

University College London  
26 11 2010

# **What Kind of Welfare State Is Emerging in Lithuania?**

Romas Lazutka

Department of Social Work  
Vilnius University  
Lithuania

E-mail: [lazutka@ktl.mii.lt](mailto:lazutka@ktl.mii.lt)

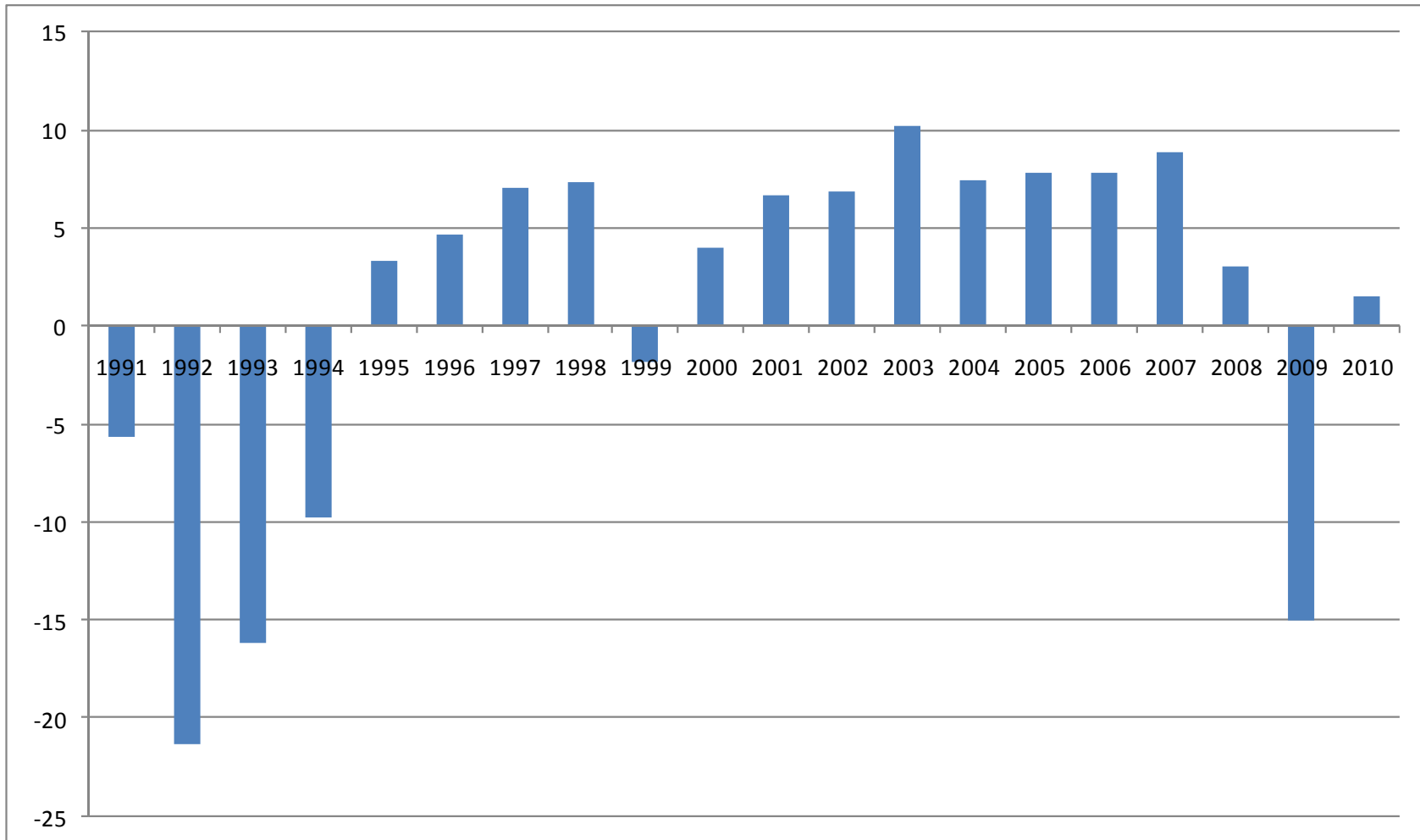
# Main points of the presentation

1. Quite successful political and economic development
2. However wide spread of poverty and high level of inequality
3. German and Soviet roots of contemporary social protection
4. Raise of neo-liberalism during period of reconstruction of social protection since 1995
5. Mix of conservative and liberal approaches to social welfare arrangements
6. Low quality of democracy

# **1. Quite successful political and economic development**

1. Peaceful restoration of independent State in 1990
2. EU and NATO membership in 2004
3. Rather successful economic development since 1995
4. Main export's partners became EU countries since 2001
5. High rate of female and elderly employment

# The Fall and Growth of the Economy in Lithuania



*\*2010 forecast*

# The economic performance

(GDP per capita in Purchasing Power Standards (PPS); EU-27 = 100)

	1995	2000	2005	2008	2009
<b>EU (27 countries)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
EU (15 countries)	116	115	113	111	111
Slovenia	74	80	87	91	87
Slovakia	48	50	60	72	71
Hungary	52	55	63	65	63
Croatia	46	49	57	63	:
Poland	43	48	51	57	61
<b>Estonia</b>	<b>36</b>	<b>45</b>	<b>62</b>	<b>68</b>	<b>63</b>
<b>Latvia</b>	<b>31</b>	<b>37</b>	<b>49</b>	<b>57</b>	<b>49</b>
<b>Lithuania</b>	<b>36</b>	<b>39</b>	<b>53</b>	<b>62</b>	<b>53</b>
Bulgaria	32	28	37	43	:
Romania	:	26	35	48	45

## High employment rate in preretirement age and female (2008)

	55 to 64 years old	Female
<b>European Union 27</b>	<b>45.6</b>	<b>59.1</b>
Bulgaria	46.0	59.5
Czech Republic	47.6	57.6
<b>Estonia</b>	<b>62.4</b>	<b>66.3</b>
<b>Latvia</b>	<b>59.4</b>	<b>65.4</b>
<b>Lithuania</b>	<b>53.1</b>	<b>61.8</b>
Hungary	31.4	50.6
Poland	31.6	52.4
Romania	43.1	52.5
Slovenia	32.8	64.2
Slovakia	39.2	54.6

## **2. Negative social developments**

1. High rate of emigration (1-1,5 percent of population per year since 2001)
2. Poverty of pensioners and children,
3. Material deprivation (poor housing),
4. Fragmented social protection of unemployed and weak social assistance
5. High income inequality

# Some indicators of social development, 2008

	At-risk-of-poverty rate for pensioners	Housing (overcrowding rate, percentage of total population)	Gini coefficient
<b>European Union 27</b>	<b>16.2</b>	<b>18.2</b>	<b>30.5</b>
<b>European Union 12</b>	<b>15.4</b>	<b>45.9</b>	<b>31.3</b>
Bulgaria	31.7	48.1	35.9
Czech Republic	8.0	29.8	24.7
<b>Estonia</b>	<b>43.3</b>	<b>41.7</b>	<b>30.9</b>
<b>Latvia</b>	<b>55.1</b>	<b>58.1</b>	<b>37.7</b>
<b>Lithuania</b>	<b>30.8</b>	<b>49.9</b>	<b>34.0</b>
Hungary	6.8	48.3	25.2
Poland	9.6	50.8	32.0
Romania		56.5	36.0
Slovenia	17.9	39.5	23.4
Slovakia	9.7	42.9	23.7

(Source: SILC)



## Gini coefficient during two decades

	2009	2005	2000	1987/89
<b>Estonia</b>	<b>31.4</b>	<b>34.1</b>	<b>36</b>	<b>28</b>
<b>Latvia</b>	<b>37.4</b>	<b>36.1</b>	<b>34</b>	<b>26</b>
<b>Lithuania</b>	<b>35.5</b>	<b>36.3</b>	<b>31</b>	<b>26</b>
Hungary	24.7	27.6	26	23
Slovenia	22.7	23.8	22	21
Czech Republic	25.1	26	:	20

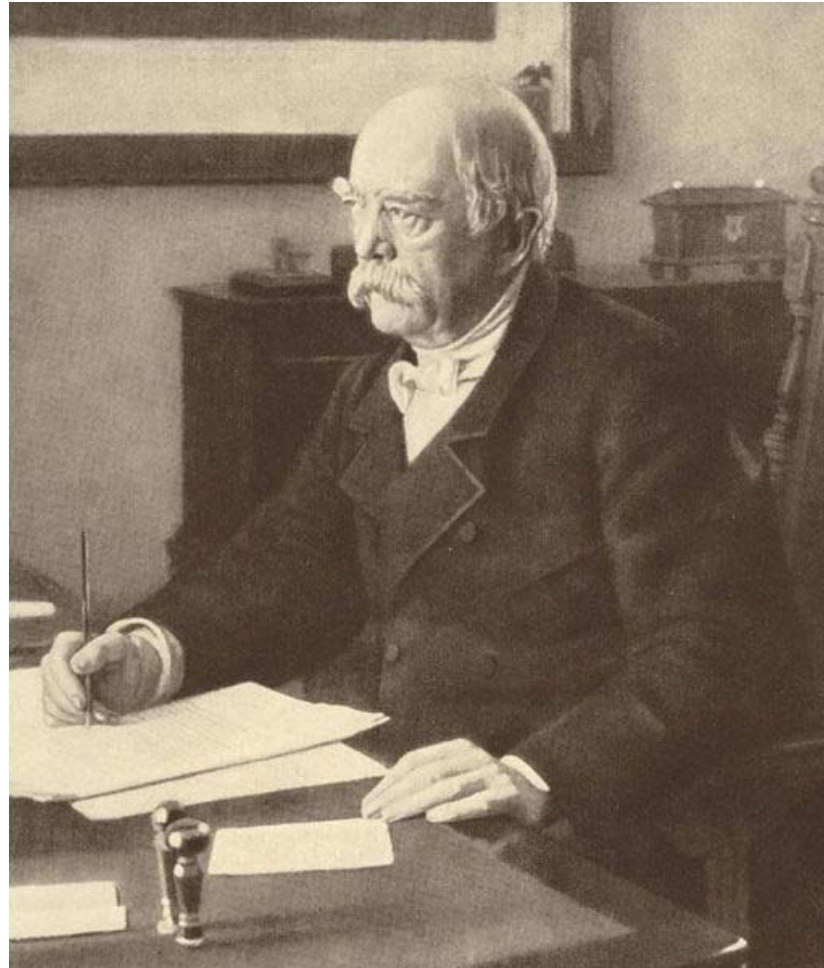
Source: SILC. <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do>

## Coverage of poor by social assistance in Lithuania (percent of total population)

	2008	2009
At risk of poverty rate <i>(Eurostat)</i>	20,0	20,6
Absolute poverty <i>(consumption expenditures - below 350 LTL; World Bank )</i>	12,7	18,9
Official absolute poverty rate <i>(Monthly State Supported Income – below 370LTL; author's calculations):</i>	4,8	7,5
<b>Social assistance recipients</b>	<b>1,1</b>	<b>2,2</b>

### **3. German and Soviet roots of contemporary social protection**

# Cultural and political influence from Germany in 1918-1940



# First steps to social protection between two WWs

## 1. National State since 1918

*Building of State after struggle for independence;*

*First social security schemes for civil servants and victims of the war*

## 2. Agrarian society and late industrialization

*70 % of population lived in rural area in 1939 (fifty-fifty rural and urban population  
Lithuania got only in 1970)*

## 3. Catholic church

*Strong family solidarity, charity*

## 4. Influence from German social welfare regime

*Contributory pensions schemes for civil servants,*

*health insurance for industrial workers in 1926, but only 3 % of population were  
covered in 1939*

# Soviet type of social welfare provision in 1940-1990



# **Soviet type of social provision in 1940-1990**

## Main features of Soviet social welfare regime

1. Full employment and industrial welfare
2. "Social" regulation of prices
3. Universal health care, education, child care, housing(?)
4. Income security against all traditional social risks (except unemployment), but no recognition of inflation and poverty
5. "Hegemony" of working class (merit based protection)
6. In kind family support
7. Institutionalisation of social care
8. No social work profession (but medical, pedagogical professionals and "inspectors")

## **Transformation of social protection since 1990: adjustment to market economy and orientation to Bismarckian system**

1. Building of social insurance cash benefits schemes in 1990
2. Separation of Sickness fund from National Budget in 1997
3. Minimum income guaranty and indexation of cash benefits
4. Recognition of unemployment as social risk
5. Emerging of new social NGOs
6. Development of social work education
7. Decentralization of social care and social integration projects
8. Technical assistance from Germany in 1991-1995



## 4. Raise of neo-liberalism during period of reconstruction of social protection since 1995



**In office  
1981 - 1988**

# Shortage of resources for welfare

1. Low tax revenue and low social security expenditures
2. Pro-liberal tax regime:
  - No progression in income tax tariffs
  - Low tax on profits (15 percent)
  - High taxes on wages (55-63 percent)
  - Bulk of public revenues comes from VAT
3. Low remuneration for employees
4. Low activity of trade unions

## Total tax revenues and social protection expenditures (percentage of GDP)

	Total receipts from taxes and social contributions in 2008	Total social protection expenditure in 2007
<b>European Union 27</b>	<b>40.5</b>	<b>26.2</b>
Bulgaria	32.1	15.1
Czech Republic	36.2	18.6
<b>Estonia</b>	<b>32.2</b>	<b>12.5</b>
<b>Latvia</b>	<b>29.5</b>	<b>11.0</b>
<b>Lithuania</b>	<b>30.5</b>	<b>14.3</b>
Hungary	40.2	22.3
Poland	34.3	18.1
Romania	28.8	12.8
Slovenia	37.4	21.4
Slovakia	29.4	16.0

## Employees Remuneration as a share of Gross Domestic Product (selected EU countries)

	Lithuania	ES 27	United Kingdom	Sweden
1994	48,3	66,8	72,1	66,0
1999	61,8	66,5	7,07	67,8
2001	53,6	66,7	71,1	72,5
2008	57,9	64,4	69,7	69,1
2010	49,3	64,8	69,8	68,8
<b>2001-2010 annual average</b>	<b>54,6</b>	<b>65,4</b>	<b>70,9</b>	<b>69,2</b>

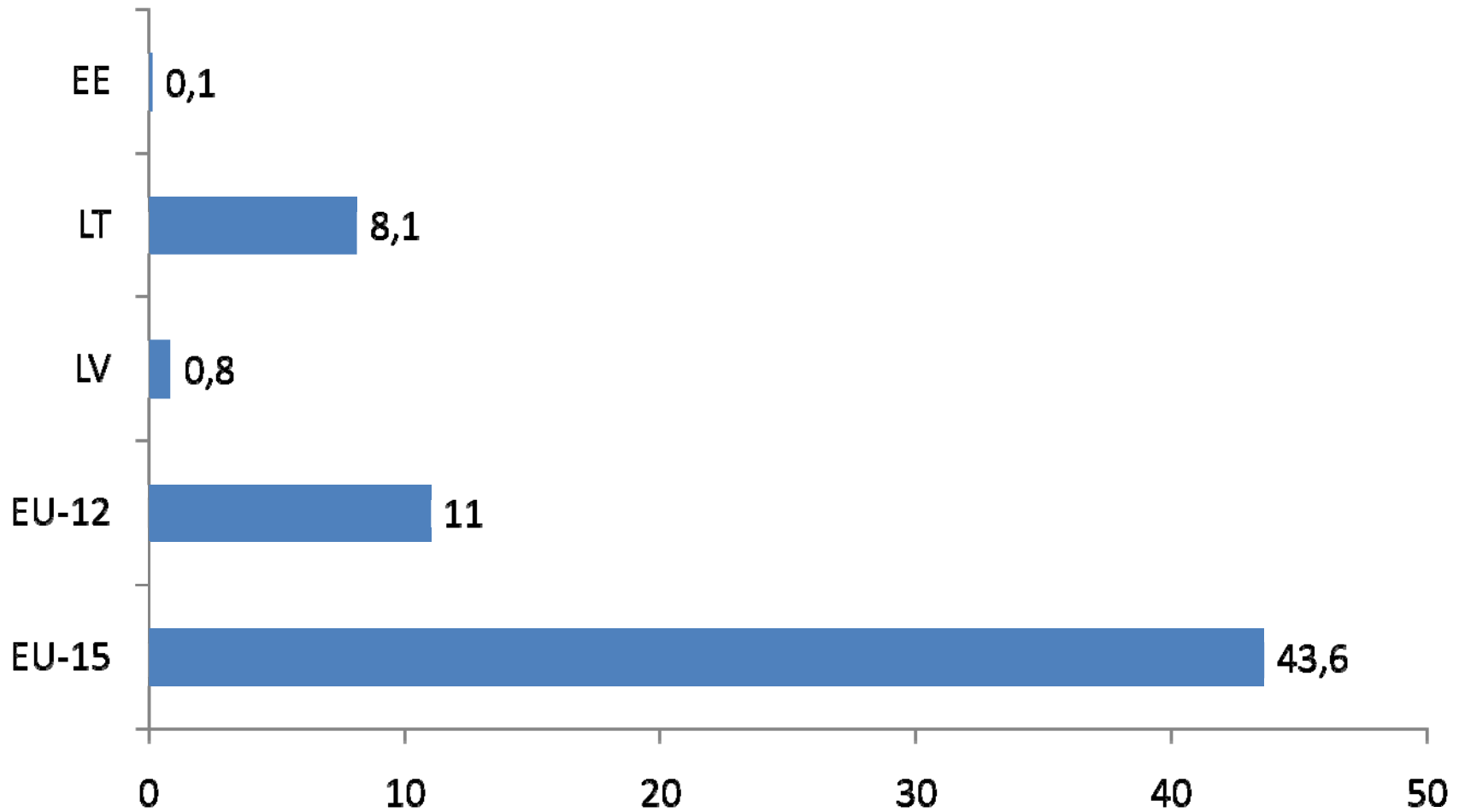
European Commission (2009) *Statistical Annex of European Economy: Spring 2009*. Directorate General ECFIN, Economic and Financial Affairs. P. 93.

[http://ec.europa.eu/economy\\_finance/publications/publication15050\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication15050_en.pdf)

## Employees Remuneration as a share of Gross Domestic Product in EU-15 countries in 1960-2010 (annual average, percent)

Period	1960-1970	1971-1980	1981-1990	1991-2000	2001-2010
Share of GDP	71,4	72,8	70,2	67,6	65,7

# Working days lost through industrial action per 1,000 employees, annual average 2005–2009



Developments in industrial action 2005–2009

<http://www.eurofound.europa.eu/eiro/studies/tn1004049s/tn1004049s.htm>

# Reorientation of social policy to liberal regime

1. Revision of cash benefits (reducing of family allowance and restriction of indexation in 1995)
2. Partial privatization of social insurance pensions since 2004
3. Voucherisation of education (secondary in 2002; higher in 2009; preschool in 2011)
4. Introduction of users fees in health care
5. Technical assistance from World Bank in 1994-2002

## **5. Mix of conservative and liberal approaches to social welfare arrangements**

1. Rights to many cash benefits and services are based on merits
2. Main part of social protection is financed by social contributions
3. Financing of social protection is low
4. Increasing application of means testing benefits
5. Refusing universal provision of health care and higher education



## **Lack of proponents of left-wing ideology**

1. Left-wing intellectuals lost own reputation because of their service to the Soviet Empire
2. Low knowledge of population in separation of Soviet type communists from social-democrats
3. Removal of communists from political arena in Estonia and Latvia
4. Ex-communists were engaged in privatisation in Lithuania (Labour party became party of successful privatizers)
5. Not economic nor social issues, but the attitude to the Soviet history became major dispute between Left and Right in Lithuania

## 6. Low quality of democracy

1. Vertical accountability is low due to the instability of political parties (after losing trust of voters politicians can change membership of political party)
2. Low policy responsiveness (governments rule without taking the public opinion into consideration)
3. Low voter satisfaction with the activities of politicians that they have elected
4. The outcomes of the elections did not influence government policy (this demonstrates low quality of democracy)
5. Weak control of public administration by elected politicians
6. Low participatory culture of citizens
7. Despite of low quality of democracy it is consolidated due to the favourable external conditions (EU and NATO membership)

*(Z.Norkus, 2008, p.732-733)*

# Mix of declared Anti-Sovietism and instinctive Soviet heritage in society

## Anti-Sovietism

- Solidarity has not value
- Negative attitude to redistribution
- State still is an enemy

## Soviet heritage

- Neglected human (social) rights
- Inability for collective actions (individualism)
- Lack of professionalism in social area

**Ačiū už dėmesį**

**Thank you for your attention**

## Development of poverty during the high growth rate of economy and economic crisis (Lithuania, at-risk-of-poverty, %)

	At-risk-of-poverty rate				
	2005	2006	2007	2008	2009
<b>All households</b>	<b>20,5</b>	<b>20,0</b>	<b>19,1</b>	<b>20,0</b>	<b>20,6</b>
2 adults with 1 child	15.2	16.1	14.0	12.5	14,1
2 adults <65 years, without children	17.1	13.7	10.6	14.8	16,4
Rural areas	34,6	34,0	32,2	32,9	
Elderly 65 and more	17,0	22,0	29,8	29,5	
Single person	31.6	38.0	49.5	47.7	46,9
2 adults with 3+ children	44.4	41.5	38.2	46.0	31,3
1 adult with at least one child	48,4	44,2	41,5	48,3	44,3
Unemployed persons	62.8	61.4	56.9	50,9	

- The presentation will focus mainly on social protection issues. It will examine the design, key stages and main actors in the development of the social welfare system in Lithuania and discuss issues of political development. It will analyse why elites are mainly following a libertarian ideology, despite the different names of political parties and why there are almost no social protests in the country, despite the hardship and very high rate of emigration?

# Post-Communist Countries in a Welfare Regime Typology (I)

- 1.Conservative:** Austria, Belgium, France, Germany, Netherlands, Greece, Italy, Spain – *Southern sub-regime*
- 2.Social-Democratic:** Finland, Denmark, Norway, Sweden;
- 3.Liberal:** New Zealand, United Kingdom, United States;

*H.J.M. Fenger. Welfare Regimes in Central and Eastern Europe: Incorporating Post-Communist Countries in a Welfare Regime Typology.*

# Post-Communist Countries in a Welfare Regime Typology (II)

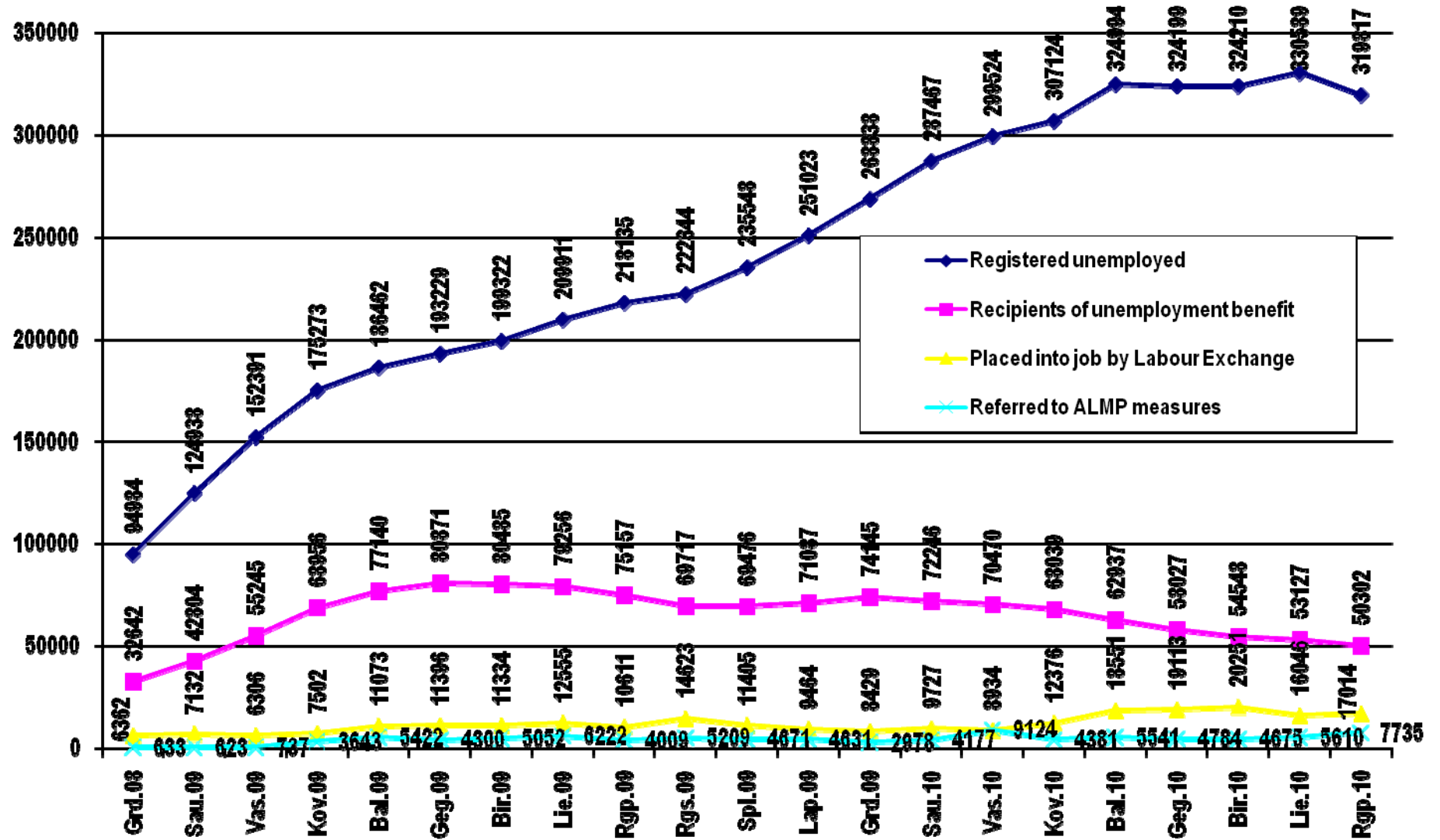
New ES members don't fall in three "old" welfare regimes\*, but form three separate groups:

- 1. Former USSR:** Belarus, Estonia, Latvia, Lithuania, Russia, Ukraine;  
*(Clear legacies of communist past. It is characterized by high levels of female participation, a rather extensive public sector, high economic growth and inflation)*
- 1. Post-communist European:** Bulgaria, Croatia, Czech Republic, Hungary, Poland, Slovakia; *(mix characteristics from both the Conservative and the Social-Democratic regime; they are not developing into Liberal types)*
- 2. Developing:** Georgia, Romania, Moldova  
*(high-level of infant mortality, low life expectancy...)*

\*In general, the level of trust, the level of social programmes and social situation in the post-communist countries are considerably lower than in the other countries.



# Number of registered unemployed and number of unemployment benefit



### GDP development in EU West and EU East

