THE EFFECTS OF REFORM SCENARIOS FOR UNEMPLOYMENT BENEFITS AND SOCIAL ASSISTANCE ON WORK INCENTIVES AND POVERTY IN LITHUANIA

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Aim

In 2015 the Lithuanian government launched a reform agenda aimed at balancing flexibility of the labour market and social protection. We simulate alternative scenarios for reforming the unemployment benefit and cash social assistance in Lithuania. We look at the effects of reforms on financial incentives to work, poverty, income distribution and their first-order financial costs.

Context

Low protection, low expenditure. Social assistance serves as buffer for joblessness. Trade-off between adequacy and work incentives.[1]

Methods


Indicators of work incentives:

- net replacement rates (NRR),
- participation tax rates (PTR),
- marginal effective tax rates (METR).

Distributional effects and costs:

- First-order impact on disposable income, poverty, GINI and relative change in expenditure.

Results

1. Increased NRRs across all earnings quintiles from ~22% to ~44%. Those with higher earnings benefit relatively more.

2. Increase in PTRs by ~16 ppts on average. Higher effect in the middle and upper part of the income distribution. At the bottom – reform counteracted by withdrawal of means-tested benefits.

3. Those at the bottom of the income distribution benefit most from the reform relative to their total disposable income.

Distributional effects and costs

Unemployment benefit reform: increase the number of recipients by ~13% and more than double expenditure (to ~1% of the GDP). Marginal redistributive effect.

Social assistance reforms: more profound redistributive effects (except reform A). Increase in the total spending by around 25-65% depending on the parameters of the reform.

References


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