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THE IMPACT OF SOCIAL POLICY ON THE LEVEL OF EMPLOYMENT IN THE LITHUANIAN LABOR MARKET¹

Abstract

Goal – the contemporary labor market in European countries is being currently influenced by such factors as an ageing population, shortage of employees, difficulties in recruiting employees with appropriate qualifications and untapped professional potential. In the case of the latter, the situation of people with disabilities, of young women, of people 50 + is discussed most extensively and, much less frequently than the problem of activating the long-term unemployed. This topic seems to be important in the context of decreasing labor resources and the growing deficit of employees. The aim of the article is to determine the impact of the social policy (social security system) on the level of employeed and their activation. It is assumed

¹ The authors' participation in the publication: development of research methodology, organization of research/surveys and data processing, data analysis, drafting of some sections of the article, discussion of practical implications – 30%.

that the social benefits that unemployed beneficiaries receive discourage them from returning to the labor market.

- Research methodology the used research methods include: analysis of scientific studies, descriptive and comparative methods and the survey research².
- Score/results the conducted research has shown that the main causes of long-term unemployment do not result from the decisions of the unemployed, and neither from the demotivating effect of receiving social benefits in the context of active social integration. Thus, the hypothesis was not confirmed.
- Originality/value the analysis conducted in the article allows to identify barriers to employment of the long-term unemployed in Lithuania and thus contributes to the scientific discussion on this topic. The results can provide policy makers with recommendations for activation measures for the unemployed social assistance recipients in the context of stabilizing the local labor market situation and of increasing the effectiveness of the social policy.

Keywords: long-term unemployment, social assistance, activation of the unemployed, Lithuania.

1. Introduction

State activities relating to the labor market are among the most important public policies. These activities are aimed at ensuring a high level of employment (reduction of unemployment) and at the rational management of human resources, primarily through the creation of new and full-fledged jobs. The labor market policy is an important part of the employment policy as it focuses more on solving the structural and social problems of the already operating labor market [Knapińska, 2018]. Within the labor market policy, a distinction is made between the active state policy and the passive state policy. The state's active actions aim to ensure stability and long-term development and to eliminate social inequalities. Meanwhile, the passive policy ensures social protection for the unemployed and provides material security for people who have lost their jobs. Various types of social security benefits are used for this purpose [Grynia, 2012].

² The article uses the results of the survey research conducted in 2022 with the support of the European Regional Development Fund (project No 13.1.1-LMT-K-718-05-0008) under grant agreement with the Research Council of Lithuania (LMTLT) and the research carried out in 2017 with the support of the Lithuanian Ministry of Social Protection and Labor.

Unemployment, especially long-term unemployment, is a significant socio-economic problem for every country. Its effects have a strong impact on the unemployed people and on their families, as well as on the entire society and economy. The social policy is the state's response to these social problems which cannot be easily solved. As a part of this policy, the state pursues economic and social goals that "are intended to ensure universal prosperity and its even distribution among citizens, as well as to strengthen the weakest groups" [Zgliczyński, 2017]. It is implemented through various specific policies, such as the previously mentioned employment policy, but also through social security, health, housing, family, education and other policies. The social security system varies across the European Union (EU), as a result of different socio-economic, demographic and historical-cultural conditions. Each EU country has its own regulations defining the rules for granting particular types of benefits, their amount and the period for which they will be paid [MISSOC, 2023].

The national social security system plays an important role in the context of the increasing employment and the campaign to reduce the number of unemployed. The role of social transfers in the context of providing individuals with a degree of income security in case of unforeseen circumstances related to the incapacity for work, unemployment, old age, disability, child-rearing, etc. is undeniable. On the other hand, these conditions can have a variety of effects on the labor market and on determining the behaviour of the unemployed, such as leading to a lower motivation for re-employment.

The main aim of the article is to determine the impact of the social policy (social security system) on the level of employment in Lithuania in the context of reducing the number of long-term unemployed and their activation. The specific objectives are: to indicate the causes of long-term unemployment and the factors (actions) aimed at reducing it. The research hypothesis assumes that the Lithuanian social security system has a deactivating effect on the benefit of the recipients. The social benefits that unemployed beneficiaries receive discourage them from seeking employment. It is assumed that all social transfers influence labor supply because their amount increases the attractiveness of the unemployed status. Therefore, the following research contains such questions:

- **H1**: Do the main causes of long-term unemployment result from the decisions of unemployed people (e.g. from excessive salary expectations)?
- **H2**: Is receiving social benefits a factor that demotivates the unemployed from active integration, i.e. economic activity?

The used research methods include: descriptive and comparative methods as well as survey methods. The article consists of three main parts. The first one reviews the research on the analyzed issues, while the second one presents a statistical picture of the level of unemployment and of the expenditure on social benefits. The next part focuses on the results of survey research conducted by the authors.

2. Literature review

As already mentioned, there are significant differences in social security systems and rules for granting benefits, including unemployment benefits, in individual EU countries. The most extensive systems provide for the so-called welfare states that will aim to protect citizens against the widest possible social risks resulting from the loss of job, health and old age [Zgliczyński, 2017]. The contemporary paradigm of welfare state policy is the concept of active inclusion, which is based on three dimensions: adequate financial support, an inclusive labor market and access to high-quality services in the field of social and economic integration policy [Lazutka 2014; Krutuliene et al., 2019]. The need to individualize activation services, i.e. to adapt them to the needs of individual people, is emphasized [Gruževskis et al., 2021].

Taking into account these different approaches to social policy and the growing interest in activation policies, there is also a lot of research focusing on the relationship between the received social benefits and the motivation of the unemployed to actively integrate. The motivational effects of exhausting unemployment insurance benefits on long-term unemployed Finns are presented in a study by Ilkka Virjo [Virjo, 2007]. As a result of the analysis, the author determined that some of the surveyed people delayed withdrawing from unemployment due to the received financial support, but the scale of this effect was small, which justifies the conclusion that economic incentives are not the main cause of long-term unemployment in the Finnish system.

The analysis of the relationship between unemployment benefits and the duration of unemployment in relation to different approaches in social policy in EU countries was carried out in the work of Laura Južnik Rotar and Sabina Krsnik [Južnik Rotar, Krsnik, 2020]. The results obtained by the authors suggest that the more generous the social policy is, the more often there is a negative relationship between the duration of unemployment and unemployment bene-

fits. It was also observed that the better the economic situation, the shorter the duration of unemployment. Meanwhile, Tania Bazzani [Bazzani, 2017] focuses on the main features of unemployment protection systems in Italy, Denmark and Germany and on the relationship between unemployment benefits and activation policies. The author recognizes that in all EU Member States the issue of activation has become a key element of labor market policy, but the effects of the introduced reforms are varied.

Another voice in the debate on the impact of unemployment benefits on employment is a model study conducted by Wolfgang Lechthaler and Patrick Ring [Lechthaler, Ring, 2021]. The study shows that the generosity of unemployment benefits reduces job search efforts. The results of Jonas Cederlöf's [Cederlöf, 2020] study on the effect of extending the duration of unemployment benefits in Sweden on the duration of unemployment are also noteworthy. The results obtained by the author showed that the overall duration of unemployment and the probability of employment remain largely unchanged. This is due to the extensive support options offered in other assistance programs available to job seekers who exhaust their unemployment benefits. This thread also includes the research by Johannes F. Schmieder and Till von Wachter [Schmieder, Wachter, 2016] assessing how long-term unemployed people in Denmark react to the threat of expiration of unemployment insurance in a social security system in which other benefits are available. Research has shown that the threat of exhaustion of the insurance period actually motivates beneficiaries to look for work.

The article by Fadime Irem Doğan [Doğan, 2019] attempts to investigate the impact of unemployment benefits on the duration of unemployment in France and Poland between 2006–2009 and 2011–2014. The presented results show that in both countries, collecting unemployment benefits prolongs the duration of unemployment. These findings, according to the author, may signal an inefficient allocation of social transfer funds and suboptimal investments in areas such as education. In turn, Tomi Kyyrä and Hanna Pesola [Kyyrä, Pesola, 2020] analyzed the impact of benefit duration on unemployment duration and subsequent job matching in Finland. They showed that one additional week of benefits increases the expected duration of unemployment by 0.16 of a week. A longer benefit period also increases the expected wage and the duration of the next period of employment.

The research on the analyzed issues in Lithuania includes the publication by Daiva Berzinskiene and Liongina Juozaitiene [Berzinskiene, Juozaitiene, 2011] examining the impact of labor market instruments on unemployment, including the received benefits. The conducted research allowed the authors to conclude that unemployment benefits relatively alleviate the effects of unemployment, but do not reduce its level and often suppress motivation to work. The conclusions of the analysis conducted by experts of the Lithuanian Free Market Institute (LFMI) in the context of financial motivation for the unemployed to return to the labour market are also noteworthy. Motivation was assessed with the unemployment trap index, which reached 105% in Lithuania in 2021 and it was the highest among all EU countries (the EU average is 74%). A ratio above 100% means that the real income from employment will be lower than the received social benefits. Therefore, it is not profitable for unemployed people to look for a job, because the loss of unemployment benefits and other social benefits during this time will reduce their real income, and the level of wages does not compensate for this loss. This situation makes it difficult to activate the unemployed and it should be taken into account when transforming the social and fiscal policy [LFMI, 2022].

The studies presented above cover various aspects of obtaining and maintaining benefits and their practical implementation in EU countries. The effectiveness of social transfers in terms of activating the unemployed is assessed differently, depending on the features of the social policy system. The demotivating effect is most often observed in wealthier countries incurring higher social security expenditures and offering a wide range of benefits in other assistance programs available to the unemployed.

3. Unemployment level and the scope of social assistance in Lithuania

The situation on the labor market is largely determined by the economic situation in the country. The return to the growth path after the economic recession caused by the 2008 crisis was reflected in growing employment and in the decreasing unemployment, but the problem of the decreasing labor supply remained unchanged [Grynia, 2018]. The COVID-19 pandemic was also important for the situation on the labor market, which further exacerbated the existing structural problems. Information presented by the Public Employment Service (PES) indicates a significant increase in the number of unemployed people during the pandemic, i.e. in 2020 and 2021. At the same time, the demand for work presented in job vacancies increased. This situation resulted from regional imbalance (vacancies are located in regions other than those with high unemployment rate) and qualification imbalance (there is a shortage of employees in some professions). Most often, employees were sought for in such industries as: the transport and storage, trade, manufacturing industry and construction sectors.

Indicators	2015	2016	2017	2018	2019	2020	2021	2022
Unemployment rate (%)	8,7	8,1	7,9	8,5	8,4	12,6	13,0	9,0
Total number of unemployed	158153	144864	139615	148242	144 898	216187	225 225	157344
Long-term unemployed (%) of total	29,7	27,7	26,4	26,0	22,7	20,9	38,6	24,7
Job vacancies	7 716,5	8 698,8	9264,8	1 0431	8 5 2 8	1 0015	1 5952	9 859

Table 1. Scope of unemployment in Lithuania (annual average values)

Source: PES, Statistical indicators.

The unemployment rate peaked in 2021 at 13% nationally, however, showing large regional variations. Thus, it can be observed that, as a result of the pandemic, the level of unemployment in general increased by 4.2 percentage points (p.p.) in 2020 and by a further 0.8 p.p. in 2021. In the light of the selected issue, the percentage of long-term unemployed is an important indicator characterizing the situation on the labor market. According to the above data, in the pre-pandemic period (2015–2020), on average, about 26% of the total unemployed were people who had been unemployed for more than a year. Meanwhile, in 2021, such people already accounted for nearly 39%, registering an increase of 17.7 p.p. This situation is due to the fact that long-term unemployment is growing with a certain lag as a result of the condition of being unemployed for at least 12 months. In 2022, the analyzed indicators showed a downward trend, however, remaining at a relatively high level. The profile of the statistical unemployed in 2022 was as follows: 50.2% of the total unemployed were women, while about 42% of the surveyed population was aged 30-49, and one in four unemployed belonged to the long-term unemployed group.

The relatively high level of unemployment in the country resulted in an increase in expenditure on the fulfillment of social benefit obligations in the analyzed period. According to Statistics Lithuania (SL), in 2021 compared to

2015, this indicator almost doubled, with the largest increase occurring in the last two years. In relation to GDP, the analyzed indicator increased from 15.7% to 18.6%.



Chart 1. Social protection expenditure 2015–2021 (million eur)

Source: SL, Social Protection.

Considering the structure of these expenditures, it can be seen that, on average, during the analyzed period, about 41% was the expenditure on pension benefits, while another 30.5% was the expenditure on cash sickness and/or health care benefits (Chart 2). An estimation of changes over the period under review showed that the share of these two items declined significantly, particularly the pension benefits (by 7.8 p.p.). However, there was a significant increase in the share of unemployment benefits (by 6.7 p.p.) and family benefits (by 3.7 p.p.). The average number of people receiving unemployment benefits from the state social insurance in 2015 was 44.7 thousand (1.5% of the total Lithuanian population), in 2020–80.1 thousand (2.9%), and in 2021–73.3 thousand (2.6%). According to the above information, it can be concluded that there is a relatively high level of long-term unemployment and a rapid increase in the percentage of beneficiaries and social security expenditure. Changes in their structure are also important, evidencing an increase in the share of expenditure on unemployment benefits. This indicates that this issue is current for Lithuania.



Chart 2. Changes in the structure of social security benefits between 2015 and 2021, (share of total expenditure,% and p.p.)

4. Barriers to employment of long-term recipients of social assistance and possibilities of their activation-research results

In order to design activation measures for unemployed recipients of social assistance, it is necessary to have a good knowledge of the barriers to employment. For this purpose, a survey of unemployed social assistance recipients was conducted in 2022 by the NGO "National Network of Poverty Reduction Organizations". This survey has some limitations. First of all, the population of social assistance recipients is not large, they are a relatively small group to be included in the survey sample from the general population. On the other hand, it is not possible to interview only them due to data protection. Contact details were therefore collected from NGOs that potential respondents contact for various purposes (getting help, attending events, etc.). For this reason, it can be formally assumed that the study is not representative. However, quite a significant part

Source: the author's calculations.

of the general population was tested (2.5%, i.e. 499 out of 20,000). The study is based on the self-report method. Some answers (e.g. the respondents' income) can be verified by comparing them with the average indicators from the database, while others are more difficult to check (e.g. the respondents' health condition, job search motives). Despite the encountered difficulties, it should be stated that the discussed research results are important for the intended purpose, because the obtained data cover a wide variety of unemployed beneficiaries of social assistance (according to gender, age, place of residence, period of unemployment and education) and provide interesting, and one might even say, unique, information on unemployment and experiences with social assistance. Among the respondents, the proportion of men was 46% and of women – 54%. Most respondents were from rural areas, 42% from single-person households, 31% from large cities and 27% from district centres. More than a half (53%) of the respondents had not worked for more than 3 years at the time of the survey. Those unemployed for longer than 12 months constituted the vast majority of respondents-82%. Periods of receiving social benefits were similar to the periods of unemployment: 60% of respondents had been receiving social benefits for more than one year.

The results of the 2017 survey of the long-term unemployed with 557 respondents were also used for the analysis. All of them were registered at the Labor Office (of which 44.5% received additional assistance from NGOs). Contact details and permission to conduct the research were obtained from the Lithuanian Labor Office under the Lithuanian Ministry of Social Protection and Labor. One purpose of this research was to develop recommendations for the economic activation of long-term unemployed recipients of social assistance. For this reason, the study also included a relevant group of workers at Labor Offices who directly consult the unemployed on job issues (285 respondents from 50 Labor Offices out of a total of 417 consultants employed at 60 centers).

The carried out research showed that the most common reasons for unemployment are often beyond the control of the long-term unemployed (Table 2).

The work ability group (B) consists of reasons for unemployment due to health problems or because of caring for a child and adult family member requiring care at home due to old age or disability (more than 70% of respondents indicated at least one of the reasons listed). Meanwhile, unwillingness to work as a reason for unemployment (group C) was directly indicated by only 7% of respondents. The further 19% of respondents justified their unwillingness to work by the amount of social benefits sufficient to support themselves. This group of

unemployed social assistance recipients should be the focus of activation policies. In general, however, this group of reasons for unemployment is the least numerous and indicates that the main causes of unemployment are out of the responsibility of the unemployed.

Why can't you take up a job? (you can indicate more than one reason)	%			
There are no jobs where I live. I have problems getting to work in remote places				
I have health problems but no disability entitlements				
I can't find a job for my qualifications				
There is no job for adequate pay				
It is not profitable for me to work because a large part of my earnings will be deducted by bailiffs	31			
I can't find a job because of my old age	30			
I can't find any job, even for minimum wage				
Work is offered in shifts only				
It is not profitable for me to work because social benefits will be significantly reduced				
Social benefits/allowances are sufficient to live on	19			
l am addicted (to alcohol, drugs, etc.)				
I take care of a child				
I take care of an elderly/disabled person in the family				
I am a disabled person				
l don't want to work				

Source: the author's own work.

In relation to the most common reasons for long-term unemployment (lack of jobs in the place of residence and problem with getting to work), a correlation analysis was additionally conducted. A relationship was sought between the place of residence (large cities: Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys; other cities, district centers; rural areas) and the above-mentioned reasons for unemployment. These variables are statistically significantly related to each other (p = 0.000), and the relationship has moderate strength (r = 0.586). Meanwhile, regression analysis showed that the duration of unemployment and the duration of social benefits are not significant for the responses. Thus, it should be concluded that, in remote places of residence, both the long-term unemployed and those who have recently started looking for a job are equally affected by the lack of work and by the shortcomings of the transport organization system.

There is a widespread opinion in society, especially among employers, that people do not find a job for a long time because they have high salary expectations. The results of the conducted research allow us to test this hypothesis. The relationship between the duration of unemployment and the desired amount for work in euro was tested with cross tables. Two limits of the desired net wages were identified-the minimum monthly wage applicable during the study period (approximately 600 euros) and the average monthly net wage (approximately 900 euros). The results of the analysis allow us to conclude that the belief that the financial conditions of recipients of social benefits are good enough and that therefore they have unreasonably high expectations regarding potential earnings is wrong and does not correspond to reality at all.

Another common opinion is that unemployed people receiving social benefits are not very motivated to quickly look for a job because they have sufficient income and can live on various benefits and social allowances. The study showed that a very small percentage of beneficiaries receive benefits other than unemployment. Those who have children, of course, receive child benefits, but they only make up 25% of the total number of welfare recipients. Meanwhile, the average amount of social benefit received by a household is only 189 euros. Even if child benefits are also received, the overall amount per a family member on average does not exceed the minimum consumption value – 267 euros (in 2022, when the survey was carried out). This amount allows us to claim that the financial situation of households benefiting from social assistance is quite modest and should not be a factor limiting their motivation to take up work.

The financial situation of respondents is evidenced by the ability to pay bills for necessary services and to purchase goods that meet basic needs. The conducted survey contained the question: "In recent months, has your household been able to pay on time for one or more of the ten basic things that people who suffer from material poverty due to the lack of money cannot afford at times?". About one third of the unemployed social benefit recipients were unable to buy or pay for four basic things-enough food, clothing, telephone/Internet services, and to settle debts. The latter circumstance is particularly important because bailiffs are obliged to collect outstanding debts from wages. Therefore, an unemployed person is unlikely to be motivated to take up work, not because he has sufficient financial resources, but because after taking up a job, his remuneration will significantly decrease due to the deduction of debt receivables and late payment interest.

When examining the opinions of Labor Offices staff, attention was focused on the characteristics of jobs that remain vacant (unfilled) for a long time (Chart 3).



Chart 3. Which job posts have remained vacant for longer periods of time? (N = 285)

The results showed that one of the main reasons for not filling an existing job is its transport inaccessibility. This statement is very important for taking appropriate actions to combat unemployment, especially long-term unemployment.

Source: the author's own work.

Traditionally, active labor market policy measures have been directed at improving the human capital of unemployed people or increasing their economic attractiveness (e.g. subsidies for employers), but neither of them is able to increase the availability of more distant jobs. Lithuanian legislation provides for supporting the mobility of unemployed people, but these are small amounts and their obtainment is quite limited.

It is also worth referring to the research results that allowed us to determine what actions can most effectively accelerate the employment of long-term unemployed people. In this context, they were divided into two groups: activities at the level of the local government/municipality and the Labor Office and activities at the employer level. The analysis showed that more effective employment of long-term unemployed people and of people receiving social benefits requires coordinated and comprehensive efforts. On the one hand, there is a need for direct cooperation of the local Labor Office (it is a centralized institution subordinate to the Ministry of Labor and Social Insurance – MLSI), local government institutions and employers, and, on the other hand, greater individualization of work with each long-term unemployed person, because their employment often depends on multiple interrelated causes.

Since 2020, such work has been carried out in Lithuania as a part of the Employment Promotion Programs (EPP) [PES, Employment Promotion Programs]. These are programs implemented at the local government level. They envisage the establishment of special units at the local government level for individual work with the long-term unemployed. Trilateral commissions are established at such units, consisting of representatives of local employers, of Labor Offices and of the local government services. A part of the funding for such activities comes from the state budget (through the MLSI), other funds may come from local government budgets, employers and other labor market subs entities. The cooperation with NGOs, which specialize in social work with relevant social groups and are very helpful by mediating their employment, is a very important element of the EPP. On the basis of the conducted surveys it can be concluded that 70% of the causes of long-term unemployment can be removed with the help of EPPs. More attention should be paid to such initiatives in the future, especially in the context of a shrinking labor force and an aging population. The economic activation of the long-term unemployed should be increasingly individualized in order not to impose socially beneficial behavior on the unemployed, but to encourage them to be active, making maximum use of their abilities, competences and experience.

5. Conclusions and discussion

The main aim of the article was to determine the impact of social policy (social security system) on the level of employment in Lithuania in the context of reducing the number of long-term unemployed and their activation. It was assumed that the social benefits received by unemployed beneficiaries discourage them from returning to the labor market. The topicality of the issues raised for Lithuania was indicated by the review of statistical data, which proves the continuing relatively high level of long-term unemployment and the rapid increase in the percentage of beneficiaries and social security expenditure. The identified changes in the structure of expenditure, indicating an increase in the share of expenditure on unemployment benefits, constitute an additional argument in favor of the relevance of the subject of research. Therefore, two research questions were asked, to which the authors sought answers in the results of the surveys conducted in 2022 and 2017. The study covered the population of unemployed people, the majority of whom were long-term unemployed beneficiaries of social assistance.

In response to the first question, it was stated that the main causes of long-term unemployment result to a very small extent from the decisions of the unemployed, and neither from their expectations regarding the excessive salary expectations, satisfactory financial situation or reluctance to work. The basic causes of unemployment are beyond the control of the unemployed and result from: the lack of work in the place of residence, transport problems or health problems and care for a child or an adult family member. The second research question also received a negative answer. It concerned the impact of the received social benefits on decisions to actively engage in the labor market. Therefore, the hypothesis about social benefits as a factor demotivating the unemployed to actively integrate was not confirmed.

It is also worth commenting on the obtained results in the context of the conclusions of other researchers, which were cited in the second part of the article and which identify the relationship between social benefits and long-term unemployment. This discrepancy may be explained by the features of national social policy (social security system). The demotivating impact was most often noted in wealthier countries, where social security spending is higher and more diverse. Meanwhile, our research has shown that the average amount of social benefits received by a Lithuanian household does not even reach 200 euros. Moreover, a very small percentage of beneficiaries receive benefits other than unemployment benefits. Therefore, the financial situation of households receiving

social assistance in Lithuania is quite modest and should not demotivate the unemployed. The amount of the future salary and the tax system in the country, which directly shape the financial motivation for the unemployed to return to the labor market, seem to be a more discouraging factor. Decisions of the transformation of the tax system and of the social security system are an element of public state policy and do not depend on the decisions of the unemployed. In this context, it is worth noting that over the last seven years, a regular increase in wages has been observed in Lithuania, both in the private and public sectors. On the other hand, the government is constantly improving social benefit models and the amounts of the allowance are gradually reduced when people take up work.

Summarizing the analysis of scientific studies and the results of the research conducted in Lithuania, it should be stated that the main causes of long-term unemployment result to a small extent from the decisions of unemployed people, and the demotivating effect of receiving social benefits in the context of active social integration is not decisive. The level of long-term unemployment is directly influenced by the level of economic development of the country and of the region, as well as by the level of wages in relation to the level of social benefits. The causes of long-term unemployment are usually multidimensional, which is why comprehensive solutions and individual work with the long-term unemployed person are needed to combat them. The practice of such solutions has already been applied in Lithuanian local governments since 2020.

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