Austerity, impaired industrial citizenship, and post-communist migration: The neoliberal Baltic model versus the Social Europe model

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Submission to Stream 9: Rethinking Citizenship at Work: What are the concepts, models and policies to inform citizenship at work?

Abstract

Having experienced some of the highest rates of economic growth in the European Union in the mid-part of the first decade of the 2000s, the Baltic ‘Tiger’ states experienced the most severe economic downturn not only in Europe, but globally, in the years of the great recession. Now with possible recovery in sight, this paper examines the current prospects and dilemmas facing both Europe’s social model and the contrastive neoliberal Baltic states ‘model’. The latter has become a template for the international financial community and the European Commission in prescribing recipes for the successful management of austerity at the expense of labour. The paper argues that, by contrast, radical ‘internal devaluation’ which was implemented in the Baltics during the crisis brings with it significant social and economic costs primarily borne by labour that, in turn, undermine the longer-run sustainability of these states and limit the wider applicability of this ‘model’ to troubled Eurozone countries and other economically-challenged European states. Chief among these costs are significant increases in poverty, growing social, political and industrial ‘disenfranchisement’, and hyper-migration. As such, the costs of internal devaluation also compromise any wider sustainability of a ‘reconstructed’ European social model applying to both East and West and with that, the prospect of generalized European integration. These developments raise troubling questions for the future of a ‘European’ citizenship at work in an era of protracted austerity and secular stagnation. The paper proposes a notion of ‘impaired industrial citizenship’ especially in the European periphery that seeks to interconnect wider ongoing austerity with the reality of deteriorated labour rights and social dialogue.

Keywords Austerity, labour market segmentation, Lithuania, migration, European social model.

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Introduction

The onset of the global economic crisis in 2008 led to a dramatic increase of emigration throughout a number of East European countries (Galgóczi et al., 2012). This was especially the case in Baltic countries, which experienced one of the highest rates of emigration across the EU countries (Eurostat, 2013a; see also Figure 2). At the peak of the crisis (2009-2010) emigration reduced the size of Latvia’s population by 3.6 percent and Lithuania’s population by 3.3 percent (Latvijas Statistika, 2012; ELTA, 2013). As crisis-driven emigration turned into what looked like a veritable ‘exodus’ threatening depopulation of Estonia, Latvia and Lithuania, it also became a subject matter of both heightened scholarly interest and policy analysis (Apsite et al., 2012; McCollum et al., 2013; McDonald, 2010; OECD, 2011; OECD, 2013).

Most of research on the scope and causes of emigration from the region has tended to rely on a combination of neoclassical macro and micro economic theories in their analysis (for a review of this literature see (Barcevičius and Žvalionytė, 2012: 31-74). Thus, the spike in post-2008 emigration has been interpreted primarily as a response to a significant contraction of the economy and an increase in unemployment and poverty in the region on the one hand, and on the other, the imposition of stringent austerity measures such as cuts in wages, reductions in social benefits, and increases in taxes (Parutis, 2011; Hazans, 2012; Lulle, 2013; Sippola, 2013). There have also been attempts to analyse Baltic emigration and the crisis using transnational and migration networks analysis (Bučaitė-Vilkė and Rosinaitytė, 2010; McCollum et al., 2013), as well as by using discourse analysis and ethnography (Woolfson, 2010).

This paper relies on existing studies of migration, but will apply the less-often used labour segmentation theory in explaining the most recent surge of migration from the Baltic states. More specifically, it will be argued that austerity measures adopted in the Baltic states since late 2008 have accelerated the formation of bifurcated labour markets of a character that is particular to such post-communist countries. Using Lithuania as an example, it is suggested that this process of bifurcation is reflective of the underdevelopment of the country’s economy, as well as its dependent and peripheral position within European Union and the global economy. Harsh austerity measures combined with the effects of previous massive EU financial transfers have accelerated the fragmentation of the labour market into differentially advantaged primary and secondary sectors that, in turn, have contributed to the further social and political fragmentation of the wider society. The result has been the (re-)formation of ‘two Lithuanias’—a process of societal disarticulation that is producing a new generation of ‘winners’ and ‘losers’ and ‘impaired’ industrial citizenship. This rupture of the labour market under the impact of crisis and austerity is qualitatively new in post-communist Lithuania and is in itself becoming a powerful driver of an emigration that has assumed unprecedented proportions, such that the very social sustainability of this post-communist society in now in question. Here contemporary Baltic Lithuania provides a paradigmatic instance of both the ultimate limitations of austerity and of its wider contradictions (Sommers and Woolfson, 2014).
Since a dual labour market model will be used to analyse emigration from the Baltic region, the paper begins by outlining modifications to this approach to adapt it to the specific socio-economic and political circumstances of Baltic Lithuania. There follows an analysis of how the economic boom of the mid-2000s, followed by the bust of 2009-2010, and economic recovery since 2010, have affected the (re)production of bifurcated labour markets and acted as a stimulus to further emigration from Lithuania. The paper concludes with a discussion of impacts that the neoliberal orthodoxy associated with austerity and Baltic-style ‘internal devaluation’ (to contrast it with an external monetary devaluation), have had in terms of further fragmentation of the labour market and the most recent wave of emigration from the region. It is argued that the neoliberal Baltic model of austerity is now explicitly in contradiction with any wider common Social Europe model.

**Dual Labour Markets in Core and Peripheral Regions: Theoretical Considerations**

In migration theory the dual labour market approach is usually used to explain ‘pull’ factors that stimulate emigration from underdeveloped to more developed countries and regions (Hasmath, 2011; Massey et al., 1993; Piore, 1979). According to the dual labour market thesis, in developed countries the labour market is segmented into a high-skill and high-value added primary sector, and a secondary one, which is labour-intensive and requires low-skilled workers. The native labour force in developed countries does not want to take jobs in the secondary sector due to low pay, low prestige, poor working conditions and a general lack of mobility in routinized low-pay employment. Thus, governments and businesses in developed countries face a dilemma: either to significantly increase wages in the secondary sector to attract native-born labour and consequently face the threat of rising wage-led inflation, increasing costs of production and therefore decreasing profitability, or to import cheaper labour from abroad. The preferred choice by far appears to be the importation of labour from peripheral countries. Thus, the policies of liberalization in terms of ‘free movement’ of labour within the European Union can be seen in terms of a wider process of bifurcation in which the peripheral newer member states from the East provide a ready supply of lower-cost labour to the older core member states. With the first wave of eastern EU enlargement in 2004, wage differentials of up to seven times provided a powerful ‘pull’ factor for workers to migrate westwards, even into economic sectors and positions on the labour market well-below qualification and skill levels.
As Figure 1 demonstrates, these wage differentials remained irrespective of economic downturn that occurred in any of the core countries in the 2008-2010 recession. Thus, while declines in wages in the core countries were significant, especially during the depth of the recession, this did not substantially affect ongoing comparative wage differentials, and their persistent strength in stimulating "pull" factors from Lithuania, despite growing unemployment in the major destination countries.

At first sight therefore the classical theories of push/pull would seem to have much in their favour in providing a set of explanations for migration behaviours. However, this would be to misrepresent the deeper underlying structural forces which produced these outcomes and which have imbued “push” factors with a special dynamism not at first apparent. Indeed the dual labour market thesis can be modified to analyse and describe a unique constellation of ‘push’ factors which stem from the specifically post-communist and peripheral economic relations of dependency of Lithuania, as a less developed country within the European Union. Such a geo-spatial and historical constellation of factors has generated an intense labour market bifurcation that, in turn, stimulates a level of emigration to the more developed European core countries that is, with the exception of neighbouring Baltic Latvia, without parallel.
The beginnings of labour market bifurcation in the Baltic states can be traced to the process by which, in the early 1990s, the economies and the state apparatus of these former Soviet republics were restructured from being an integral part of the unified Soviet state and economy to a dependent (peripheral) position within the EU–wide as well as the global division of labour. This reorientation of the region from East to West initiated a process of bifurcation of labour markets into a primary sector, composed mostly of public employment and a secondary labour sector, constituted by predominantly private employment of low-wage, low-skill, unprotected and “flexible” labour, typical to peripheral regions of the global economy.

This pattern of bifurcation where primary/secondary segmentation roughly corresponds with the public/private employment was a result of the selective application of neoliberal policies to these two economic sectors within the region. More specifically, the private sector was formed under the neoliberal “shock therapy” type of reforms of the early 1990s. Under tutelage of international organizations such as IMF, World Bank, and various EU agencies, Baltic governments pursued monetarist economic development strategy based on the primacy of attracting foreign direct investment as the preferred path to post-Soviet reconstruction and the free market (Bohle and Greskovits, 2007; Kolodko, 2002; Hirschhausen, 1998).

Such policy preferences accompanied by the large-scale privatizations of the early 1990s led to de-industrialization of the whole region and the virtual disappearance of especially higher-skill and higher-wage industrial employment, with the accompanying relatively high levels of social benefits and security typical of the Soviet period. In conditions of what Raudla and Kattel (2011: 182) called a “no-policy policy” of economic development, the manufacturing-based economy inherited from Soviet era (although globally uncompetitive) was subjected to asset stripping and seizure, leading to enrichment of a few so-called “oligarchs” and the simultaneous impoverishment of the majority of the population (Maldeikis, 1996). At the same time, neoliberal social and employment policies were adopted to compete internationally and attract foreign direct investment on preferential terms, providing a cheap, well-educated and “flexible” labour force, low taxes and lax regulation for (low value) export-directed assembly manufacturing, initiating the process of secondary labour market formation (Sommers, 2009). In comparison, the extensive public sector inherited from the Soviet era was reformed only gradually and mostly on ad hoc basis, in response to contingent and short-term political considerations (Cook, 2002; Aidukaite, 2009). In Soviet times this apparatus was used not only for surveillance and control of the population, but also for a massive redistribution of wealth through an extensive social policy network of services covering full employment, free education and health care, and social security, in themselves valued ‘social goods.’

Rolling back public services from those who had grown up with them as an entitlement was one of the least popular aspects of transition to the market from state socialism. In Lithuania resistance to dismantling social protection bureaucracies was strong, especially on the part of one of the leading parties most supported by that older generation which had grown up with socialism—the so-called social-democrats or
reformed Communists. Ironically, the conservatives (Homeland Party) were not very keen on major public sector reforms either, if only because the extensive state apparatus could be gainfully used for political influence and patronage. Furthermore, the deep and protracted economic crisis of the early 1990s following independence from the Soviet Union, only strengthened centralization of the state as the government responded with a slew of emergency measures to stabilize the situation (Daugirdas and Mačiulytė, 2006). Finally, by the late 1990s, the growth and predominance of the public sector within the national labour market became driven by the preparation of the Baltic states for EU membership. This entailed achieving formal alignment of national regulation and state administrative functions and procedures with those of the European Union, in order to meet the stringent requirements of the EU acquis across the legislative panoply of economic and social affairs. Following admission in 2004, the administering of large inflows of EU structural funds to the region led to further bureaucratic expansion and consolidation.

In sum, the reforms of the early 1990s and Baltic entry into EU in 2004 had produced a bifurcation of labour markets specific to the neoliberal post-socialist Baltic states. The relatively large primary sector was composed of mostly self-regenerating public employment. For example, by 2011 public sector employment accounted for 29.4 percent of the labour force, while in most EU countries it was closer to 15 percent (i.e., in Hungary 18 percent, Germany 12 percent, Austria 10 percent, etc. (Eurostat, 2013c). Only Scandinavian countries such as Norway and Sweden had such large public sectors, although in Sweden government expenditure in 2011 accounted for 51.3 percent of GPD, while in Lithuania government expenditure accounted for 37.5 percent of GDP, third lowest among EU countries (Eurostat, 2012b).

Because of the chaotic process of de-industrialization and the absence of strategic state policy for economic development, very few high-skill and high value-added jobs were added to the newly created corporate primary sector. Those jobs that were created were limited to high-end financial services, privately funded research and development, corporate management, and to a few upper level niche markets. For example, high-value added industrial production in Lithuania (such as lasers and bio-pharmaceuticals) accounted for only 0.1 percent of GDP (Veidas, 2011).

By contrast, the bulk of private employment became concentrated in a secondary labour market that was dominated by low-skill and low-wage employment, mostly in manufacturing (for export) and service sectors. About one fourth of the Lithuanian labour force earned the minimum wage which up until 2013, when economic crisis began to abate, was 800 litas (232 euro) a month with an increase to 1,000 litas (290 euro) after that (Bradley, 2012; Večerskis, 2013). In addition, the degree of social protection and benefits in the secondary labour market segment was significantly lower than that which employment in the public sector provided. The next section explores this preferential primary labour market advantage in more detail.
Economic Boom, Bust and Bureaucratic Enclosure of an EU-financed ‘Nomenklatura’

During the mid-2000s when the Baltic region economy was booming (the so-called ‘fat years’ of the Tiger economies), the impact of a bifurcated labour market on social reproduction and social mobility strategies of the population, including emigration, was actually diminishing to some extent. This was primarily because of what proved to be an unsustainable credit boom, with rapidly rising real estate prices and, to a lesser extent, increasing wages. Across all sectors of the labour market, excluding perhaps those marginalized populations (especially rural groups permanently discarded in the backwash of transition to the market), this period of rapid economic growth was felt to be benefiting the predominant majority of society. Even those who owned a dilapidated (privatized) apartment in a shabby Soviet-era urban housing project somehow felt that their net assets were growing in value, as indeed they were, if only temporarily.

However, in late 2008 economic crisis engulfed the Lithuanian economy, and within a space of two years GDP had plunged by 17 percent, second only to Latvia where GDP slumped by 25 percent in the equivalent period (2008-2010), recording the most dramatic downturns anywhere in global terms (Eurostat, 2012c). The bifurcation of the labour market began to increase rapidly in this context. As real estate prices plunged with the onset of the recession, banks began demanding the return of outstanding loans. Government-imposed austerity measures slashed wages and the unemployment rates quickly soared from 5.8 percent to 17.8 percent between 2008 and 2010 (Statistikos Departamentas, 2013a). For those in the primary sector, however, with its greater employment security and job protection afforded by the state, and embedded in its expanding European Union-oriented bureaucratic functions, it appeared that there was considerably less loss in terms of real income than for those in the secondary sector. It was the latter who were more directly exposed to and, in consequence, bore the brunt of economic downturn in terms of job losses and wages reductions. The result of so-called internal devaluation was a sizeable increase in proportion of population at risk of poverty or social exclusion from 23.1 percent in 2009 to 32.6 percent in 2010 (Statistikos Departamentas, 2012b).

Yet, despite the severity of the economic crisis, the size of the public sector in Lithuania remained remarkably stable and underwent relatively little change over the space of a decade. In 2000 public sector employment in Lithuania accounted for 33.9 percent of the labour force. Even at the height of the crisis in 2009, reductions in public sector employment were small (3 percent in 2009 and additional 2 percent in 2010). Thus, the public sector absorbed the crisis more through wage cuts (in some cases amounting to 30 percent among the lower echelons albeit that the senior ranks retained and even improved upon previous parities), than through unemployment per se. Meanwhile, the rest of the economy bore the brunt of the burden of austerity in terms of both severe wage and employment reductions.

Second, public sector employment had been not only more advantageously remunerated, but with the onset of economic crisis, wage differentials with the private
sector further increased. If by 2007, the last pre-crisis year, average public sector wages were 7.7 percent higher than in the private sector, by 2009 (at the peak of recession) the difference had increased to 19.3 percent, giving some measure of the scale of wage reductions in the private sector. Only as the Lithuanian economy began to recover in 2010, did wage differentials begin to decline, and by 2012 had fallen to a still-sizeable 10.3 percent (Statistikos Departamentas, 2012a: 159; Statistikos Departamentas, 2013b: 158).

Finally, public sector jobs were characterized by higher security and significantly higher benefits, thus providing a protected enclave within the labour market in troubled times. The security of primary sector jobs was assured, in part, by involvement in administering an ongoing massive influx of EU money. During the peak of the economic crisis in 2010, EU transfers accounted for 37.4 percent of the government’s total annual budget, and in 2011 for as much as 5.5 percent of country’s GDP. By 2012, as the Lithuanian economy recovered to some extent and revenues collected by government increased, the relative weight of EU contributions within the budget decreased to a quarter of the annual state budget (Lietuvos Finansų Ministerija, 2013). However, in the 2014–20 budget cycle EU transfers to Lithuania are anticipated to again increase by 10 percent over the previous level to a 44.5 billion litas (12.89 billion euros) (Abišala, 2013a).

Access to, and with that authority over, the distribution and management of EU funds are signal characteristics of strategic and highly coveted employment positions. These jobs enable their occupants to accumulate significant cultural and social capital. A number of such sought-after positions are associated with prestigious perks, such as business travel to various European capitals, extensive networking with EU officials, with national and international business representatives and with representatives of transnational institutions, such as the World Bank and the World Health Organization. The social interfaces generated in this process initiate what C. Wright Mills (2000) called the “circulation of elites”: from strategic government positions to lucrative jobs in banks, investment agencies, transnational corporations, ‘free market’ think tanks, opinion-forming positions in the mass media, and the possibility of returning to government employment in direct or advisory capacities according to changing political administrations’ preferences for their own trusted personal networks.

Such positions also open opportunities for children and close associates of the favoured public sector elites for education and jobs abroad. Somewhat different from the phenomenon of criminal corruption, this largely unacknowledged process of a ‘public’ elite formation represents the sociological reproduction of an EU-financed ‘nomenklatura’—a category of highly educated, capable, and competent persons with ‘insider knowledge’ of how EU bureaucracy works and access to channelling, ‘permissioning’ and the power to engage in the preferential allocation of projects and funding. This new ‘comprador’ EU-oriented cadre force embodies a privileged and influential political-administrative class constituting itself in a new kind of primary sector employment.
One of the consequences of this process of social positioning by the new elites is a kind of bureaucratic ‘enclosure’ of the primary sector, further deepening labour market segmentation. Entry into this primary sector becomes regulated by credentialism and insider knowledge, while patron–client relationships typical of nomenklatura begin to develop. Such processes, to a large degree, explains the oft-repeated view (largely impenetrable to outsiders) of Lithuania as turning into a ‘country of relatives’ where social ‘ennoblement’ is dependent on access to particular patron–client networks from which the broader population is excluded. Yet if the public sector elites have seen the progressive entrenchment and consolidation of their privileged position in the primary labour market, the reverse appears to be the case with regard to the less favoured position of those in the secondary labour markets.

‘The Great Recession’ and Growing Informalization of the Secondary Labour Markets

While the labour market security of the primary sector in Lithuania was assured by large EU transfers and increasing bureaucratic ‘enclosure’, the secondary sector has, by contrast, been subjected to an accelerating two-fold process of growing insecurity or precariousness captured in the notion of “informalization”, both “from above” and “from below” (Slavnic, 2010). Informalization from “from above” has been constituted in the austerity measures adopted by Lithuanian government in response to severe financial crisis. As a part of the austerity response package and “internal devaluation”, a series of labour market “flexibilization” measures were adopted. These included the simplification of employment dismissal procedures, thus affording employers the opportunity for much easier hiring and firing, reduced or non-payment of severance pay, and an extension of working time. Fixed-term contracts were introduced for all new forms of employment, including those meeting a company’s permanent needs, for a period of two years (later extended until 2015); changes to working time were imposed, with overtime liberalized up to a maximum of 120 hours a year, or 180 hours if collectively agreed (Clauwaert and Schömann, 2012). These measures, as elsewhere in the Baltic states, were unilaterally pushed through without reference to the established procedures of social dialogue involving the trade unions, and provoked a deep anger among organized labour which saw its legitimacy and residual representational status as being profoundly undermined (Kallaste and Woolfson, 2013).

In addition to state-sponsored austerity measures eroding the level of legal protection for employees “from above” through the rewriting of the Labour Code, informalization of employment was also given new impetus “from below.” As the largely unorganized and non-union secondary sector workforce struggled to adapt to rapidly worsening economic conditions, this resulted in a significant expansion of the informal economy in which so-called “undeclared labour” is perhaps the most telling proxy for the informalization of employment. Thus, by 2010 the informal economy was generating an equivalent of nearly 30 percent of the country’s GDP, the fourth largest among EU countries (compared with an EU average of 18 percent) (Schneider, 2013: 3). About 23 percent of informal economic activities or about 6.36 billion litas (1.84 billion euros) was accounted
for by wages paid “in envelopes” and by various forms of non-legal employment (LFMI, 2012: 14).

The growing importance of informal work and wages further underscored the preferential status of the public sector vis-à-vis private sector. Informal economic activities tended to be irregular, making wages paid out dependent mostly on the discretion of the individual employer; in turn, such payment systems further atomized and individualized the labour force, undermining possibilities for collective agreements and protection; finally, informal income unlike legal wages did not include contributions to social security benefits (such as pension funds, health insurance, etc.) further undermining workforce socio-economic security. In sum, although a decrease of income under austerity proved to be very painful across all social groups, even more traumatizing than cuts in wages were the gnawing vulnerabilities and long-term insecurities confronted by those employed in the private sector. They were now subject to irregular, unpaid or even withheld wages; constant threats of further unannounced wage reductions and cuts; persistent threats of being terminated or fired; overwhelming dependence on the whim of the boss; and little or virtually no legal recourse to address labour grievances. This radically deteriorated employment environment was to have profound impacts in terms of a ‘centrifugal’ fragmentation in which the ‘disprivileged’ secondary sector of employment became increasingly socially and, so to say, physically ‘detached.’ Even more importantly, the process of bifurcation now conditions choices not just of present but of future labour market participants through a systemic structuring of educational mobility choices which, in turn, reinforce propensities to ‘exit’.

**Structural Unemployment, Educational Choices and Migration Intentions**

Growing bifurcation of the labour markets, especially since the early 2000s, has changed the dynamics of “push” and “pull” factors involved in migration from the region, even to the extent of shaping educational choices within the framework of employment preferences. This is particularly the case for the post-transition generation of middle-income young people, for whom the socialist period is now only a dim historical memory. Because of the seemingly preferential status of the public sector within the increasingly segmented labour market, the aspirations of a significant part of this generation appear to be directed first and foremost, not towards making their mark in the burgeoning world of free enterprise, but towards securing their future, particularly at the higher levels of the state and local public administration (Šliogeris, 2012).

Those who cannot compete or fail to enter this primary sector and to make a “safer” career in state administration appear to be relegated to the status of the new “losers.” For the latter, the “choices” in terms of accessible opportunity structures become infinitely more circumscribed. The "losers" dilemma is one of seeking employment in one of two secondary sectors: either within the increasingly informalized low-skill and low-paid manufacturing and service sectors in Lithuania, or alternatively seeking higher pay and better conditions in terms of basic social protection through emigration to core
EU countries, albeit in many cases, at the expense of the loss of intellectual and social capital in relatively low skill employment abroad.

This differentiation of social and professional mobility strategies is reflected in the data on structural unemployment which have become a matter of intense scrutiny both during and after the crisis. Thus, as the Lithuanian economy has rebounded since 2010, businesses representatives began complaining about a growing and chronic shortage of engineers, technicians, and other skilled industrial labour. Technologists and engineers were especially in short supply (Markevičienė, 2013). The exact scope of structural unemployment is difficult to ascertain, but the new prime minister Butkevičius, who was elected in 2013, somewhat self-servingly claimed that “labour shortages are not in hundreds, but in thousands of unfilled vacancies” only to be glad to change the focus of public attention from high unemployment and unabated emigration to allegedly growing labour shortages (Abišala, 2013b).

In general, business assertions about growing labour shortages under conditions of a continuing large-scale emigration from the country and persistently high (in double digits) unemployment have been met with a high degree of scepticism by the general public. First, even before the start of economic crisis proportion of highly educated individuals leaving the country was relatively high. Thus, among those who emigrated from Lithuania in 2007, 25.8% had higher education (college and university degrees) while 58% had high school education (Statistikos Departamentas, 2007). At the peak of crisis in 2010 the largest increases in intentions to emigrate (by 128 percent in comparison with 2008) were recorded among those with university and college degrees. Surveys of Lithuanian firms offering employment abroad were also indicative of the changing socio-economic profile of emigrants suggesting that “If in previous years <before the start of the crisis> workers were predominant among emigrants, today we also see specialists departing in large numbers,” i.e. the very people whom businesses seemed to be looking for (Veidas, 2010).

Second, if there was an objective shortage of skilled labor, this would have been reflected in rapidly growing wages for the desired categories of workers as happened during the boom years of the mid-2000s. However, this was not the case. Despite resumption of economic growth in 2010, wages in Lithuania have continued to stagnate. The first increase in real wages occurred only in 2013 and then by only 3.7 percent. Even so, this rise could only partially explained by an increase in demand for labour. Instead, wages growth was mostly likely stimulated by 17.6 percent increase of the minimum wage on January 1, 2013 (Bradley, 2012). Ironically, instead of increasing wages to attract those highly skilled in demand, businesses began a lobbying campaign to ease restrictions on immigration of skilled labour from third countries, mostly from Belarus, Ukraine and further East. Especially prominent and vocal in this respect were representatives of the biggest business association “The Confederation of Lithuanian Industrialists” supported by the largest daily newspaper in the country “Lietuvos Rytas” which also began arguing for opening national borders for immigration from the East (Užkalnis, 2012).
Public reaction to such advocacy has been however overwhelmingly negative, as could be expected at a time when unemployment in the country remains high and the country is witnessing a yearly population departure equivalent to that of a mid-sized city. Furthermore, importation of even cheaper labour from further East would not only reproduce, but also entrench bifurcation of labour markets even more deeply, overlaying underlying structural labour fragmentation with ethnic divisions in a small country with little experience, resources, political will or consensus on undertaking integration policies (Sipavičienė et al., 2010).

The second area of scrutiny in debates on shortages of skilled labour has focused on performance of the system of education, in particular the disproportionately high numbers of students choosing social sciences over technological subjects, despite the fact of an existing over-production of graduates in this field. A number of explanations for the quantitative and qualitative imbalances between the outputs of the system of education and labour force requirements have been offered. Although preferences for generalized skills, ‘credentialism’, and intention to emigrate may shape (in varying degrees) the social and future professional orientations, these explanations pay insufficient attention to the impact of dual labour market in structuring such choices. More specifically, the strong preference for higher education in social sciences may be better understood as recognition that such a type of university background is a necessary precondition for gaining access to coveted jobs in the public sector. The overwhelming preference of high school graduates for a social science degree is neither as misguided nor as frivolous as some critics, including those from the major business and manufacturing associations have suggested. In the words of one astute commentator, the question that should be asked is not why students are choosing social sciences, but why “manufacturing is persistently failing to present itself in a way that gifted and capable people would want to work there?” (Malinauskas, 2013).

In addition to the qualitative aspect, there is also a quantitative dimension to the mismatch between preparation for the labour market in the system of education and the demands of industry for specific competencies and skills. For a low-wage and low value-added economy, such as is currently prevalent in Lithuania, overall enrolment in the country’s universities seems to be disproportionately high if counted per head of population. In 2008, the university enrolment in Lithuania was 84.5 per 1,000 for the cohort of individuals 20–29 years of age—one of the highest proportions in the EU. For Latvia, the corresponding figure is 69.2 per 1,000 and in Estonia it was 55.7 per 1,000, while EU average is 61.8 per 1,000 (Commission of the European Communities, 2010: 68). While an expansion of tertiary education seems to be a positive development, it is occurring at the same time as enrolments in vocational technical training have decreased precipitously.

Since regaining independence, the Lithuanian system of education has been rapidly restructured from training for specific jobs to providing generalized skills. This occurred to a large degree because of the de-industrialization of the country following the collapse of the Soviet Union and associated with it, a decline in demand of skilled labour. Industries that replaced Soviet-era enterprises have been mostly in low-wage,
low-skill, and low-value-added sectors that required only minimal vocational training. Furthermore, neoliberal economic policies adopted by successive governments provided minimal employment protection and low levels of social security for employees. In such conditions, generalized skills become increasingly preferred because employees are reluctant to invest in the acquisition of specialized skills which tie them to particular occupational niches and locales, making them even more vulnerable in the labour market in the event of dismissal and replacement.

Thus, the disproportionate expansion in the tertiary sector is now producing large numbers university of graduates who are finding themselves “over-educated” and without job prospects. In a 2010 survey conducted by International Organization for Migration, it was found that almost 67 percent of high school graduates and students enrolled in the country’s 15 universities indicated they would like to leave Lithuania for jobs abroad on graduation (Saukiene, 2011). Such data seem to provide some validity to claims that large numbers of students enter universities not so much seeking to acquire specific professional skills and competences for careers in Lithuania, but in preparation for and as a “gateway” to emigration (Norkus, 2012: 294).

To sum up, if professional and social mobility is conceived of as an orientation towards the primary sector and/or emigration, then choosing more a general, ‘easier’ and a much cheaper field of study such as social sciences (as compared with physics, chemistry, engineering, etc.) probably makes sense, especially under conditions whereby half of all students enrolled in universities and colleges in 2012 were paying fees for their education. Such fees, introduced in order to implement austerity-driven cuts to university finances, thus produce a further paradoxical outcome, structuring educational choices and preferences towards either internal expediency in the relatively “safe haven” of the primary public sector, or towards “exit.”

Austerity Blues - Jobless Recovery, Increasing Labour Market Bifurcation, and Persistent Emigration

It took five years since the start of economic crisis for the average wage in the country to reach its pre-crisis level; by the fourth quarter of 2013 the average wage had for the first time exceed its pre-crisis level by 2% (15min.lt 2014). It is projected that by the end of 2014, almost 6 years after the start of global economic and financial crisis, Lithuanian GDP will finally regain its pre-crisis levels. However, despite the resumption of economic growth, currently one of the highest in the EU, a number of paradoxes have emerged that throw light on the limitations which the neoliberal state ‘policy of no policy’ imposes on economic revival, in the context of peripheral Baltic states such as Lithuania. First, despite renewed growth, unemployment remains persistently high: if in 2008 unemployment was 4.2 percent, then by the first quarter of 2014 it remained at 11.3 percent, although this marks a significant decline from the peak of 18.4 percent in August 2010; meanwhile, the size of the labour force in 2014 was about one tenth smaller (by about 138 thousand) than before the start of the crisis (Mačiulis, 2014).
Emigration, although it has declined from its peak in 2010, continues unabated and at a level that is double that of even the surge produced by EU accession in 2004-2005 (Figure 2). While the Lithuanian economy has resumed positive growth, increasing from 2010 by 1.5 percent, rebounding thereafter by an impressive 6.1 percent in 2011, subsequently it had slowed to a more modest 3.5 percent in 2012, and 3.4 percent in 2013 (AB SEB bankas, 2014). However, contra expectations, the number of people leaving the country in 2012 and 2013, while recovery seemed to be firmly under way, did not decrease. Some 41.1 thousand departed officially in 2012, and another 40.4 thousand in 2013, a rate of emigration of over 13 per 1,000 (13.7 in 2012 and 13.6 in 2013). While there has been an increase in return emigration from 5.2 thousand in 2010 to 23.6 thousand in 2013 (see Figure 2), this also can be only partly explained by the improving economic outlook in the country; more likely, return emigration has been stimulated by the protracted and worsening employment situation in the major receiving countries such as the UK, Ireland and Spain. In consequence, there appears to have been some redirection of flows of emigration towards the Scandinavian countries, and especially Norway. This continuing numerical outward flow of migrants appears counterintuitive to the expected outcomes of a simple economic model of “push” and “pull” explanations and requires an understanding of the constitutive structurally segmented labour market dynamics of Lithuania’s ‘hyper-migration.’

* Source: (Statistikos Departamentas, 2014)
The impact of continuing austerity has generated a demographic crisis which seems unlikely to abate whereby three quarters of the negative population growth of Lithuania is accounted for by outward migration, and population projections at current rates suggest a reduction of overall population from 3.69 million in 1990 to 2.82 million in 2030 (United Nations, 2012). Emigration has become a veritable "exodus" now manifest in a demographic implosion resulting in profound labour market imbalances. This suggests an unsettling prognosis for long-term recovery, despite positive, even fetishistic, celebrations of improving macro-economic performance. Such recovery has a restricted economic and a shrinking demographic basis. Above all, it is vulnerable to external shocks and lacking in internal dynamism, and as such, is typical of an underdeveloped “extensive” mode of economic development based on informalized low-cost labour and cheap exports. This “model,” a necessary concomitant of Lithuania’s dependent and peripheral position in the European and global economy, is reaching its demographic and sociological limits. Courtesy of a state “policy of no policy” extensive capacities of economic development seem to be exhausted and incapable of moving towards a high added-value path, based on innovation matched by advanced infrastructural and human resources. The crisis of the planned economy under socialism has become transmuted into the crisis of the unplanned economy under neoliberalism. Policy at national level is absent and is derived vicariously from the EU, addressing primarily contingencies in the disbursement of EU funded projects and programmes. The discourse of the domestic elites embraces a purely “European” solution to current dilemmas in which the future adoption of the euro currency is proffered as the reward for ongoing austerity. Thus, the current trajectory has as its unintended effect, a heightening and consolidating of the politically and economically-induced segmentation of the labour market, thereby further stimulating further “exit.” Lithuania today remains a country based upon the “import of EU monies and the export of its people.” “Free movement,” the most valued and utilized of the “fundamental freedoms” of the European project is generating its own perverse outcomes of societal unsustainability.

The full ramifications of the neoliberal Baltic model of “internal devaluation” in terms of demographically unsustainable levels of emigration have still to fully play out however. A precondition for successful internal devaluation has been a weak civil society and the demobilization of opposition, especially that of organized labor. In short, metrics on inequality, poverty, workplace safety, among others, combine to sustain a degraded working environment for many. The concrete realization of ‘impaired’ industrial citizenship is to be found in worker disempowerment, informalized labor regimes, and a Soviet heritage which have conspired to make trade unions weak political actors. Thus, when the crisis emerged it left the mass of the population ‘unprotected’. Denied ‘voice’ in the workplace many have chosen the route of ‘exit’. The consequences of mass migratory exit in terms of labor shortages in the slow-dawning aftermath of the crisis have so far barely been addressed by Baltic governments. If those who have departed do not return, as seems increasingly to be the case, the issue of a ‘replacement workforce’ and the social implications of foreign labor arriving on Baltic shores, will need
to be confronted. In this regard, Baltic ethno-nationalism, foundational in the struggle for independence, creates an ambiguous legacy.

Thus, orderly labor markets and balanced social and economic development have departed from the Baltic states, along with a significant proportion of its populations. This externalized cost of near demographic collapse would not appear on the balance sheets of Western European banks. Indeed, none of this might matter, if viewed from a strictly Malthusian standpoint. The collective population of the three Baltic states is less than Moscow, or even Berlin. Emptying the impoverished Baltics of their socially productive human resources to leave a residue of pensioners, unemployed or those who simply cannot move is hardly in itself a prescription for a European catastrophe other than on a localized scale. And yet, given the pivotal importance now ascribed to the Baltic model of austerity management, it is worth restating that the societal costs entailed are not merely a localized or transient phenomenon. In the “actually existing” world of austerity these costs, realized in profoundly unequal burden-sharing between rich and poor and replicated to a greater or lesser degree across all of the member states, may ultimately prove the undoing of the entire European project. In as much as the economic foundation of this project rests upon the expanding European Monetary Union and the single market, it is the euro and its survival that becomes the testing ground for the resolve of capital to do ‘whatever is necessary’ even if at the cost of its own economic and social project.

Paradoxically, the crisis that has brought so much economic pain and social dislocation was enabled, in part, by key elements of the European Union’s very own institutional and political design. The EU’s monetary union created instability from the outset by making credit cheaply available via a euro that largely reflected the exceptionally high productivity of Germany’s economy and investor confidence in that. All might even have been fine if the proper tax policies were in place to channel this cheap credit into industrial expansion. Instead, it was used to create asset bubbles and sustain consumption for lower productivity countries in the EU, thus weakening those states by permitting the continuation of ‘exaggerated’ consumption without commensurate levels of investment in productive enhancing sectors of their economies. In the unraveling of crisis we have observed how lower productivity countries, such as Greece, were able to take on greater public debt, based on the perception of the euro’s stability and confidence that European member state sovereign debts will always be made good. Nearly all countries in the European crisis, however, were like Spain, in that their debt difficulties arose from private debt. Euro currency membership, deserved or undeserved, simply served to inflate asset bubbles predicated on the lower interest rates thereby enabled.

In the aftermath of crisis the project of a Social Europe has already had its epitaph written, not least by Mario Draghi, former Goldman Sachs advisor and President of the European Central Bank (Blackstone et al 2012). Draghi’s absolute candor (‘the European social model is dead’) reveals much that has been previously unspoken, but it does pose a problem for the wider social and economic management of Europe’s crisis. In the backwash of the crisis the European Commission has predictably returned to the
'social dimension' of the European project. In the words of Commissioner Lazlo Andor, responsible for Employment, Social Affairs and Inclusion, the idea of a Social Europe is necessary in order to "promote economic, social and territorial cohesion, and solidarity among the Member States" (Andor 2013). Social Europe has been re-invoked in a "long term reconstruction of the European Social Model" and is designed to address the "systemic flaws in the design of Europe's EMU." It is openly admitted that the foreclosure of the currency devaluation option within the eurozone, and the application of "internal devaluation" have produced negative consequences, especially in Europe's periphery, including *inter alia* "the loss of population through emigration" (Andor 2013). Indeed, the 'European Social Model,' as a configuration of social partnership and social protection measures supposedly intended to address market excesses, proved to offer little in the way of protection for the citizens of either new EU member states, or more widely in the core older member states, in the face of economic recession. Arguably, as a model it was always more consistent with the perspectives of advanced Western social democracies, and was never fully compatible, except in its most vestigial form to the new market economies of post-communist Eastern Europe (Meardi 2012). Yet its comprehensive failure at the moment of testing now requires some further intervention to re-establish the legitimacy of the European project in the eyes of its populations.

The ensuing communication from the Commission, *Strengthening the Social Dimension of the Economic and Monetary Union* (European Commission 2013), proposes a renewal and enhanced role for social partners (employers and trade unions) in a renewed 'social dialogue' to address the downsides of austerity. To this end the Commission will set up a scoreboard of 'social indicators.' These would relate to unemployment, specifically the numbers of young people not in employment, education, or training (the so-called NEETs). Other key indicators envisaged are the percentage of the working age population at risk of poverty and income inequalities as measured by comparing the richest fifth of the population with the poorest fifth (the so-called income quintile ration), and the real gross disposable income of households. Thresholds, both in terms of deviations from the euro area average as well as in terms of deviations from the historical values for any particular country, will be defined. If indicators exceed these thresholds, the department of the European Commission responsible for employment and industrial relations will undertake in-depth assessments for the countries concerned. These will provide the basis for possible future 'coordinated' employment and social policy interventions in the yearly round of advisory measures and recommendations from the Commission to member states in order to "better reflect the social implications of macroeconomic imbalances" (Andor 2013).

Yet, as a set of rigorous policy prescriptions designed to address the scale of Europe's systemic social crisis (and its so-called 'social imbalances'), not least "the growing divergence between member states and increasing polarization within societies," these proposals amount to what has been aptly described as "the Charge of the Light Brigade" (Janssen 2013). In no way do they begin to match, never mind remediate, the costs of the financial and fiscal interventions imposed on hapless member states, such as the Baltics, which have found themselves in the eye of the recessionary storm. By contrast, the restructured Social Model will depend for the implementation of its policy
proposals on the array of non-mandatory steering tools, benchmarking processes, guidelines, recommendations and the ‘open method of coordination’ by which the Commission guide and influence member states in areas where they still retain some measure of individual national competence such as social protection and employment.

Nevertheless, the long-awaited communication from the Commission is remarkable in being the first explicit recognition that the crisis and internal devaluation have entailed significant costs to the social fabric of the European project. However, the message of Commissioner Andor may have been somewhat overshadowed by European Commission President, Jose Manuel Barroso, who chose to launch another one of their periodic high-profile drives against unnecessary Brussels ‘red tape’ the very same day and simultaneously with the release of the Communication on the Social Dimension. This deregulation initiative Barroso described as “the most comprehensive exercise to date to make EU law lighter and simpler” in removing regulations “burdensome to business” (BBC News 2013). “Let’s think twice whether, when and where we need to act at European level,” said Barroso. In the European policy contest between the liberalized economy and its ‘social dimension,’ this day was not a good one for the latter. What is unfolding at a European policy level should be seen against the canvas of Europe’s federalist ambitions, its ambition to enlarge the scope of its policy-making purview, if necessary by European Treaty change, the unquestioned writ of the European central bankers and the scramble for renewed economic competitiveness. In this cause, social and labor standards have been systematically and contingently eroded by the rush of market forces and fiscal discipline implemented with zealous rectitude by both West and East.

Models are at best simplified heuristic devices which in their simplification can sometimes obscure more than they reveal. The neoliberal Baltic model provides ample empirical evidence of irreconcilable contradictions generating a legacy of social despair. It has been replete with the tragedy of lost human potentialities, a future foreclosed in terms of socially and economically sustainable societies and the final disappointment of aspirations for ‘convergence’ with Western Europe. In this respect its wider applicability and that of current austerity policies are contestable. Equally, the Social Europe model is a gross simplification which covers the inherent divergence of a Europe that comprises an affluent core and an impoverished post-crisis Southern and Eastern periphery. A reinstatement of Social Europe would require redesigning the EU project itself, in which economic integration was matched by common levels of social protection underpinned by legislative and regulatory renewal of the collective rights of labor as against those of capital. This would have to be complemented by an entirely new kind of economic and social agenda for European nations that would likely only be contemplated if the EU project was rendered impotent by another crisis. Given the current austerity response to the economic crisis, and the continuing simplistic reiteration of the ‘Baltic’ model of ‘success,’ an undeviating commitment to crisis resolution on strictly neoliberal terms ensures that the ultimate social and economic failure of the European Union’s project is more likely to be a question of when, rather than if.
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References


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