

## Vitas Vasiliauskas: Labour market in the 21st century - the way forward

Welcome remarks by Mr Vitas Vasiliauskas, Chairman of the Board of the Bank of Lithuania, at the Economics conference “Labour Market in the 21st Century: The Way Forward”, Vilnius, 15 October 2019.

\* \* \*

Dear guests and distinguished speakers: A sincere ‘thank you’ for joining us at the yearly Lithuanian economics conference organised by the Bank of Lithuania.

This marks our third annual economics conference. The first one tackled income inequality. Last year, we brainstormed on how to create a sustainable pension system that would seem trustworthy not only to its creators, but also to the people of Lithuania.

It is obvious that we do not steer clear of difficult topics. Quite the opposite – we are creating a meaningful tradition of gathering every year to deliberate on the fundamentals: urgent issues that pose high risks. In other words, we are taking the initiative to seek measures that could solve – or at least facilitate solving – key problems. Especially those that demand a systematic approach.

This is precisely why we have invited you to discuss the labour market this year. We consider labour market dynamics an alarming issue. Labour market developments are among the strongest factors – and possibly the strongest one – contributing to where we will find ourselves in 50, 20 or even 10 years. What do I mean exactly?

According to Eurostat data and taking into account differences in prices, before the crisis Lithuania’s GDP per capita amounted to a meagre 60% of the EU average. Today, we have reached more than 80% of the Community’s average. Of course, GDP per capita is not a perfect indicator of well-being. Nonetheless, we cannot deny it – convergence is progressing. With household income growing at a faster rate than the overall price level, this process is felt by an increasingly larger fraction of society. And this is the good news.

However, there is also bad news. This is how I would describe it: convergence will not be sustainable nor long-lasting if we do not overcome the growing challenges of the labour market. We have seen instances in the EU when convergence among countries stalls. Or, even worse, when countries start moving backwards instead of forwards. The main hindrances in such economies are often found in their labour markets.

Colleagues,

I do not wish to sound overly pessimistic. If we did not believe that we still have the time and the skills to identify the correct solutions, we would not have invited you to this discussion. Therefore, I am going to name three issues that I deem of utmost importance when considering economic policy proposals today. These are: demographics, technological progress and regional disparities.

Let us take the first item, demographics. In the past 20 years, the working-age population in Lithuania has shrunk by almost a quarter. Today, there are around 1.8 million working-age individuals. If no significant changes occur, there will be fewer than 1.5 million working-age people in 2030, and just over a million in 2060<sup>1</sup>.

It is important to note here that this year we will be able to mark the net migration rate in green rather than red, meaning that more people are coming to Lithuania than leaving it. Therefore, the total population should increase – for the first time since 1992.

Let's not deceive ourselves, though. One year is not enough to claim a sustainable trend.

Additionally, immigration (at least at the current pace) is not going to be a demographic magic bullet. The decrease of working-age population is going to continue in Lithuania as the ageing of the population will outweigh the positive impact of immigration.

Under these circumstances, some employers, especially in certain sectors, are already forced to compete for every single employee by increasing wages. This is good news for workers. However, with wages growing faster than efficiency, in the long term we are risking a loss of competitiveness and the positions that we have fought for in foreign markets.

And that would be terrible news for everybody. Hence, it is likely that our country's employers, seeking to avoid that turn of events, will pursue ways to adapt to the decreasing number of employees other than offering larger wages.

Research shows that human-performed task automation is likely to happen more swiftly in countries faced with demographic challenges<sup>2</sup>. As such, there is an imperative to discuss the challenges and possibilities of technological progress.

According to the OECD calculations<sup>3</sup>, medium risk of job automation in Lithuania amounts to more than 50%. This means that a person could be replaced by a robot in every second current workplace.

There would certainly be losers in this situation: those who are swept away by the wave of progress and find themselves in a worse position than the one they began in. This would place an additional burden on the social security system.

But how many winners would this bring? Those who have new jobs created by the technological progress? Are we ready to reap the rewards of the fourth industrial revolution – to successfully apply big data, artificial intelligence, nanotechnology?

To prepare ourselves for that, we are going to need highly qualified workers. Yet, there is already a shortage of them even today. In Lithuania, around a third of the population falls into a qualification mismatch category, meaning that their skills do not match labour market demands.

Let us not forget that the negative effects of technological development are geographically imbalanced. Less urbanised locations will probably face faster development of automation due to the prevailing type of work there. These ongoing processes may further increase labour market inequality between Lithuania's regions.

This leads us to the third challenge we are going to delve into today: regional disparity.

It is already evident that more and more jobs are being created in large cities rather than in peripheral areas. Up until the crisis of 2008, the unemployment rate in big cities matched the rate in the more remote regions. After the crisis, profound differences came to the fore: the average unemployment rate in such regions is double the size of that in cities.

Changes in Lithuania's economic structure shrunk the importance of the agricultural sector and amplified that of the service sector. Clearly, regions find it difficult to adapt to these structural changes. What we have there now is structural unemployment – something that cannot be reduced even by the fast overall expansion of the country's economy.

We are also witnessing the consequences of persistent unemployment. People are leaving smaller cities. Birth and mortality rates are quite similar throughout the counties in Lithuania, but migration rates differ significantly. Over the last 20 years, the number of young age workers in our country's regions has shrunk by a half, except for the three biggest cities.

Colleagues,

I have just set forth three problems that we consider paramount. How are we to solve them? We have no crystal ball to turn to for answers. We can turn to each other, though. We have gathered here to try to arrive at possible ways of overcoming these challenges by means of discussion and search for best international practises.

Each of the challenges I have identified is quite distinct from the others. Together, however, they are so closely connected that at first sight it is hard to tell cause and consequence apart. It is like the proverbial chicken-and-egg. Clearly, then, in order to achieve real results, we must act on several fronts at once while bearing in mind the big picture.

Firstly, we have to create regulatory labour market instruments that combine employer flexibility and safety of the employee. Moreover, such instruments should stimulate more active participation of different population groups in the labour market. I am thus thrilled that the keynote speech will shortly be delivered by Professor Werner Eichhorst, one of the most prominent experts of labour market regulation policy in Europe.

It is also obvious that Lithuania is in desperate need of long-term and far-sighted migration policy to both entice emigrants to return home and attract foreign workers.

What is more, when discussing quantity, we should not forget quality, especially if we seek to prepare ourselves for technological changes and the impending fourth industrial revolution.

What skills will be most in demand? No one knows. And anyone who thinks they do are probably mistaken. As the astronaut Buzz Aldrin once said, 'You promised me colonies on Mars. And instead, I got... Facebook'. I take this to mean that we can only guess what the future has in store for us. Which is why we have to move towards an educational system that is flexible and oriented towards lifelong learning, both formal and informal, including adult education and effective retraining. Such a system is the only way to prepare our people for rapid structural change.

Lastly, we need a real regional policy – one that is effective and adequate for the current situation. One that would not only help maintain economic life throughout Lithuania, but would also prompt a shift towards higher value-added economic activities.

Undoubtedly, education should have an especially important place in this policy in order to ensure equally good quality of education to all children in all parts of the country. In Lithuania, schoolchildren in cities are ahead of their peers in rural areas by one year in assessment of their mathematics skills. This difference is two times larger than the average for the developed countries<sup>4</sup>.

Hence, we are not providing equal opportunities for young people to graduate from school, obtain high-level qualifications and find a well-paid job. And this is an especially unfair form of inequality of opportunities. It creates a vicious cycle: the number of jobs that ensure dignified income in rural regions is not increasing, at least not at a rate that we would like. Yet, with the lack of a qualified labour force, investors who create high added-value are not coming to these regions – so they are not creating such work places.

Dear Colleagues,

As I have mentioned, we have chosen the topic of the labour market for this conference because we consider it one of today's most burning issues. Additionally, we chose it because economists' projections, unfortunately, show the worst-case scenarios as the more likely ones. But the main reason is that we can still adjust those scenarios so that the curves go upwards rather than downwards.

I am aware that we will neither make nor implement decisions today. Yet, seeing such a professional, engaged and competent group of participants, I am confident that we can stimulate a positive turn.

That is my hope for all of us here.

I thank you for your time, and wish you fruitful discussions.

---

<sup>1</sup> Eurostat projections.

<sup>2</sup> E.g. Abeliansky A, Prettner K. 2017; Acemoglu D., Restrepo P. 2018.

<sup>3</sup> Nedelkoska L., Quintini G. 2018.

<sup>4</sup> OECD 2017, Education in Lithuania, Reviews of National Policies for Education, OECD Publishing, Paris.