

## DEVELOPMENT TRENDS AND PROSPECTS OF LATVIAN LABOUR MARKET

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The article presents an analysis of the development trends and prospects of the Latvian labour market. The author highlights the most relevant factors causing disparity in demand and supply and arrives at a conclusion that, irrespective of the existing possibilities to ensure stable and sufficiently rapid economic growth, it is necessary to attract labour from third countries.

There is close interrelation between national labour resources and labour market. However, the processes of their formation are relatively independent. If quantitatively labour resources are dependent on the demographic situation, then quality of labour is dependent on the education system in the state, the availability of which is in its turn dependent on the financial situation of the population, motivation, as well as state support.

The situation in the labour market is generally determined by the supply and demand. These two factors are also being closely interrelated. However, the demand side is dominant, which is basically predetermined by the structure of national economy and its possible transformations.

If we consider the trends of Latvian national economy and employment in the time period from 2000 to 2005, we can see that the number of persons employed has increased from 971 thousand to 1036 thousand or by 10.9% [1,81]. An in-depth analysis shows that employment dynamics varies by branch. If the number of persons employed in one branch increases, the number of persons employed in another branches reduces. For example, in this time period the number of persons employed in construction has grown by 35 thousand, in forestry and woodworking – by 16 thousand, in transport and communications industry also by 16 thousand. These industries have ensured more than 70% of growth. At the same time the number of persons employed in the manufacturing sector has reduced by 16 thousand, and in agriculture, forestry and related services – by 27 thousand [1,84].

A more extensive analysis of the changes in the employment structure and dynamics shows that more than 2/3 (68.4%) of the additionally employed are men. We consider that all studies conducted so far have ignored this fact.

The number of men has also reduced in the sphere of trade and education. In other industries the proportion of reduction and growth is approximately the same.

Despite the fact that there is a reduction of the number of persons in the manufacturing industry on the whole, different branches demonstrate different

trends. Thus currently there is a trend for the number of highly skilled personnel and basically men's labour to increase in certain industries, at the same time in some industries, which are basically employing women, the number is decreasing. For example, in this time period the number of persons employed by foodstuff, drinks, textile goods and clothing manufacturers has reduced by 3.4 thousand; at the same time in the branches manufacturing units for mechanisms, machinery and equipment, as well as furniture the number of persons employed has increased by 2.4 thousand [1;47].

Thus current development trends of national economy as well as developing industries basically demand men's labour.

How does this demand for labour correspond to the demographic situation in Latvia? If currently the share of men in the structure of population constitutes 46.1%, and the share of women is 53.9%, then in the structure of actively employed population the respective figures are 51,6% and 48,4%.

From the national economy development perspective there is sufficient ground for a serious concern due to the fact that in the time period from 2000 to 2005 the number of persons below the age of gainfully employed population has reduced by 100 thousand persons and the share of this group has dropped from 18.1% in 2000. to 14.5% in 2006 [1,22].

Of course, it may be alleged that national economy has certain reserves of labour force, the same as in any other state. For example, at the end of 2005, there were 78482 unemployed, 20581 of them being unemployed for a longer time. But as the research shows, the use of these persons in production and provision of services is complicated due to a number of reasons, starting from their wish to work and completing the list with different addictions these people are suffering from, e.g. alcohol or drugs. Thus the analysis shows that there is a certain discrepancy in Latvia between the demand for labour and labour supply, which in the future may unfavourably impact the economic development on the whole.

The issue of topmost importance is: can we

sufficiently rapidly change the structure of national economy to match the labour supply, or vice versa. The authors of this research maintain the opinion that drastic changes in the structure of national economy are impossible to implement, so it is necessary to focus on the activities to improve the situation in the sphere of labour resources, since these reserves also lack an internal potential for quantitative growth. Therefore, it has to be admitted and clearly stated that the required labour force will be sought and attracted from other countries, the same as it is done by the old EU states.

The second relevant issue to be addressed is how to prepare and effectively utilise the reducing potential labour resources, primarily young people at school age. This is directly related with the structure of education system and its ability to educate/train qualified labour to meet the needs of national economy, since this is a topical issue in terms of quality of education, the possibilities of families to pay for education, as well as the lack of motivation to study, since good academic performance implies time and effort to be devoted for acquisition of knowledge and skills.

It seems that also in the sphere of education we are neglecting a very relevant fact that each child (person) has its limits of capabilities and therefore each person has to be trained according to his/her abilities for a particular type of job. If this is ignored, the losers are the young persons themselves, as well as the whole public, which has expended certain financial and labour resources and, as a result, has gained minimum returns on these investments or even worse.

This approach in a certain way contradicts the existing education policy approaches both in Latvia and the EU. But real time situation calls for a different attitude in education, so that individuals can retain their competitiveness, and the country can avoid possible social conflicts.

The question arises whether this situation is typical only for Latvia or is more or less common for the new EU member states, irrespective of the specifics of each particular country determined by the demographic and economic situation.

Common trends are the following:

- new EU member states start experiencing deficiency of labour;
- rather high unemployment rate;
- labour is moving to old EU member states, as well as to other economically advanced countries.

These trends are caused by external and internal factors. The main external factor is a possibility to earn considerably more for the work done than in

the native country. The research also highlights other factors, such as the employers' attitude towards employees, the desire to get acquainted with another culture etc.

The main internal factors are:

- essential changes in the structure of national economy, which also determined the changes in the structure of demand for labour force. As a result of these changes the demand for engineers, construction workers, qualified industrial plant workers has reduced; at the same time the demand for specialists in such fields as management, economics, marketing, law and languages has increased;

- The reduction of the demand in these spheres has determined also reorientation of the whole education system to the specialities listed. A characteristic trait in the tertiary education system is a gradual transfer to the provision of this service for payment. For example, in 2005/2006 there were 77.2% students in Latvia, who paid for their studies, at the same time in 1992/1993 the number was only 9.7% [1;161]. The educational system and also people were not really prepared to the new changes in the demand for engineers and natural sciences specialists, as they have partly lost motivation to acquire these complicated or physically hard specialisations:

- According to research conducted by the IMF, it is also affected by such factors as insufficient regional mobility of labour, their qualification, as well as the inadequate economic incentives to affect labour supply and demand situation[2,35].

The main problem the new EU member states are currently facing is how to ensure a rapid and stable growth to approach the level of well-being of the old economically developed states. Labour becomes an essential actor for achieving this objective. Economists suggest several ways how to tackle this problem:

- by creating conditions to lure back persons who have left the country;
- by increasing productivity;
- by attracting labour from third countries.

Despite the concerns that attraction of labour from third countries is creating and could create problems in the country, the exiting trends in the labour market call for the requirement to fill the gap to ensure sufficiently high economic growth rate.

#### Literature

1. Statistical Yearbook of Latvia: Riga, 2006.
2. Growth in Central and Eastern European Countries of the European Union, IMF, Washington DC, 2006.