions is different, but the gap between them is decreasing.

Most rapid changes in period of investigation are seen in Baltic countries. Lithuania had almost 20.0% of self-employed persons in 2000 and it was the highest level in countries investigated. But since 2004 the share of self-employed persons in Lithuania dropped by more than 10.0 percentage points indicating the attractiveness of being employed and getting the wage rather than participating in the market and depending on the incomes from sales. A similar trend is seen in Latvia and Estonia with a drop of self-employed persons by 3.6 and 0.3 percentage points accordingly. The range of the level of employment in Baltic countries in the year 2013 it was from 51% till 56%. Employment level has increased in all Baltic countries and now is similar to NUTS2 level regions in Finland, but still lagging behind the NUTS2 regions in Denmark and Sweden.

In the period 2000-2013 employment level has decreased in those NUTS2 regions in Nordic and Baltic countries, which had relatively high starting position, while employment level has increased in those regions which were lagging in 2000 and the gap between the regions decreased. The gap in the share of self-employed persons in the regions investigated also has decreased.

## CONCLUSIONS

The concept of employment covers the self-employed persons and employees, who participates in the labour market. All factors, influencing development of all kinds of the economic activities, are of critical importance for increase in employment.

The EU policies on the employment of recent years there were turned on activation of labour market and reduction of its segmentation, on improvement of education, lifelong learning and retraining systems as well as on modernisation of social security system.

Analysis of the employment level in the Nordic and Baltic EU countries revealed that NUTS2 level regions in Sweden and Denmark have better employment rate, ranging from 55% to 70%, but these regions also have the highest share of employees in the total number of employed persons. The Baltic States and NUTS2 level regions in Finland have an employment level in the range of 50-56%, excluding Helsinki region with an employment level of 62%. The share of self-employed persons is higher in Finland and Baltic States, ranging from 8.4% to 14.2%, while this level in Denmark and Sweden is in the range of 4.2-6.9%.

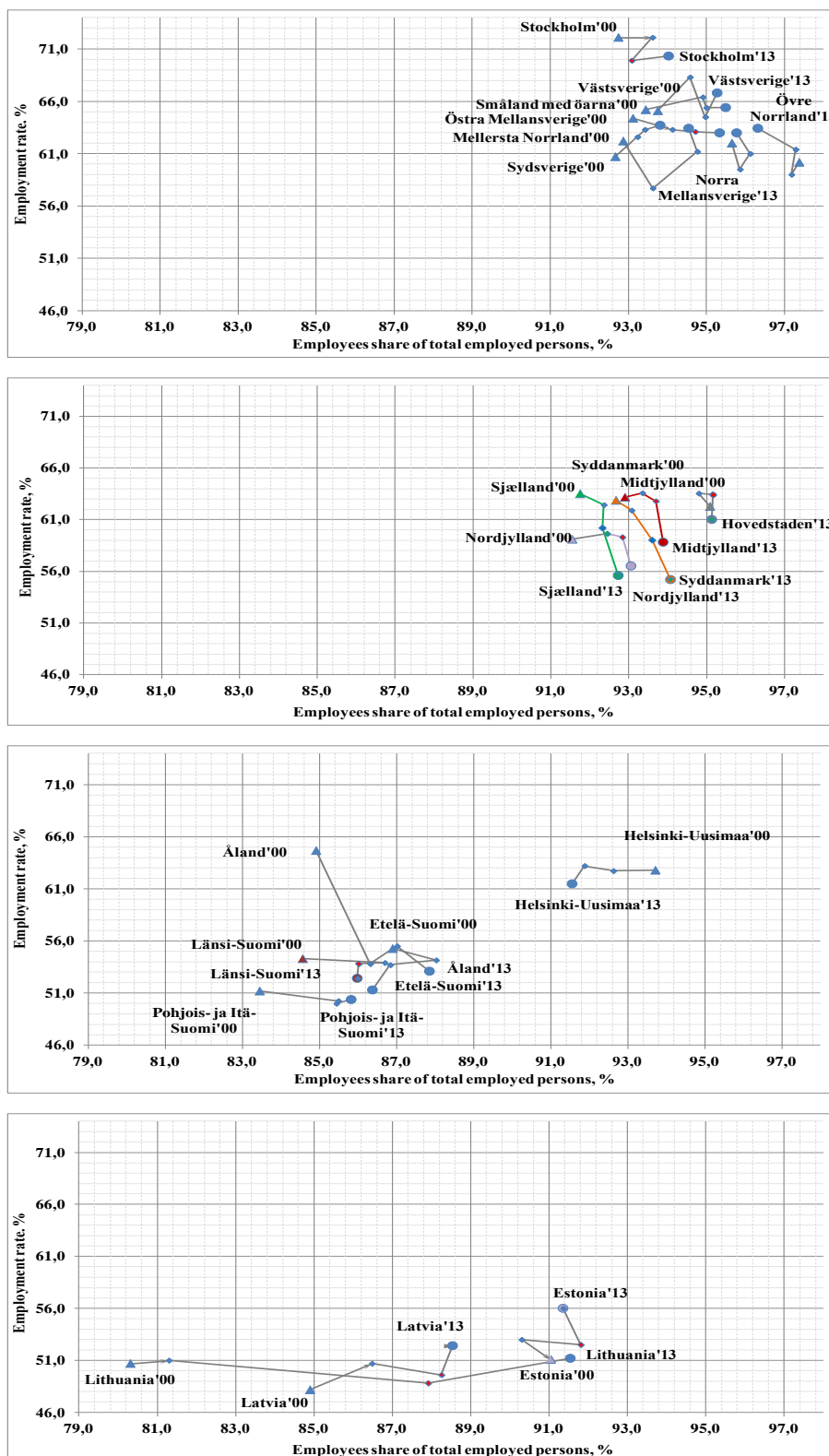


Figure 1. The relation between employment development and labour market development in NUTS2 regions of Nordic and Baltic countries in 2000-2013 (Each trajectory consist of four points for 2000, 2004, 2009 and 2013)

During the period of 2000-2013 NUTS2 level regions in Nordic and Baltic countries, EU member states has converged in terms of employment development and entrepreneurship level. The gap between the regions has decreased due to both faster changes in Baltic countries and different directions of employment level between the Nordic EU countries. The majority of the regions has a common trend towards the increase of the share

of employees in total labour force and it means an increase of influence of labour market development and importance of the EU and local employment policy measures and other issues in the regions.

For increase of employment in NUTS2 level regions of analysed countries, advisable provide: a) promotion of entrepreneurship among rural, especially young inhabitants, b) monitoring on preservation of jobs created while implementing investment projects supported by local authorities, government or EU, c) promotion of competition amongst producers and services providers in rural areas by applying restrictions on capital and activity concentration in hand of few owners not only on state, but and on regional level.

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