Economic Lessons from the Crisis - The Baltic States Companies
Working Efficiency

Dr. Lembo Tanning¹, MSc. Toivo Tanning²
¹TTK University of Applied Sciences, Tallinn, Estonia
²Tallinn School of Economics, Tallinn, Estonia

Corresponding author: Lembo Tanning, TTK University of Applied Sciences, Tallinn, Estonia

Abstract. Goal of this article is to analyse the labour productivity, or working efficiency of Baltic States before and after the economic crisis; and to compare them on the European Union (EU) level. Focus is Estonia as one of the most successful countries in the European Union. A number of proposals to increase labour productivity for both workers and entrepreneurs have been listed in the summary. The Baltic States (Estonia, Latvia, and Lithuania) is region of Northern Europe. They country are the eastern shore of the Baltic Sea.

Keywords: labour productivity, workforce, gross domestic product, Baltic States, Estonia.

JEL classification codes: F43, J21, J40, O11, O52, H12.

1. INTRODUCTION

Lithuania, Latvia and Estonia have been members of the European Union and the NATO since 2004. They country are a member of Council of Europe, IMF and WTO.

The UN lists Baltic States as a country with a "Very High" HDI. [Human]

Estonia formally joined the OECD in late 2010, and adopted the euro as its official currency on 2011. Estonia, has a modern market-based economy and one of the higher per capita income levels in Central Europe and the Baltic region. Estonia’s successive governments have pursued a free market, pro-business economic agenda and have wavered little in their commitment to pro-market reforms. The current government has followed sound fiscal policies that have resulted in balanced budgets and low public debt. [The World Factbook]

In European Union, in 2012 the lowest government deficits in percentage of gross domestic product (GDP) were recorded in Estonia (-0.3%) [2011=+1.2%],
Sweden (-0.5%), Bulgaria and Luxembourg (both -0.8%) and Latvia (-1.2%), while Germany (+0.2%) registered a government surplus. At the end of 2012, the lowest ratios of government debt to GDP were recorded in Estonia (10.1%) [2011=6.2%], Bulgaria (18.5%), Luxembourg (20.8%), Romania (37.8%), Sweden (38.2%), Latvia and Lithuania (both 40.7%). [Eurostat news]

Working efficiency in Baltic countries has been analysed the situations before the crisis, during the crisis and after the crisis will be viewed.

The techniques and labour market survey definitions used by the authors have been specified in Eurostat [Methodology]. The data are in compliance with International Standard Classification of Occupations of ILO [ISCO 08].

The theoretical basis of workforce productivity measurement in more detail are given of the authors' earliest publications. This is discussed in the following analysis on the basis of Estonian companies. [Tanning & Tanning (2010); (2012) a, b, c; (2013) a, b, c]

How has the economic crisis affected business, and what are the lessons learned?

2. ANALYSIS

For an introduction, see the development of the economy (GDP) of the Baltic States, EU 27 countries, USA and Japan.

Note: f - forecast

Figure 1. Real GDP growth rate – volume. Percentage change during the previous year [Code: tec00115]

Source: authors illustration
The trend line shows the cyclical development of the Baltic countries economy (GDP). In addition to the economic decline during the years 2008 – 2009, there was also a decline in 1999 (Estonia and Lithuania). In 2009, real GDP fell by 14.8% in Lithuania, by 17.7% in Latvia and 14.1% in Estonia.

If an annual real GDP increment of more than 10% can be considered excellent, then the result in 2003 - 2007 was GDP growth rate were one of the largest in the world.

The development of the Baltic countries economy before and after the crisis was one of the fastest in the EC. Yet, the crisis led to a very deep recession, which was one of the greatest in the world, as well as in the EC. A larger or smaller recession took place in 2009, which is called the crisis year. In the following years economy grew.

Thus, the country covered two extremes. On the other hand, it also shows that the reforms carried out in the past were successful and established a base that enabled exiting the crisis successfully. In particular, this meant creating favourable conditions for business. Again, GDP growth in 2011 and also 2012 are highest in the EU.

Before and after (2011 – 2012) the economic depression, the Baltic States were successful. The Baltic countries had the highest in GDP growth rates in Europe between 2000 and 2007. Hence, these countries were called the Baltic Tigers.

Real GDP growth rate, percentage change during the previous year in 2012: USA = 2.2%; Japan = 2.0%; EU 27 = -0.3%; Euro area (17) = -0.6%; Germany = 0.7%; France = 0.0% and Sweden = 3.9%. [Code: tec00115]
Between 1995 and 2007, GDP per capita in constant prices in Estonia increased by 2.48 times, by 2.31 times in Lithuania and 2.67 in Latvia. The economic crisis significantly brought down the levels and in 2011, Lithuania was the only country that managed to exceed pre-crisis levels, in fact, Estonia and Latvia were also short of the level of the year 2006.

### Table 1. Labour productivity per employed person (EU-27 = 100). [Code: tec00116]

<table>
<thead>
<tr>
<th>Year</th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>34.1</td>
<td>33.4</td>
<td>36.2</td>
</tr>
<tr>
<td>1997</td>
<td>40.0</td>
<td>35.7</td>
<td>38.6</td>
</tr>
<tr>
<td>1999</td>
<td>43.5</td>
<td>38.3</td>
<td>40.6</td>
</tr>
<tr>
<td>2001</td>
<td>48.4</td>
<td>41.6</td>
<td>47.4</td>
</tr>
<tr>
<td>2003</td>
<td>55.0</td>
<td>44.2</td>
<td>52.6</td>
</tr>
<tr>
<td>2005</td>
<td>60.8</td>
<td>47.8</td>
<td>55.1</td>
</tr>
<tr>
<td>2006</td>
<td>62.4</td>
<td>48.9</td>
<td>56.9</td>
</tr>
<tr>
<td>2007</td>
<td>66.7</td>
<td>51.5</td>
<td>59.6</td>
</tr>
<tr>
<td>2008</td>
<td>65.8</td>
<td>51.7</td>
<td>62.1</td>
</tr>
<tr>
<td>2009</td>
<td>65.1</td>
<td>52.9</td>
<td>58.1</td>
</tr>
<tr>
<td>2010</td>
<td>68.4</td>
<td>53.8</td>
<td>62.6</td>
</tr>
<tr>
<td>2011</td>
<td>67.6</td>
<td>62.7</td>
<td>64.9</td>
</tr>
</tbody>
</table>

In Estonia yield per worker, i.e. productivity grew 2.0 times during the period under examination; however, it came to a pause during the economic crisis.

In contrast, in 2010 in Latvia, yield per one worker was 54.6% and 62.3% in Lithuania, similar to the EU-27 average. The indicator was highest among EU member states in Luxembourg (169.9), Ireland (136.9) and France (115.8) and
lowest in Bulgaria (41.3) and Romania (48.8). Productivity was 1.5 times higher than the EU average in Norway (150.7) and the USA (143.5).

One working hour productivity displays a similar trend, having been highest in Luxembourg 187.1. Productivity in Estonia only amounts to 61.0%.

However, the prevailing trend is that regardless of growth in productivity elsewhere, the indicator rises noticeably quicker in Estonia and also other new EU accessions, than in veteran and wealthy EU-15 countries.

When analysing productivity in EU-27 (added value produced by one worker) by sectors of the economy and the size of companies, one cannot draw an equipollent (equal in force or effect) conclusion regarding productivity and the number of workers engaged in the company. It is conditioned by the particular sector of the economy. For instance, productivity among energy and water management companies is highest in small firms with up to 9 persons on payroll. On the other hand, for companies active in the lease of movable property, accommodation (housing) companies, and among all the sectors of the economy taken together as an entity, productivity is highest in big firms that employ 250 or more workers. Highest productivity among textile and habiliment (articles of clothing) firms can be noted in companies with 10 - 49 workers; the same can be said for timber companies with 50 – 249 workers [Code: tin00054].

A more detailed analysis of the productivity indicators of Estonian companies and the labour expenses in current prices, i.e. the predominant share constituted by salaries, is brought below.

In Estonia, productivity differs little for companies in the size of up to 249 workers. In 2003 and 2007 firms with 50 –99 workers boasted the largest productivity; in 2005 it was companies with up to 9 workers and for the rest of the surveyed period, companies with 100 – 249 workers dominated. Invariably, large companies with smaller productivity had 250 and more workers. This can be accounted for by the fact that smaller companies have larger flexibility in management, a smaller number of ancillary personnel and also because the workers of small companies are more likely to be “jacks of all trades” than in big companies. In big firms productivity is sapped, as a general rule, by large overheads.
Estonian labour productivity growth in 2010 was 4.6% and -1.7% in 2011.

Table 2. Labour productivity. Euro per hour worked [Code: tsdec310]

<table>
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<td>:</td>
<td>:</td>
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<td>9.7</td>
<td>10.3</td>
<td>10.0</td>
<td>10.3</td>
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<td>10.8</td>
<td>11.1</td>
</tr>
<tr>
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<td>:</td>
<td>:</td>
<td>4.2</td>
<td>4.7</td>
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<td>6.3</td>
<td>6.7</td>
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<td>6.6</td>
<td>6.9</td>
<td>7.8</td>
<td>8.1</td>
</tr>
<tr>
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<td>5.6</td>
<td>6.5</td>
<td>7.5</td>
<td>8.2</td>
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<td>8.3</td>
<td>8.7</td>
<td>9.2</td>
<td>10.2</td>
</tr>
</tbody>
</table>

In Norway, the indicator for euro per hour worked has grown from 49.3 thousand to 68.9 thousand during the years 1990 – 2011, from 29.8 to 44.4 in Sweden, from 25.7 to 40.0 in Finland, from 37.4 to 48.9 in Denmark, from 33.4 to 45.4 in France, from 31.2 to 42.3 in Germany, from 29.5 to 41.5 in the United States; and during the period from 1995 – 2011 from 25.3 to 31.9 in the EU (27 countries).

In 2011 Norway (68 900 EUR) and Luxembourg (60 000 EUR) have highest productivity, euro per hour worked, in Europe and also globally. EU 27 = 31 900 EUR. [Code: tsdec310]

Figure 3. States with lower productivity, Euro per hour worked, < EL=100, 2012 [Code: tsdec310]

Source: authors illustration
Table 3. Labour productivity per hour worked. Index, 2005=100 [Code: tec00117]

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
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<td>103.6</td>
<td>103.1</td>
<td>101.7</td>
<td>103.9</td>
<td>105.3</td>
<td>105.3</td>
</tr>
<tr>
<td>Estonia</td>
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<td>112.1</td>
<td>108.9</td>
<td>111.7</td>
<td>118.2</td>
<td>116.9</td>
<td>116.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>106.9</td>
<td>114.6</td>
<td>114.7</td>
<td>111.9</td>
<td>117.3</td>
<td>133.6</td>
<td>133.6</td>
</tr>
<tr>
<td>Lithuania</td>
<td>106.7</td>
<td>112.8</td>
<td>115.0</td>
<td>107.5</td>
<td>113.9</td>
<td>119.8</td>
<td>119.8</td>
</tr>
</tbody>
</table>

Compared to 2005, labour productivity per hour in all 10 of the new post-socialist EU countries has increased at a more rapid pace than the EU 27 average. Ireland had the greatest increase of the old EU member states (117.3) and Latvia among the new members (133.6). Hungary had the smallest growth (104.6) among new members, which was even lower than the EU 27 average. The level of Estonia among the new member states was average.

Table 4. Labour productivity per hour worked. Percentage change over previous year [Code: tsdec310]

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</thead>
<tbody>
<tr>
<td>EU (27 countries)</td>
<td>1.8</td>
<td>1.7</td>
<td>1.5</td>
<td>1.7</td>
<td>1.2</td>
<td>2.1</td>
<td>1.4</td>
<td>-0.5</td>
<td>-1.4</td>
<td>2.1</td>
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<td>Estonia</td>
<td>5.9</td>
<td>5.0</td>
<td>6.1</td>
<td>5.8</td>
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<td>5.0</td>
<td>6.8</td>
<td>-2.8</td>
<td>2.5</td>
<td>5.8</td>
<td>-1.1</td>
</tr>
<tr>
<td>Latvia</td>
<td>6.5</td>
<td>6.3</td>
<td>6.2</td>
<td>9.3</td>
<td>6.6</td>
<td>6.9</td>
<td>7.2</td>
<td>0.1</td>
<td>-2.4</td>
<td>4.8</td>
<td>13.8</td>
</tr>
<tr>
<td>Lithuania</td>
<td>11.8</td>
<td>4.8</td>
<td>8.9</td>
<td>6.0</td>
<td>1.7</td>
<td>6.7</td>
<td>5.7</td>
<td>1.9</td>
<td>-6.5</td>
<td>5.9</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Labour productivity grew for all countries until 2008. In 2008 some countries, including Estonia (-2.8), experienced a decline. In 2009, all countries, except Estonia and Poland were experiencing a decline. In 2011 hourly labour productivity only decreased in Estonia compared to the previous year. The greatest productivity growth in 2011 was of Latvia (+13.8%).

From the second half of 2006, productivity per employed person of Estonia in reference to sales revenues was over 20 thousand euros. A dramatic decline occurred in Q1 of 2009, which was followed by a slow growth, whereas QIII and QIV of 2010 were record-breakers. Admittedly, Estonia has made its exit from
the economic crisis mainly along the intensive road, i.e. on account of productivity growth.

Productivity per employed person in reference to added net value has changed due to other regularities. As late as in QIV of 2010, Estonia reached the level of the three successful pre-crisis quarters of 2007. Whereas in QIV of 2010, the level was already 1.5 times higher than productivity in the deepest slump of the crisis in QI of 2009.

After the crisis, productivity recovered quicker in reference to sales revenue than in reference to added value, which is an indicator of the runaway selling prices after the crisis.

While the above analysis by quarters supports the assumption that during the period of the economic crisis changes take place extremely rapidly, as a consequence, an analysis with one year precision will not provide a correct picture of upcoming changes.

Table 5. The enterprises’ added value and productivity measures of Estonia [Code FS008]

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour productivity per person employed on the basis of net sales, thousand euros</td>
<td>72.1</td>
<td>81.2</td>
<td>92.2</td>
<td>93.6</td>
<td>81.2</td>
<td>95.4</td>
<td>112.2</td>
</tr>
<tr>
<td>Hour productivity on the basis of net sales, euros</td>
<td>42.85</td>
<td>48.22</td>
<td>55.52</td>
<td>56.27</td>
<td>50.57</td>
<td>59.12</td>
<td>67.96</td>
</tr>
<tr>
<td>Labour productivity per person employed on the basis of value added, thousand euros</td>
<td>14.7</td>
<td>17.4</td>
<td>19.3</td>
<td>18.7</td>
<td>17.4</td>
<td>19.6</td>
<td>22.7</td>
</tr>
<tr>
<td>Hour productivity on the basis of value added, euros</td>
<td>8.71</td>
<td>10.33</td>
<td>11.64</td>
<td>11.21</td>
<td>10.84</td>
<td>12.13</td>
<td>13.78</td>
</tr>
</tbody>
</table>

Sales revenue per employed person was 44.3 thousand euros in the first quarter of 2010, which is more than in the previous year but still falls short of the average of 2007 and 2008.

The productivity of the business sector in reference to added net value increased by 18% in 2010, while the companies’ average labour expenses per employed persons remained at the level of 2009.
Based on sales revenue, labour productivity per employed person grew steadily for all companies until 2008, as did hourly productivity based on sales revenue, then a great decline of 13.2% and 10.0% respectively followed, which, on the other hand, is much smaller than the decline of total business output or real GDP. However, already in 2010, both indicators reached record levels.

The new Employment Contracts Act of Estonia, which made labour relations more flexible, and the more effective unemployment insurance system also had great influence.

A similar comment also holds for labour productivity and hourly productivity based on added value.

Still, in 2010 labour productivity per employed person based on sales revenue in smaller firms remained below the labour productivity of the pre-crisis years. However, growth was strong in large companies with 250 or more employees, where it grew to 103,500 euros (in comparison, the same indicator was only 64,600 euros in 2005). This also led to the sum of all companies achieving the greatest labour productivity in 2010.

Hourly productivity based on sales revenue in 2010 still remained low for companies with up to 20 employees, while larger companies already reached record levels. Again, large companies with 250 and more workers experienced a particularly large increase, where it grew to 61,150 euros (in comparison, the same indicator was 37,350 euros for such companies in 2005), amounting to an annual growth of 18.1%.

As a whole, labour productivity and hourly productivity based on added value reached record levels for all companies in 2010. small company (SME) still remained below the 2007 level and for companies with 10 to 19 employees, below the 2008 level. On the other hand, companies with more than 20 employees already reached record levels in 2010.

During the years 2002 – 2004, hourly productivity based on net added value in transportation was better than the Estonian average. The construction boom began and in 2008 raised hourly productivity in construction to a higher level than the state’s average; the difference was especially great in 2007. The following crisis, on the other hand brought the productivity of builders sharply
below the average. Although the builders’ productivity grew significantly in 2011 and 2012, it remained lower than in other economic sectors.

While productivity in the processing industry remained lower than the average both before and during the crisis, it was the highest in 2010 and 2011. In 2012 however, productivity in transport slightly exceeded industry. Both one and the other were better by specific quarters in recent years, thus they were equal.

Productivity in the retail and wholesale trade during the years 2005 – 2008 was higher than the average and lower after the crisis.

As a rule, there were no significant differences in the productivity of different sectors of the economy before or after the crisis, excl. construction.

Taking into account this publication and the previous work of the authors [Tanning (2012) a, b, c; (2013) a, b, c] have made the following conclusions and suggestions.

3. CONCLUSIONS AND SUGGESTIONS

Conclusions
1. Companies came out of the economic crisis by a surge of hiring professionals, engineers and customer service staff.
2. Companies were brought out of the economic crisis by the growth of labour productivity.
3. The importance of large companies, especially those with 250 and more employees, was decisive.
4. The Baltic countries were the most higher indicators in labor productivity which has ensured better other key indicators, compared with Latvia and Lithuania.
5. However, the Estonian labor productivity indicators are twice lower than in most developed post-socialist Slovenia.
6. Rich countries of Western Europe to reach a level the Baltic countries should be increased of productivity per worker for two and per hour worked three times.

To increase labour productivity the following should be taken into account:
1. By the employee.
   1.1 Objective factors (different innate abilities, talents, working and living conditions),
   1.2 Subjective factors (self-realization, motivation, commitment, a desire to work better, ambition, education, qualification, a variety of mental and physical abilities, laziness, negligence, drunks, the courage to set high goals and the desire to strive for them).

2. By the employer (the company).
   2.1 Objective factors [better organization of work, using more efficient machinery and equipment, innovation, improving working conditions (lighting, noise, humidity, temperature, air composition, etc.), natural conditions, material possibilities],
   2.2 Subjective factors [moral (cheering, encouragement, etc.) and material incentives (salary, bonuses, bonus payments, etc.), creating conditions for up-skilling and re-training, the work environment (working collective, i.e. co-workers, etc.), not overly demanding, behaviour with the staff (guaranteeing human integrity, name-calling, etc.), taking internal tensions to the minimum, a desire to develop the company and increase its fame, the educational level and experiences (information capital) of the management leadership, the ambition of the company’s management].

3. Several of the factors for raising mental and physical work productivity are different. Typically, an increase in the company’s productivity depends more on the employees that do mental work (engineers, economists, etc.). It is important to establish an optimal relationship between the groups. The excellent drawings for a machine designed by an engineer will still usually be finished in metal by workers.

4. Each company, sector of the economy and region has its peculiarities, and taking these into account would increase labour efficiency.
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