

LONG-TERM UNEMPLOYMENT PROBLEMS IN LATVIA BETWEEN FORTY AND PRERETIREMENT AGE

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Abstract. Long-term unemployment in Latvia and other countries of Europe has recently increased due to the world's global economic instability. Long-term unemployment is a topical problem in all regions of Latvia that are affected by various economic and social aspects. Therefore, it is substantial to explore and analyse factors, tendencies, and dynamics of economic activities of the unemployed in order to get an idea on options for unemployment risk reduction. Currently, the situation of unemployment in some regions of Latvia has slightly improved and various experts predict that at the beginning of 2013 the level of unemployment will decline to 8.6%, which is close to the average level of unemployment in the developed European countries such as Austria, Germany, Belgium, and others. However, this forecast is not reliable due to high long-term unemployment rate in Latgale region as well as in other rural regions of Latvia forcing inhabitants to leave the state for searching work elsewhere.

This article investigates the relationship between people within the group between 40 and pre-retirement age and differences of regional economic factors by analysing theoretical assumptions of various authors. The aim of the paper is to identify long-term unemployment and to determine solutions for this age group.

Key words: long-term unemployment, age structure, regional economic differences, time-series analysis.

JEL code: J64

Introduction

Differences in theoretical and empirical long-term unemployment definitions have been studied since the 1980s by such researchers as O. M. Levin-Waldman, Machin, Manning, K. Doogan, B. Decreuse, P. N. Junankar, L. F. Katz, K. Kozovska, and C. Garrouste. However, only few of them analyse the influence of long-term unemployment on individuals in the age group between 40 and preretirement age and their influencing factors. The main indicators of long-term unemployment in that age group are education and health.

The hypothesis of the research: effective integration in the labour market and reduction of long-term unemployment in the age group between 40 and preretirement age will increase competitiveness of Latvia's national economy within the context of the Baltic States.

The aim of the research is to show the necessity of finding optimal employment solutions for people aged between 40 and preretirement.

The following research tasks were set in order to achieve the aim:

- 1) to summarise theoretical viewpoints and the findings of other researchers on long-term unemployment by monographic method;
- 2) to characterise and analyse factors that affect long-term unemployment;
- 3) to determine the main problems of long-term unemployment;
- 4) to calculate the growth rate of the unemployment level at preretirement age;
- 5) to work out recommendations for solving this problem.

Calculations and analysis of statistical data from 2001 to 2011 will be applied for different age groups of pre-retirement age to describe the long-term unemployment situation in Latvia.

Longer unemployment periods leave serious impact on the individual as well as on the overall economy. A large number of scientific publications and scientific literature are available focusing on the unemployment's impact on individual's well-being with such effects as low self-esteem, health problems, and higher suicide numbers.

Some authors stress destructive impacts on the economy caused by the high rate of long-term unemployment. Many of these studies focus on unemployment's influence on wage-setting behaviour, as the upward pressure on wages from the supply side is likely to be higher in the presence of a high proportion of long-term unemployment within total unemployment (Machin and Manning, 1999).

Research results and discussion

According to Garrouste, Kozovska and Perez, long-term unemployment indicates that a substantial section of the labour force is in surplus to the requirements of local employers. This surplus may nevertheless coexist alongside relatively high rates of hiring and firing for other more employable parts of the labour force (Garrouste C., Kozovska K., Perez E. A., 2010).

According to Junankar, the long-term unemployed usually have lower exit probability compared with other job seekers for two reasons. Firstly, employers often treat unemployment duration as a negative signal. Employers consider that the unemployed shall be hopeless, thus, they are jobless for a longer time. Secondly, the long-term unemployed lose their skills, become dejected, and drop out of the labour market (Junankar P. N., 2011).

The researcher Junankar defines long-term unemployment as a 12 months period or longer when a person is unemployed, the unemployed not only lose their skills, they lose motivation, they fall ill. In crude economic terms, human capital is being depreciated. There is also

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a mass of misery and suffering. These people often live in poverty, they have lost their self-respect and dignity; they accept the verdict of the labour market with mixture of resentment and resignation (Junankar P. N., 2011).

In scientific literature, the definition of long-term unemployment varies across countries and across international statistical agencies, ranging between 6 months and more than 12 months. Commonly, the average minimum duration, namely 9 months, are used in the scientific literature to characterise the entrance into a long-term unemployment spell. One of the reasons for such a threshold is that it also corresponds to the point after which the probability to find a job declines due to the fact that employers tend to be more reluctant to hire someone unemployed for more than 9 months (Garrouste C., Korovska K., Perez E. A., 2010).

It is necessary to solve the problem of long-term unemployment, influencing:

- the demand for labour;
- the supply of labour;
- the functioning of the labour market.

In a pure neoclassical economics, the demand for labour is independent of aggregate demand (Junankar P. N., 2011).

The global economic crisis is the most serious reason that made important changes on the labour market in 2009 when many job seekers became long-term unemployed. In 2008, the long-term unemployment rate increased in several Member States of the European Union like Ireland, Spain; the Baltic States had the same trend. The economic crisis has had a greater impact on the population groups such as ethnic minorities, promoting the risk of increased long-term unemployment.

According to Marksoo and Tammaru, the labour markets function regionally, while education, age and ethnicity are the key individual variables that shape labour market outcomes. Long-term unemployment explains much of the continuing problem of social exclusion in some rural areas. The long-term unemployed have difficulties entering the labour market due to the lack of skills or local job opportunities. It is defined as regional job mismatch, which is made by geographical differences and plays a significant role in employment opportunities (Marksoo U., Tammaru T., 2011).

Likewise, if there is a high degree of urbanisation, there are higher chances of getting trapped in a long-term unemployment spell (Garrouste C., Korovska K., Perez E. A., 2010).

Gender also has an important role. Women have less favourable prospects in the labour market as they often combine work with family duties and childcare. The unemployment rate for females in many European countries is higher than the one for men. Females would find it more difficult to exit from unemployment than males because of long periods that are led at home (Garrouste C., Korovska K., Perez E. A., 2010).

The relationships between education and unemployment are explained partly by the signalling and screening theories. These studies suggest that employers hire workers on the basis of imperfect information about their real productivity levels transmitted through their educational data, used as a filtering mechanism and proxy for performance. In addition to education level, other relevant factors for determining the probability

of entering or exiting unemployment are related with the individual's labour market biography. Individuals with more and best experience are more attractive to employers as they can potentially invest less in their training (Garrouste C., Korovska K., Perez E. A., 2010).

The most important factor behind the increase of long-term unemployment relates with the increase of unemployment duration among low-educated people and people without diverse and big work experience. The unemployment rate is generally higher among individuals with lower education level. Less skilled workers have fewer chances of finding work and accordingly face longer unemployment spells. As a result, they are disproportionately represented among the long-term unemployed (Marksoo U., Tammaru T., 2011).

Long-term structural labour market problems suggest that substantial mismatches between the skills and aspirations of job losers (especially the long-term unemployed), and the skill requirements and compensation packages of new job openings are likely to emerge as the economy recovers from the global economic crisis. Many job losers from sectors such as construction and manufacturing may face difficulties in making the psychological and financial adjustments as well as gaining the training and education required for the new jobs available in the growing (primarily service) sectors (Katz L. F., 2010).

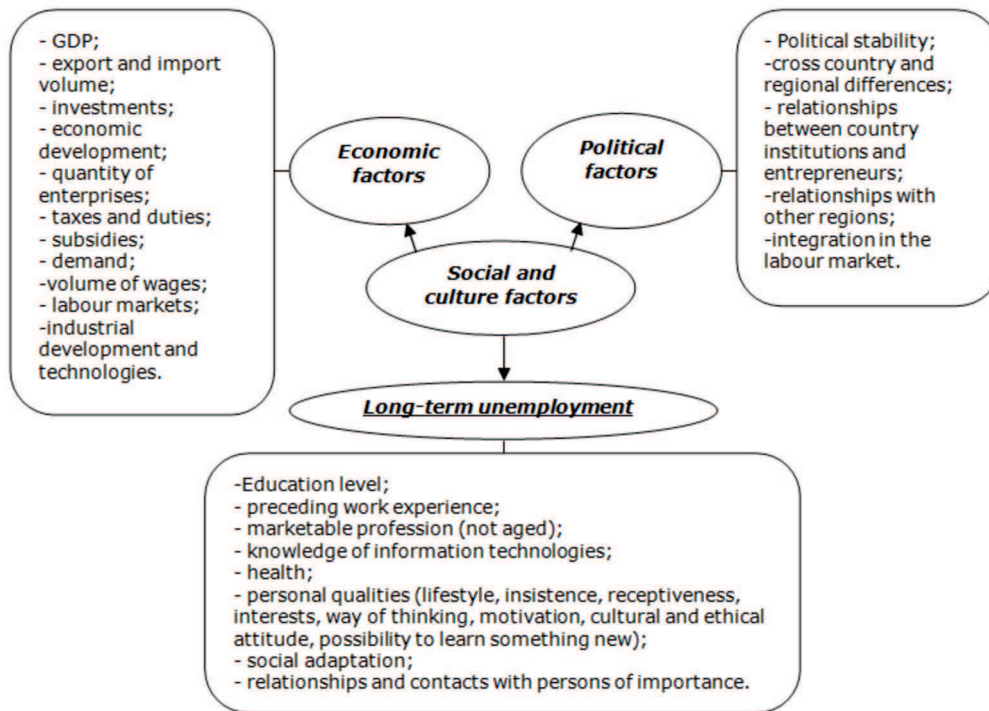
In many European countries, poor health, chronic diseases, and lifestyle factors are associated with being the long-term unemployed or out of the labour market (Garrouste C., Kozovska K., Perez E. A., 2010).

General economic conditions on the regional level also affect substantially the transition rate from and to unemployment. Factors such as regional differences in industry composition, neighbours' effects affecting the equilibrium rate of unemployment and aggregate demand, and institutional settings have an important role in explaining regional unemployment patterns (Garrouste C., Kozovska K., Perez E. A., 2010).

The authors Garrouste, Kozovska and Perez consider that the occurrence of a high proportion of long-term unemployment is an evidence of profound dysfunction in the local labour market area. Studies on unemployment differentials that take into account the regional perspective and use simultaneous modelling are based on the hypothesis that regional unemployment both affects and is affected by regional factors of labour supply, labour demand, and wages (Garrouste C., Kozovska K., Perez E. A., 2010).

According to Marksoo and Tammaru (2011), older people are more likely to remain unemployed after losing their job. Among older workers, those losing their jobs in traditional industrial sectors are particularly vulnerable to long-term unemployment (Marksoo U., Tammaru T., 2011). This kind of situation is widespread in Latvia in the past years as well. There is an insignificant possibility to find a new job at the preretirement age if you lost the previous one because young people with better technological knowledge are more marketable.

Various public policies for solving the unemployment problem have been developed on the basis of Veblen's theory of unemployment. That theory is of excellent quality and better suited than other theories of employment such as the Keynesian theory, the innovation



Source: authors' construction

Fig. 1. Model of factors influencing long-term unemployment

theory, and other standard theories of unemployment. Veblen's theory of employment can easily be formulated in the context of the aggregate demand and aggregate supply model. The theory is grounded in expectations, technology, innovations, taxes, globalisation, exports, and government expenditure. If there is an economic situation when profits rise and aggregate demand increases, the economy can grow and prosper in the short run. The Veblen's theory also suggests, for example, that a slowdown in technological progress and productivity growth will reduce the aggregate supply, investment, consumption expenditures, exports, and government expenditure. Lower gross domestic product is determined with a higher price level, or inflation, and a lower level of employment (Mouhammed A. H., 2011). The authors think that this is one of the theories that clearly demonstrates the main indicators that affect economic development and an unemployment level in the state. This theory is relevant to the new and global economic situation as the situation is at present. Other theories could be useful for other academic research and calculations for unemployment research projects. The connection between long-term unemployment and dynamics of influencing factors is seen in Figure 1.

Some researchers consider that there is a high possibility to break the law when people have problems with finding a job for longer time periods. Many authors, writing about long-term unemployment, mention connection between unemployment and the level of crime.

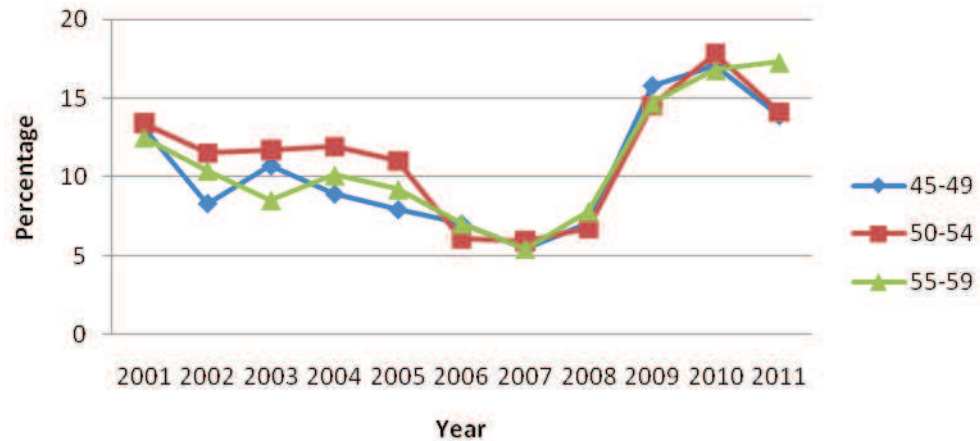
The authors, Chamlin and Cochram, consider that all macro-social theories of crime causation, although they often specify alternative intervening process, contend

that temporal fluctuations in the level of unemployment are likely to affect the level of property crime. Drawing on rational choice theory, authors contend that long-term or permanent unemployment, rather than temporary joblessness, is implicated in the production of higher level of property crime (Chamlin M. B., Cochram J.K, 2000).

The authors of the paper consider that the level of crime grows in proportion with the unemployment level. That link is recorded in recent years in Latvia as well.

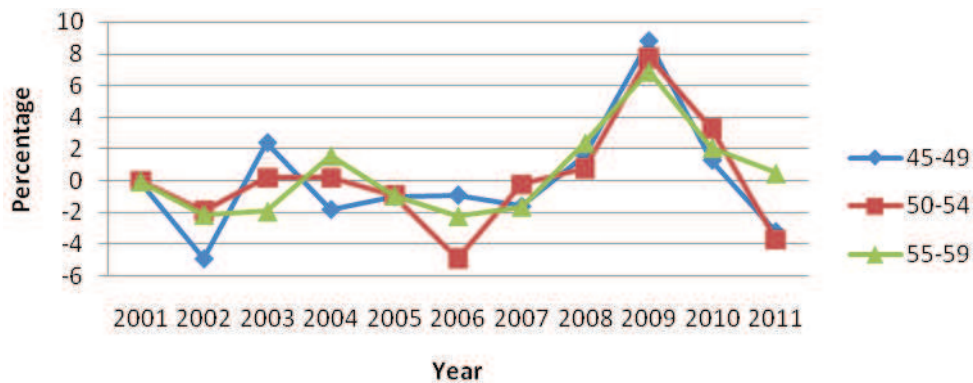
There is another dimension to the problem, which would appear to have implications for the long-term unemployed. Long-term unemployment is, in most cases, the consequence of structural changes in the economy. Levin-Waldman argued that an efficient market economy engaged in creative destruction, whereby, the old and obsolete were replaced by the new and technologically more advanced. The model assumes that those who have knowledge and practical skills in new technologies have an absolute advantage to find a job in shorter time (Levin-Waldman O. M., 2011). This kind of problem is observed on all labour markets of the Baltic States, because young people with very good technological knowledge have a possibility to find a job in other countries like Germany, Switzerland, Denmark, and other developed countries, where it is possible to improve education level in master studies or doctoral studies for free. This factor is very appealing and promising for people who have experience in foreign enterprises.

The theory of Levin-Waldman also holds the labour market to be divided into the primary market, where high premiums are placed on skilled workers, and the



Source: statistical data of the Central Statistical Bureau of Latvia, 2012

Fig. 2. The unemployed as a proportion of economically active population in Latvia, %



Source: authors' calculations based on statistical data of the Central Statistical Bureau of Latvia

Fig. 3. Absolute growth of chain (%) from 2001 to 2011 in Latvia

secondary market where unskilled workers are trapped in the lowest-wage service sector of the economy. Structural changes in the economy, which have resulted in less skilled workers being laid off, will inevitably result in their being unemployed longer because their skills no longer match the needs of new employers. This no doubt contributes to long-term unemployment as does changing economies. Employers better require workers with new skills because they become more flexible in their wage demands (Levin-Waldman O. M., 2011). This situation is also very popular in the Baltic States because effectiveness of economic sector is not sufficiently developed. The main resources of these countries are wood, peat and rapeseed for oil. These industries must be developed more than they are developed today because then new job opportunities will emerge for people from the countryside.

Long-term unemployment could reveal a mismatch between labour market policy and labour market conditions. Lewin-Waldman notes that in many countries, active labour market programmes focus on particular sets of barriers to employment like lack of motivation, lack of job search skills, and lack of marketable skills. Many of these programmes have been shown to be ineffective in reaching their intended goals.

One reason, why they may be ineffective is that people participating in such programmes may actually be expected to reduce their job search activity while they are in the programme. Better they choose to study than to search a job because it is easier. Also these individuals can get grants for studies.

Secondly, the reason that such programmes might be viewed as ineffective is that participation might be interpreted by employers that participants are less likely to be productive.

Thirdly, the reason for their ineffectiveness may simply be inefficient matches of job seekers to available programmes. Available programmes may not meet the needs of the unemployed (Levin-Waldman O. M., 2011).

The problem of Latvia is that more than a half of the unemployed do not want to find work. They better choose to attend programmes of the State Employment Agency, because there is possibility to receive grants. This kind of problem makes programmes ineffective and it is the main reason why there is a necessity to solve these problems on the government's level. There is a positive experience, for example, in Estonia and other European countries where it is possible to get access to unemployment problems on the government's level.

Table 1

The growth rate of chain in different age groups from 2001 to 2011 in Latvia

Year	Unemployed as proportion of economically active population (%)			Absolute growth of chain (%)			Growth rate of the chain T (%)		
	45-49	50-54	55-59	45-49	50-54	55-59	45-49	50-54	55-59
2001	13.2	13.4	12.5						
2002	8.3	11.5	10.4	-4.90	-1.90	-2.10	0.63	0.86	0.83
2003	10.7	11.7	8.5	2.40	0.20	-1.90	1.29	1.02	0.82
2004	8.9	11.9	10.1	-1.80	0.20	1.60	0.83	1.02	1.19
2005	7.9	11	9.2	-1.00	-0.90	-0.90	0.89	0.92	0.91
2006	7	6.1	7	-0.90	-4.90	-2.20	0.89	0.55	0.76
2007	5.4	5.9	5.4	-1.60	-0.20	-1.60	0.77	0.97	0.77
2008	7	6.7	7.8	1.60	0.80	2.40	1.30	1.14	1.44
2009	15.8	14.5	14.7	8.80	7.80	6.90	2.26	2.16	1.88
2010	17.1	17.8	16.8	1.30	3.30	2.10	1.08	1.23	1.14
2011	13.9	14.1	17.3	-3.20	-3.70	0.50	0.81	0.79	1.03

Source: author's calculations based on statistical data of the Central Statistical Bureau of Latvia

Table 2

The growth rate of base in different age groups from 2001 to 2011 in Latvia

Year	Unemployed as proportion of economically active population (%)			Absolute growth of base (%)			Growth rate of the base T (%)		
	45-49	50-54	55-59	45-49	50-54	55-59	45-49	50-54	55-59
2001	13.2	13.4	12.5						
2002	8.3	11.5	10.4	-4.9	-1.9	-2.1	0.63	0.86	0.83
2003	10.7	11.7	8.5	-2.5	-1.7	-4	0.81	0.87	0.68
2004	8.9	11.9	10.1	-4.3	-1.5	-2.4	0.67	0.89	0.81
2005	7.9	11	9.2	-5.3	-2.4	-3.3	0.6	0.82	0.74
2006	7	6.1	7	-6.2	-7.3	-5.5	0.53	0.46	0.56
2007	5.4	5.9	5.4	-7.8	-7.5	-7.1	0.41	0.44	0.43
2008	7	6.7	7.8	-6.2	-6.7	-4.7	0.53	0.5	0.62
2009	15.8	14.5	14.7	2.6	1.1	2.2	1.2	1.08	1.18
2010	17.1	17.8	16.8	3.9	4.4	4.3	1.3	1.33	1.34
2011	13.9	14.1	17.3	0.7	0.7	4.8	1.05	1.05	1.38

Source: authors' calculations based on statistical data of the Central Statistical Bureau of Latvia

European countries principally exercise four categories of activities:

- Training, which is intended to increase human capital;
- supplemental employment programmes in the public sector;
- private sector schemes;
- sanctions to improve job search efficiency.

To lower the risk of long-term unemployment as well as to lower the rate of unemployment, many OECD countries offer various labour market programmes. And yet, in many cases, evaluations have only shown that at best they only have small positive effects on participating individuals (Levin-Waldman O. M., 2011).

In some European countries, as Estonia, there are unemployment benefits for permanent job losers like wage insurance, which subsidises worker earnings when the wage they receive on their new job is less than that of their old job. Besides, there is possibility to get health insurance if you are registered in the State Employment Agency. Therefore, the formal registration of the unemployed is encouraged and the statistical data of unemployment are more realistic than in Latvia.

The lump statistical data on the proportion of the unemployed and dynamic changes in ten years period will be analysed to get a better view of an unemployment situation in Latvia at the preretirement age.

The analysis of dynamic series of chain and growth of basis are used to review the statistical data on the unemployed as a proportion of economically active population.

The data obtained in the study were statistically processed by the MS Excel program. The chain and basis growth were calculated for three groups of age and years from 2001 to 2011. Formulas of dynamic rows are used in the research.

According to the European Commission statistical data, long-term unemployment in Latvia as a percentage of total unemployment rate in the age group between 50 and 64 were 68.1% for males and 61.6% for females (Long-term Unemployment, 2012). In 2010, the number of the unemployed between the age of 55 and 59 likely to be long-term unemployed was slightly more than in the age group 45 to 54.

In the context of sustained employment growth, the ratio between the long-term unemployed and all unemployed has increased sharply between 2008 and 2011.

There was a lower long-term unemployment level from 2005 to 2008 than it is now, and it was from 2001 to 2004 (Figure 2). It is explainable by the economic development after Latvia's independency when manufacturing was developed. Nowadays, large companies of Latvia have been sold to Danes, Norwegians, Russians, and others.

According to Figure 3, the absolute growth of chain from 2008 to 2010 has increased in all age groups of the preretirement age. There was a drop with positive impact from the end of 2010 when there were better chances to be employed in the age groups of 45 to 49 and 50 to 54. This can be explained by higher proportion of individuals not being registered in the State Employment Agency because they cannot get social benefits.

Table 1 shows that there is an increase of the unemployment level in all age groups from 2009 to 2011. The results of the study indicate that the absolute growth of chain of job seekers proportion in case of economically active population (in the age group from 45 to 49) in 2002 has decreased to -4.9%, while the number has already grown to 8.8% in 2009. In 2011, there is a decrease of absolute growth of chain in the age groups from 45 to 49 and from 50 to 54, thus, proving the previous result.

According to the table, a potential risk to lose work increases at the preretirement age. In addition, the growth rate of chain has increased from 2008 to 2010. In 2011, there was a smaller increase than in the previous years due to the economic stagnation.

According to the statistical data, in 2001, there is a positive trend when the absolute growth of base has decreased in all groups of age compared with the period of 2009-2011. In the past years (from 2008 to 2011), the absolute growth of base grew rapidly from 0.62% to 1.38%. From 2009 to 2011, the growth rate of the base (T) has increased in all groups of age. It could be explained by employers' disinclination to employ older people or people at the preretirement age. They better choose to employ young people with new knowledge and skills than the people with the Soviet Union education. Besides, one of the main conditions, why employers give preference to younger people than older, is that young people demand lower salaries.

Conclusions, proposals, recommendations

1. The growth rate of the base has increased in all groups of age from 2009 to 2011. It could be explained by employers' disinclination to employ older people or people at the preretirement age without competent knowledge of technologies and languages.
2. In other European countries (for example, in Estonia), there are unemployment benefits for permanent job losers like wage insurance which subsidises worker earnings when the wage they receive in their new job is less than that of their old job. That kind of insurance offers a way of assisting with the psychological support to changing labour market conditions and to upgrade job search incentives. It will be useful to take that kind of experience in Latvia as well.
3. Investments are necessary in order to expand the development of high-quality employment programmes to be warranted as a crucial additional tool for improving the labour market prospects of being employed at the preretirement age.
4. It is difficult to be employed in the rural areas because of low education level and it is not possible to find work with a wage exceeding the minimum wage. The government should improve the environment of entrepreneurship.
5. Many individuals between 40 and the preretirement age have large experience and it is challenging to start a new business. There are many possibilities to take a loan from banks for start-up entrepreneurship, including entrepreneurship in the countryside.
6. It is necessary to improve the work of the State Employment Agency, concentrating on the preretirement age group, providing job search assistance and effective job training systems.
7. It is necessary to pay attention to the group of preretirement age, improving the education level of the unemployed and developing possibility of obtaining new professions free, for example, by improving language and technological skills.

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