

Impact Differences of the Reform of Allocation of Social Allowances across Municipalities

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SUMMARY

Municipalities should strive to minimize the number of social benefit recipients (hereinafter referred to as “beneficiaries”) in the general population. The 2014 legislation reforming the allocation of social allowances has assisted this aim by decreasing the number of beneficiaries in all municipalities. This change, however, has been far from uniform amongst Lithuania’s municipalities; the thinning of the rolls has disproportionately impacted small municipalities and areas with a high volume of tourists.

The number of beneficiaries is contingent on the size of a municipality; large cities typically see the fewest beneficiaries. Despite the reform’s outsized impact on smaller municipalities, the number of beneficiaries in these areas remains higher than that of the major municipalities prior the reform.

The reform has succeeded in allowing municipalities to more accurately identify those who actually need social support. However, municipalities should take additional measures to lower the relative number of beneficiaries. This entails improving the business environment, encouraging private-sector activities, and attracting additional investment. The resulting enlargement of the private sector will create jobs, lowering the unemployment rate and increasing real income. Given that an individual’s income level is the main factor in the receipt of benefits, higher incomes will decrease the demand for social support.

INTRODUCTION

Following 2014 reforms, municipalities allocate social allowances by performing municipal, rather than the state function, except for five pilot municipalities that have been testing the new model since 2012. This reform was aimed at achieving more transparent and targeted social benefit allocation process by decreasing the volume of improper or inappropriate payments.

According to the Ministry of Social Security and Labour, the reform has resulted in a decrease in both the number of beneficiaries and the total sum of allowances.¹ However, the impact was unequal across municipalities, with some municipalities disproportionately bearing the brunt of roll reductions. These differences result from divergent population levels, unemployment rates, investment conditions and income rates.²

¹ <http://www.socmin.lt/lt/naujienos/pranesimai-spaudai/archive/pinigines-socialines-paramos-betc.html>

² Having in mind that the average disposable income is the main condition for granting social allowances

1. Quadrant III municipalities have the lowest level of beneficiaries and have experienced a higher-than-average decrease in recipient volume. Additionally, the majority of these municipalities have small populations or are popular tourist destinations (Neringa, Palanga, Kretinga, Birštonas and Molėtai).
2. The majority of city municipalities, including Vilnius, Kaunas, Klaipėda, Panevėžys and Alytus, are in quadrant II. This caste is characterised by a low-and-slowly-decreasing number of social benefit recipients. In other words, although the situation has not changed significantly, the number of beneficiaries in these municipalities remained lower-than-average. This likely stems from better financial conditions, higher wages and lower unemployment rates in large cities. A higher standard of living implies a below-average number of beneficiaries, as well as a reduced likelihood of significant variations in the number of beneficiaries.
3. Although quadrant IV municipalities have experienced a significant decrease in the number of beneficiaries, total volume has remained high. Given that the number of beneficiaries has remained above-average in municipalities such as Telšiai, Ukmergė, Pasvalys, Lazdijai, and Joniškis these laggards should at-least strive to maintain the current pace of roll reduction.
4. The pilot municipalities (Akmenė, Panevėžys, Radviliškis, Raseiniai and Šilalė) that have been testing the new model since 2012 belong to either the first (I) or second (II) quadrants. This means that the decrease in the number of beneficiaries in these municipalities in 2014 was lower than that of 2013. However, this tendency could be explained by the fact that the impact of the reform in these municipalities is felt since 2012. Indeed a comparison of the 2014 and 2011 data reveals a significant decrease of 41 to 61% in the numbers of beneficiaries in these municipalities.
5. Quadrant I municipalities have above-average beneficiary volume, and are less affected by the reform. These municipalities are: Biržai, Rokiškis, Pagėgiai, Ignalina, Akmenė, Alytus, Tauragė, Vilkaviškis, Radviliškis, Šiauliai, Varėna, Kazlų Rūda, Kalvarija, Šakiai, Pagėgiai and Jonava. This situation may be the result of an ineffective implementation of the reform as well as less-than-favourable economic conditions in particular municipalities.

The results show that the number of beneficiaries and its change are affected by the population size. In 2014, twenty percent of Lithuanian municipalities boasted a population of over 50,000. Only Mažeikiai, however, had an above-average level of beneficiaries. The average population sizes of quadrant I, II, III, and IV municipalities were 27,415; 99,378; 36,469; and 29,520 respectively in 2014. Therefore, more densely populated municipalities (I and III quadrants) had fewer beneficiaries.

The assessment of the reform's impact, based on the size of municipalities, shows that the number of beneficiaries decreased by 1.4% (from 5.6% in 2013 to 4.2% in 2014) in the municipalities with the population of over 50,000. In contrast, smaller municipalities have achieved a decrease of 2.4% (from 8.9% in 2013 to 6.5% in 2014). In absolute terms, however, the decrease in bigger municipalities is of greater significance. Finally, although the decline in beneficiary volume in smaller municipalities is also significant, the *level* remains higher than that of major municipalities. This result holds for pre-reform levels as well.

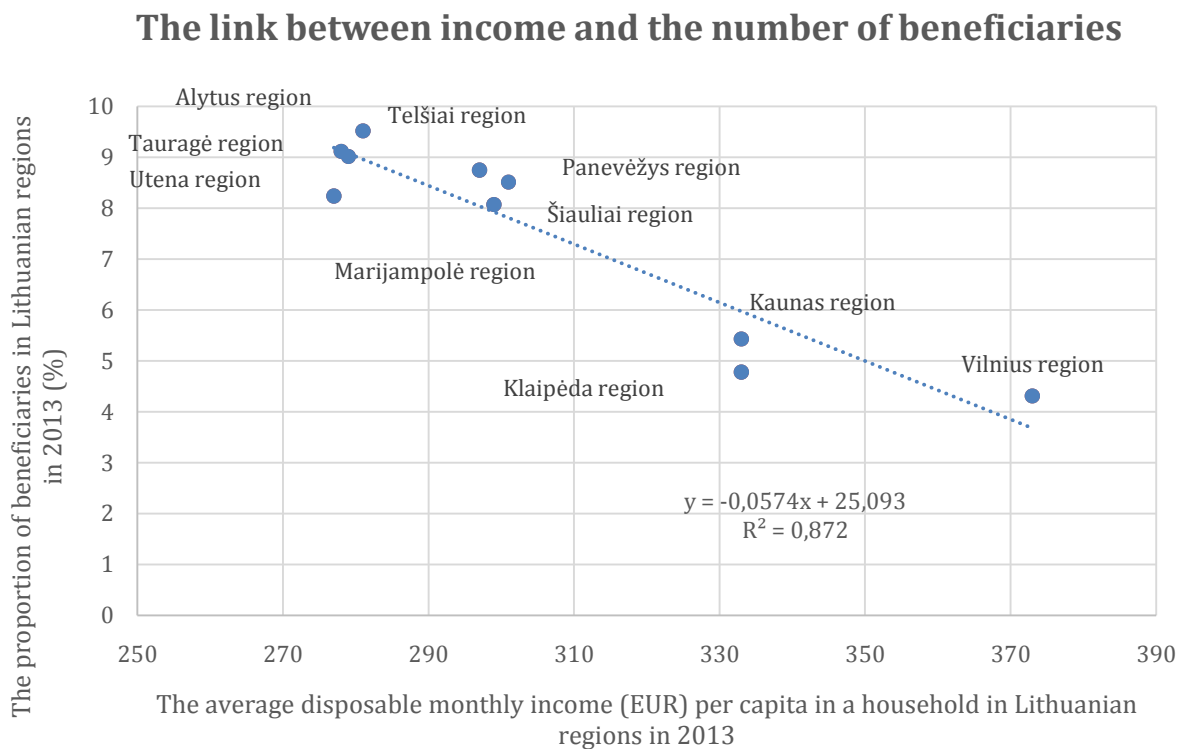
PART II

The decrease in the number of beneficiaries after the reform

The reform has clearly contributed to the decrease in the number of beneficiaries. The allocation process has grown in effectiveness, and the overall number of receivers is decreasing. In addition to more targeted allocation, low numbers of beneficiaries indicate a better economic situation. Clearly, increasing the standard of living lowers the indigent population.

The main condition for granting social allowances is the level of income per person in a household. According to data from Statistics Lithuania, the relationship between average disposable monthly income per person in a household and overall beneficiary count in 2013 was negative (see Figure 2). Thus, higher disposable income means fewer beneficiaries in municipalities.

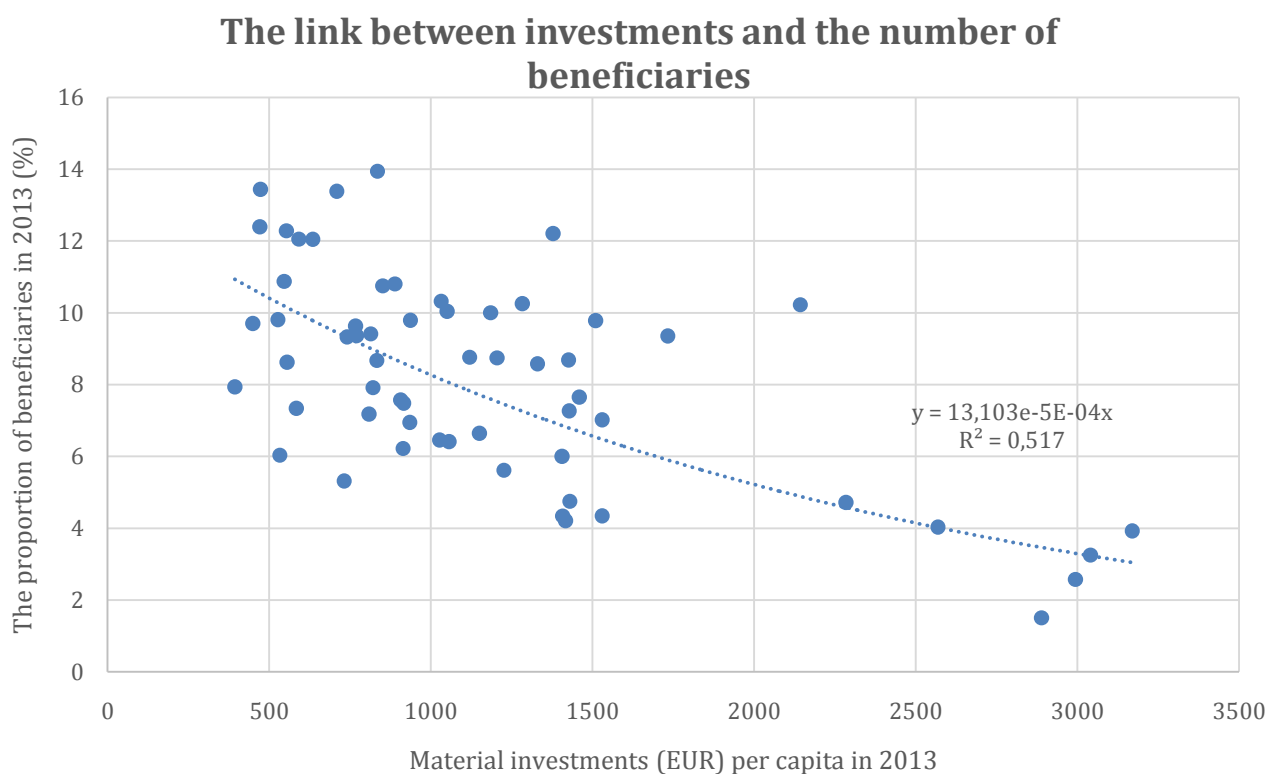
Figure 2. The link between the number of beneficiaries and the average disposable income in Lithuanian regions in 2013.



Since the number of beneficiaries depends on income level, factors that contribute to the standard of living in municipalities must be considered. Municipalities could increase economic growth by increasing the level of material investments.

Indeed, municipalities with a greater level of material investment typically have lower numbers of beneficiaries (see Figure 3). In particular, the municipalities of Klaipėda, Klaipėda District, Vilnius, Neringa, Palanga and Elektrėnai exemplify this pattern.

Figure 3. The link between material investments and the number of beneficiaries in Lithuanian municipalities in 2013.



According to the most recent data (2013), the relationship between investments and the number of beneficiaries is either moderate or negative; this implies that higher levels of material investment are associated with fewer beneficiaries. Therefore, material investment levels are directly related to the number of social benefit recipients.

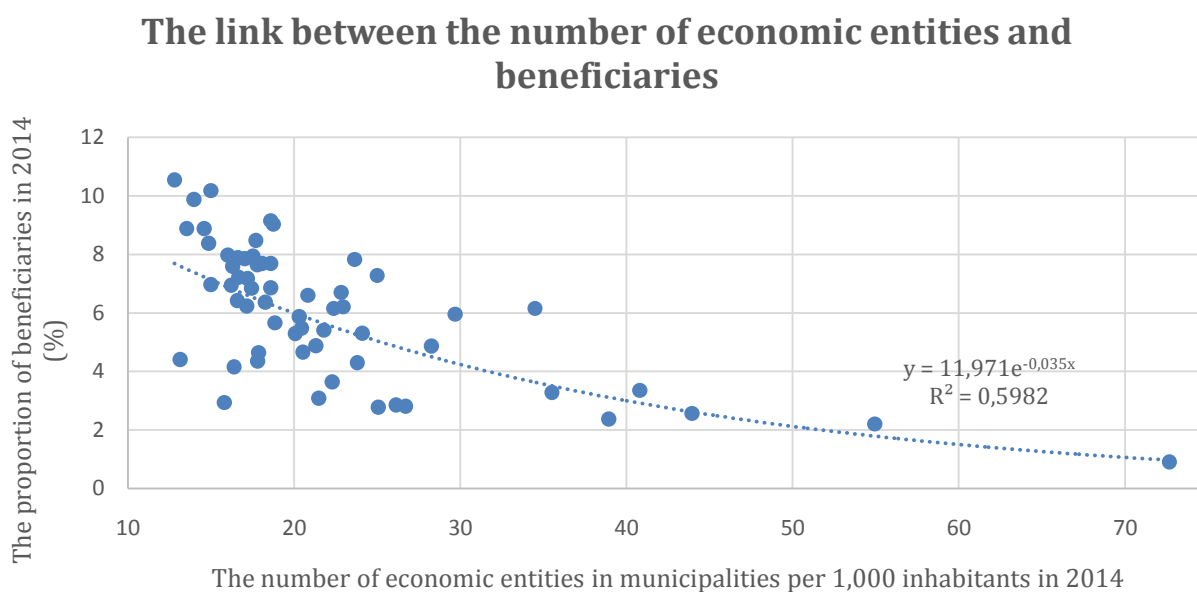
The aforementioned link results from an increase in economic well-being. An increase in material investments drives municipal income through higher wages and lower unemployment levels. Under the analysis *The Perspectives of the Provision of Monetary Social Benefits for the Disadvantaged as a Municipal Function* conducted by the Lithuanian Social Research Centre, the most important factors influencing the number of beneficiaries are the following:

- The number of persons registered as unemployed;
- The average wage;
- The amount of the state-supported-income and its relation to the average wage.³

These economic indicators reflect the economic well-being of the country. Lower unemployment rates, higher average wages, and a lower ratio between the amount of the state supported income and the average wage imply lower numbers of beneficiaries. Moreover, material investment is another way of making a direct influence on these indicators.

Another comprehensive way of decreasing the number of beneficiaries is the improvement of business environment. Municipalities that encourage economic activities usually have fewer beneficiaries (see Figure 4).

Figure 4. The link between the number of economic operators per 1,000 inhabitants and beneficiaries in municipalities in 2014.



Active participation in municipal economic activities encourages the creation of jobs and increases in wages. This in turn decreases the unemployment levels as well as the number of beneficiaries.

³ http://www.socmin.lt/download/6068/2013-sav_savarankiskas_soc_param_teikim_tyrimas.pdf (p. 10)

CONCLUSIONS

1. The devolution of social benefit allocation responsibility from the federal to municipality level and to the power of municipalities has proved most effective in smaller and economically-stronger municipalities. The observed impact was not as significant in major city municipalities. However, the numbers of beneficiaries in major municipalities are below-average.
2. Higher disposable household income implies a lower demand for social services. Municipalities with more material investment also appear to have fewer beneficiaries. Therefore, growing investment in municipalities means higher income as well as a decrease in the number of social benefit recipients.
3. In order to decrease the number of beneficiaries, it is recommended to focus on the improvement of the business environment. This will attract private capital or encourage the existing subjects to create jobs and increase wages. The resulting influx in private-sector activity will lead to lower unemployment levels, higher income and, lower beneficiary-to-population ratios in municipalities.
4. Greater attention should be paid to the quadrant IV municipalities (Ignalina, Kalvarija, Pagėgiai, Šakiai, Biržai, Rokiškis, Akmenė, Jonava, Šiauliai, Varėna, Tauragė, Vilkaviškis, Alytus, Zarasai, Radviliškis and Kazlų Rūda). In these laggard areas, the impact on the levels of beneficiaries was below-average and beneficiary rolls remain swelled. Since the results of the other, similarly-sized municipalities are better, the root of these problems is clearly in the economic situation. Thus, these municipalities should focus on attracting investment, decreasing unemployment and increasing the average wage.