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THE ROLE OF CASH SOCIAL BENEFITS IN POVERTY REDUCTION IN LITHUANIA: DISCIPLINE, REDISTRIBUTE, INCLUDE, INVEST

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ACRONYMS AND ABBREVIATIONS

EC – European Commission

ESSPROSS – European System of Integrated Social Protection Statistics

EU – European Union

EUROMOD – Tax-Benefit Microsimulation Model for the European Union

Eurostat – Statistical Office of the European Union

FGT – Foster-Greer-Thorbecke (class of poverty measures)

GDP – gross domestic product

METR – marginal effective tax rate

OECD – Organization of Economic Cooperation and Development

SILC – Survey of Income and Living Conditions

UDB – user database

UNDP – United Nations Development Programme

Country acronyms:

BE - Belgium

BG - Bulgaria

CZ - Czech Republic

DK - Denmark

DE - Germany

EE - Estonia

IE - Ireland

EL - Greece

ES - Spain

FR - France

IT - Italy

CY - Cyprus

LV - Latvia

LT - Lithuania

LU - Luxembourg

HR - Croatia

HU - Hungary

MT - Malta

NL - Netherlands

AT - Austria

PL - Poland

PT - Portugal

RO - Romania

SI - Slovenia

SK - Slovakia

FI - Finland

SE - Sweden

UK - United Kingdom

INTRODUCTION

Despite the economic development and political effort, poverty is still an urgent issue both in Lithuania and in the EU, and worldwide. According to Eurostat (2015a), around one fifth of the Lithuanian population was at risk of poverty over the last decade with the poverty line fixed at 60% of the median equivalised disposable income. According to the same measure, the level of the relative income poverty in Lithuania has been above the average as compared to either the EU average or the average among the new EU member states. In terms of material deprivation and low work intensity, even a higher fraction at around of a third of the Lithuanian population was affected on average in 2005-2014 (Eurostat 2015b).

The relative income poverty rates have largely stagnated in the EU during the first decade of the 21st century despite the implementation of the ambitious Lisbon Strategy and the favourable economic conditions that many of the EU member states, including Lithuania, enjoyed before the beginning of the global economic crisis in 2008-2009 (see Cantillon 2011, Vandenbroucke & Vleminckx 2011). The ambitious goal set in 'Europe 2020' strategy on reducing the number of people at risk of poverty and social exclusion by at least 20 million in the EU is also largely jeopardized by the financial crisis and its negative effects on employment and public spending in the region (Avram 2013, Navicke et al. 2013). This raises the need for understanding the dynamics of poverty better as well as the ways social policy measures contribute to tackling the problem of poverty.

Previous research

The overview of poverty research in Lithuania shows that this area is well established, with a number of authors writing on the topic. To name a few, the development and effectiveness of cash social benefits and characteristics of their recipients were researched by Lazutka et al. (1999, 2008, 2013a, 2013b), Karpuškienė (2002), Šileika & Tamašauskienė (2003), Tamašauskienė (2003), Salanauskaitė & Verbist (2011), Zabarauskaitė &

Gruževskis (2015). The inter-connections between poverty and employment were studied by Gruževskis (2010), Zabarauskaitė (2006), Lazutka & Poviliūnas (2010), Zabarauskaitė & Blažienė (2010), Gruževskis & Blažienė (2012). The links between poverty and economic development in Lithuania were discussed by Šileika & Blažienė (2000), Lazutka (2001, 2003), Tamulienė (2005), Gruževskis & Zabarauskaitė (2012). Keršienė (2011) and Tamašauskienė & Staponkienė (2010) have discussed the causes of poverty and its prevalence in Lithuania. Absolute poverty measures were designed and estimated for Lithuania by Šileika & Zabarauskaitė (2006), Zabarauskaitė (2008), Šileika & Zabarauskaitė (2009). The territorial aspect of poverty was discussed by Lazutka & Ivaškaitė (2006).

Numerous poverty studies in Lithuania as well as in other countries highlight both the applied and academic importance of the issue and a high degree of its complexity. Indeed, there is no general agreement either on the best way to conceptualize and measure poverty, or on the effectiveness of different poverty reduction strategies. The definition of poverty and the ways of measuring it are under a constant flux, with new multi-dimensional and non-monetary poverty concepts being introduced into the academic, political and public discourse. The new concepts, such as social inclusion, activation, social investment penetrate the debates on poverty reduction.

The diversification of the poverty concepts is not only of an academic interest, but it also bears practical consequences for the design and implementation of the social protection policies. Brock et al. (2001) noted the process of hybridization of the poverty reduction discourses, realised by a selective incorporation of the concepts generated by alternative poverty notions. Similarly, the ‘pick and mix’ process was highlighted earlier by Levitas (2005) as a convenient way to justify preferred policies and avoid confronting the problem of poverty. These are often conventional social protection tools aimed at income redistribution that come under strain, cash social benefits in particular.

Indeed, a shift away from redistributive policies is noted by a number of authors as particularly problematic (e.g. Room 1995, Berghman 1995, Cantillon 2011, Vandenbroucke & Vleminckx 2011, Heidenreich et al. 2014). The shift towards the non-material poverty aspects was argued to be premature and deflecting attention away from the problem of income poverty in Europe in the middle of 1990s (see Room 1995, Berghman 1995). The problem is still valid. For example, Cantillon (2011) as well as Vandenbroucke & Vleminckx (2011) pointed towards the decreased attention to redistributive policies as one of the factors that contributed to the disappointing poverty trends in the EU in the context of implementation of the Lisbon Strategy. The growing trends of income inequality and labour market polarization provide further evidence on the importance of the redistributive efforts (e.g. see Atkinson (2015) for the EU, Stiglitz (2013) for the US, Ivaškaitė-Tamošiūnė (2013) for Lithuania). Hence, there is a need to give more attention to the role of cash social benefits in poverty reduction, as it is one of the major redistributive tools in the area of social protection.

The aim of the dissertation is to analyse the role of cash social benefits in poverty reduction in contemporary Lithuania in the context of diversification of ways the problem of poverty is framed in the academic and political domains.

To achieve the aim of the dissertation, the following goals have been set:

1. To analyse how the problem of poverty and its reduction strategies are framed within the academic and political domains and to highlight its dominant traits in Lithuania;
2. To propose a theoretic scheme for the analysis of the role of cash social benefits in poverty reduction that would encompass the diversity of poverty notions and reduction strategies;
3. To analyse the role cash social benefits play in addressing income poverty in Lithuania by applying the proposed theoretic scheme and with the focus on the individuals and household-level effects.

The period of analysis covers the decade since the Lithuanian accession to the EU, albeit earlier developments in the spheres of poverty reduction and in the system of cash social benefits in Lithuania are overviewed to put the analysis in a wider context.

Defended statements:

1. Disciplinary, redistributive, social inclusion and social investment strategies of poverty reduction can be identified in the academic and political domains both in Lithuania and in a broader EU context.
2. The system of cash social benefits has a potential for playing an active fourfold role in reducing poverty by the means of income redistribution *per se* as well as by incorporating disciplinary, social inclusion and social investment functions.
3. The role of the cash social benefit system in poverty reduction in Lithuania is jeopardized by negative effects on work incentives built into the design of cash social assistance benefits, by low redistributive capacity and protection against income shocks, by insufficient level of investment into children living in income poor and near-poor families.

The structure of the dissertation

Chapter 1 aims at deconstructing the way the problem of poverty is framed in the academic and political domains and to link it to the proposed solutions and 'lived' effects for those considered to be poor and the population in general. A theoretic scheme for the analysis of poverty reduction policies, cash social benefits in particular, is proposed, encompassing the four identified poverty strategies: disciplinary, redistributive, social inclusion and social investment. Furthermore, the role of the cash social benefit system is analysed looking through the proposed fourfold scheme.

Further chapters are aimed at the analysis of the role cash social benefits play in addressing income poverty in Lithuania. In Chapter 2 the proposed scheme is applied for the analysis of poverty reduction programmes, design and functioning of the cash social benefit system in Lithuania. First, the way the problem of poverty is addressed in academic texts and policy documents is analysed. Next, the development and design of the system of cash social benefits in Lithuania is presented with the focus on its disciplinary, redistributive, social inclusion and social investment elements. Last, the capacity and results of the cash benefit system in reducing poverty in Lithuania are discussed based on the previous research and available statistics.

Chapter 3 outlines the methodology for the empirical study of the role of the Lithuanian cash benefit system in poverty reduction, which is carried out in Chapter 4. The notion of income poverty is used in line with the definition of the relative at-risk-of-poverty rate officially used in both Lithuania and the EU. The measure is put in a broader perspective of alternative ways of operationalizing and measuring poverty, the implications and limitations for the research findings are discussed.

Chapter 4 is aimed at analysing the four selected aspects of disciplinary, redistributive, social inclusion and social investment roles of cash social benefits in reducing income poverty in Lithuania:

1. Work incentives at the bottom of the income distribution and for model family types;
2. Income protection provided through cash benefit system in cases of income shocks and life-course transitions;
3. Coverage of the cash social benefit system;
4. Investment into families with children through the system of cash social benefits.

The aspects to be analysed were chosen based on a combination of factors, including academic and practical relevance for Lithuania, the gaps in previous research and the availability of empirical data.

The methods used for the empirical analysis include respectively:

1. Microsimulation of the work incentives indicators (i.e. marginal effective tax rates) at the bottom of the Lithuanian income distribution and among

the model family types, including those with inactive or unemployed members, or low-earners;

2. A longitudinal analysis of poverty transitions and trigger events, identifying the role of cash social benefits in reducing poverty incidence and severity;
3. A descriptive analysis of the survey data on cash benefit coverage and the characteristic of cash benefit recipients;
4. A needs-based assessment of cash benefit provisions to families with children and decomposition of the contribution of different cash benefit instruments towards reducing poverty rate and gap in this group.

The empirical study is based on the quantitative analysis of the available cross-sectional and longitudinal waves of the representative Survey on Income and Living Conditions (SILC) for Lithuania. The estimations are carried out by using Stata SE 12.1 statistical package. DASP module version 2.3 in Stata is used for a decomposition analysis (Araar & Duclos, 2013). The indicators of work incentives are estimated by using the Lithuanian component of the EUROMOD tax-benefit microsimulation model version G1.0.

Scientific novelty and practical importance

On the theoretical level, an original scheme for analysing the role of policies aimed at poverty reduction, cash benefits in particular, is proposed. The proposed scheme unites the four ways the problem of poverty is framed in the academic and policy debate (i.e. poverty as individual deviation, as a basic needs problem, as social exclusion, as lack of capabilities for functioning) with the strategies for tackling it (i.e. disciplinary, redistributive, social inclusion and social investment). In line with the poverty attribution theory it encompasses individual-structural and blame-fate dichotomies in attributing the causes of poverty. From the analytical point of view, the scheme provides an ‘ideal type’ classification of the ways the problem of poverty and its reduction strategies are framed in the contemporary academic and political poverty reduction debate in Lithuania and the EU. Moreover, the scheme helps explain factors underlying changes in the way the problem of poverty is framed and addressed.

Methodologically, the dissertation is novel within the Lithuanian context in both its approach to theoretical and empirical analysis of the role cash social benefits play in poverty reduction. The 'interpretivist' analysis framework (Bacchi 2012, Goodwin 2011) utilized in the dissertation contributes to the development of post-positivist social-constructionist tradition in the field of social policy analysis, enabling the researchers to deconstruct the way the problem of poverty is framed and link it to the proposed solutions and the 'lived' effects for those considered poor and the population in general. The empirical research methods include novel approaches in the sphere of poverty research in Lithuania, such as longitudinal analysis of poverty transitions and triggers and microsimulation modelling of work incentives.

The practical-political importance of the dissertation is in that it helps bridge different understandings of the problem of poverty, which is essential for building wider consensus and comprehensive poverty reduction strategies. Moreover, the proposed scheme may be used for the analysis of the policy debate and practice aimed at poverty reduction at different levels of complexity, e.g. particular policy instruments, their blocks or policy reforms. Finally, the empirical evidence provided on the disciplinary, redistributive, social inclusion and investment elements built into the cash social benefit system contributes to the knowledge base for improving the design and functioning of the cash social benefit system in Lithuania and its poverty reducing capacity.

Limitations

Several limitations of the dissertation need to be acknowledged.

Substantially, the study of the role the Lithuanian system of cash social benefits play in poverty reduction is necessarily selective and contextual. First, the academic literature and other sources of information used for analysis represent a fraction of extensive literature on poverty. Second, the proposed theoretic scheme for analysing the role of cash benefits in poverty reduction is to a major extent rooted in the contemporary EU poverty debate and should be perceived as an ‘ideal type’ classification. Finally, the choice of the disciplinary, redistributive, social insurance and social investment aspects of the Lithuanian cash social benefit system analysed in the empirical part of the dissertation is also selective (see Section 3 for details).

Methodologically, while there is a number of ways poverty may be operationalized and measured, the role of cash social benefits is empirically analysed based on the relative income poverty measures in line with the official at-risk-of-poverty rate definition as adopted by the Eurostat (2015a). The rationale and limitations of using this way of measuring poverty is discussed in Section 3.3. The period of empirical analysis is restricted by the availability of the SILC data to the period after the Lithuanian accession to the EU in 2004. This gives nearly a decade of observations available for analysis. Due to limited space as well as the issues of data reliability cash benefits are aggregated by their type or function (see Section 3.5). This, however, gives a possibility to take the inter-connections within the cash benefit system into account when analysing the role of cash social benefits for poverty reduction. Technical and substantial limitations of the empirical analysis are further discussed in Section 3.6 of the dissertation.

1. THE PROBLEM OF POVERTY AND REDUCTION STRATEGIES: A SCHEME FOR ANALYSIS

The notion of poverty is both simple and complex. Its simplicity is determined by the fact that each person can give her own poverty definition, the term is widely used and known. Complex, since due to the variety of ways and contexts the poverty term is used, there is no common or dominant understanding of poverty neither in academic literature, nor in policy or public discourse. For that reason, poverty can be named a ‘quasi-concept’, i. e. a notion that has both the scientific legitimacy and a common sense meaning open to multiple interpretations (Jenson cited by Vandenbroucke & Vleminckx 2011, p. 451).

The variety of poverty notions require a research strategy that enables to disentangle those and relate to poverty reduction policies and measures. Goodwin (2011) identifies the ‘interpretivist’ analysis framework as a strategy in the field of the social policy enabling the researchers to ‘unpack’ and participate in the struggles over meaning and providing an alternative way of seeing through policy analysis. The ‘interpretivist’ policy analysis strategy focuses on revealing the meaning, values and beliefs expressed in a given policy and the role of the policy in the process of ‘making’ social problems, their subjects, solutions, as well as the ‘lived’ experiences of everyday life.

The ‘interpretivist’ approach was characterised by Goodwin (2011) as rooted in post-positivist social-constructionist tradition, drawing to a large extent on the governmentality and power-knowledge theory developed by Foucault. In line with Foucault’s governmentality thesis, the main cornerstone of the ‘interpretivist’ strategy to social policy analysis is the idea that it is not possible to study the technologies of governance without analysing the political rationalities that help establish and maintain them (Lemke 2002 p. 50). As it was stressed by Foucault (1982), there is no pure rationality, but different modes of rationalities that have to be uncovered through an investigation of practices that the power regime encourages and penalizes. The techniques of governance shift away from a coercive power of domination towards building influence and consensus by using external and internal controls that exclude various statements from the discourse by identifying them as unintelligible, false or insane, or, on the contrary – defining the rules for the production of statements (Bevir 1999). Thus the dominant rationality penetrates into the very core and common sense of the subject, governing the 'rational' self from within rather than from outside. The 'interpretivist' approach to policy analysis calls for studying the prevalent discourses, practices and their lived consequences in order to uncover and deconstruct the rationality underlying policies currently in place.

Borrowing from the research agenda defined within the governmentality approach, a central notion of the interpretive strategy to social policy analysis is 'problematization'. According to Foucalt:

> "Problematization doesn't mean the representation of a pre-existing object, nor the creation through discourse of an object that doesn't exist. It is the set of discursive and non-discursive practices that makes something enter into the play of the true and the false and constitutes it an object for thought (whether under the form of moral reflection, scientific knowledge, political analysis, etc.)" (Foucault 1988 cited in Bacchi, 2012, p. 4).

Studying 'problematizations' involves both deconstructing taken-for-granted objects and examining the relationship between problematizations and practices. The analysis is inherently interpretive and practical, as there is no transcendent phenomenon waiting to be discovered. Rather the knowledge about subjects can be only uncovered by examining what is done, examining practices, academic and practical texts and experiences of the everyday life.

The above ideas of an 'interpretivist' approach are further used to analyse the way the problem of poverty and the solutions to it are framed. The social-constructivist view on the existence of links between the perceptions of poverty and the institutionalised strategies of dealing with it are long and widely shared in the academic literature (for a discussion see e.g. Lepianka et al. 2009). As early as in 1908 Georg Simmel in the essay '*Der Arme*' (Eng. '*The Poor Person*') argued that the generosity of welfare and poor relief programmes was directly dependent upon the degree to which the poor are seen by the public as the ones responsible for their situation (Simmel cited in Lepianka et al. 2009).

This Chapter starts with a discussion on the ways the causes of poverty and its reduction strategies are perceived and framed within the academic and political discourse (Sections 1.1 and 1.2). Different types of problematization of poverty and implied solutions for tackling it form the basis for a proposed theoretic scheme for analysing social policies and tools aimed at poverty reduction (Sections 1.3). The factors for change in the poverty reduction strategies in the EU and implications for redistributive policies, cash benefits in particular, are then discussed (Section 1.4). The Chapter concludes with an analysis of the role of cash social benefits in poverty reduction from the perspective of the proposed theoretic scheme (Section 1.5). The discussion builds on a review of academic literature and forms a theoretical ground for further investigation of the role cash benefits play in poverty reduction in Lithuania.

1.1. Attribution of the causes of poverty

As it was noted, there is a wide spectrum of ways poverty is perceived and framed. A wide variety of poverty notions and related terms can be found in the academic literature and political documents. There is also a number of authors who discussed and categorised poverty and social exclusion discourses (e.g. Williams 1998, Levitas 2005, Mishirelli & Hefferman 2008, Veit-Wilson 2000). Many others touched upon the separate aspects of poverty notion: public thinking about poverty (e.g. Alston & Dean 1972, Feagin 1972, Bolitho et al. 2006), approaches to poverty in different disciplines (e.g. Michael (eds.) 2006, Austin (eds.) 2006), or in political ideologies (e.g. Byrne 2005). As pointed out by Blank (2003, p. 448), the different poverty notions are often linked explicitly or implicitly to different “causal approaches” to poverty. Moreover, differing explanations of the causes of poverty bear important implications for the choice of the poverty reduction strategies.

The aim of this section is to disentangle the ways the causes of poverty are perceived in order to uncover different strategies – the modes of rationality – aimed at tackling it. The aim is not trivial, as the question of why people are poor generated decades of studies and attempts to classify the causes of poverty (see e.g. Blank 2003, Keršienė 2011, Tamašauskienė & Staponkienė 2010). While many classifications are based on a deductive logic, inductive studies are less common. One important exception is a ground-breaking empirical study on the lay poverty attributions by Feagin (1972). The study formed a basis for a poverty attribution theory, which was extensively tested and validated (see Harper 2001, Lepianka et al. 2009 for a review of the recent literature). To this day it forms a theoretical backbone for the poverty attribution blocks in the well-established Eurobarometer and European Value Survey and was also used within the Lithuanian context for studying poverty attributions (e.g. Matulionis et al. 2005). The theory provides a useful framework for analysing and categorising the ways the problem of poverty is framed and forms a starting point for this analysis.

Feagin’s (1972) poverty attribution theory is based on his study in the US that helped distinguish between eleven explanations of poverty categorized into three broad ways of framing the problem of poverty: structural, individualistic and fatalistic. The distinction between the structural and individualistic explanations of poverty is well known in sociology. For example, Michael (2006 eds.) in an overview of the sociological approaches to poverty highlighted the individualistic versus structural poverty perspectives as a primary line running through numerous poverty research. The former – individualistic – perspective to poverty highlights the pathologies at an individual, family or sub-culture levels. The latter – structural – approaches highlight such structural poverty determinants as class conflict, institutional failures or structural inequalities in the society. The third – fatalistic –

perception of poverty stood out in Feagin's research as a separate dimension – the view that poverty is the result of bad luck, unfortunate co-incidence or fate.

The number of more recent studies on the way the causes of poverty are perceived helped advance and clarify Feagin's findings by singling out the two overlapping lines in attribution of the causes of poverty: individual-structural and blame-fate (see e.g. Oorshot & Halman 2000, Lepianka et al. 2009). Thus the four ways of framing poverty are to: 'blame the poor', 'blame the structural forces', or attribute poverty to an 'individual fate' or a 'structural fate'. The modified classification includes a blame-fate dichotomy, which clarifies the role of structural or individual factors in the process of poverty formation and adds a dimension of 'structural fate' compared to the original Feagin's classification. 'Structural fate' includes structural factors which are portrayed as being an inevitable consequence of the economic, demographic, social and other structural processes. Globalisation, inflation, change in the modes of production and the like are on the list of the factor contributing to 'structural fate' discourse (see Lepianka et al. 2009). In general, it can be argued, that the 'fate' dimension in the attribution of poverty is rooted in the strategy of poverty normalization – attributing its causes to the 'unavoidable' and 'uncontrollable' forces on either individual or structural level.

The question arises whether individual-structural and blame-fate dichotomies as identified within the poverty attribution theory only feature in the lay perceptions of the problem of poverty or can be traced into the academic and political debate and poverty reduction policies. The review of the academic literature suggests that the four ways of problematizing poverty can be identified in line with the poverty attribution theory: poverty as deviation ('blame the poor'), poverty as a basic needs problem ('structural fate'), poverty as social exclusion ('blame the structural forces') and poverty as a lack of capabilities for functioning ('individual fate'). Below these four poverty notions are presented in turn.

1.1.1. Poverty as deviation

The problematization of poverty as deviation highlights pathologies at an individual, family or community levels. The main assumption underlying this representation of poverty is that its roots are of behavioural or moral nature. The poor are portrayed as lazy, unmotivated, lacking self-discipline, productive habits or unwilling to work due to the vicious moral predispositions and poverty-perpetuating value system. The notions of the ‘lumpenproletariat’ (Marx & Engels 2004 [1848]) or the ‘underclass’ (Murray 1984, Murray 1999, Levitas 2005, Giddens 1973) are among the sociological concepts contributing to the representation of poverty as deviation or pathology.

Among the theories that help explain the formation of the deviant moral predispositions and behavioural habits are culture of poverty thesis pioneered by Lewis (1959), cycle of deprivation that was popular in the 1970s (see e.g. Townsend 1979) and the theory of welfare dependency advocated by Murray (1984). The three theories are similar in their moralizing and blaming attitude towards the poor and a focus on agency-based rather than structural explanations and responses to poverty.

The main argument of the Lewis’ influential thesis on poverty culture stems from his ethnographic study ‘Five Families: Mexican Case Studies in the Culture of Poverty’ (1959). The author argued on an existence of a specific sub-culture of poverty that is transmitted inter-generationally. The poor are thus not simply lacking resources, but also acquire poverty-perpetuating value system.

Similar arguments are used for explaining poverty and other forms of socio-economic disadvantage within the ‘cycle of deprivation’ thesis:

> “The theory postulates that ‘family pathology’ is the principal mechanism for transmitting social deprivation intergenerationally, and that this explains the persistence of bad housing, low education attainment, and unemployment in poorer households and communities. In essence the argument is that deprivation and welfare dependency are, if

not quite the fault of the poor, then certainly without serious structural origins" (Scott 2014, p. 151).

The welfare dependency thesis highlights the role of welfare support for the poor in encouraging them "to seek welfare dependency rather than self-sufficiency" (Alcock 2004). The individualistic stance undermines the broader structural socio-economic mechanisms of the poverty process, shifting the blame on the welfare recipients for abusing the system of social support, or portraying welfare provisions as contributing to the development of dependency among the recipients.

All three above-mentioned theories highlighting poverty as deviation came under a lot of scrutiny and were extensively criticized. The culture of poverty thesis was criticized as not fitting the real-world data, with moral and personal characteristics of the poor not being different from those of non-poor (for review see for example Gaidosikienė 2004). The credibility of the cycle of the deprivation argument treating poverty and deprivation as being a residual personal or family phenomenon rather than a large-scale structural phenomenon was also subject to strong critique (see for example Townsend 1979, Welshman 2002).

With regard to welfare dependency, the increasing volume of literature show that it is not the characteristics of the cash benefit recipients or cash benefits *per se*, but the specific features of their design that may create undesirable behavioural effects. For example, Nolan et al. (2010, p.28), referring to the comparison of Sweden and US, argued on the negative effects of excessive reliance on means testing and positive role of policies minimizing child poverty for avoiding welfare dependency and its intergenerational transmission.

Despite the extensive critique, the influence of the notion of poverty as deviation can be argued to implicitly or explicitly persist in a contemporary policy debate and practice. This is especially true with regard to the liberal welfare states (Alcock 2004). This persistence is unsurprising given the deep historical roots of the notion of poverty as deviation. For example, the concept of poverty as deviation in the UK policy was argued to stretch as far back as to the Elizabethan Poor Law in 1601, with a differentiation between the deserving and undeserving poor (Glennerster et al. 2004). The moralistic approach to social assistance was noted to be dominant in the countries across Europe in the 18th and 19th centuries (Gregory & Holloway 2005 cited in Žalimienė 2011).

The notion of poverty as deviation or pathology in Lithuania also has a long history and can be traced back to the 18th and 19th centuries (see Praspaliauskienė 2000, Matulionis et al. 2005). A distinction was made at that time between the ‘real’ and ‘pretend’ or ‘professional’ poor (Praspaliauskienė 2000). The distinction is also traceable latter on through the terms used to name the poor in Lithuania, which range from normatively neutral to those with strong negative connotations (Žalimienė 2004, Praspaliauskienė 2000). The latest research in Lithuania shows that a negative moralizing attitude towards the poor is dominant in the Lithuanian media, portraying the problem of poverty as that of unacceptable way of life deviating from social norms and negative personal traits of the poor, such as insincerity, dishonesty and misuse of assistance provided by the state (Donkauskaitė 2014, p. 128). Moreover, strong negative attitudes towards the poor welfare recipients are noted to be reflected in the language used within the contemporary Lithuanian system of social assistance as well as in treatment of the beneficiaries (Žalimienė 2011, Lazutka et al. 2015).

To sum up, implicit or explicit framing of poverty as deviation can be traced in the public and political discourse and practice, despite the criticism of the underlying individualistic assumptions on the causes of poverty. The notion of poverty as deviation can be linked with liberal orientations in social protection and was noted to be persistent and influential in Lithuania.

1.1.2. Poverty as a basic needs problem

The second way of problematizing poverty can be traced through the notion of basic needs. In this case the structural factors underlying lack of resources are emphasized, rather than individualistic traits, moral pre-dispositions or habits of the poor.

Emphasis on structural factors and systematic nature of poverty has a long tradition in poverty research. It was already Rowntree (1901) who pointed out to the role of the life-cycle on poverty – an idea that poverty transitions are cyclical and systematic rather than accidental or dependent on individual characteristics. He identified five alternating periods of want and comparative plenty (early childhood, early career, early years of parenthood, middle-age, old-age) and argued that the changing needs as well as the possibilities to satisfy those through paid work differed across the life-cycle, contributing to the systematic variation of poverty prevalence.

The role of the life-cycle perspective to poverty was important in that it highlighted an assumption that people and their needs structure are systematically affected in similar ways during life time. While still a valid conceptual framework, the life-cycle approach to poverty was later criticized as being static, descriptive, normative and inflexible in the context of the growing family instability, transition from an industrial to a post-industrial mode of production, new uncertainties in the labour market, the ageing of the population as well as emergence and expansion of the welfare state (see e.g. Dewilde 2003). For that reason, the attention shifts to the processes of social change, accompanying emergence of the new social risks and the role of institutions in managing those.

For example, the social risk management perspective proposed by Holzmann & Jorgensen (2001) highlights the impact of multiple sources of risks (e.g. social, economic, political, environmental) on people's life course and the role of social protection systems in risk prevention, mitigation and coping. The notion of poverty as a basic needs problem is thus concerned not exclusively with the lack of resources and their distribution and redistribution across life cycle and among the population groups, but also with the distribution and redistribution of risks in the context of social change.

While the impact of structural processes and institutions on distribution of risks and resources in the population is widely recognized, there is little consensus on the notion of basic needs and minimum guarantees for their satisfaction in either academic or political domains. A very restrictive notion of the basic needs was depicted as following in the Rowntree's research:

> "Families whose total earnings would be sufficient for the maintenance of merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful" (Rowntree 1901 cited in Glennerster et al. 2004, p. 23).

This definition refers to the case of absolute poverty – a notion where basic needs are restricted to a merely physical domain. The tradition of conceptualising poverty through basic needs is however not restricted to merely physical survival. In fact, Rowntree himself (1901 cited in Glennerster et al. 2004, p. 22) distinguished between the 'primary' and 'secondary' poverty – the later notion reflecting the living standards above the poverty line, but still in the 'obvious want and squalor'. An academic and political discussion on whether basic needs should be defined in absolute terms or relative to the standard of living in the population is since ongoing (e.g. Sen 1983, Townsend 1985, Sen 1985a, Zabarauskaitė 2008, Šileika & Zabarauskaitė 2009).

In effect, different variations of the poverty notions reflecting basic needs are currently used in research and policy practice and are subject to change. For example, Foster (1998) discusses a shift from a strictly absolutist poverty notion reflecting physical needs to a hybrid notion incorporating relative social needs in the US at the end of the last century. It is, however, in the EU context that the notion of basic needs was expanded most. A shift towards conceptualising basic needs as a minimum living standard for full social participation was noted by Storms et al. (2014, p.10) in the analysis covering half of the last century in the EU. The political definition conceptualizing poverty in relative terms was adopted about four decades ago by the Council of the European Communities:

> "Persons beset by poverty: individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the member state in which they live" (Council Decision 1975 cited in Decancq et al. 2013, p.3).

The tradition of conceptualising poverty as a basic need problem in Lithuania is strong and arguably to at least some degree rooted in the Soviet tradition. As noted by Šileika & Zabarauskaitė (2006), the problem of poverty in the Soviet Union was framed as a problem of social provision (Lith. '*socialinio aprūpinimo problema'*) with most of the poverty measures being based on the concept of basic needs and the primary basket of goods and services. With regard to the current situation, in their thorough review Storms et al. (2014) noted Lithuania as being among the countries, where the absolutist – reference budget – approach to poverty is effectively not used anymore in the social policy sphere. Minimum guarantees for the poor are instead defined based to a major extent on the state's budgetary constraints and political will. While in the academic sphere the tradition of absolutist needs-based notion of poverty is still present (see e.g. Šileika & Zabarauskaitė 2006, Zabarauskaitė 2008, Šileika & Zabarauskaitė 2009), its influence and use is the political sphere is limited. Instead the relative poverty notion and statistics are promoted within the political and academic sphere.

1.1.3. Poverty as social exclusion

The notion of poverty as social exclusion is based on the idea that poverty is necessarily a relational, normative and multi-dimensional phenomenon. The lack of access to resources or certain moral pre-dispositions do not constitute poverty *per se*. Instead, poverty is understood as stemming from a lack of integration into the society by the means of political, cultural, labour market or economic participation.

While the notion of social exclusion can be analysed as an independent, wider or an alternative concept compared to poverty, the two terms are often used interchangeably in the political discourse in the EU and Lithuania (Abrahamson 1995, Atkinson & Davoudi 2000, Mikulionienė 2005). According to a strong view, social exclusion is treated as 'the postmodern equivalent to early modern poverty' (Abrahamson 1995, p.134). In a weaker version of the argument, the discursive change towards social exclusion in referring to the most disadvantaged members of the society is not a mere name-change but reflects the conceptual differences of the two notions. Nevertheless, poverty and social exclusion processes can be argued to be closely linked and refer to similar underlying factors, situations and processes.

The shift in the understanding of poverty from a notion of basic needs to that of social participation is not new and can be associated with the lifetime work of Townsend, i.e.:

> "To be income poor, in Townsend's terms, was to be excluded, by virtue of one's income, from the normal activities of social life" (Glennerster et al. 2004, p. 87).

It is, however, the influence of French thinkers, including the 'father' of the social exclusion term Rene Lenoir, that is widely acknowledged as having the major influence on a linguistic shift towards reconceptualising poverty as social exclusion in the EU (see e.g. Daly 2006). The development of discourse of social exclusion in France in the 1980s was argued to be a discourse chosen for closure, to exclude other potential discourses in the European political debate and to depoliticize poverty as far as income distribution was concerned (Byrne 2005). With a variety of welfare regimes and political ideologies in Europe the concept of social exclusion was noted to help keep the issue of poverty on the policy agenda (Atkinson & Davoudi 2000, p. 427).

Several important implications of understanding poverty as closely linked to the process of social exclusion can be noted: first, it stresses the structural factors and processes; second, it suggests an understanding of poverty as a 'relational' issue; finally, it shifts attention from the problem of access to resources to civil, political, economic and social rights (Williams 1998, Atkinson & Davoudi 2000). The three aspects are briefly discussed in turn below.

Focusing on the structural processes is an important strategic feature of the social exclusion discourse (Atkinson & Davoudi 2000). Structural understanding of social exclusion is rooted in the French tradition and can be opposed to the more individualistic Anglo-Saxon view. While in the French tradition the social exclusion process is understood as exogenous to an individual, its Anglo-Saxon interpretation includes a notion of 'self-exclusion' or 'auto-exclusion' which is endogenous or even voluntary to an individual or at least without serious structural ground (Mikulioniene 2005). In the latter case the social exclusion process is portrayed as unwillingness or failure of individuals to internalize or adapt to the dominant system of values and norms and can be linked to the poverty as deviation discourse discussed above. The dominant French notion of social exclusion puts the primary focus on 'institutional, social and material structures of the society' (Atkinson & Davoudi 2000, p. 440).

The second important property of the notion of poverty as social exclusion is its emphasis on '*relational*' issues. The former moves the focus from poverty as a '*relative'* condition which can be resolved through distributional mechanisms, to an understanding of poverty as an issue of social interaction (Williams, 1998). Thus poverty is not merely a lack of resources relative to the acceptable living standard, but is also linked to the processes of marginalization and stigmatization of individuals and social groups. The process of social exclusion is therefore inherently social, implies an excluder's agency and is closely linked to the issues of power, control and conflicting interests and values.

Finally, as far as the previous point is concerned, the notion of poverty as social exclusion goes beyond the material resources and is primarily focused on the issue of rights. Berghman (1995, p.19) distinguished between at least four systems through which individuals may be integrated into the society or excluded from it, i.e. the democratic and legal systems, the labour market, the welfare system and the family and community. The welfare system is aimed at ensuring social rights and facilitating the process of social integration, while other systems play a role in civic, economic and interpersonal integration and participation.

According to Žalimienė (2004), the philosophical roots of the notion of poverty as social exclusion in Lithuania can be associated with the work of Maceina who conceptualised poverty not as the lack of resources but rather as the inability of the individual to be a full-fledged member of the society.[1] An overview of the academic use of the notion of social exclusion by Mikulionienė (2005) showed that there were little further attempts to contribute to the conceptual development of the notion by the Lithuanian authors up to the early 2000s. With some exceptions (e.g. Šaulauskas 2000, Taljūnaitė 2000, Poviliūnas 2003) the term mainly appeared in the practical texts mandated by the UN and the EU agencies and its use was quite fragmented. Similar to the academic sphere, the notion of social exclusion was not used in the Lithuanian political debate until the end of the 20th century (Žalimienė 2004, p. 45). The interest in the concept and its use intensified since around the Lithuanian accession to the EU, with contributions from Taljūnaite, Vosyliūtė, Žaliemienė, Kocai, Lazutka, Mikulionienė, Petružytė, Kublickienė, Žilys, etc. (see Tereškinas 2015 for an overview). The issues of civil rights, social, cultural and labour market integration, social distance and participation were investigated. The latest literature review by Tereškinas

[1] A Lithuanian citation: "A.Maceinos socialinės problemos apbūdinimas iš esmės atitinka dabartinę socialinės atskirties sampratą, kurioje pabrėžiamas ne išteklių trūkumas, o santykių aspektai, t.y. nutrūkstantys santykiai tarp individo ir kitų visuomenės narių, negalėjimas kaip visaverčiams piliečiams dalyvauti visuomenės gyvenime" (Žalimienė 2004 p. 46).

(2015) indicates tight links of the notion of social exclusion in Lithuania with that of poverty, with a stream of research focusing on material aspects of social exclusion and its most severe manifestations.

1.1.4. Poverty as a lack of capability for functioning

The focus of yet another poverty notion is not on the resources for needs satisfaction, individual moral pre-dispositions or participation, but on the capabilities to function in the way that people value. This stream can be associated with the work of A. Sen (e.g. 1985b, 1999, 2000, 2004, etc.), the philosopher M. Nussbaum (e.g. 2000, 2011) and a body of the follow up research using this framework for poverty analysis (e.g. Comim 2001, Alkire 2005, Alkire & Foster 2008, Ravallion 2011, Alkire & Foster 2011b, Alkire & Santos 2013, etc.).

The central notion of the capability approach is the 'capabilities for functionings' that people have reasons to value (Sen 2007). The theory is therefore concerned with what people are free and capable of doing and being, rather than having. The notion of capabilities is seen as an essential link between commodities, characteristics and utilities (Sen 1983). On the one hand, commodities and their characteristics do not add to individual's well-being if one has no capability of using them. The utility (pleasure, satisfaction, happiness, etc.) one gets upon using the commodity are beyond the notion of poverty. As argued by Sen (1983, p. 160), the capability to function 'comes closest to the notion of standard of living', while being poor is framed as lack of capability for functioning, i.e. not being free and able of achieving a state of being one has a reason to value. Sen refers to wide philosophical underpinnings of his understanding of poverty:

> "In this Aristotelian perspective, an impoverished life is one without the freedom to undertake important activities that a person has reason to choose." (Sen 2000, p.4)

The capability framework is evaluative as there is no complete list of either capabilities or achievements that are seen as an absolute necessity. Instead, these have to be based on value people prescribe to them (Sen 2004, 2007). In this sense, the theory puts capabilities and functioning into the context of a particular society. This does not mean, however, that the notion of poverty is relative. Sen argued for an existence of “an irreducible absolutist core in the idea of poverty” (Sen 1983, p.159). Hence, the notion of poverty in terms of capability is in its essence absolute, however the means for achieving a certain absolute level of capabilities is relative to the context in which the person functions: “absolute deprivation in terms of the person's capabilities relates to relative deprivation in terms of commodities, incomes and resources” (Sen, 1983 p. 153). For example, not being educated to a sufficient level in order to function in the society is an absolute deprivation; the ‘sufficient’ level of education however is a relative concept and depends on the level of education deemed appropriate in a given society.

The capability approach is individualistic in that it “is essentially a ‘people-centered’ approach, which puts human agency (rather than organizations such as markets or governments) at the centre of the stage” (Drèze & Sen 2002, p. 6). Nevertheless, the framework avoids the discourse of blame that was highlighted in the approach to ‘poverty as deviation’ discussed above. The capability approach acknowledges constellations of reasons for ‘interpersonal variations in converting commodities into capabilities’ (Sen 1983), with a focus on physical disadvantages undermining command over capabilities (e.g. disability, age) and those defined by structural inputs, such as legal, political, social or cultural practices, structures and institutions. Similar to other institutions, the welfare state may be both enhancing or undermining people’s capabilities for functioning in the society.

The capability approach to poverty proved to be popular within the academic and policy fields. In the academic sphere the capability approach formed a basis for a body of multi-dimensional poverty research (see e.g. Kakwani & Silber 2008, Ravallion 2011, Alkire & Foster 2011b, Alkire &

Santos 2013). This is, however, a relatively new approach to operationalization and measurement of poverty with a number of methodological and practical issues yet to be resolved. In the policy field Sen's ideas inspired the launch of the Human Development Index and the Millenium Development Goals. Presenting the problem of poverty as the one of development of human capabilities is attractive in that it is people-centred, positively framed and helps avoid stigma and blame associated with the pathology-oriented individualistic approach of 'poverty as deviation'. The framework also enjoys ideological neutrality, neither belonging to political right or left, and is wide and flexible in adjusting to the local values and contexts.

The academic tradition of conceptualizing poverty as a capability problem in Lithuania can be argued to be weak, with no systematic poverty research within the capability framework known to the author of this dissertation. The influence of Sen's ideas can however be traced through a series of practical political texts and reports on human social development in Lithuania mandated by the UN Development Programme in mid 1990s and early 2000s with contributions from a number of Lithuanian scholars. These were however mainly focused on socio-economic development, growth and employment in Lithuania, but not on the issue of poverty or deprivation.

To sum up, the four identified ways of framing the problem of poverty in the academic and political fields include: poverty as deviation, as a basic needs problem, as social exclusion or as a lack of capabilities for functioning. The two former poverty notions were developed in the 19^{th} and early 20^{th} century. The development of the notion of poverty as social exclusion and capability approach to poverty was more recent, i.e. in the 1970s and 1980s of the last century. The four approaches are in line with the poverty attribution theory and its individual-structural, blame-fate dichotomies. The four ways of framing the problem of poverty may be argued to reflect partial rationalities and representations of the 'quasi concept' of poverty. They highlight the importance of behaviour, needs, rights and capabilities for understanding of the problem of poverty in contemporary academic and political debate. Finally, it should be acknowledged that the above discussion is limited in its scope, with potentially overlapping or complementing theories in sociology, economics or political science have not been discussed. Nevertheless, the four outlined approaches give a broad perspective on different ways the problem of poverty is framed in an academic and political sphere in Lithuania and in a wider EU context and provides a basis for further analysis of the poverty reduction strategies.

1.2. Poverty reduction strategies and critique

It can be argued that no single or dominant poverty reduction strategy can be identified either in economics, sociology or other social sciences. However, it would be wrong to say that there is nothing is done about poverty. With a lack of a common theoretical ground, the main directions in the efforts to reduce poverty in economics, political sciences and development literature are outlined in this section. It is then traced whether and how the different types of problematization of poverty discussed in Section 1.1 are reflected in the poverty reduction strategies.

In economics supply based versus demand based views on poverty reduction can be distinguished. Both strategies are based on the idea of stimulating economic growth in order to reduce poverty. The demand based strategies are targeted at macroeconomic measures increasing the aggregate demand for labour, helping more people move into jobs and increasing their bargaining power for wages. The supply side strategies argue for microeconomic interventions, i.e. investment into improving workers' skills, employability and motivation for participation in the labour market.

A similar classification is used in the development literature when distinguishing between the orthodox top-down growth strategy versus people centred participatory approaches to economic development and poverty reduction (Brock et al. 2001). The 'trickle down' approach is based on the belief that the economic growth eventually spreads across the population ‘lifting all boats’, while the redistributory efforts of the state or its efforts to move people into paid employment can enhance this effect. On the other hand, the people-centred participatory strategy follows the supply side logic, arguing for enhancing individual capabilities, skills and rights needed for participation in the labour markets as well as social, cultural, political and other systems of the society.

In the political science a dichotomy of left-right political ideologies is widely used. The rightist poverty response strategies primarily rely on the market forces as a response to poverty, while those more to the left see policy interventions as carrying a necessary function of correcting for the market failures.

The above mentioned dichotomies of supply versus demand driven growth, conventional top-down versus people-centred development, as well as an array of political ideologies form a useful background for analysis of the poverty reduction strategies. Arguably, the strategies that reflect individualistic problematization are bound towards more rightist, supply oriented, bottom-up approaches, while the strategies reflecting structurally-loaded poverty notions are shifted towards the leftist, demand oriented, top-down ways of tackling poverty.

Disentangling further the continuum of political ideologies includes liberal, conservative and socio-democratic regimes. The classification is widely used in the sphere of welfare state analysis, with influential classifications of the welfare regimes built along these lines (e.g. Esping-Andersen 1990). The ‘Third Way’ approach to social policy and poverty reduction pioneered by Giddens (1998) arguably stands beyond the conventional liberal-conservative-social democratic continuum by encompassing their selected elements and propagating the ideas of social investment. Liberal, social-democratic, conservative and ‘the third way’ discourses arguably generate distinctive practices and outcomes in social protection and can be related to the four ways the causes of poverty are attributed as discussed in the previous section. Those links and the strategies of poverty reduction that the four political orientations suggest are further discussed.

First, the individualistic liberal discourse in the sphere of poverty reduction follows, arguably, a disciplinary logic (Foucault 1982, 2008). It locates the primary causes of poverty in the behavioural and moral characteristics of the poor. In a contemporary context this behaviour is seen as exacerbated by a culture of welfare dependency. The poor are portrayed as being unmotivated, lazy and unwilling to participate in the labour market or to seek other legitimate ways out of poverty. The main aim of the social policy is to discipline the poor towards socially acceptable and productive behaviours. This may be reached by the means of motivating, activating or forcing the poor into work. The workfare programmes – public works programs in which the poor work for food or cash (Grosh et al. 2008) – are an example of the policy intervention designed to activate the poor into work. The problem of welfare dependency is also addressed through reducing the disincentives for work that social benefits may create. This individual-oriented approach shifts the responsibility for dealing with socio-economic problems onto individuals, blaming those who fail to do it.

Second, the leftist social democratic tradition emphasizes poverty as a result of structural inequalities and calls for redistribution of income and other resources. The idea of balancing the needs and resources across the population groups and compensating for their fluctuations over the life course through redistributive policies became generally accepted and influential in the policy debate in Europe in the aftermath of the two World Wars (Dewilde 2003, p.111). The redistributive strategy is also based on the idea that the economic growth is important and necessary for reducing poverty, although is not on its own sufficient and does not automatically transfer to the population groups at the bottom of the income distribution (see e.g. Atkinson 1999, Ravallion 2007, Cantillon 2011). Additional state-led efforts to redistribute the resources are required, while minimization of poverty and income insecurity is a pre-condition of an effective long-term welfare state strategy (Esping-Andersen

2002a, p. 5). The policies therefore seek to both redistribute wealth, income and other resources and improve social protection against social risks.

Third, the notion of social exclusion arguably stems from a conservative welfare state tradition, with ideas of social inclusion playing an important role (Atkinson & Davoudi 2000). A social, political, labour market and cultural participation barriers are stressed, including stigma, discrimination, lack of socio-economic rights, etc. Institutional participation barriers are seen as driving the unequal distribution of possibilities to participate fully in the society. The role of inclusion into the labour market is stressed with a major role prescribed to social insurance mechanisms and labour market regulations in the sphere of social protection.

Finally, Giddens with his notion of the 'Third Way' contributed to the development of the concept of social investment (Giddens 1998). While primarily rooted within the theory of human capital rather than Sen's capability approach, the ideas of investing into human capital and human social development are closely related. Social investment strategy thus can be seen as an individualistic poverty discourse that brings attention to the lack of capabilities and skills for functioning rather than blaming the poor for their moral characteristics. Giddens himself contrasted the idea of investment in human capital to traditional redistributive welfare policies and argued that focus on investment was a distinguished feature of 'a society of positive welfare' (Giddens 1998, p.111). It should also be noted, that the term of social investment is a quasi-concept and allows for multiple interpretations (Jenson 2010). For that reason it is difficult to define a single, consistent direction of policy reform towards social investment. The increased reliance on education and social services as well as a shift towards 'active' labour market policy are among the traits of the social investment state in the EU (Cantillon 2011, Vandenbroucke & Vleminckx 2011).

The four outlined poverty reduction strategies, i.e. disciplinary, redistributive, social inclusion and social investment, can be seen as the four rationalities under the proposed solutions to poverty. While each has its inner logic, they can all be argued to be partial and are subject to critique. Below the main points of critique for each of the four rationalities are discussed.

The disciplinary poverty reduction strategy can be criticized as relying on the shaming tactics and deriving the poor of agency – effective possibility to make own choices and denial of person's status as a social actor (Heidenreich et al. 2014). The critique can be summarized by the arguments put forward by Foucault (1982, 2008). In his 1978-1979 lectures Foucault (2008) questioned neo-liberal discourse than-dominant in social protection as one mode of rationalisation, neither unique or inherently superior compared to other rationalities that may exist. He criticized the central liberal notion of the free market as portraying the domination of the market forces over the state, removing the responsibility from the latter for failures in effectively governing the markets. While the liberal discourse in social protection enabled the state to get rid of the moral obligation to provide care and relief for the individuals facing misfortunes, the power remained with it to discipline the subjects who are not capable of taking a good care of themselves. The phenomenon was later termed by Foucault (1982) as a political 'double bind' of the modern state, both individualising and totalising in its nature. According to the author, the disciplinary state was gradually overtaking moralising pastoral power from the religion, offering 'the salvation' for those committed to the regime. The moralising pastoral governance was argued to go beyond the population of the poor, having a disciplinary effect on the general population, while the 'salvation' of the poor being not a priority in itself.

Unsurprisingly, the poor record of the minimal liberal welfare states in mitigating poverty is documented by a large amount of research (e.g. see review by Neubourg et al. 2007). Workfare programmes and strict conditionality of social provisions on participation in the labour market despite low wages or poor fit of the job to the skills of the worker can serve as examples of the disciplinary measures that may have limited or even adverse long-term effects on the goals of poverty reduction (e.g. see ESTEP 2014 for evidence on Lithuania).

A focus on redistributive policies is criticized to be inadequate, even by its proponents, if it fails to address the problem of the initial distribution of resources within a long-term, rather than immediate, horizon and in a sustainable manner (see e.g. Levitas 2005). For example, Simmel & Jacobson (1965) criticized redistributive efforts by the state through means of social assistance disclosing its inner logic:

> "[…] it becomes clear that the fact of taking away from the rich to give to the poor does not aim at equalizing their individual positions and is not, even in its orientation, directed at suppressing the social difference between the rich and the poor. […]. The goal of assistance is precisely to mitigate certain extreme manifestations of social differentiation, so that the social structure may continue to be based on this differentiation." (Simmel & Jacobson 1965, p. 122).

The social inclusion discourse to poverty in the social protection sphere and the notion of the integrating state is also subject to critique. The governance strategy rooted in social inclusion ideas, arguably, use subtle means to make individuals internalize or adapt to the dominant norms, habits and life trajectories. As it was well noted by Levitas – a prominent researcher on the issue of social exclusion:

> "The question is not simply whether there is more or less social exclusion, but what kind of inclusion has been delivered for whom, and on what terms. […] Some suffer forms of exclusion as a direct result of policies to tackle exclusion itself" (Levitas 2005, p. xi).

For example, the conservative welfare systems based predominantly on social insurance policies can be criticized as helping to maintain the dominant social order by establishing the superiority of the resource-rich, employed population groups and pushing them towards institutionally pre-defined life trajectories. Others, who fall outside of the institutional system of social insurance and lack resources in the first place, or who fail to comply with the institutionally defined life trajectories are left unprotected and vulnerable.

Finally, social investment discourse is criticized as liberating on the outside, while on the inside it commercialises the state-human relationship, serving as a pre-requisite for the state's moral right to demand returns on investments and condemn those who fail to deliver:

> "Foucault showed that labour-power must first be constituted before it can be exploited: that is, that life time must we synthesized into labour time, individuals must be subjugated to the production cycle, habits must be formed, and time and space must be organized according to a scheme. Thus, economic exploitation required a prior 'political investment of the body'" (Foucault 1997, p. 25 in Lemke 2002 p. 58)

Hence, the potential danger of the social investment discourse based on the notion of human capital is economisation of the state-human relationship, which may result in welfare policies, oriented towards those potentially bringing highest returns on investments. Such 'cherry picking' policies contribute to the process similar to the 'double bind' of the state power pointed out by Foucault (1982): making people responsible for risk management and providing returns on investments the state makes, while sparing the state of the moral responsibility to 'invest' in those who fail to prove their potential. Having said that, broadening the social investment logic from a notion of human capital, which is primarily focused on productive labour-market behaviour, towards a broader notion of human development as advocated by Sen (i.e. focusing on the notion of social and humanistic rather than mere economic returns on investments) is a demanding, but a promising path.

To sum up, the four approaches to poverty reduction were identified in this section, i.e. disciplinary, redistributive, social inclusion and social investment. These correspond, respectively, to the attribution of the causes of poverty to individual deviation, lack of resources for satisfaction of the basic needs, social exclusion and lack of capabilities for functioning. The disciplinary and the social investment discourses are argued to be individualistic and based to a large extent on the supply-side strategies to poverty reduction; redistributive and social inclusion strategies constitute structural, top-down, demand based approaches to poverty reduction. The disciplinary and redistributive strategies can also be defined as the conventional top-down approaches to poverty, while the social investment and social inclusion discourses can be distinguished for a people-centred participatory orientation. All four ways of problematizing poverty and framing poverty reduction efforts are partial rationalities and are subject to critique. The next section outlines the theoretic scheme summing up the arguments made so far.

1.3. The causes of poverty and reduction strategies: a theoretic scheme

As already discussed, there is a variety of ways the causes of poverty are attributed, as well as a number of strategies aimed at poverty reduction through the means of social policy interventions. In this section, the above are summarized into a theoretic scheme for the analysis of poverty interventions through the means of social protection.

The proposed scheme (see Figure 1) is based on the two-dimensional space of the causes of poverty and its reduction strategies. The causes are grouped into individualistic and structural in line with the poverty attribution theory discussed in Section 1.1. The poverty reduction strategies are grouped into the conventional top-down and people-centred participatory approaches as highlighted in the development literature (see Section 1.2). The rationalities underlying each of the four quadrants presented in the scheme were already discussed above and are briefly summarized in this section. Limitations of the scheme are also outlined.

The upper-left quadrant of the Figure 1 (below) highlights the disciplinary strategy to poverty reduction stemming from the individualistic thinking on the causes of poverty and blaming poverty on the characteristics of the poor. The main aim is to discipline the poor, making them act in socially acceptable and productive ways. This may be reached by the means of motivating, activating or forcing the poor into work or trying to influence other important decisions, such as family formation, reproduction, education, migration, saving, etc.

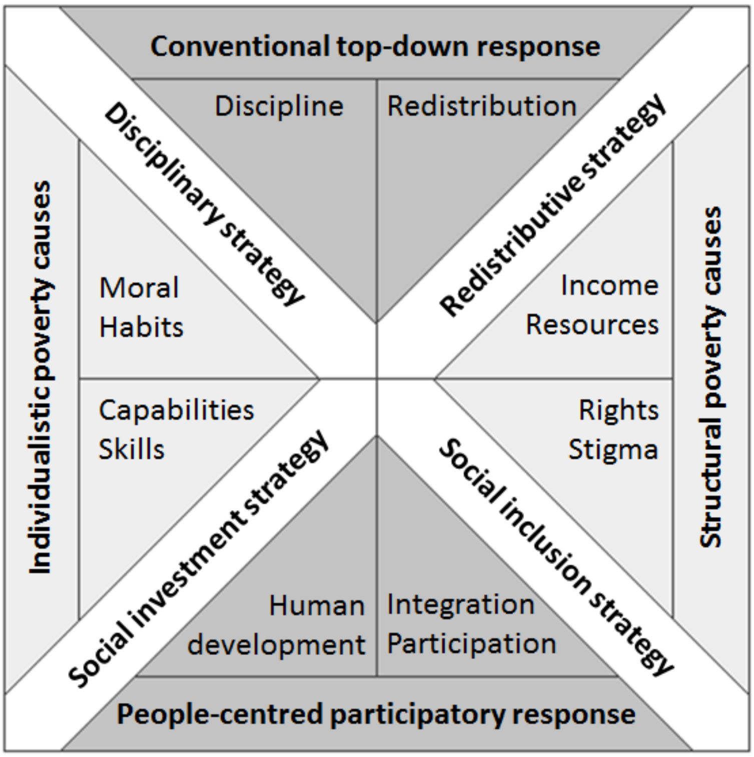

Figure 1. Poverty reduction strategies in social protection

Source: compiled by the author

The upper right quadrant in Figure 1 depicts the logic of the redistributive poverty reduction strategy. The strategy is based on the top-down state interventions, focusing on redistribution of resources aimed for minimization of poverty. This top-down conventional strategy sees the state’s redistributive efforts as an essential part of a comprehensive social protection system.

The social inclusion strategy depicted in the lower right quadrant is similar to the redistributive logic in the sense that the structural causes are seen as driving the prevalence of poverty in the population. Socio-political, labour market and cultural participation barriers are stressed. The solution is sought through ensuring social, political, cultural and economic rights for all and removing institutional participation barriers, such as stigma or discrimination.

Finally, the social investment strategy of poverty reduction highlights the importance of individual factors for poverty dynamics and a bottom-up participatory poverty response. The social investment discourse points towards the development of human capabilities and skills. It presents individuals as active agents and avoids the blame rhetoric. The focus is on education, social services, including healthcare, formation of the labour market skills, as well as on prevention of their deterioration.

As it was already discussed, the scheme is constructed in line with the poverty attribution theory, with numerous links to other social science theories. The proposed scheme can also be linked to the social exclusion discourses singled out by Levitas (2005), who distinguished between the redistributive discourse (RED), social integrationist discourse (SID) and moral underclass discourse (MUD) in the UK and the EU politics. The features outlined by Levitas for the three discourses are similar to the redistributive, social inclusion and disciplinary poverty reduction strategies, i.e.:

> "In RED, the assumption is that the resources available in cash or kind to the poor need to be increased both relatively and absolutely, implying both improved levels of income maintenance and better access to public and private services. In SID, the solution is increasing labour market participation, for paid work is claimed to deliver inclusion both directly and indirectly through the income it provides. In MUD, the emphasis is on changing behaviour through a mixture of sticks and carrots – manipulation of welfare benefits, sanctions for non-compliance and intensive social work with individuals." (Levitas 2005, p. x)

Despite the similarity, there are at least three important conceptual differences with the proposed scheme. First, Levitas explicitly refers to the notion of social exclusion, rather than poverty, as an overarching notion behind her classification. It can, however, be argued that the notion of social exclusion in the liberal UK context “appeared to offer a less emotive, perhaps less understood and therefore less politically contentious alternative concept to poverty” (Atkinson & Davoudi 2000, p. 436). While conceptual differences between the two notions do exist, the outcomes of poverty and social exclusion processes for those most deprived are closely inter-related as well as policy practice aimed at tackling those.

Second, the ‘social integration discourse’ in the UK context depicted by Levitas is focused more narrowly on the labour market integration, while the social inclusion discourse identified in Figure 1 fits within a wider EU debate on multi-faced nature of social exclusion not only within the labour market, but also through social, political, economic, cultural and other domains of participation in the society. Third, the social investment strategy outlined in Figure 1 comes in addition to the three discourses singled out by Levitas. Numerous references to the social investment orientation in social protection in the contemporary political documents and academic texts call for including this dimension into the discussion.

Finally, the limitations of the proposed scheme should be highlighted. First, the boarders of the outlined poverty reduction strategies are by no means clear cut. Brock et al. (2001) notes a process of hybridization of poverty reduction strategies, which is realised by a selective incorporation of concepts generated by the alternative discourses. The proposed categorization should thus be treated as an ‘ideal type’ classification exercise, acknowledging that variations may occur in the real-life political debates as well as in practical implementation and design of the policy interventions. Second, the proposed scheme should also be treated as partial representation of the poverty phenomenon rooted within the contemporary political EU context. Third, while the scheme is based on the two dichotomies, the four poverty reduction strategies are not necessarily conflicting with each other or representing distinct types of poverty, but should rather be seen as contributing to a fuller picture of the complex poverty phenomenon.

To sum up the proposed theoretic scheme unites the four wide-spread perceptions of the causes of poverty with the four ways of tackling it by the means of social protection. The four identified poverty reduction strategies in social protection include: disciplinary, redistributive, social inclusion and social investment. The scheme is rooted within the contemporary political EU debates and should be perceived as an ‘ideal type’ classification, with a degree of hybridization in the real-life politics. The four identified poverty reduction strategies should also be understood as a reflection of a complex picture of poverty phenomenon, rather than necessary being in conflict with each other. Arguably, the scheme has a potential to contribute to an encompassing view on the ways the problem of poverty is framed and treated in the academic and political debates and practices, as well as for building a wider consensus on the need for an encompassing social protection policy aimed at poverty reduction.

1.4. Changes in poverty reduction strategies in the EU

The proposed scheme for the analysis of poverty reduction strategies is a snapshot of the different ways poverty is framed and treated in academic and political debate and practice. Similar to the social exclusion discourses distinguished by Levitas (2005), the scheme can be useful in negotiating ‘the minefields’ of social policy, especially with regard to the co-existence, contradictions and shifts between the different positions to addressing the problem of poverty. As it was acknowledged in the previous section, the scheme does not imply that the four identified poverty reduction strategies were clear-cut or autonomous. On the contrary, it can be argued that they are closely interlinked both on a discursive and practical levels. While none of the approaches are absolute, the question arises on whether any of the discourses – disciplinary, redistributive, social inclusion or social investment – dominate the policy debate and if there is a shift towards any of them and why.

As it was argued, historically the poverty notions in political debate developed from it being portrayed as a deviation or a basic needs problem, towards a problem of social exclusion and under-development of human capabilities and skills (see Section 1.2). The development of the poverty notion and its responses was not, however, linear. For example, in the Glennerster et al. (2004) analysis of the one hundred years of poverty and policy in the UK, the authors traced how both the poverty discourse and policies changed throughout the 20th century: starting with very individualistic and moralising view of the poor and poverty at the beginning of the century with minimal assistance and strict disciplinary measures on behalf of the state (i.e. workhouses), towards an increasing understanding of broad structural causes of poverty and social exclusion and rapid development of social insurance, categorical and social assistance mechanisms in the middle of the century, accompanied by a struggle for human, social and political rights; shifting back towards rapid liberalisation of the welfare state in the Tacherian era and towards the 'Third Way' policies in the latest decade rooted in the ideas of proactive welfare state and social investment.

Within a broader EU context, according to Williams (1998), the concept of poverty emerged from the liberal political economy of the nineteenth century and was rooted in individualistic thinking. By the time of the Hague Congress in 1948, where the ideas of the European political cooperation were first discussed, the two wars as well as poverty research brought the structural causes of poverty onto the surface together with the ideas of egalitarianism and redistribution. Poverty reduction, however, was not among the primary EU aims, rather was the economic development and cooperation (e.g. Kvist & Saari (eds.) 2007). Social exclusion has become central to the EU social policy agenda since around 2000 (Levitas, 2005). Both social inclusion and social investment concepts penetrate into the EU political debate, especially in terms of the Lisbon Strategy and 'Europe 2020' (see e.g. Cantillon 2011, Vandenbroucke & Vleminckx 2011). The shift to the latter – social investment discourse – is highlighted as increasingly apparent in the European Commission's documents and recommendations since around 2013 (Kvist 2014). The EU social investment strategy does not concentrate on the poor, but on a broader issue of enhancing the person's capacities and supporting their participation in the society and the labour market (European Commission 2013a). Investing in children with disadvantageous backgrounds is among the top priorities within the EU approach (European Commission 2013b).

There are numerous factors that may contribute towards the changing ways the problem of poverty and its reduction strategies have been framed during the last century. The main argument presented in this section is that there is a tendency for increased individualization and Europeanization in the sphere of poverty response in the EU and at national Lithuanian level. It is argued that the tendency of individualization contributes to the shift of the poverty strategies to the left of the proposed scheme, i.e. towards individualistic disciplinary and social investment discourses. The tendency of Europeanization, in its turn, pushes the policy debate and interventions towards the bottom of the scheme, i.e. people-centred participatory strategies of social investment and inclusion. Figure 2 below illustrates these trends.

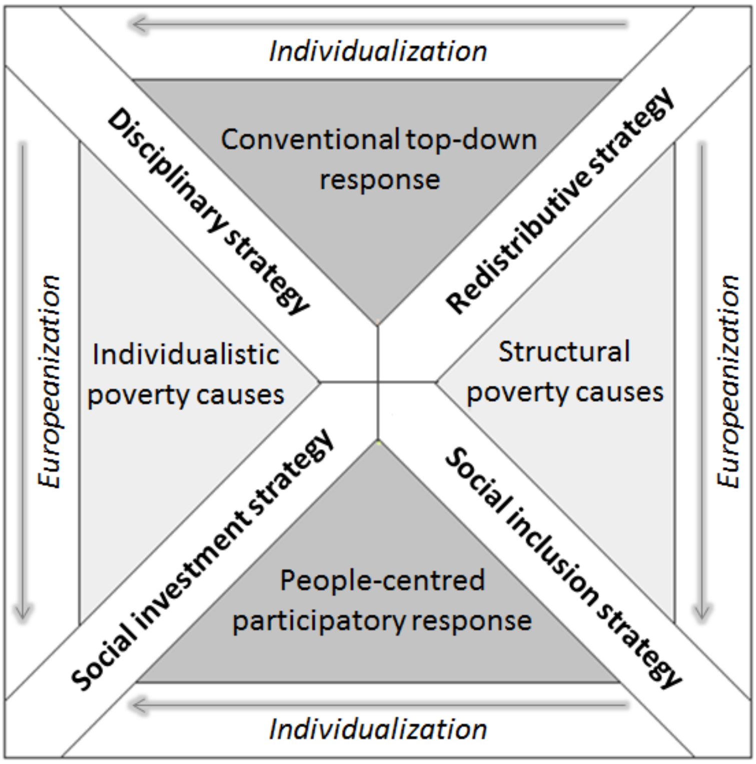

Figure 2. The effects of individualization and Europeanization of social protection on poverty reduction strategies

Source: compiled by the author

The notions of individualization and Europeanization, as well as the primary factors under their dynamics portrayed in the Figure 2 are discussed in the following sections. The implications for social protection in general and redistributive welfare state policies (i.e. cash social benefits) in particular are also discussed.

1.4.1. Individualization in social protection

There is a number of authors who have written on the issue of individualization tendencies in social protection (e.g. Foucault 1982, Giddens 1997, Esping-Andersen 1999, Lupton 1999, Pierson 2001, Kemshall 2002, Beck 2009, etc., Skučienė 2006 for Lithuania). Among the main drivers under individualization tendencies in social protection highlighted by the authors are: globalisation and increasingly competitive economic environment, rapidly changing demographic situation, changing family structure and weakening of the informal support systems, increased strain on the welfare state due to high prevalence of the socio-economic risks and maturation of the social protection systems, spread of the neo-liberal ideology, cultural shifts towards individualization, etc.

In the broadest sense the process of individualization means that individuals must produce their own biographies themselves, in the absence of fixed, obligatory and traditional norms and the emergence of new ways of life that are continually subject to change (Lupton 1999). Increasing responsibility is accompanied by a weakening of the traditional support structures, such as family, community or class:

> "The opportunities, hazards and ambivalences of biography which once could be coped within the family unit, in the village community, and by the recourse to the social class or group, increasingly have to be grasped, interpreted and dealt with by the individual alone" (Beck 2009, p.75).

Individualization in the sphere of social protection conventionally refers to the shift of responsibility for managing socio-economic risks onto individuals (Skučienė 2006). According to the Foucauldian perspective, individualization and responsibilisation tendencies in social protection add to the political ‘double bind’ of the modern state, which is both individualising and totalising (Foucault 1982, see Section 1.1 for a more detailed discussion). The liberal individualistic discourse puts responsibility on individuals for competing in a supposedly equal opportunity struggle of everyone against everyone. This specific strategy of governing and the individualistic discourse that surrounds it shifts the blame for failures away from the public agency and onto the individual:

> “The strategy of rendering individual subjects “responsible” (and also collectives, such as families, associations, etc.) entails shifting responsibility for social risks such as illness, unemployment, poverty, and so forth, and for life in society, into the domain for which the individual is responsible and transforming it into a problem of ‘self-care’” (Lemke 2002, p. 59).

Thus, the discourse conveniently shifts away from social responsibility towards the personal provision. While the state gets rid of the moral obligation to provide care and relief for the individuals facing socio-economic risks, the power remains with it to discipline the subjects who are not capable of taking a good care of themselves and those who could potentially fail to do so:

> “In effect, what defines a relationship of power is that it is a mode of action which does not act directly and immediately on others. Instead, it acts upon an action, on existing actions or on those which may arise in the present or the future” (Foucault 1982, p.789).

In the proposed scheme of poverty reduction strategies the above-mentioned shift from social responsibility towards the personal provision may be argued to contribute to the shift away from the structural perceptions of the causes of poverty towards more individualized explanations and approaches to tackling it, either disciplinary or social investment (see Figure 2).

The individualistic discourse in social protection is penetrated by the idea and ideal of the lean, flexible, autonomous and attractive individuals, families and institutions, in a supposedly pure input/output, stimulus/response or investment/return world (e.g. Lemke 2002, p. 60). These ideas and discourse have proved to be attractive to the policy makers and the public, as the state seems to abandon its paternalistic role and individuals are portrayed as autonomous, capable of taking on responsibilities for managing their lives, active and adaptive. 'Lean' welfare state also implies less public spending and lower bureaucracy.

There are, however, concerns associated with the shifting focus of the welfare state away from the redistribution of resources towards increasingly individualised social protection and reliance on individuals' capability to make well informed decisions. Portraying individuals as active agents shift attention away from the structural causes of poverty, spares the state of the prerogative to correct for the ill-functioning of the system and shifts responsibility for failures on an individual.

Nevertheless, the individuals' capacity to actively manage risks and make well informed decisions on the complex issues outside of their influence or control is questionable in the context of increasing inequality, population ageing, labour market polarisation, a high degree of instability in the financial and labour markets and other adverse structural forces. One of the most telling examples of individualization in the sphere of social protection and over-reliance on the individual capacity to make complex decisions is the privatisation of pension systems. While experts in economics, demography, sociology and other sciences struggle to come up with the ways to effectively address the challenge of population ageing, lay individuals need to make long-term decisions on participation in the funded pension schemes and management of their pension funds. The experience in Lithuania and other European countries where pension privatisation took place showed that the vast majority of individuals do not fully understand and do not manage actively their pension savings (see e.g. Viceira 2010). The shift towards increasingly individualized welfare provisions in the old-age was also criticised as undermining solidarity between generations (Ferge 1997, p. 20).

1.4.2. Europeanization in social protection

Whereas individualization tendencies shift debates towards more individualised strategies to tackling poverty, the processes of Europeanization across the EU arguably contribute to the development and spread of the increasingly people-centred participatory ways of poverty reduction.

Social protection in the EU is primarily a national preserve (Kvist & Saari (eds.) 2007). Indeed, the EU was established as a market-making project, with the issues of social protection not seen as its prerogative. The first EU anti-poverty initiatives in 1970s and 1980s put a primary emphasis on research, information exchange and evaluation, but neither common poverty reduction strategy nor means for achieving it were agreed on (Daly 2010). It was not until late 1990s that the Lisbon process put the issue of poverty firmly on the political agenda in the EU in one of the "most concerted attempts anywhere in recent history to engage with poverty and social exclusion" (Daly 2010, p.5). This started a gradual process of Europeanization of social protection through the open method of coordination and establishment of the common social policy targets.

The 'Europe 2020' initiative that followed the Lisbon process proved that the goals of poverty reduction became well rooted in the EU political debate. An ambitious goal was set of reducing the number of people in or at-risk-of-poverty and social exclusion by at least 20 million in the EU. The contemporary EU debate on tackling poverty and social exclusion, however, is far from being homogenous:

> "In truth, poverty and social exclusion are far from stable in EU usage and aspects of the EU's considerable activity are actively contributing to a process that is destabilising the meaning of poverty especially." (Daly 2010, p.16)

What is meant by the 'destabilising' effect of the EU on the poverty debate and related policy practice? It can be argued that the poverty reduction strategies are among politically sensitive issues in the EU with ideologies ranging from the social-democratic Scandinavian tradition advocating for the active state interventions, to the neo-liberal Anglo-Saxon regimes arguing for relying on the markets instead. The ideological heterogeneity complicates the possibility to come up with a common approach to tackling poverty. Moreover, the EU as a political body has limited space for manoeuvre with little political or legal means to influence national policy making in the sphere of social protection, i.e. the principle of subsidiarity grants member states autonomy in determining and implementing their social policy.

It can be argued that it is due to this heterogeneity and limited space for manoeuvre in the sphere of social policy at the EU level that there is a necessity for building political consensus in the sphere of decision-making, on the issue of poverty reduction in particular. Unsurprisingly, the ideological differences and the need for consensus result in the introduction and use of the flexible 'quasi-concepts', such as social inclusion or social investment, that replace more contentious notions, i.e. the one of poverty reduction itself. The tendency towards the introduction of the politically neutral terms in the EU was noted at the very initial years of the Lisbon process by Atkinson and Davoudi (2000) and later by Daly (2010), among others.

Indeed, it can be argued that the social exclusion discourse originally stems from the European tradition, taking an influential role within it at least at the intellectual level and in redefining the measurement of poverty (Daly 2010). The same can be said about the ideas of social investment.

It should however be noted, that while the intellectual and technical influence of the Europeanization processes are well acknowledged, the actual impact on policy making in the sphere of tackling poverty and social protection in general in the EU is a more disputed issue. For example, Ferrera et al. (2002) concluded that while the social inclusion process in the EU has its potential, it faces a risk of generating little real change in social policy, contributing instead to: “a biennial ritual of ‘dressing up’ existing policies, at least on the part of governments with little inclination to direct energy and resources to this policy area” (Ferrera et al. 2002, p. 14). Hence, the discursive shift towards less politically contentious and positively framed people-centred strategies of poverty reduction does not automatically produce significant policy outcomes.

1.4.3. A shift away from redistributive policies?

As it was discussed above and illustrated in the Figure 2, the individualization tendencies shift the political debate on poverty reduction towards the individualistic disciplinary or social investment approaches. The tendencies of Europeanization in social protection, in their turn, arguably contribute to the development of politically neutral and people-centred social inclusion or investment strategies. Both processes contribute to the shift of the political debate and practice away from the conventional protective redistributive role of social protection towards presumably more flexible and active strategies of poverty reduction.

There is, however, a strong case for thinking about the four strategies of poverty reduction – disciplinary, redistributive, social inclusion and social investment – as complementary rather than opposing each other. For example, Esping-Andersen (2002b) argued that the now-popular social investment can not substitute conventional income maintenance guarantees and regarded the narrow social investment notion as *naïve* and even counterproductive, since the minimization of poverty and income security is a precondition for an effective social investment strategy. Vandenbroucke & Vleminckx (2011 p. 451) also supported this view arguing that social investment and protection constitute ‘the twin, complementary, pillars of an active welfare state’. The common opposition of the presumably ‘passive’ redistributive policies and ‘active’ disciplinary, social inclusion or social investment strategies in poverty reduction is often over-stated. In practice, the conventional ‘old welfare state’ policy measures contain active as well as passive elements (Alcock 2004). The proposals to combine a broad scope of measures into a comprehensive poverty reduction strategy was supported by the European Commission on multiple occasions (see e.g. Heidenreich et al. 2014).

To sum up, the tendencies towards individualization and Europeanization in social protection form a pre-requisite for a shift of the poverty reduction debate and practices away from the redistributive policies, social cash benefits in particular. While there are positive aspects in individualization and Europeanization tendencies in sphere of social protection, the negative implications of shifting attention away from redistributive policies have already been noticed by the policy analysts in the EU. There is, thus, a strong case in favour of maintaining redistributive policies as an essential part of a comprehensive poverty reduction strategy, complementing its other disciplinary, social inclusion and social investment goals. Building a wider understanding of the role of redistributive policies is important for a balanced approach to poverty reduction. In the next Section the role of cash social benefits in poverty reduction is discussed.

1.5. The role of cash social benefits in poverty reduction

Until now the problem of poverty and its reduction strategies were analysed in a broad context of academic and policy debate and practices. In this section, the scope is narrowed down to cash social benefits – one of social protection instruments. The focus is on the applicability of the scheme proposed in Section 1.3 for looking at the role of cash social benefits in poverty reduction.

Before coming to the main argument the concept of cash social benefits should be introduced, and its place identified within a broader field of social policy. As it was noted by Marshall, there are no precise boundaries or definition for the notion of social policy despite its wide use (Marshall 1975 in Johnson, 2005). All the policies are *per se* ‘social’, however the conventional view looks at social policy as encompassing social protection, healthcare and housing policies (Johnson 2005). Education and employment policies are also commonly attributed to the social policy field. Other policy areas – e.g. economic, public order and defence, cultural, environmental – are normally excluded from the field of social policy, but are no doubt closely related to it.

In this regard, the system of social protection is one of social policy domains. The term of 'social protection' points to the system being rooted in the idea of a paternalistic state that protects its citizens from short-term risks and long-term periods of disadvantage, e.g. unemployment, illness, disability, old-age, etc. Thus, social protection encompasses a sub-set of public actions that address risk, vulnerability and chronic poverty (Farrington & Slater 2006).

There are numerous ways social protection instruments can be categorised. For example, Farrington & Slater (2006) distinguish between its three components: social insurance, social assistance, standards. Categorisation can also reflect the mode of provision, i.e. social cash benefits, social in-kind benefits and regulations. The latter categorisation is better in line with the topic of the dissertation. Social cash benefits, in their turn, can be defined as:

> "current transfers received […] by households intended to relieve them from the financial burden of a number of risks or needs**,** made through collectively organised schemes, or outside such schemes by government units and non-profit institutions serving households." (Eurostat 2013, p. 323)

The definition is broad in the sense that it does not distinguish between in-cash and in-kind provisions and includes provisions by non-profit institutions. In our case, the focus is strictly on cash social benefits excluding payments by non-profit institutions. Near-cash payments, e.g. compensations, are attributed to the category of social cash benefits only if are paid in cash directly to benefit recipients, rather than providers of services or goods.

A number of cash social benefit types can be distinguished by the function or design. The classification widely used by Eurostat and ESSPROSS distinguishes between: unemployment, old-age, survivor, sickness, disability, education, family/children, housing and social exclusion benefits (Eurostat 2013). By design, cash benefits may be grouped in a number of ways: one-time and regular, contributory and non-contributory, conditional and unconditional, means-tested and non-means-tested, individual or joint, targeted or universal, etc. (see e.g. Johnson 2005, Farrington & Slater 2006). Aidukaitė et al. (2012) distinguish between social insurance, social assistance and special social benefits (state pensions) for Lithuania. There are, however, non-contributory non-means tested benefits other than state pensions both in Lithuania and in other countries. The latter are often referred to as categorical cash benefits. In effect, cash social benefits here and below are defined as one-time or regular in-cash social insurance, categorical or social assistance payments to individuals, families or households by the public authorities.

With regard to the role in poverty reduction cash social benefits are often perceived as being a 'passive' measure of social protection, bearing mainly redistributive function, as opposed to more 'active' preventive measures, such as services (see e.g. Alcock 2006, Farrington & Slater 2006). However in practice, cash benefits contain both active and passive elements (Alcock 2004). Indeed, the idea that the role of cash social benefits in poverty reduction goes beyond its direct redistributive effect is not new. For example, Farrington & Slater (2006) identified at least four effects of social cash benefits: on production, on consumption, on investment and on risk reduction. Yet another categorization is the four *P's* of poverty reduction by Hills (cited in Alcock 2004): propulsion, protection, prevention and promotion. These classifications are similar and can be closely linked to disciplinary, redistributive, social investment and social inclusion strategies in poverty reduction, as outlined in Section 1.3. Below in Sections 1.5.1- 1.5.4 the role of social cash benefits in poverty reduction is discussed looking through the scheme for the analysis of poverty reduction policies proposed in Section 1.3 (see Figure 1).

1.5.1. The disciplinary role

The system of social cash benefits, if designed appropriately, can be a powerful disciplinary tool providing monetary incentives for behavioural change. The disciplinary function of cash social benefits is often linked with the work incentives it provides or hinders. The stream of research on effects of social cash benefits on work incentives stems from an idea that individuals make rational choices regarding their participation in the labour market based on the balance of potential earnings and associated costs, including those embedded in the tax-benefit system. The disincentives to start work or increase one's work intensity are thus conventionally associated with a proportion of earnings that is taxed away due to loss of benefit entitlement, social insurance contributions and taxes (e.g. Jara and Tumino, 2013).

While financial incentives may be argued to directly affect labour market behaviour, the effects of cash social benefit provisions on other decisions, such as reproduction, family-formation, migration, education, healthcare or retirement are more subtle, often unintentional and more difficult to prove. Conditional cash transfers – benefits paid in cash to poor households subject to compliance with specific conditions in relation to education, health or nutrition – are among the examples of cash benefit provisions that are directly targeted at behavioural change (e.g. Grosh et al. 2008, Lomelí, 2008).

From the political economy perspective, wide political support is needed for adopting social policies encouraging or preventing specific behaviors (Grosh et al. 2008). It requires political consensus on the desired short and long term effects on households or individuals, and assurance on the absence of negative externalities, either direct or indirect. While the goals of improving work incentives, school attendance, healthcare or nutrition are typically less contested and can be framed as a matter of public interest, other potential goals may be met with a lot of controversy. This explains why the already mentioned spheres, especially with regard to incentivising people to work, are more developed and more often applied in the system of social cash benefits.

Both positive and negative incentives can be built in into the social cash benefit design. The eligibility rules for benefits and the way they are calculated may influence the labour supply, motivate people to work more, longer or seek certain forms of employment. For example, income disregards or in-work cash benefits are known to boost work incentives for those transitioning from inactivity or unemployment to work (Ringold and Kasek 2007, UNDP 2010). Special benefit entitlements or possibility to retire earlier for representatives of certain groups, such as statutory officers or teachers, can serve as an additional motivation for choosing these professions. The already mentioned conditional cash transfer programmes widely spread in Central America and the Caribbean rely on positive monetary incentives for boosting school attendance, healthcare or nutrition (see e.g. Lomelí, 2008). On the other hand, withdrawal or reduction of cash benefit provisions in cases when recipients fail to demonstrate required behaviour can be viewed as a negative incentive. One example can be reduction of social cash benefits due to non-compliance to benefit rules or with time, e.g. for long-term unemployed.

The effects of cash social benefits on work incentives may also be direct or indirect. For example, rapid reduction of social cash benefits with earned income is widely known to have a direct effect of undermining work incentives (e.g. Jara and Tumino 2013). Joint calculation of benefits may have an indirect negative effect on the work incentives of the spouse with lower earning capacity (e.g. Immervol et al. 2009). Indirect effects can also come through deferred social cash benefit entitlements, such as social insurance pensions. Thus, potential effects of the system of cash social benefits on behaviour are complex and should be given proper consideration.

Finally, keeping social cash benefits at very low sub-subsistence levels may itself be viewed as a negative incentive, pushing beneficiaries off benefits to supposedly more productive behaviours and acting as a self-targeting mechanism (see e.g. Avram 2013). Similar effect can be noted for programmes in which the poor are requested to perform low-skilled public works in order to receive cash benefits, i.e. workfare programmes (Grosh et al. 2008). On the other hand, high benefit levels are often assumed to undermine work incentives, and *vice versa*. Grosh et al. (2008) depicts this trade-off as protection versus promotion; it can also be framed as a trade-off between redistributive policies and work incentives (Carone et al. 2004, Jara & Tumino 2013). This is, however, not entirely correct. As argued by Esping-Andersen (2002b, p. 47), there is little scientific evidence that social benefits reduce work incentives *per se*. He noted that cash benefits are in many EU states too low to substantively affect work incentives; at the same time, countries with generous unemployment benefits often have lower rates of long-term unemployment and higher flow rates out of unemployment. Hence, it is not the matter of the size of the benefit, rather than its design that hinders or strengthens work incentives.

1.5.2. The redistributive role

The redistributive role of social cash benefits is the one most widely known. It is important for poverty reduction as long as it is aimed at ensuring minimum resources (i.e. income) for those most in need or providing income security for those experiencing acute socio-economic shocks and life course transitions. As it was already noted, the minimization of poverty and income insecurity is a pre-condition of an effective long-term welfare state strategy (Esping-Andersen 2002a, p. 5). In contrast, redistribution of resources within the middle and upper part of the income distribution falls outside of the poverty reduction efforts. To stress, the role of cash social benefits with a focus on those at the bottom of the income distribution and those experiencing acute income shocks or life-course transitions is implied further on in the text when referring to the redistributive role of cash social benefits.

Cash social benefits are among the main redistributive social policy tools, which is especially true for Lithuania (Ivaškaitė-Tamošiūnė 2013). Redistributive function of cash social benefits can be aimed at inter-temporal, horizontal or vertical redistribution of income. As by definition social cash benefits are intended to relieve people from the financial burden of a number of risks or needs, one way of thinking about the three redistributive strategies in the sphere of social protection and cash benefit provision is the Social Risk Management framework proposed by Holzmann and Jorgensen (2001) and further developed by Neubourg (2002). Within the framework, three major forms of risks are distinguished: life-cycle, categorical and universal (Neubourg 2002, p.323). For example, inability to work in old-age, due to ill-health or childbirth are among typical life-cycle risks; families with many children, single parents or people with disability are among the household categories most affected by the relative income poverty in many countries; increase in unemployment levels due to financial crisis can be named a universal risk, although it may disproportionally affect some groups of vulnerable population or economic sectors.

It can be argued that different sources of risk require different strategies with regard to redistribution of resources. Life-cycle risks may be mitigated through conventional social insurance mechanisms, i.e. redistributing resources inter-temporally over the persons' life time. Categorical risks, however, require a certain degree of horizontal redistribution across population groups, e.g. towards families with children or people with disability. Universal risks are the most difficult to insure against or mitigate, as they affect vast population groups. Vertical redistributive policy, i.e. redistributing towards those worst affected and providing a minimum income floor, is the third type of direct redistributive policies. Vertical redistribution also provides the last resort for those facing the effects of multiple or accumulated risks and for those most in need. The choice and balance between the three redistributive strategies – inter-temporal, horizontal and vertical – is therefore important for ensuring comprehensive social protection. With regard to cash social benefit design, the three redistributive strategies are reflected in, correspondingly, social insurance, categorical and means-tested design of cash social benefit provisions.

As mentioned above, the importance of redistributive function of cash social benefits is often undermined as being a 'passive' (see e.g. Alcock 2006, Farrington & Slater 2006) and standing in opposition to disciplinary goals of the cash benefit system, i.e. undermining work incentives (Grosh et al. 2008, Carone et al. 2004, Jara & Tumino 2013). The latter critique needs to be balanced by taking into account the potential of redistributive policies, cash social benefits in particular, to play an active role with effects e.g. on production, consumption, investment and risk reduction at both micro and macro levels (Farrington & Slater 2006). For example, there is numerous evidence that 'survival' strategies that people undertake to mitigate income shocks in absence of the adequate income maintenance mechanisms may include risky or counterproductive behaviour, such as crime, pawning, forgoing investment in human or material capital (see e.g. Dercon, 2005 for a review). For example, Tandon & Hasan (2005) showed redundancy to invest in education or prevalence of high fertility rates among the poor as means of mitigating income generation risk. A study by Morduch (1994) revealed a tendency to partake in more conservative economic activities within the risky environments that are also inherently associated with lower levels of return. Negative macro-level consequences include migration (e.g. Tandon & Hasan 2005) and negative effects on the overall levels of inequality (e.g. Dolls, 2012). Hence, the negative effects of risky environment in absence of robust social protection policies need to be given proper attention.

The other point of critique which is often used by liberal opponents is that the bigger welfare state hinders economic growth. However, the view that the aggregate size of the governmental provisions or the size of individual benefits is detrimental to the economic growth has little empirical evidence:

> "The results of econometric studies of the relationship between social transfer spending and growth rates are mixed: some find that high spending on social transfers leads to lower growth, others find the reverse". (Atkinson 1999, p. 184)

The latest OECD report (Cingano 2014) concludes that income inequality has a negative and statistically significant impact on subsequent growth, especially with regard to the gap between low income households and the rest of the population. Thus:

> "Redistribution policies via taxes and transfers are a key tool to ensure the benefits of growth are more broadly distributed and the results suggest they need not be expected to undermine growth." (Cingano 2014, p.6)

While there is no robust evidence that expenditure on social protection, cash benefits in particular, is hindering economic growth, the most effective design of the cash benefit provisions is a subject of a long-lasting debate. For example, in their influential article Korpi & Palme (1998) analysed the impact of the social benefit targeting – selectivity versus universalism – on their effectiveness in poverty reduction. The 'redistribution paradox' that the authors discovered based on the data from 11 OECD countries dating to 1980s went as follows:

> "The more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality" (Korpi & Palme 1998 p. 681-682)

The positive effect of the universalistic provisions on poverty reduction comes, according to the authors, through both direct and indirect effects (Korpi & Palme 1998). The former include the direct effect of cash benefits and other provisions on individual income and well-being. The latter – indirect effects – come through crowding-out more unequal income sources – i.e. private pension provisions – helping to maintain support for the public provisions.

While still influential, the robustness of the 'redistribution paradox' was later challenged and failed to be confirmed using data for different selection of countries and periods, demonstrating that targeted policies may substantially improve the effectiveness of cash benefits (Marx et al. 2013).

Importantly, both the proponents of the targeted and universal social provisions seem to agree that the main effect of redistributive policies on poverty comes to a great extent through the size of redistributive budgets and the overall support for redistributive policies. Unsurprisingly, both redistributive budgets and support for efforts in poverty reduction tend to be higher for countries with more universal provisions. Korpi & Palme (1998) themselves explain this phenomenon by a dialectic relationship between the institutional structure and long-term formation of interest and coalition groups in support of more or less redistribution: the universal welfare policies gain more support as broad coalition groups may be formed when a greater part of the population experience the benefits of welfare provisions. Marx et al. (2013), however, argued that the weak political support for the strongly targeted benefits cannot be linked entirely to the part of electorate they cater for, or by the distance of the beneficiaries to the median voter. Rather the design of the benefits, perceived work and family formation incentives matter:

> "Whereas the old systems were the focus of harsh critiques, especially from the right, the "new" targeted systems […] are lauded as the essential gateways of welfare to work. These systems enjoy relatively broad and robust political support" (Marx et al. 2013, p.36).

Finally, it can be argued that support for redistributive policies, cash social benefits in particular, may be acquired by building wider understanding and consensus on advantages of lower poverty incidence and persistence within the society, and the active role redistributive policies play in poverty reduction. Framing social cash benefit programmes as net spending or as passive assistance undermines their importance and hinders possibilities for building a wider consensus on the importance of redistributive policies.

1.5.3. The social inclusion role

The importance of income or what the income can buy for social inclusion is widely and long recognized. The early poverty research by

Rowntree (1901) has highlighted the poverty notion being relative and closely related to the means needed for participation in the society. Looking into more recent debate, having money is acknowledged as important *per se* for the participation in the contemporary society, as well as for providing the recipients with more possibility of choice and greater autonomy (Farrington & Slater 2006, Žalimienė & Dunajevas 2014). An influential argument in favour of income maintenance policies was put forward in the work of Esping-Andersen (2002b, p.50), e.g.:

> "Even if many of the roots of social exclusion emanate from childhood, there is strong evidence that the experience of poverty *per se* has a compounding, self-reinforcing effect on marginalization. […] In other words, any serious social inclusion policy cannot avoid income guarantees that, minimally, avert cumulative resource depletion"

According to Atikinson et al. (2005, p.18) the long-standing social inclusion objective of the EU is concerned with participation of all the EU citizens in the benefits of economic integration and economic growth. Income from both private and public sources play an important role, while entitlements to cash social benefit provisions in case of acute disadvantage or the need is seen as a social right.

The social inclusion function of the cash social benefits can be traced through coverage of the different social groups by social provisions, treatment of cash benefit recipients and links that are encompassed in the design of cash social benefits to other social systems and institutions.

The notions of benefit coverage can range from its narrow to broad understanding. In a narrow sense benefit coverage is understood as a "proportion of those affected by a specific contingency who receive a benefit payment that is conditional on that contingency" (Immervol et al. 2004, p. 50). Hence, the coverage rate reflects, for example, a share of people in retirement age receiving old-age pension or a share of unemployed receiving unemployment benefits, etc. In a broadest sense, it can also be useful to access the share of benefit recipients in relation to a wider population group, but not only among those facing a specific contingency. In this case, a term of benefit recipiency is used interchangeably with the notion of benefit coverage (e.g. Matsaganis et al. 2014). Coverage rates of benefits are affected in important ways by the institutional design of the welfare system. Social democratic and conservative welfare regimes with universal and insurance-based cash benefit provisions often have wider institutional cash benefit coverage, while it is lower within liberal welfare.

Differences in the factual coverage rates of benefits also relate to stigma associated with receipt of benefits. According to Neubourg et al. (2007) stigma may contribute to social exclusion and isolation of the benefit recipients, as well as reduce benefit take-up and efficiency. Moreover, there is evidence on the negative effects of stigmatization of population groups on their employment prospects (Biewena & Steffesb 2010, Contini & Richiardi 2012). Therefore, 'blaming and shaming' in the sphere of cash social benefit provisions may be counter-productive both speaking about social inclusion and labour market activation goals. On the positive side, the system of cash social benefits may be used to reach otherwise isolated population groups, establishing links to essential services, social support and promoting their integration in society. For example, conditional cash social benefits have potential for encouraging individuals' participation in the labour market, educational or healthcare systems, voluntary and other activities given their proper design, coverage and non-discriminatory language (Grosh et al. 2008, Lomelí 2008).

1.5.4. The social investment role

As it was already mentioned, social investment is a relatively new and vague concept underpinning the latest EU debate in the sphere of social policy. It is hence difficult to single out a clearly defined social investment reform strategy, in particular with regard to the social cash benefit provisions. Cash social provisions and income maintenance, however, do play an important role in the social investment agenda. As argued by Esping-Andersen (2002b), the minimization of poverty and income insecurity is a precondition for an effective social investment strategy, while the latter must be biased towards preventative strategies to be effective and sustainable. Unsurprisingly, the main instrument within the system of cash social benefits that is stressed as having a strong investment function are provisions for children and families:

> "Since the long-term prevention strategy will work best when children are protected from poverty and insecurity, one basic conclusion emerges: adequate income maintenance is a first precondition for either preventive or remedial longer-term strategies." (Esping-Andersen 2002b, p. 66)

Hence, it is unsurprising that within the EU policy context social investment in children from disadvantageous backgrounds is particularly stressed (see e.g. European Commission 2013b). Kvist (2014) highlights the importance of early-year interventions, backed up by research on the highest marginal return on investment in early childhood and detrimental effects of poverty on child development.

Again, direct and indirect effects of cash social benefit provisions can be noted. Kvist (2014) sees the direct role of cash social provisions as compensating parents for some of the child-related costs and encouraging higher spending on children. Moreover, paid maternity, paternity and parental leave schemes, beyond their primary role of compensating parent's lost employment income while taking on childcare responsibilities, give parents employment protection and income support that extend the time children have with their parents. Later the focus shifts on subsidized investment into early childcare and education. Among the cash interventions, conditional cash transfers and education stipends may enhance enrolment.

It is also acknowledged that parental unemployment, economic insecurity and poverty negatively influence child wellbeing and performance (Kvist 2014). Hence, income maintenance and a balanced attention to child and parental wellbeing play an important role within the social investment strategy.

Improving the resources of mothers and women in general is argued to be indispensable for the welfare of families and society at large (Esping-Andersen 2002b, Kvist 2014). Gender sensitive interventions to tackle female poverty, lower activity rates and pay gaps are also highlighted among policies contributing towards reduction of child poverty (European Commission 2013a).

An investment strategy in social protection, and within the system of cash social benefits in particular, should not however be restricted to investment in children and their parents only. Investment in youth, prime-age and elder people is important in an effort to prolong active, healthy and productive lives of people. In a broad sense social investment through cash social benefits as well as though services is based on an implicit contract between generations and across population groups: “social investments are largely financed by those who are the subjects invested in, that is, a distribution of resources from myself to myself at different points of time in my life course” (Kvist 2014, p.5). It highlights inter-changing periods when people are contributing and benefiting from the system, as well as sensitive periods of childhood and life course transitions when social investments produce highest returns or help prevent deterioration of human capabilities, skills and capital. For example, there is evidence on the positive and long-term effects of cash unemployment provisions on better job match of those going through unemployment transition (e.g. Tatsiramos 2009, Caliendo et al. 2009). Jenkins (2011) demonstrated how length and severity of the poverty spells self-enforce further disadvantage by depleting previously accumulated human and social capital.

Finally, the notion of returns on money spent on cash benefits helps overcome the negative stereotype of benefits as ‘passive’ spending. A purely economist view on returns is however criticized as being too narrow. As argued by Kvist (2014) social investment may yield more than purely economic returns (e.g. help curb social inequalities and increase social cohesion); it may also help prevent social and economic costs of underdevelopment, illness and other disadvantages. Both economic and social returns on investment as well as prevented economic and social costs are difficult to calculate empirically. Still it helps to reframe the debate over cash social benefits, highlighting their productive and active role.

To sum up, the system of cash social benefits has a potential for playing a fourfold role in poverty reduction. Cash social benefits contribute to poverty reduction both directly by means of income redistribution as well as indirectly – by incorporating disciplinary, social investment and social inclusion functions. Both size and design of cash social benefits matter, as well as their links to social services and other social policy instruments. Figure 3 below summarizes the discussed disciplinary, redistributive, social inclusion and social investment traits of the cash social benefits' design.

Disciplinary role	Redistributive role
Areas: work incentives, education, healthcare, nutrition, retirement, etc. **Channels:** positive and negative monetary incentives **Benefit design:** eligibility rules, conditionality, benefit withdrawal or change in amount with time or compliance	**Areas:** minimum income floor, income security in case of income shocks and life course transitions **Channels:** inter-temporal, horizontal and vertical redistribution **Benefit design:** social insurance, categorical, means-tested provisions; targeted and universal provisions
Social investment role	**Social inclusion role**
Areas: prevention or minimization of deprivation and income insecurity over life-course **Channels:** economic and social returns on investment, prevented social and economic costs **Benefit design:** focus on early-age and gender sensitive benefit provisions, protection during transition periods	**Areas:** participation income, stigmatization effects **Channels:** means for social and economic participation, language used for framing beneficiaries **Benefit design:** institutional benefit coverage, non-take-up prevention, neutral benefit framing, links to services, provisions for isolated groups

Figure 3. Disciplinary, redistributive, social inclusion and social investment features of cash social benefits

Source: compiled by the author based on Figure 1 and discussion in Section 1.5

As it was noted, there are close links as well as trade-offs between disciplinary, redistributive, social inclusion and social investment roles of cash benefits. Many of the latter are, nevertheless, not inherent to cash social benefits *per se*, rather subject to their construction and design. Re-orienting the debate on cash benefits from them being solely a redistributive tool towards other functions is important for maintaining political and public support for cash social benefits, strengthening manifold potential of this tool for poverty reduction and for improving the benefit design.

1.6. Conclusions

The discussion in Chapter 1 of the dissertation highlighted the ways the problem of poverty and its reduction strategies are framed within the academic and political debate and practice. In line with the poverty attribution theory the four broad ways of problematizing poverty were identified: poverty as individual deviation, poverty as a basic needs problem, poverty as social exclusion, poverty as lack of capabilities for functioning. The four strategies to addressing the problem of poverty are, respectively: disciplinary, redistributive, social inclusion and social investment. The proposed theoretic scheme for the analysis of poverty reduction policies unites the four perceptions of the causes of poverty with the strategies for tackling it. The scheme is rooted within the contemporary political EU context and constitutes an 'ideal type' classification, with a degree of hybridization in the real-life politics.

It was argued that the tendencies towards individualization and Europeanization in social protection are pre-requisites for a shift of poverty reduction debate away from redistributive policies, which undermines the role of cash social benefits. Reduced attention to redistributive policies is however problematic. There is a strong case in favour of substantial redistributive efforts as an essential part of a comprehensive poverty reduction strategy, complemented with other disciplinary, social inclusion and social investment goals.

The analysis of the role social cash benefits play in poverty reduction demonstrates a strong potential of cash social benefits to contribute to poverty reduction both directly by means of income redistribution as well as indirectly – by incorporating disciplinary, social inclusion and social investment functions. Despite the trade-offs between the four functions, their opposition is often artificial and not inherent to cash social benefits *per se*, but rather subject to the system's construction and design. Re-orienting the debate on cash benefits from them being solely redistributive tool towards other functions is important for maintaining political and public support for cash social benefits, strengthening manifold potential of this tool for poverty reduction, improving benefit design and poverty reducing capacity.

2. POVERTY REDUCTION AND CASH SOCIAL BENEFITS IN LITHUANIA: STRATEGIES, PREVIOUS RESEARCH, STATISTICS

In the first chapter of the dissertation the fourfold role of cash social benefits in poverty reduction – disciplinary, redistributive, social inclusion and social investment – was identified on the theoretical level. The aim of this chapter is to look into the role of social cash benefits in poverty reduction applying the proposed analysis scheme within the Lithuanian context. The analysis forms a background for further empirical investigation and is based on the review of the poverty reduction strategies, previous academic research and available statistical indicators. The analysis starts with discussing the ways the problem of poverty is framed in political documents and academic texts in Lithuania (Section 2.1). Next, the development, institutional design of the system of cash social benefits and its implications on poverty reduction in Lithuania are analysed in Sections 2.2 and 2.3. Finally, disciplinary, redistributive, social inclusion and social investment capacity of the Lithuanian cash benefit system is identified using existing research-based evidence and readily available statistical indicators (Section 2.4).

2.1. The problem of poverty and poverty reduction strategies in Lithuania

This section looks into the ways the problem of poverty is framed in academic and policy debate in Lithuania. A special focus is on the perceived role of social protection instruments, cash benefits in particular, in poverty reduction. The analysis is based on an overview of the academic literature as well as Lithuanian social policy documents, i.e. poverty prevention programmes. The focus is on the situation since Lithuania declared independence in 1990, although the analysis starts with a brief historical overview to put the analysis in context.

As it was pointed out by Praspaliauskienė (2000) the categorization of the poor into two major groups of 'genuine' poor (Lith. *'tikrieji vargšai'*) and the 'pretend' (Lith. '*apsimeteliai'*) or 'professional' poor (Lith. '*profesionalūs* *elgetos'*) was typical of the 18th and 19th century Lithuania. This distinction points towards the existence of discourse of poverty as deviation in Lithuania.

During the Soviet period the poverty issue was not a subject of public debate (Matulionis et al. 2005). The Marxist interpretation of poverty was structural, highlighting unbalanced power relations between the rich and the poor, hence the existence of poverty in the Soviet Union was not articulated. According to Šileika (2007), the problem of poverty was framed in the former Soviet Union as a problem of 'insufficient provision' (Lith. *'nepakankamo aprūpinimo problema'*).

Since 1990, as Lithuania declared its independence, the initial period of social change was characterised by reduction in social exclusion based on the ideas of solidarity and expansion of the human rights (Dobryninas et al. 2000). Nevertheless, individualization tendencies in social protection were noted for Lithuania by a number of authors (e.g. Skučienė 2006, Aidukaitė et al. 2012, Guogis 2014). As noted by Skučiene (2006), the Lithuanian social policy was influenced by individualization trends in global politics, while increased reliance on individual rather than collective responsibility was especially visible in the sphere of social insurance. Phenomena of poverty, unemployment and social inequality were perceived in social policy debate as being beyond the personal or national state control (Skučiene 2006).[2] This strategy of normalisation corresponds to perception of the problem of poverty as caused by inevitable forces of social or personal 'fate' within the poverty attribution theory discussed in Section 1.2.

Another shift in the sphere of social change, social policy in particular, during the first decade of the regained independence in Lithuania was a change from the mechanisms of 'restitution' and 'continuation' towards 'innovation'

[2] Lithuanian citation: "Nacionalinių valstybių, tarp jų ir Lietuvos socialinei politikai reikšmės turi globalios socialinės politikos vystymosi kryptys, kurios šiuo metu turi individualizacijos apraiškų […] Šiandien ryškėja tendencija perėjimo iš kolektyvinės į vis didėjančią individualią atsakomybę socialinių rizikų draudimo srityje šiuolaikinėse gerovės valstybėse" […] "Nedarbas, skurdas ir socialinė nelygybė vis labiau priimami kaip savaime suprantami gyvenimo faktai, sukelti globalinių ekonominių jėgų, esančių virš žmogaus kontrolės ar atskiros valstybės poveikio lygmens. Vis labiau akcentuojamas individo autonomiškumas, kuris reiškia, kad žmogus yra pats atsakingas už savo saugumą ir gerovę ateityje" (Skučienė, 2006 p. 44, 46).

and ‘imitation’ based development since around 1993 (Dobryninas et al. 2000, p.49). The authors argued, that the two latter mechanisms were mainly driven by the orientation towards integration and adjustment to the economic, social and cultural realities of the EU. While important, the practical influence of Europeanization on social policy in Lithuania is a contested issue. As pointed out by Aidukaitė et al. (2012), it was more ‘cognitive Europeanization’ in the sphere of social protection that took place in Lithuania for the two decades. Authors argue that while the intellectual shift towards a more Europeanized discourse in the sphere of social protection was quite evident, it seemed to have had a limited impact on the actual implementation of the national social policy measures, i.e. on reforms in the sphere of social protection. More visible impact was only noted by the authors for policies that were backed up by the European structural funding or other monetary support, e.g. the rapid advancement of the active labour market policies in Lithuania.

Other actors beyond the EU were also instrumental in development of the Lithuanian poverty reduction policy in the period of restoring Lithuania’s independence. As stressed by Lazutka (2004), this period coincided with both the EU and UN initiatives on poverty reduction. The authors argued that in the first half of the 1990s the UN activities had primary influence on the formation of Lithuania’s poverty reduction efforts, while the EU started playing a major role since around late 1990s and, especially, around the Lithuanian accession to the EU in 2004. To illustrate, Lithuania with more than 100 other countries adopted the Copenhagen Declaration in 1995, committing itself to reduce poverty as a strategic goal and launching the first series of poverty research in Lithuania (Lazutka 2004). Lithuania formally joined the EU process of reducing poverty and social exclusion in 2002 by signing the Memorandum of Agreement with the European Commission and the Joint Inclusion Memorandum.[3]

[3] For an overview of the process see e.g. the National Action Plan against Poverty and Social Exclusion 2004-2006. English version is available at: [last accessed on 2014.09.10] http://ec.europa.eu/employment_social/social_inclusion/docs/nap_incl_2004_lt_en_version.pdf

Further change of the poverty conceptualisation and response in Lithuania can be traced through a review of political documents on poverty reduction since the introduction of the first strategy of poverty reduction in Lithuania in 2000.[4] The focus is on the main strategic goals as well as on the role of social cash benefits among other planned measures aimed at poverty reduction in Lithuania.

In the first Lithuanian poverty reduction strategy of 2000 (‘*Skurdo mažinimo Lietuvoje strategija, 2000’*), the notion of poverty as a lack of material resources is clearly traceable throughout the document. The strategy explicitly refers to ‘poverty’ as its main subject. This is a change compared to the period up to 1999 when official use of the concept of poverty was avoided (Lazutka 2000). The income dimension of poverty is stressed, although the used definition of poverty exceeds the material poverty notion by additionally including cultural, social and other resources. The structural factors of income distribution in Lithuania are highlighted. The prevalence of disciplinary and redistributive discourses to poverty is apparent with the two social policy instruments that the strategy relies on: labour market activation and redistribution through social cash benefits.[5]

In the 2002-2004 Program for Implementation of the Poverty Reduction Strategy (*‘2002-2004 Lietuvos Respublikos skurdo mažinimo strategijos įgyvendinimo programa’*), a distinction is stressed between the active poverty reduction strategies focused on the labour market integration and passive social assistance instruments. The priority is given to the former in the form of professional training and education of the labour force, as well as other strategies to increase labour market activity and employment rates (Jėčiuvienė

[4] The review is based on the list of strategies and action plans highlighted on the website of the Ministry of Social Protection and Labour. Available at: http://www.socmin.lt/lt/veikla/koncepcijos-strategijos.html [last accessed on 2014.09.10]

[5] Lithuanian citation: “Pagerinti skurstančiųjų gyventojų padėtį bus siekiama dviem būdais. Pirma, aktyviems darbingiems žmonės sudaromos palankesnės sąlygos susirasti darbą ir daugiau uždirbti; nepakankamai aktyvūs darbingi žmonės skatinami dirbti. Antra, nedarbingiems ir negaunantiems darbo padedama socialinės apsaugos priemonėmis; per socialinius transferus ir mokesčius reikėtų daugiau perskirstyti skurstančiųjų naudai.” (Skurdo mažinimo Lietuvoje strategija, 2000, p.17)

2004). Identification of redistributive cash benefits as ‘passive’ points to the shift away from redistributive measures towards labour market activation measures, which are framed as ‘active’. The negative language hinders the validity and role of the direct cash social benefits, which was apparent in the previous strategy.

The following strategy of 2004-2006 (*‘Lietuvos Respublikos 2004-2006 m. nacionalinis kovos su skurdu ir socialine atskirtimi veiksmų planas’*) refers explicitly to the reduction of ‘poverty and social exclusion’ in its title and throughout the text. The strategy grounds the problem firmly within the social exclusion discourse. The three main aims of the programme now include assistance to the most vulnerable groups; improved access to the labour market, services, goods and rights; prevention of social exclusion. There are several references to the idea of social investment and development of human resources within the document, introducing the notion of social investment as a pre-requisite of long-term growth and competitiveness.[6] Appearance of social exclusion and social investment terms in the Lithuanian strategy of poverty reduction points towards strengthening of Europeanization tendencies in social policy debate in Lithuania during this period around its accession to the EU in 2004.

National Action Plans on Social Inclusion of 2006-2008 (‘*Nacionalinis pranešimas apie Lietuvos socialinės apsaugos ir socialinės aprėpties strategijas 2006-2008’*) highlights a complex approach to poverty reduction. The argument is that the efforts to reduce poverty need to be integrated into all policy spheres, not only social protection and labour market policies.[7] The four priorities include: labour market participation; access to quality social services; eradication of child poverty and social assistance to families; improved education and training. Cash social benefits are framed as playing a major role

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[6] Lithuanian citation: “Šiandienos išlaidos atskirties mažinimui yra investicija į ilgalaikį gerovės augimą […] Valstybės investicijos į žmogiškajį kapitalą kaip pagrindinį ilgalaikio šalies konkurencingumo veiksnį bus reikšmingai didinamos” (Lietuvos Respublikos 2004-2006 m. nacionalinis kovos su skurdu ir socialine atskirtimi veiksmų planas, p.21)

[7] Lithuanian citation: “Skurdo įveikimo dimensija turi būti įtraukta į visas sritis, ne tik socialinės apsaugos ir užimtumo sritį” (Apie Lietuvos socialinės apsaugos ir socialinės aprėpties strategijas 2006-2008, p.5)

in the sphere of child poverty reduction and social assistance to families. References to social investment goals are broader in this Strategy as compared to the previous ones and include two spheres: investment into human capital linked with the labour market policies and education, and investment into health and healthy living environment.

The following plan for 2008-2010 (*'Nacionalinis pranešimas apie Lietuvos socialinės apsaugos ir socialinės aprėpties strategijas 2008-2010'*) points to eradication of child poverty and increased social assistance to families with children as its primary goal. The goal of investing in children was also selected as the one featuring in the 2010 national programme announced in connection with the European year for combating poverty and social exclusion ('*Nacionalinė 2010-ųjų Europos kovos su skurdu ir socialine atskirtimi metų programa'*). The two other goals of the 2008-2010 strategy are in line with the goals set for 2006-2008: to increase participation in the labour market and improve access to quality social services. Interestingly, the strategy explicitly refers to the implementation of 'horizontal principles', such as gender equality, regional development and active ageing. While the notion of relying on 'horizontal' principles is not very well articulated in the strategy, it may be interpreted as hinting towards a shift away from the principles of vertical redistribution, i.e. redistribution of income towards the least well-off groups through the tax-benefit system. Indeed, similar to the preceding strategy, the references to the provision of cash social benefits is restricted almost entirely to the first strategic goal of ensuring assistance to families and children. The document also highlights the importance of the EU funding for investment into human resources as well as the living environment in Lithuania.

Finally, after a four-year gap since the implementation of the strategy of 2008-2010, the Social Inclusion Plan of 2014-2020 ('*Socialinės įtraukties didinimo 2014-2020 m. veiksmų planas'*) was issued. The latest strategy is longer-term and employs positive language of social inclusion rather than exclusion for the first time, with numerous references to 'Europe 2020' strategy. The ‘poverty’ term does not appear in the name of the document and its use throughout the text is inseparable from the notion of social exclusion (i.e. ‘poverty and social exclusion’). Attention to redistributive policies and income maintenance is scarce. One of the goals of the programme is to ensure financial stability of income protection system – rather than the aim of ensuring appropriate income maintenance level for vulnerable groups. The other three goals highlight the concern for child and family wellbeing, public health, active labour market inclusion policies, quality of the living environment and access to public services. It is pointed out that the strategy corresponds to several EU recommendations on social investment and puts explicit priority to child, family and healthcare policies, with no reference to using cash social benefits or other income maintenance mechanisms for reaching this aim.

To sum up, the overview of previous research and poverty reduction strategies suggests that poverty debate in Lithuania was subject to change. Tendencies towards individualization and Europeanization in social protection after Lithuania declared its independence in 1990 were noted for Lithuania, although the latter was argued to be confined to a discursive level. It can be argued that since the introduction of the first Lithuanian poverty reduction strategy in 2000 the political debate in Lithuania shifted towards problematization of poverty as social exclusion and away from redistributive concerns. A shift to the notion of social exclusion in the sphere of poverty reduction in Lithuania can be attributed to the period around the country’s accession to the EU in 2004. Disciplinary and social investment discourses also feature explicitly in the strategies and action plans on poverty reduction, with an increasing presence of the latter. Attention to redistributive policies and income maintenance as a poverty reduction tool can be argued to reduce gradually since early 2000s, except of assistance to families with children.

2.2. The development of the system of cash social benefits

The development of the Lithuanian system of cash social benefits was analyzed by a number of authors. Among the most recent analyses, the development of social assistance benefits was discussed by Lazutka et al. (2008), that of social insurance benefits by Lazutka et al. (2013a), the development of both contributory and non-contributory cash social benefit system in Lithuania was discussed by Aidukaitė et al. (2012) and Ivaškaitė-Tamošiūnė (2013). In this section, the development of the system of cash social benefits in Lithuania is discussed, presenting a broad periodization of its development, changes in design of individual benefits and implications for the system's redistributive, disciplinary, social inclusion and investment capacity.

Worth noting, that the Lithuanian system of social protection, cash benefits in particular, go back to the period before the Second World War, e.g. the roots of the pension system in Lithuania go back as far as to 1922 with the pension provisions granted to civil servants and soldiers (Lazutka et al. 2013a). The focus in this section is, however, on more recent period of development since Lithuania regained its independence. According to Lazutka & Kostelnickiene (1997), reforms in the sphere of social security commenced almost immediately after the declaration of independence of Lithuania in 1990. The development of the system of cash social benefits in Lithuania since and the main changes in the rules of cash benefits are overviewed below.

There were several attempts to periodize the development of the contemporary Lithuanian system of cash social benefits since the regained independence. The two periodizations presented in Table 1 are based on the work of Aidukaitė et al. (2012) and Ivaškaitė-Tamošiūnė (2013). While not the only ones, the two periodizations have an advantage of being most recent and covering two decades of development of social insurance and assistance in Lithuania since 1990.

Table 1. The development of the cash social benefits' system in Lithuania

<table>
<tr><th>Aidukaitė et al. 2012</th><th colspan="2">Ivaškaitė-Tamošiūnė 2013</th></tr>
<tr><th>Social insurance</th><th>Social insurance</th><th>Social assistance</th></tr>
<tr><td rowspan="2">1990-1995
system based on the Soviet system of social insurance</td><td rowspan="2">1990-1995
transitory stabilization period</td><td>1990-1994
transitory generosity period</td></tr>
<tr><td rowspan="2">1994-1997
period of constraints</td></tr>
<tr><td rowspan="2">1995-2011 implementation of the 'genuine' principles of social insurance</td><td rowspan="4">1995-2005 development period</td></tr>
<tr><td rowspan="2">1997-2004
increased coverage and generosity</td></tr>
<tr><td rowspan="4">2003-2011
introduction of the private pension funds</td></tr>
<tr><td rowspan="2">2004-2008
child and family welfare era</td></tr>
<tr><td>2006-2008
generosity period</td></tr>
<tr><td>since 2009
period of constraints</td><td>since 2009
period of constraints</td></tr>
</table>

Source: compiled by the author based on Aidukaitė et al. (2012), Ivaškaitė-Tamošiūnė (2013)

Aidukaitė et al. (2012) distinguish between two broad periods before and after 1995 in the development of social insurance in Lithuania and an overlapping stage of the introduction of private pension funds complementing an already existing pay-as-you-go old-age pension system since 2003. According to the authors, Lithuania inherited a welfare state that primarily relied on social insurance of wide coverage from the Soviet period (Aidukaitė et al. 2012). While based primarily on social insurance, the main principle implemented within the social insurance system in Lithuania was that of solidarity during the period before 1995. This meant a high degree of vertical redistribution through the social insurance system, e.g. within the Lithuanian system of social insurance pensions (Lazutka et al. 2013a). The reforms since 1995 aimed at the implementation of the 'true' principles of social insurance, establishing a closer link between the previous contributions and amounts of cash social benefits. The introduction of the second funded pension pillar in 2003 was highlighted by Aidukaitė et al. (2012) as an important stage in the process of liberalization and individualization of the Lithuanian system of social insurance. The shift towards private provisions within the social insurance system highlighted increasingly individualized discourse shifting from collective solidarity to individual responsibility for risk management in Lithuania (Skučienė 2006).

Ivaškaitė-Tamošiūnė (2013) discusses a more detailed periodization based on the generosity of social insurance and social assistance in Lithuania. The author highlighted a transitory stage in the development in both social insurance and social assistance systems in Lithuania in early 1990s. In line with Aidukaite et al. (2012) this was a period of solidarity and a high degree of redistribution through cash social benefits in Lithuania. The transitory period was followed by a rapid development and generosity period in the sphere of social insurance. On the other hand, social assistance benefits were constrained both due to budgetary reasons and orientation towards separation of social insurance and social assistance, attaching priority to the former at the initial stage of reforms (see Lazutka & Kostelnickiene 1997, p.84). Increase in coverage and generosity of social assistance only followed in late 1990 in Lithuania and, especially, since around Lithuanian accession to the EU in 2004. The latter period was termed 'child and family welfare era' in the sphere of social assistance and is in line with the increased focus on families and children noted in the strategic poverty reduction documents as it was highlighted in Section 2.1. It also coincided with a relatively generous period in the sphere of social insurance and overall rapid economic growth in Lithuania.

After a period of expansion and increasing generosity of cash social benefits, a period of constraint since 2009 followed with the onset of the economic crisis in Lithuania. The constraints introduced into the system in 2009 and 2010 were relaxed since 2012 with regard to social insurance pensions, while constraints on other parts of the cash benefit system, e.g. child and family benefits, social assistance benefits, unemployment benefits, remained despite the resumed economic growth (Avram et al. 2012). This highlights pro-cyclical nature of cash benefit provisions in Lithuania, as well as a high degree of arbitrariness and possibilities for *ad-hoc* politically motivated changes in the national system of cash social benefits.

Looking beyond a broad periodization of the development of cash social benefit provisions, the main changes in individual elements of the system are further discussed.

As noted above, the Lithuanian pension system inherited its wide coverage and strong redistributive element from the Soviet times. This applied to both old-age, incapacity and survivor pensions. As the post-communist reform of social cash benefits began in Lithuania, the aim was at preserving the former rights and expanding those, i.e. to the newly emerging group of the self-employed (Lazutka & Kostelnickienė 1997). Indeed, since 1995 the coverage of pensions was further extended to groups of self-employed, those working individually, on atypical contracts (e.g. authorship agreements, etc.) and for groups insured by the state. The direction of reform of the orphan/survivor pension was towards the reduction of its size and simultaneous expansion of its coverage (Lazutka et al. 2013a).

Another direction of reform was aimed at strengthening the relation between social insurance contributions and future pension entitlements since pensions were low and flattened a lot due to period of inflation, budget deficits and low levels of revenue in early 1990s (Medaiskis 1995). First, the insurance base was expanded to include an additional rather than only basic part of the old-age pension for increased number of groups covered by pension social insurance (Ivaškaitė-Tamošiūnė 2013). Moreover, the legislation for introduction of the second pillar of the funded pension scheme managed by private companies was approved in 2003 aimed at diversification of old-age pension funding and increasing links between the contributions and future pensions entitlements in Lithuania (see e.g. Lazutka et al. 2014). Despite these and other efforts, social insurance pensions in Lithuania still have a strong emphasis on vertical redistribution with the levels of inequality among pensioners being among the lowest in the EU and despite ranking among the countries with the highest levels of inequality in the entire Lithuanian population (Lazutka et al. 2013a).

Finally, there was a gradual increase in the statutory retirement age (since 1995 and planned up to 2026), simultaneously introducing an option of an early retirement since 2004 (see e.g. Ivaškaitė-Tamošiūnė et al. 2014). Some incentives to work were introduced through additional pension part for those with very long insurance periods and by modifying the rules of simultaneous receipt of pensions and work-related income.

Among short-term contributory benefits, the rules of sickness benefits were amended at least four times since 1991, i.e. twice in 1995, in 2001 and in 2009.[8] The latter change split the benefit payments between the employer and the Social Insurance Fund with different replacement rates (Ivaškaitė-Tamošiūnė et al. 2014). This benefit, however, has little impact on poverty reduction as it is aimed at income replacement and received for relatively short periods of time (Lazutka et al. 2013a).

Quite differently, the Lithuanian system of contributory maternity/paternity benefits plays a non-negligible role in reducing vulnerability to poverty in Lithuania (Lazutka et al. 2013, Navickė 2015). The protection in case of childbirth was rapidly reformed since 1990 – starting from lump-sum relatively small benefits paid to mothers for up to three years, to gradual increase of the benefit replacement rates from 60% of the previous earnings paid for one year since 1995 to 85% at the beginning of 2007 and four further amendments to the payment period and generosity of the maternity/paternity benefit reaching its peak in 2008 (100% for the first year and 85% for the second year) and reductions thereafter in 2010 and 2011.[9] The paternity benefit was introduced since 2006 covering one month of paternal leave at the birth of the child.[10] Gradually the minimum contribution periods

[8] According to amendments of the following laws: 'Lietuvos Respublikos valstybinio socialinio draudimo įstatymas. 1991 m. gegužės 21 d. Nr. I-1336, Vilnius. Lietuvos aidas, 1991-05-31, Nr. 107-0' and 'Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymas. 2000 m. gruodžio 21 d. Nr. IX-110, Vilnius. Žin. 2000-12-29, Nr. 111-3574'

[9] According to amendments of the law: 'Lietuvos Respublikos ligos ir motinystės socialinio draudimo įstatymas. 2000 m. gruodžio 21 d. Nr. IX-110, Vilnius. Žin. 2000-12-29, Nr. 111-3574'

[10] According to the following law: 'Lietuvos respublikos ligos ir motinystės socialinio draudimo įstatymo 2, 3, 5, 6, 7, 8, 10, 16, 17, 19, 20, 21, 22 straipsnių pakeitimo ir papildymo, trečiojo skirsnio

were extended for those eligible for maternity/paternity benefit receipt ranging from 3 months in 2001 to 12 months over the last two years in 2009; the coverage was as well expanded for those self-employed and other atypical contracts (Lazutka et al. 2013a). The latter changes resulted in an unprecedented generosity of the Lithuanian contributory maternity/paternity leave benefits for families with newborns both within the Lithuanian and EU context (see e.g. Lazutka et al. 2013a, Navickė 2015). On the other hand, non-contributory pregnancy grants remained low and non-indexed for extended periods of time (Ivaškaitė-Tamošiūnė et al. 2014).

The unemployment social insurance was introduced in Lithuania in 1990. The benefit was later due to numerous changes and amendment. During the last decade benefits' generosity was gradually increased, with the net replacement rates changing from around 20% net replacement rate in before 2004 reaching up to around 43% net replacement rates in 2009, and dropping again to around 35% since 2010 when the upper limit of LTL 650 (around EUR 190) was introduced (Lazutka et al. 2013a). Moreover, the amendment of the rules in 2004 foresaw that the benefit is only paid if the worker was not fired due to her fault. 2005-2008 amendments expanded the coverage of the unemployment benefits and their payment together with other benefit types. In 2009 yet another disciplinary measure was introduced by withdrawing the benefit if the unemployed rejected the job offer by the Labour Exchange.[11]

Last, but not least, insurance for work-related accidents and professional disease has been implemented in Lithuania since 2000, with the later expansion of its coverage and differentiation of the social insurance contributions according to the risk levels in different occupation groups.[12] As

pavadinimo pakeitimo ir įstatymo papildymo 181, 182, 183 straipsniais įstatymas. 2006 m. birželio 8 d. Nr. X-659 Vilnius. Žin. 2006-06-28, Nr. 72-2676'

[11] According to the law: 'Lietuvos Respublikos nedarbo socialinio draudimo įstatymo 3, 4, 5, 6, 7, 9, 10, 11, 14, 15, 17, 20, 21, 23, 24 straipsnių pakeitimo ir papildymo bei 19 straipsnio pripažinimo netekusiu galios įstatymas. 2009 m. birželio 18 d. Nr. XI-306 Vilnius. Žin. 2009-06-30, Nr. 77-3170'

[12] According to the following law: 'Lietuvos Respublikos Nelaimingų atsitikimų darbe ir profesinių ligų socialinio draudimo įstatymas'. 1999 m. gruodžio 23 d. Nr. VIII-1509, žin. 1999-12-29, Nr. 110-3207

noted by Lazutka et al. (2013a) the benefits within this type of social insurance are to some degree duplicating and complementing sickness and pension benefits and could be potentially integrated with these systems.

As mentioned above, the development of the non-contributory benefits in Lithuania since 1990 can be characterised as inter-changing periods of relative generosity and constraints. The basis of the social assistance system has been formed during the very first years of re-gained independence in Lithuania: the allowances for low-income families and families with children, as well as additional compensations for families were implemented in 1991-1994 (Ivaškaitė-Tamošiūnė 2014). The assistance was relatively generous, non means-tested and with little constraints on receiving multiple benefits. Initially, social assistance was based on the principle of supporting individual income, taking into account the minimum standard of living and indexed by price dynamics. These principles have been, however, violated since 1992 due to rapid inflation, budget deficits and scarcity of revenue (Lazutka 1994). Social assistance was since unlinked from the real living costs, basic living standard or needs and indexed on an *ad-hoc* basis in Lithuania.

Further retrenchment of the Lithuanian cash social assistance can be associated with the principles spelled out in the Conception of Social Assistance in 1994 (Lazutka et al. 2008). The main emphasis was on social integration, on labour market and social insurance as the main mechanisms for income protection. Little attention and funding was given for ensuring benefit adequacy, benefit amounts were low and not meeting the basic needs of the poor families in Lithuania (Lazutka 1994).

After tightening the system of social assistance since 1994, its coverage and generosity were again on increase since around 1997 (Ivaškaitė-Tamošiūnė 2013). The system was complemented with additional allowances for families with 3 and more children (in 1997) compensations for utilities (in

1999).[13] In 2003 a new Law on cash social assistance for poor families and single persons was adopted.[14] According to Lazutka et al. (2008) this law signified the creation of the unified system of cash social assistance in Lithuania based on means testing of both income and wealth. One of the key aspects of the new system was a requirement to work or actively seek work for all potentially work-able recipients. This can not only be marked as a disciplinary measure built into the system, but also helped strengthen the links between the system of social assistance and provisions for the unemployed. The period of 2005-2009 was distinguished by a rapid increase in the nominal base of calculation of the cash social assistance benefit – state supported income, although on the *ad hoc* basis.[15]

Another substantial development in the system of non-contributory benefits was rapid expansion of coverage and expenditure on child benefits since 2004. The period of 2004-2008 was termed by Ivaškaitė-Tamošiūnė (2013) as the family and child 'welfare era'. There was an effort to introduce a categorical child benefit since 2004 and expand its coverage to all children thereafter. In 2006 law on in-kind support for pupils – free meals and school supplies – was adopted[16] and 2007 assistance was also strengthened for adopted children.[17] The period was also beneficial for other benefit recipients: a number of assistance pensions and compensations were introduced.

The period of generosity was followed by the constraints in the sphere of non-contributory cash social benefit since the onset of the global economic

[13] According to the following laws: 'Lietuvos Respublikos Valstybinių pašalpų šeimoms, auginančioms vaikus, įstatymo papildymo 41 straipsniu ir 9 bei 11 straipsnių papildymo įstatymas'. 1997 m. spalio 23 d. Nr. VIII-478. Žin. 1997-10-31, Nr. 99-2506; Žin. 1998-12-31, Nr. 115-3240

[14] I.e. 'Lietuvos Respublikos Piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymas', 2003 m. liepos 1 d. Nr. IX-1675, Vilnius.

[15] I.e. "Lietuvos Respublikos Vyriausybės nutarimas Dėl valstybės remiamų pajamų dydžio patvirtinimo": Nr. 696 Žin., 2005, Nr.80-2900, Nr. 1 Žin.2006 , Nr.3-25, Nr. 934 Žin., 2006 , Nr.104-3969, Nr. 1217 Žin., 134-5087, Nr., Nr. 824 Žin., 2007, Nr.91-3633, Nr. 1328 Žin., 2007, Nr. 135-5472, Nr. 538 Žin., 2008, Nr. 67-2531.

[16] Based on the following law: "Lietuvos Respublikos Socialinės paramos mokiniams įstatymas", 2006 m. birežėlio 13 d. Nr. X-686, Vilnius.

17 I.e. "Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas. 2009.12.09 Nr. XI-537. Žin., 2009, Nr. 152-6820".

crisis (see e.g. Avram et al. 2012). The constraints commenced with introduction of means-testing for child benefits in 2009.[18] Extensive benefit cuts across both contributory and non-contributory cash social benefits in Lithuania followed with an introduction of the Temporary Law on Recalculation and Payment of Social Benefits[19] as of 2010. The law affected a wide range of contributory benefits as well as non-contributory child benefits. Moreover, a major reform of social assistance benefits was implemented in 2012 – introducing equivalence scales for calculation of social assistance amounts and additional work incentive for social assistance recipients i.e. withdrawal of assistance benefits with time and extended payments for the long-term unemployed who get back into work.[20] The reform was criticized for being unfavourable to large families with children and delegating excessive social control functions to municipalities in the process of decentralization of social assistance and its potentially stigmatising effects, accompanied with a rapid drop in the number of beneficiaries (Lazutka et al. 2013b, Lazutka 2014). Nevertheless, social assistance system was further decentralized in Lithuania since 2014.[21]

The analysis of the redistributive effects of the cuts on benefits and taxes between 2009-2012 showed that constraints hit those at the bottom and at the top of the Lithuanian income distribution most, with those at the middle of the income distribution being less affected (Avram et al. 2012). According to the authors, families with children and those falling into unemployment were among those affected most at the bottom of the income distribution, while

[18] According to the following law: ‘Lietuvos Respublikos Išmokų vaikams įstatymo 6, 8, 12, 13, 20 straipsnių pakeitimo ir papildymo ir 22 straipsnio pripažinimo netekusiu galios įstatymas’. 2008 m. gruodžio 19 d. Nr. XI-90. Žin. 2008-12-30, Nr. 149-6016

[19] According to the law: “Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas”. 2009.12.09 Nr. XI-537. Žin., 2009, Nr. 152-6820

[20] According to the following law: ‘Lietuvos Respublikos piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymo pakeitimo įstatymas’. 2011 m. gruodžio 1 d. Nr. XI-1772. Žin., 2011-12-20, Nr. 155-7353

[21] According to the following law: ‘Lietuvos Respublikos Piniginės socialinės paramos nepasiturintiems gyventojams įstatymo 4, 23 straipsnių pakeitimo ir papildymo įstatymas’. 2013 m. lapkričio 26 d. Nr. XII-621. Žin. 2013-12-10, Nr. 126-6414

pensioners, especially those receiving below-average pensions, were better protected.

Still, despite the latest period of constraints in both social insurance and social assistance systems in Lithuania, the overall redistributive capacity of the cash transfer system was argued by Ivaškaitė-Tamošiūnė (2013) to have increased during the first two decades after Lithuania re-gained its independence, with social insurance benefits playing a major redistributive role. The increase in redistributive capacity of the Lithuanian cash benefit system can be interpreted as a catch-up effect, while the absolute levels of cash benefits in Lithuania remain relatively low, except of the generous contributory maternity/paternity benefits provided during the very first years after childbirth and a number of special state pension provisions for the privileged groups.

Last but not least, the development of the non-contributory state pensions received little attention in the literature. The state pensions are normally not perceived as social assistance, but also fall outside the contributory pension system in Lithuania. As highlighted by Lazutka et al. (2013a) the system of state pensions was introduced since 1995 with four types of special provisions foreseen for victims, soldiers and policemen, scientists and those with merits to the state. The fifth pension type – state pension for judges – was introduced since 2003.[22] The latter pension provision is also remarkable in that it is the only group receiving state pension calculated on the basis of the previous wage, while not being covered by any extra employee social insurance contributions. The required service period is also remarkably low for judges – starting with only five years of service. The clientelistic nature of state pension provisions in Lithuania was rightfully pointed out by Aidukaitė et al. (2012).

To sum up, there were numerous changes in the Lithuanian system of cash social benefits since the declaration of independence in 1990. Among the

[22] According to the following law 'Lietuvos Respublikos Teisėjų valstybinių pensijų įstatymas'. 2002 m. liepos 2 d. Nr. IX-1011. Žin. 2002-07-19, Nr. 73-3088

main traits in the development of the cash social benefits in Lithuania are: the system's focus on social insurance and its wide and expanding coverage. Inter-changing periods of relative benefit generosity and constraints highlight a high degree of influence of economic and political cycle on cash social benefit system in Lithuania. The generosity of the cash benefit system was on the rise up to 2009 (especially during the period of the rapid economic growth in 2006-2008) resulting in an overall increase in the system's redistributive capacity during the first two decades after Lithuania re-gained its independence. This however can be interpreted as a catch-up effect, while the absolute levels of cash benefits in Lithuania remain relatively low. Individualization tendencies are also highlighted in the sphere of social insurance in Lithuania, with efforts to increase the links between the contributions and future benefit entitlements. The disciplinary elements of the system of the cash social benefits were by and large strengthened, especially during the last decade and further on since 2009. Child and family benefits received considerable attention between 2004-2008, contributing to commitments of investing into children articulated in the Lithuanian poverty reduction programmes. The efforts were however primarily concentrated on insured families with very small children, arguably in an effort to boost fertility levels. Finally, little is known on the take-up and stigmatizing effects embedded in the Lithuanian cash benefit system, especially with regard to its means-tested and conditional provisions. The latest reform might have contributed to further increase in non-take-up and stigmatization effects within the system of social assistance in Lithuania.

2.3. The design of the system of social cash benefits

In this section, the main design features of the contemporary system of cash social benefits in Lithuania are discussed. First, general features of the system are overviewed based on the previous research findings. The analysis is then narrowed down to the characteristics of individual cash social benefits and their disciplinary, redistributive, social inclusion and social investment features.

As already noted above, the welfare system in Lithuania can be considered to possess distinctive corporative-clientelistic traits (Aidukaitė et al. 2012). According to Aidukaitė et al. (2012), one evident corporativistic trait of the Lithuanian system of social benefits in that it to a major extent relies on social insurance, and to a less extent on social assistance; another trait, noted as typical for the Lithuanian welfare state is high institutional coverage of social benefits. Clientelistic traits of the Lithuanian cash benefit system are reflected in the presence of a number of the special benefits – state pensions and rents – in favour of the privileged groups defined either by their occupational background or merits to the state (Aidukaitė et al. 2012).

The Lithuanian system of cash benefit provisions is also argued to possess some features of the marginal liberal welfare state (e.g. Standing 1996, Ferge 2001, Aidukaitė 2013, Guogis 2014). The low aggregate expenditure on social protection and low levels of social benefits are among the most commonly mentioned liberal traits of the Lithuanian cash benefit system. Increasing reliance on private provisions is also among the most apparent examples of the recent move towards a more individualized and liberal social insurance system in Lithuania (Skučienė 2006, Aidukaitė et al. 2012).

The combination of corporative-clientelistic and marginal-liberal welfare traits in the Lithuanian cash benefit system results in the following potential outcomes of the system. First, domination of a broad system of social insurance in Lithuania forms a pre-requisite for an inclusive system of cash social benefits with regard to benefit coverage of those working and paying social insurance contributions. On the other hand, those outside the system of social insurance are subject to marginal provisions through means-tested benefits, while state pensions for privileged groups compensate the lack of support for those seen as ‘deserving’. Liberal traits of the system, especially with regard to its low generosity, highlight potentially limited overall redistributive capacity of the system. It also adds up to more individualistic disciplinary nature of cash social benefit provisions and potentially high stigmatization of ‘undeserving’ recipients of the means-tested benefits. Further on disciplinary, redistributive, social inclusion and social investment features of the individual cash benefit types are analysed.

A number of disciplinary traits can be identified within the Lithuanian system of cash social benefits. While the majority of contributory benefits in Lithuania are unconditional or have few conditions for benefit receipt except for prior social insurance contributions, most disciplinary components are encompassed into non-contributory means-tested benefits and contributory unemployment benefits. The majority of disciplinary measures, especially with regard to contributory unemployment and non-contributory social assistance benefits, rely on negative incentives for benefit receipt, such as: waiting periods or strict eligibility requirements for benefits; gradual phasing-out of benefits; benefit provision in kind rather than in cash; withdrawal of benefits in case of non-compliance with rules, procedures and requirements.[23]

On the other hand, the implementation of positive work incentives through direct cash social benefits in Lithuania is primarily embedded in the measures of activation into work and the links between the system of cash social benefits and the active labour market measures. The link is established through conditionality of the unemployment insurance benefits requiring the recipient to actively search for work and participate in the active labour market measures and through the conditions imposed on the unemployed recipients of the social assistance benefits to be registered with the Labour Exchange. The effect of conditionality of the mentioned benefits is, however, difficult to access empirically, with no research on the topic known to the author.

Other positive work incentive mechanisms, such as wider income disregards for benefit recipients, in-work benefits or refundable and non-refundable tax credits that could boost the incentives to work in the formal sector for the low-wage earners, are little developed. As noted by

[23] According to the laws on social assistance and unemployment benefits, i.e.: Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymas. 2003 m. liepos 1 d. Nr. IX-1675, Žin., 2003, Nr. 73-3352; Lietuvos Respublikos nedarbo socialinio draudimo įstatymas. 2003 m. gruodžio 16 d. Nr. IX-1904. Žin., 2004, Nr. 4-26.

Zabarauskaitė & Blažienė (2010), there is no special support provided through the system of cash benefits in Lithuania for people with low income from work. The gap between the cash benefit provisions and in-work income is maintained by keeping the benefit amounts for those able to work at the very low, often sub-subsistence levels.[24] The absence of the in-work benefits is also noted and recommended to implement in Lithuania as a measure well suited for the country due to low minimum wage, high poverty traps and a high fraction of the working poor (UNDP 2010).

Nevertheless the possibilities to combine work-related income with some benefit types and for specific population groups do exist and have recently been expanded, i.e. with contributory pensions (except in 2010-2011), with maternity/paternity benefits in the second year after childbirth (since 2012). Limited income disregards were also implemented for full-time students (since 2008) and long-term unemployed receiving social assistance benefits (since 2012). Non-means tested non-contributory benefits, including state pensions, can be combined with income from work. Such rules remove negative work incentives that withdrawal of benefits would cause.

With regard to other disciplinary effects of the cash social benefit system in Lithuania, these are often indirect or unintentional. For example, there is some evidence of the positive effects on fertility coming from the generous contributory benefits in case of childbirth (Stankūnienė et al. 2012) and on negative effects of weak social protection on migration resulting from both the 'unattractiveness of the Lithuanian labour market and social unsafety' (Gruževskis & Blažienė 2012, p. 1). There is no research known to the author on the effects of incentives provided through cash social benefits for child adoption or guardianship, neither on other family formation processes.

As far as the redistributive, social inclusion and social investment features of the Lithuanian cash social benefit system are concerned, low

[24] It should be noted that several fiscal means of increasing tax allowances and minimum wages for low-wage earners were recently introduced. These, however, fall outside of the cash benefit system. There is little research on the effects of these reforms on work incentives in Lithuania.

aggregate expenditure, relatively wide coverage of the system and attention to children, especially newborns, were already noted in general terms. Further on, the design of the system is analysed in more detail by, first, mapping individual cash social benefits onto the life course framework and then discussing their coverage and generosity. Both the spread of the cash benefit system over different life stages as well as its generosity are important aspects of the cash benefit system from a redistributive point of view, while wider coverage contributes to a more inclusive system. All three aspects – life course spread, coverage and generosity – put together provide insights into the impact on the certain population groups, e.g. a degree of investment and protection provided for children, youth, as well as in primary and old-age.

Figure 4 (below) maps the Lithuanian system of cash social benefits onto the life course scheme following Neubourg et al. (2007). Before discussing the graph, it should be noted that the allocation of benefits to a particular life stage is problematic in the sense that they can be intended for several functions and are shared at the family or household level. For example, maternity/paternity benefits are attributed to the childhood period in the graph, the argument being that pregnancy and birth of a child are primary conditions for receipt of these benefits. While the primary function of the contributory maternity and paternity benefits is replacement of the lost income of the adult due to childbirth, the exceptional generosity of these benefits in Lithuania can be attributed to the efforts of boosting fertility, reducing child poverty and investing in newborn children (see e.g. Lazutka et al. 2013a, Navicke 2015).

Figure 4 shows that the Lithuanian system of cash social benefits is quite complicated with around 40 benefits, compensations and allowances covering every life stage and around equally split in their number between contributory and non-contributory ones.

More generous contributory public benefits for those insured concentrate in the very early childhood (up to 2 years) and resume during the working age and continue into retirement. In case of death of the insured some contributory benefits also go for the orphans and the spouse of the deceased. The gap in social insurance provisions for children over 2 years of age is covered by non-contributory benefits. The main instruments available for children are child benefits and social assistance for pupils, as well as the general social assistance benefits. There is also a group of non-contributory benefits targeted at orphans and children with special needs.

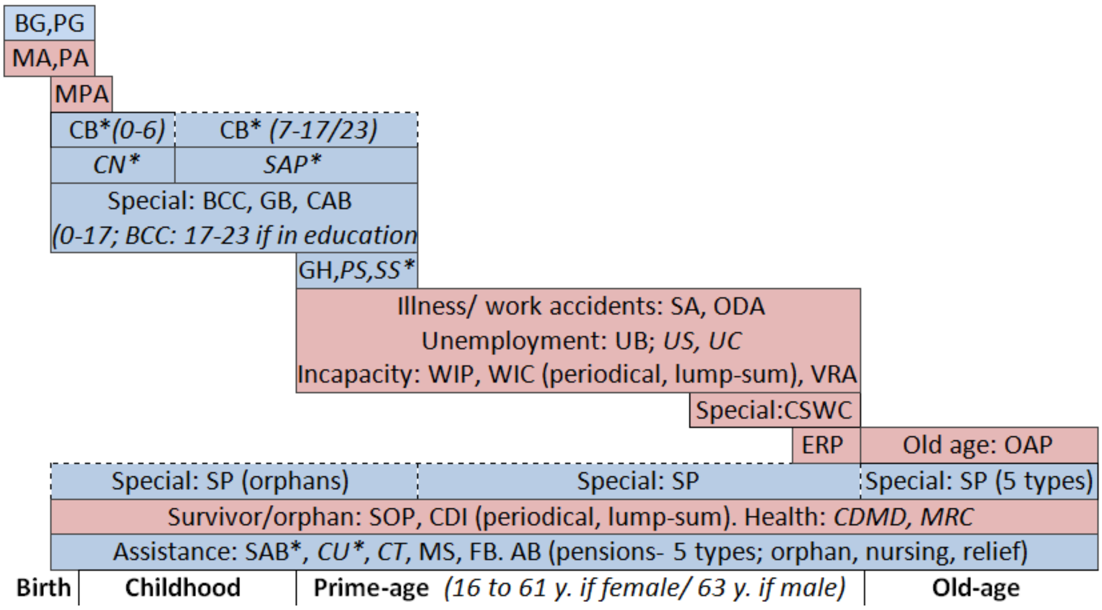

Figure 4. The Lithuanian system of cash social benefits over life-course

Source: compiled by the author following an original scheme by Neubourg et al. (2007) based on information on 2014 policies in Lithuania by SOCMIN, Sodra, Lithuanian Labour Exchange and legislation. Notes: * means tested; dashed line if conditions for extended benefit periods apply. Contributory benefits in red, non-contributory in blue. Inclusive age boundaries. Indirect compensations, and stipends in *Italic*. Legend:

AB – state assistance benefits
BCC – benefit to conscripts' child
BG – birth grant
CAB – child adoption benefit
CB – child benefit
CDI – compensation in case of death of the insured
CDMD – compensations for drugs and medical device
CN – compensation for nursery
CSWC – compensations for special working conditions
CT – compensations for transport
CU – compensation for utilities
ERP – early retirement pension
FB – funeral benefit
GB – guardianship benefit
GH – grant for housing
MB – maternity allowance
MPA – maternity (paternity) allowance
MRC – medical rehabilitation compensation
MS – municipal support
OAP – old-age pension
ODA – occupational disease/accident allowance
PA – paternity allowance
PG – pregnancy grant
PS – promotional stipends
SAB – social assistance benefit
SAP – social assistance to pupils
SB – sickness allowance
SOP – survivor and orphan pension
SP – state pensions
SS – social stipend
UB – unemployment benefit
UC – compensations for unemployed trainees
US – educational stipend for unemployed
VRA – vocational rehabilitation
WIC – work incapacity compensation
WIP – work incapacity pension

The working age population insured by means of social protection can receive a number of social insurance benefits, allowances and compensations targeted at different risks, namely illness, work-related accidents, unemployment, incapacity, death of the insured. There are also compensations for the special working conditions and early retirement pensions for those willing or in need of earlier retirement.

The two main elements of the Lithuanian cash benefit system in old age are social insurance old-age and state pensions. Matching the argument on the clientelistic traits of the Lithuanian cash benefit system by Aidukaitė et al. (2012), state pensions are diverse and include five different types: targeted at those with special merits to the state, victims, officers and soldiers, scientists and most recently – at judges. The existence of privileged groups of pensioners in Lithuania was criticized as socially unjust and reducing the motivation of this privileged, often highly educated and active population group to advance the overall public pension system (e.g. Lazutka et al. 2013a, p.210).

The very floor of the system of the cash social provisions is formed by a safety net provided by a number of non-contributory benefits, compensations and pensions, targeted to maintain income at the minimum level, provide assistance to orphans, uninsured individuals with disabilities, cover nursing expenses, etc. By design social assistance benefit is means-tested and tops-up income of the eligible households to a minimum politically defined threshold.

The scheme presented in the Figure 4 highlights a high degree of complexity of the Lithuanian system of cash social benefits. It can, however, be said that not all elements of the Lithuanian cash social benefit system are of an equal magnitude. Figure 5 maps the Lithuanian system of cash social benefits by capturing coverage and expenditures on the major contributory and non-contributory benefits in Lithuania on average between 2005-2013.

Figure 5 (below) confirms that the Lithuanian system of cash social benefits possesses corporative traits, as it was already discussed above. Contributory cash social benefits represented by the red bubbles dominate the Lithuanian cash benefit system both in regards of their coverage and generosity. Social insurance old-age and work incapacity pensions stand out as the ones with both the highest aggregate expenditures and as covering large population groups. Contributory maternity/paternity benefits stand out as the most generous in size, while targeted to a narrow group of beneficiaries. Other contributory benefits – maternity, unemployment, survivor/orphan, etc. – are of the size, aggregate expenditure and coverage comparable to the non-contributory provisions.

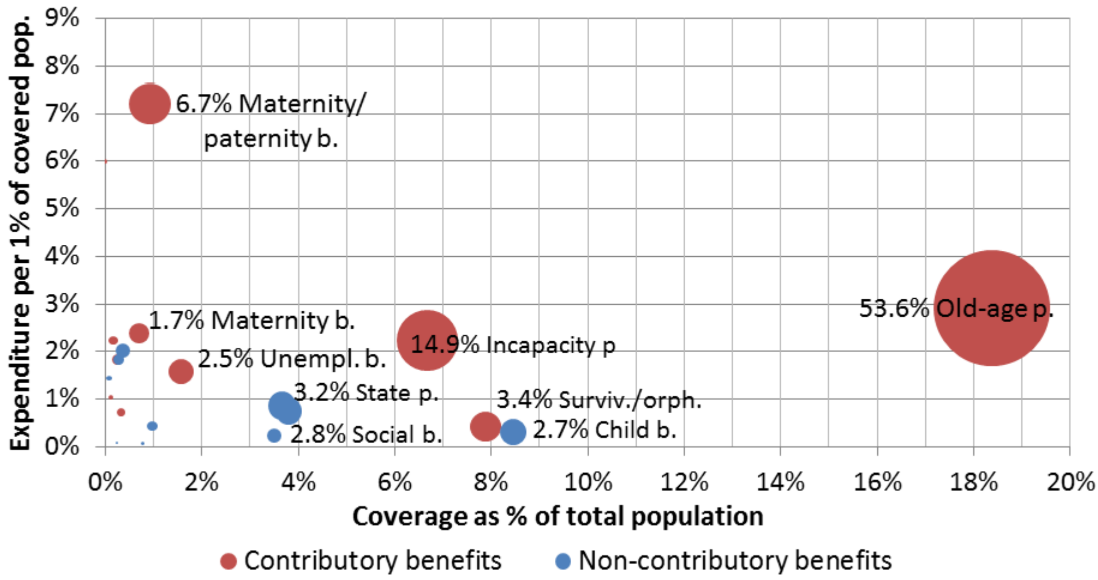

Figure 5. Coverage and expenditure on contributory and non-contributory social benefits in Lithuania , % of total in 2005-2013

Source: authors calculations based on Ivaškaitė-Tamošiūnė et al. (2014) and administrative statistics. Notes: The size of the bubbles represents total expenditure by type of benefit (b.) and pensions (p.) as a share of total expenditure on all cash social benefits. Benefits with total expenditures of below 1.5% are unlabelled. Sickness benefits are not included as information on coverage is not available (average expenditure 4.4%). Coverage figures are based on annual number of individual recipients, average monthly/annual number of recipients or number of cases where applicable. Average estimates for 2005-2013.

In 2005-2013 the largest share of expenditure among the non-contributory social cash benefits went to the state pensions targeted at a relatively small group of individuals. This highlights clientelistic traits of the system. On the other hand, child benefits stood out as covering around 8.5% of the total population on average between 2005-2013, though very moderate in size. Social assistance benefits were both moderate in size and covering just around 3.8% of the population on average in the observed period.

Finally, it can be noted that there are few links built between the cash social benefit provision and social protection services in Lithuania. The exceptions are the unemployment and social assistance benefits with connections to the active labour market policies and training. There is also little research on the stigmatization effects of the Lithuanian cash benefit system and on the links of the population groups working in the informal sector with the Lithuanian system of cash social benefits.

To sum up, the combination of corporative-clientelistic and marginal-liberal traits of the Lithuanian system of cash social benefits define the system's emphasis on social insurance, high coverage of provisions for those insured and relatively low generosity of benefit provisions. State pensions for privileged groups provide additional income support for those seen as 'deserving'. Those outside the Lithuanian social insurance and state pension systems are left with marginal-liberal means-tested provisions. While there are around 40 contributory and non-contributory benefits, compensations and stipends targeted at every life stage, the generosity of benefits is low, except of contributory maternity/paternity benefits. Disciplinary elements of the system are mainly focused on work incentives by means of discouraging benefit receipt by direct punitive measures and indirectly – by keeping the unemployment and social assistance benefits at low levels. There are few positive work incentives built into the system. Little is known on social investment effects of the system. It can, however, be argued that the generosity of the child and family social benefits during the first two years after childbirth reflect the efforts to boost fertility among insured adults, rather than being a genuine long-term strategy of investing into children. Child and family benefits provided for the uninsured families and during later childhood are scarce.

2.4. The capacity and the results of cash benefits in reducing poverty

In this section, official statistical indicators and previous research findings that reflect disciplinary, redistributive, social inclusion and investment capacity of the Lithuanian cash social benefit system are presented. In accordance with the proposed theoretic scheme, better performance in each of the four areas should contribute to better poverty-related outcomes and *vice versa*. Hence, statistics and previous research findings that can be linked to the four above-mentioned areas are first analysed. The system's overall poverty reducing capacity is then illustrated using the official at-risk-of-poverty estimates before and after cash social transfers. To give a broader perspective indicators are analysed within the EU context. The focus is on the structural characteristics of the cash social benefit system and medium-term poverty reduction effects, rather than year-on-year changes.

Incentives to work embedded in the Lithuanian system of cash social benefits are the first sphere to be analysed. In-work at-risk-of-poverty rates reported in Table 2 highlight substantial increase in the prevalence of the relative income poverty with reduction in household's work intensity in Lithuania.

Table 2. In-work at-risk-of-poverty rate by work intensity[25], %

Work intensity:	2005	2006	2007	2008	2009	2010	2011	2012	2013	Mean
very high (0.8 -1]	5.8	6.4	4.2	5.8	6.5	7.6	5.6	4.7	4.9	5.7
high (0.55 - 0.85]	13.9	11.7	13.0	13.0	14.5	15.1	13.9	8.8	14.9	13.2
med (0.45-0.55]	24.3	25.3	25.4	27.0	32.1	36.1	23.3	17.9	24.2	26.2
low (0.2 -0.45)	55.2	51.7	37.7	59.7	48.5	50.9	32.3	44.0	50.3	47.8

Source: In-work at-risk-of-poverty rate by work intensity of the household (population aged 18 to 59 years). Eurostat, SILC: [ilc_iw03].

[25] Work intensity is the ratio between the number of months that household members of working age (aged 18-59 years, with the exclusion of dependent children in the age group between 18 and 24 years) worked during the income reference year and the total number of months that could theoretically have worked by the same household members. For persons who declared that they worked part-time, the number of months worked in full time equivalent roles is estimated on the basis of the number of hours usually worked at the time of the interview (Eurostat 2015).

Despite some volatility of the in-work at-risk-of-poverty estimates reported in Table 2, the prevalence of in-work poverty risk about doubles with reduction of work intensity to any next level in Lithuania between 2005-2013. On average during the period the in-work at-risk-of-poverty level was at 5.7% at the very high work intensity level, increasing to around 13.2% for high work intensity group and further to 26.2% for those working at around half of the total household capacity and 47.8% on average in the low work intensity group. Hence, reducing cash benefit-related work disincentives is crucial for poverty reduction.

Nevertheless, there are few aggregate indicators that reflect work incentives embedded in the cash benefit system, especially among those income poor. The estimates of the marginal effective tax rates are often used as a proxy of the effects of the tax-benefit systems on work incentives (for Lithuania see e.g. Tamašauskienė 2003, Lazutka & Poviliūnas 2010, UNDP 2010, Lazutka et al. 2013a, Jara & Tumino 2013). Marginal effective tax rates (METR) is a measure that shows a share of additional income that are taxed away because of taxes, social insurance contribution and benefit withdrawal (Jara & Tumino 2013, p.29). In practice, taxes and social insurance contributions play a significant role at the higher levels of earning, while benefit withdrawal dominates at the bottom of the income distribution. The estimates of the average METR at the bottom of the income distribution for Lithuania are however not available. Instead Jara & Tumino (2013) report a share of the high METR (i.e. above 50%) at the bottom of the income distribution across the EU member states (see Figure 6).

Figure 6 (below) demonstrates that the share of population facing high negative work incentives due to withdrawal of benefits and taxation at the bottom of the income distribution is considerably above the EU-average in Lithuania, as well as in other Baltic countries. This is in line with the previous evidence on negative effects of benefit withdrawal for low-wage earners in Lithuania (e.g. Tamašauskienė 2003, Lazutka & Poviliūnas 2010, UNDP 2010).

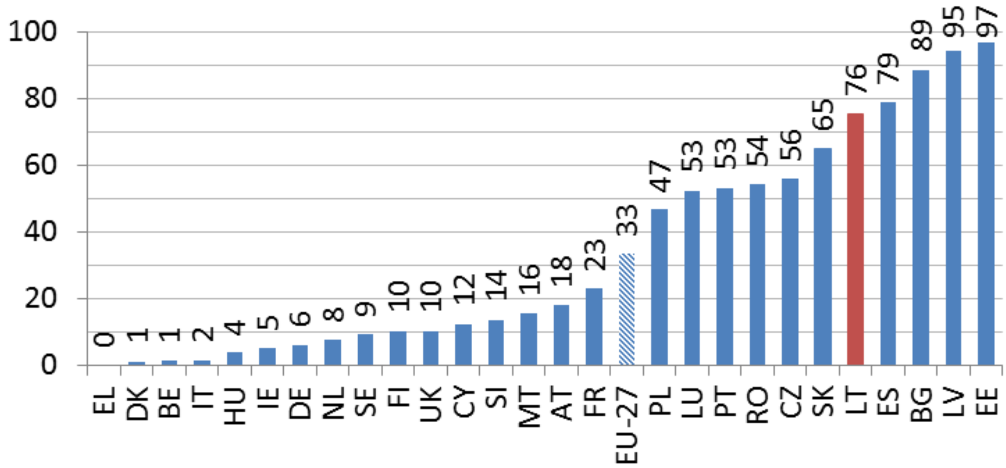

Figure 6. The percentage of the marginal effective tax rates above 50% in the first decile of equivalised disposable income

Source: compiled by the author based on Jara & Tumino (2013), income reference year 2007. EU-27 calculated by the author.

While Jara & Tumino (2013) stress that it is predominantly the withdrawal of means-tested benefits that accounts for the high negative work incentives at the bottom of the income distribution, more detailed analysis is required to separate the effect of the cash social benefits, taxes and social insurance contribution, as well as to define the primary population groups facing the highest METR. The analysis by Lazutka & Povilіūnas (2010) shows that the highest negative work incentives are faced by families with two or more children in Lithuania, especially in cases when there is only one earner.

The redistributive capacity of the system of cash benefits is often proxied by a share of social protection expenditure as a fraction of GDP. As it was stressed in the previous section Lithuanian system of cash social benefits possesses marginal-liberal traits, especially with regard to cash benefit generosity. The share of expenditure on social protection is also known to be low in Lithuania relative to its total GDP (e.g. Lazutka et al.2013a). Social protection expenditure, however, includes both in-cash and in-kind provisions. Figure 7 separates the share of expenditure on cash social benefits as a share of the GDP in Lithuania within the EU context.

Figure 7 shows that, indeed, Lithuania as well as the other Baltic countries spend considerably less than the EU average on cash social benefits. Cash social benefits have made up on average around 11% of the total GDP in Lithuania during the period since 2005. This share is around twice lower compared to the EU member states with the highest cash social benefit spending. The share of spending on cash social benefits in Lithuania is also around 35% less than the average EU spending level. It is worth noting that the period of 2005-2012 captured in Figure 7 covers both the period of expanding generosity of the Lithuanian social insurance and social assistance, as well as the period of increased needs for cash benefit provisions during the latest economic crisis. Hence, the 11% share of spending on cash social benefits in relation to GDP can be interpreted as a higher bound estimate for Lithuania, despite being among the lowest within the EU.

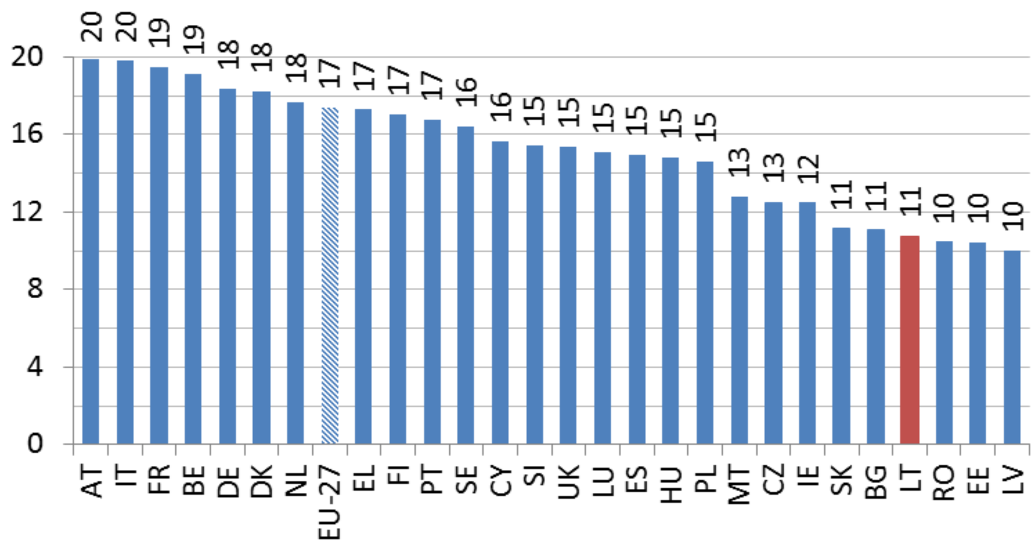

Figure 7. The cash social protection benefits as % of GDP, 2005-2012

Source: compiled by the author based on Eurostat [spr_exp_gdp], extracted on 03.05.2015

Taking a broader view, the estimates for Lithuania presented in Figure 7 are in line with the argument in Section 2.3 on the low aggregate expenditure and low generosity of the cash social benefits in Lithuania, except of contributory maternity/paternity benefits. Despite the relatively low aggregate spending, cash social benefits were noted as having major redistributive effects towards the low income groups in Lithuania compared to direct income taxation and social insurance contributions (Ivaškaitė-Tamošiūnė 2013). Therefore cash social benefits play an important role in redistributing income towards the poor in Lithuania, despite their relatively low aggregate levels and generosity.

The inclusiveness of the system of cash social benefits may be reflected in the levels of benefit coverage and stigmatization of benefit recipients. There are, however, no readily available comparative measures on degree of stigmatization embedded in the systems of cash social benefits across the EU. Figure 8 proxies the inclusiveness of the cash benefit system across the EU based on benefit coverage levels at the bottom of the income distribution as reported by Matsaganis et al. (2014). The estimates reflect 2010 levels of receipt of social benefits by those aged 18-59 and living in household with very low income (below 40% of the median equivalised disposable income).

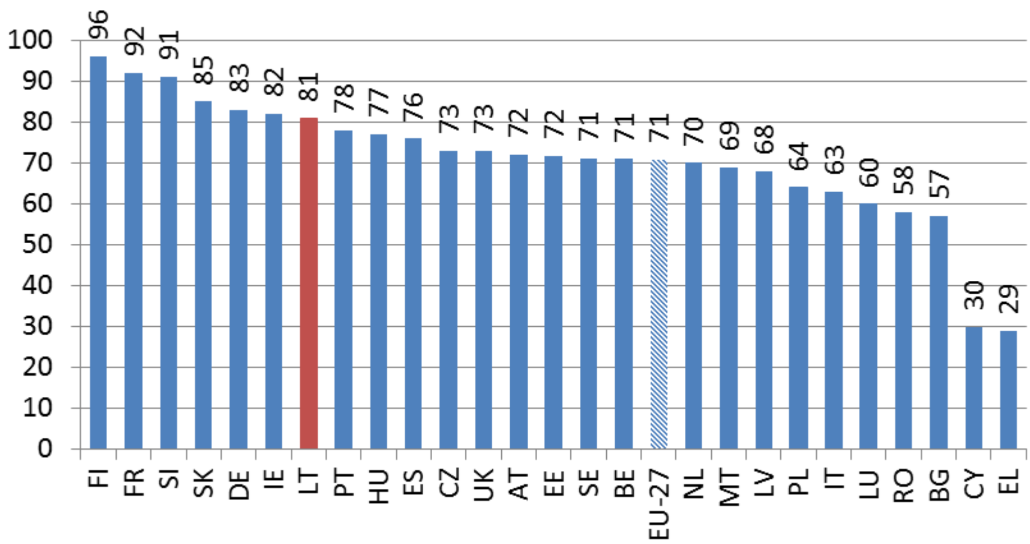

Figure 8. The percentage of social benefits' recipients in population aged 18-59 with eq. disposable income below 40% of the median, 2010

Source: compiled by the author based on Matsaganis et al. (2014). Notes: estimates for those materially deprived and with no self-employment income.

As it is illustrated in Figure 8, Lithuania can be characterized as having an above EU-27 coverage by cash social benefits of the working age individuals living in families with very low income and in material deprivation. Around four fifths of the population in that group are covered by cash social benefits, which is around 10 percentage points higher compared to the average of the EU. As reported by Matsaganis et al. (2014) the levels of benefit coverage at income levels of between 40% and 60% of the median equivalised disposable income are similar to those reported in Figure 8.

The evidence authors provide on above-average coverage of cash social benefits at the bottom of the income distribution in Lithuania complements that on the overall high institutional coverage of the national cash benefit system. It should however be noted that the estimates by Matsaganis et al. (2014) are based on the benefit receipt at the household level as reported in the Survey on Income and Living Conditions (SILC). Hence, the benefits received by any household member are attributed to the whole household. More detailed analysis would help identify gaps in benefit provisions.

Previous research on the inclusiveness of particular elements of the cash benefit system highlighted that unemployment benefit is among the hardest to reach in Lithuania compared to the other EU countries. The share of the unemployed receiving unemployment benefits estimated to be below a quarter of all the unemployed in 2008-2009 and at around a fifth of all unemployed on average in 2002-2010 (Lazutka et al. 2013a). Another example are maternity allowances with only two quarters of pregnant women reportedly in receipt between 1995-2011, the rates reaching up to around 80% during the period of economic expansion of 2007-2008 as well as in 2009.

With regard to coverage of non-contributory benefits, estimations by Lazutka et al. (2008) showed that only around a half of those in need were reached by social assistance, family/child or other state assistance benefits or compensations. Negative terminology persisting towards recipients of social assistance in Lithuania, as documented by Žalimienė (2011), may have contributed towards low coverage and non-take-up of social assistance. The most recent changes towards decentralizing social assistance provision in Lithuania added to its punitive nature (Gruževskis & Blažienė 2012). There is some evidence on the reform resulting in further drop of social assistance coverage and increasing stigmatization of assistance recipients (Lazutka 2014, Lazutka et al. 2013b, 2015).

Finally, the level of investment through cash social benefits is identified by looking into generosity of benefits towards particular groups. As noted above, children are among those receiving special attention when setting long-term poverty reduction and social investment targets in Lithuania. Hence, the estimates on child and family cash social benefit expenditure in relation to GDP is presented in Figure 9.

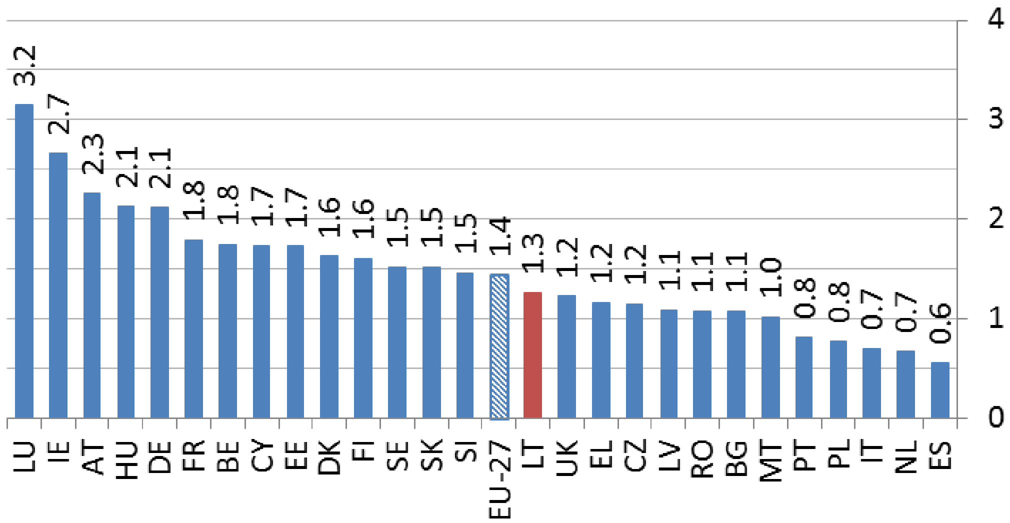

Figure 9. Child and family cash social benefits as % of GDP, 2005-2012

Source: compiled by the author based on Eurostat [spr_exp_gdp], extracted on 03/05/2015

As shown in Figure 9, the share of the GDP that goes on child and family cash social benefits is at about the average EU-27 level in Lithuania. This highlights considerable effort and attention to this group, as compared to the overall levels of redistribution through cash social benefits in Lithuania analysed above. Nevertheless, according to Eurostat, the share of spending on child and family cash benefits was increasing in Lithuania between 2005-2009 from respectively 0.7% to 2.3% of GDP and declined thereafter to around 1% since 2010. This highlights a high degree of volatility and numerous reforms in the system of cash family and child benefits during the analysed period, which is in line with the changes discussed in Section 2.2.

Despite the increased generosity of the child and family provisions after the Lithuanian accession to the EU the high fraction of children are in at-risk-of-poverty in Lithuania (see Figure 10).

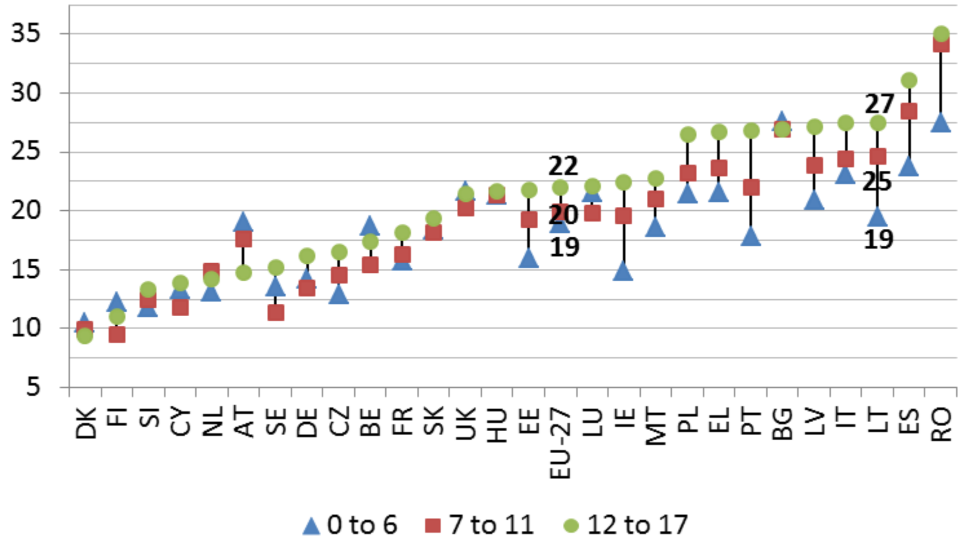

Figure 10. At-risk-of-poverty rates among children by age, 2005-2013

Source: compiled by the author based on Eurostat [SILC, ilc_li02, extracted on 5/3/2015].
Notes: poverty line at 60% of median equivalised income, average of 2005-2013.

Figure 10 demonstrates that the fraction of children aged 7-11 and 12-17 in at-risk-of-poverty in Lithuania was among the highest in the EU between 2005-2013. Around a quarter of children aged 7 and above lived in households with income below the 60% of the median equivalised disposable income in the total Lithuanian population. Better outcomes were achieved for smaller children aged 0-6 years. The difference between poverty rates among children of different age in Lithuania confirms the statement made in Section 2.2 and 2.3 on the generosity of the cash family/child benefit system predominantly targeted at newborns. Still, the at-risk-of-poverty level even among the very small children was at around the average level in the EU between 2005-2013 and close to the average rate in Lithuania.

The indicator reflecting the overall poverty reducing capacity of the cash social benefits in Lithuania is presented in Figure 11, i.e. at-risk-of-poverty levels before and after cash social benefits. The analysis of poverty levels before and after social transfers is among the traditional methods of analysing the role of cash benefits in poverty reduction. Before-after approach is also common in Lithuania (e.g. Šileika ir Tamašauskienė 2003, Lazutka et al. 1999, Lazutka et al. 2008, Karpuškienė 2002). It should, however, be acknowledged that generosity of the social transfer system may influence the level of pre-transfer poverty. The standard cross-sectional pre-post transfer poverty evaluation arguably overestimates the anti-poverty effects of the welfare systems. Nevertheless, the indicators are informative, especially when analysed in a comparative setting.

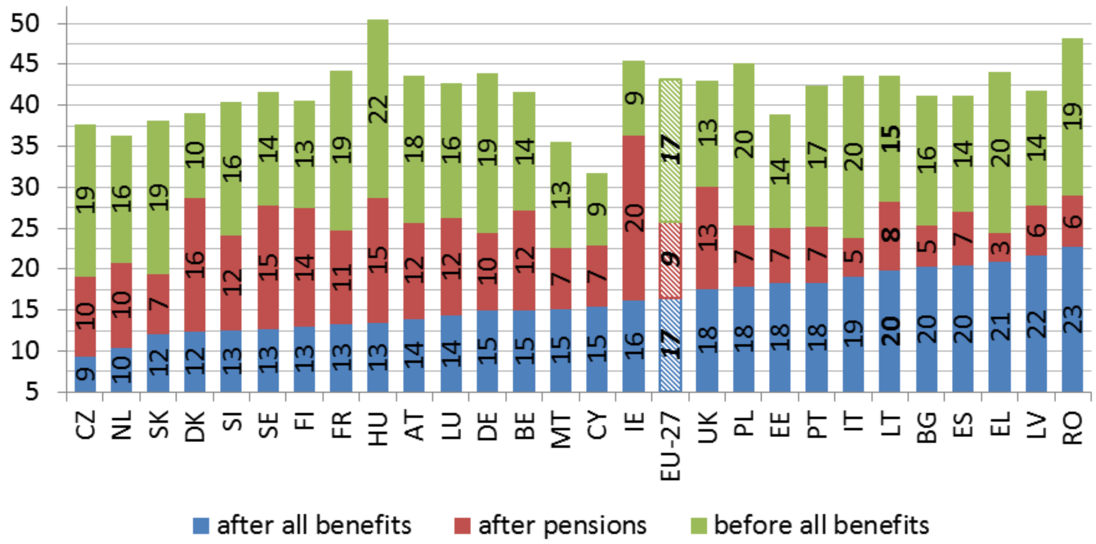

Figure 11. Average at-risk-of-poverty rate before and after social benefits in 2005-2013, %

Source: the author's calculations based on Eurostat [ilc_li02, extracted on 05/04/2015]
Note: countries ranked by at-risk-of-poverty-rate after all cash social benefits; cut-off point 60% of median equivalised income after social benefits.

As revealed by Figure 11 Lithuania is among the countries with above-average at-risk-of-poverty level in the EU (at poverty line 60% of the median equivalised disposable income). About a fifth of the Lithuanian population was at-risk-of-poverty after all benefits on average between 2005-2013. While the overall at-risk-of-poverty rate before all social cash benefits in Lithuania was at the level comparable with the EU average, the at-risk-of-poverty rate after all benefits was by around 3 percentage points lower on average in the EU as compared to Lithuania. The overall range of at-risk-of-poverty-rates after all social benefits varied from around 9% in the Czech Republic to around 23% in Romania.

Figure 11 also reveals first-order contributions of pensions as well as other cash social benefits towards reducing the incidence of the relative income poverty in Lithuania and other EU countries. The contribution of pensions towards reducing at-risk-of-poverty rate in Lithuania was at around 15 percentage points on average between 2005-2013 and was dominating compared to other social benefits. While substantial within the Lithuanian context, the contribution of pensions to poverty reduction in Lithuania is below the EU average by around 2 percentage points. Other EU member states on average also achieve better results in poverty reduction through social benefits other than pensions, with Ireland (20 p.p.), Denmark (16 p.p.), Sweden (15 p.p.) and Hungary (15 p.p.) exceeding the reduction of 8 percentage points achieved by the Lithuanian system of social benefits other than pensions

The below average performance of the Lithuanian social benefit system in reducing at-risk-of-poverty-rate at 60% of the median equivalised disposable income is not surprising given the low aggregate expenditure on cash benefits and disincentives to work for those at the bottom of the income distribution discussed above. The lack of long-term social investment efforts in children living in the poor families has also potentially negative effect on the long-term poverty reduction goals in Lithuania.

To sum up, the indicators discussed above suggest the below-average performance of the Lithuanian cash benefit system with regard to its effects on the work incentives at the bottom of the income distribution and redistributive capacity. Investment capacity proxied by the share of child and family cash benefits in relation to GDP was at around the average EU level between 2005-2012, however it is unclear to what extent it was targeted towards children living in poor families. On the other hand, the inclusiveness of the system with regard to benefit coverage was illustrated to be above the EU-average in Lithuania, especially with regard to institutional design of the national social insurance system. Under-performance of the Lithuanian cash-benefit system with regard to its negative effects on work incentives and low redistributive capacity, including that towards children, form a pre-requisite for below average performance of the system on poverty reduction. Indeed, the overall at-risk-of-poverty levels in Lithuania were among the highest in the EU between 2005-2013, with around a fifth of the Lithuanian population living below the at-risk-of-poverty threshold at 60% of the median equivalised disposable income. Within the observed period of 2005-2013 the Lithuanian cash social benefit system had lower poverty-reducing capacity compared to the EU average if the at-risk-of-poverty figures before and after social benefits at 60% of the median equivalised disposable income were taken into account. High at-risk-of-poverty levels are worrying among children, especially those of school age.

2.5. Conclusions and implications for further research

The review of the previous research, policy documents and available indicators conducted in Chapter 2 of the dissertation sets an essential background for analysis of the role cash social benefits play in reducing income poverty in Lithuania.

The analysis shows that the poverty reduction strategies have been subject to rapid change in Lithuania, at least at the discursive level. The contemporary political debate in Lithuania shifts towards problematization of poverty as social exclusion since the accession to the EU in 2004. Attention to redistributive policies and income maintenance reduces gradually during the period. Instead more attention is given to activation of the poor into the labour market. Other references to disciplinary and social investment goals also feature in the Lithuanian strategies and action plans on poverty and social exclusions, with an increasing presence of the latter. Tendencies towards individualization and Europeanization in social protection were noted by a number of Lithuanian researchers.

The Lithuanian system of cash social benefits possesses corporative-clientelistic traits, i.e. reliance on social insurance and special provisions for the privileged groups. The system also possesses some features typical for marginal liberal welfare states: low aggregate expenditure on social protection, low levels of social benefits and increasing reliance on private provisions. Despite the relatively low levels of spending the system is complicated with numerous changes in around 40 benefits, allowances, direct compensation and stipends.

The analysis of the features of individual cash social benefits and selected indicators highlighted the under-performance of the Lithuanian cash-benefit system with regard to its effects on work incentives and redistributive capacity, including that towards children. This forms a pre-requisite for below average performance of the system on poverty reduction. Indeed, at-risk-of-poverty levels in Lithuania were among the highest in the EU between 2005-2013, while cash social benefit system had lower poverty-reducing capacity compared to the EU average if the pre-post transfer at-risk-of-poverty levels at 60% of the median equivalised disposable income is taken into account. High at-risk-of-poverty levels are worrying among children, especially those of school age.

Based on the proposed theoretic framework the following aspects of the Lithuanian cash benefit system can be highlighted:

- **The disciplinary role** of the system of cash social benefits in Lithuania is mainly focused on work incentives; evidence on the potential effects of the Lithuanian social cash benefit provisions on family formation, reproduction, child adoption, migration, education and other decisions are scarce. Most of the disciplinary components are encompassed into the design of contributory unemployment and non-contributory means-tested benefits and compensations. Disciplinary measures primarily act through disincentivising people from benefit receipt by either direct punitive measures (benefit reduction over time, strict conditionality), or indirectly –

by keeping the unemployment and social assistance benefits at very low levels. Moreover, there are few positive work incentives built into the system (e.g. in-work benefits, income disregards or tax credits). The disciplinary elements of the system of cash social benefits were by and large strengthened during the last decade, especially since 2009. Still, Lithuania was noted among the countries with the highest disincentives to work for those at the bottom of the income distribution as compared to the other EU member states. While the latter effect is potentially due to adverse effects of the Lithuanian social cash benefit system on work incentives, more detailed analysis of the work incentives at the bottom of the Lithuanian income distribution is required.

- **The redistributive role.** There are contributory and non-contributory benefits targeted at every life stage within the Lithuanian system of cash social benefits The adequacy of the cash benefit system was improving in Lithuania up to 2009, resulting in an overall increase in the system's redistributive capacity during the first two decades since 1990. The latter can be interpreted as a catch-up effect, while the aggregate expenditure and absolute levels of cash benefits in Lithuania remain relatively low, except for the generous contributory maternity/paternity benefits provided during the very first years after childbirth. Despite cash social benefits playing a major role in income redistribution towards those income poor in Lithuania, the overall redistributive capacity of the system was noted to be below the EU average. While there is a body of research on redistributive capacity of cash social benefits in Lithuania, the system's capacity to prevent abrupt income shocks due to life-course transitions and risks is little explored.
- **The social inclusion role.** The Lithuanian system of cash social benefits can be characterised as inclusive with regard to a relatively wide and expanding institutional coverage of social insurance benefits. There is however some evidence on the relatively low factual coverage of means-tested non-contributory and contributory benefits other than pensions in

Lithuania. The complexity of the system makes it difficult to evaluate the institutional as well as the factual coverage of particular population groups. Very little is known on the current and future links of the population groups working in the informal sector to the system of cash social protection. Moreover, the take-up and stigmatizing effects embedded in the Lithuanian cash benefit system were little studied, especially with regard to its means-tested and conditional provisions. The latest reform in 2012 decentralizing social assistance provision in Lithuania might have negatively affected both the take-up rates of social assistance benefits and contributed to further stigmatization of beneficiaries. Yet another little researched sphere is the role of the social cash transfer system in actively encouraging social inclusion by means of building contacts with the hard-to-reach population groups and encouraging their participation in the Lithuanian labour market, education, healthcare systems, etc.

- **The social investment role** of the Lithuanian cash benefit system is little researched. The analysis of the academic literature and poverty reduction programmes showed that social investment efforts in Lithuania are primary oriented towards children. It can however be argued that the generosity of the child and family cash social benefits during the first two years after childbirth reflects the efforts to encourage higher fertility among the insured adults, rather than being a comprehensive long-term strategy of investing into children through the cash benefit system. The cash social support provided for children born into uninsured families and during the later periods of childhood, adolescence and for young adults is scarce. The introduction of the equivalence scale for the calculation of the social assistance size since 2012 was noted to be unfavourable to families with children. High at-risk-of-poverty rates among families with children of school age in Lithuania are worrisome and undermine long-term poverty reduction goals. Numerous changes in the system of cash social benefit provisions in Lithuania highlight the absence of the consistent strategy of social investment into children and calls for informing the debate with more research-based evidence. Finally, there is very little debate on the need of investment in other population groups – youth, prime-age population and elderly.

Disciplinary, redistributive, social inclusion and social investment functions do not explicitly feature in the cash social benefit system in Lithuania, hence their trade-offs and complementarity are given little attention. For example, the recent reform aimed at strengthening work incentives among social assistance recipients was reported to have negatively affected inclusiveness of the system and social investment efforts into large families with children. Cuts on unemployment benefits during the recent economic crisis have undermined the adequacy and protective capacity of the system. Incorporating the proposed analysis scheme into research and monitoring of the cash social benefit system and its reforms in Lithuania can help strengthen the complementarity and balance between the fourfold role of the system in poverty reduction. Next, the strategy of empirical analysis of the fourfold role of cash social benefits in poverty reduction in Lithuania is outlined based on the priorities and research gaps highlighted above.

3. RESEARCH METHODOLOGY

3.1. The aim and goals

The problem of poverty is a complex phenomenon. In the first chapter of this dissertation a theoretic scheme was proposed for the analysis of the role of cash social benefits in poverty reduction, highlighting their disciplinary, redistributive, social inclusion and social investment functions. The second chapter revealed a number of issues within the Lithuanian cash benefit system that require further research and attention. These include:

1. Positive and negative incentives built into the Lithuanian system of cash social benefits for labour market participation as well as affecting other behaviours, e.g. in the spheres of education, healthcare, nutrition, etc.;
2. Benefit adequacy for attaining preferable levels of re-distribution, especially for protection against acute income shocks and provision of minimum income for the poor;
3. The issues of coverage of the system of cash social benefits in Lithuania, especially those related to the informal sector of the economy, systems' stigmatization effects and benefit non-take-up;
4. Social investment role of the system of cash social benefits in Lithuania with regard to families with children, but also youth, prime-age adults and elderly.

The above-mentioned research agenda is wide and cannot be accomplished within a single dissertation. It is therefore necessary to constrain the scope of the further empirical investigation to selected aspects.

The aim of the following empirical investigation is to analyse the selected aspects of disciplinary, redistributive, social inclusion and social investment functions of the Lithuanian cash social benefit system in reducing income poverty.

The aspects to be analysed were chosen based on the combination of factors, including academic and practical relevance for Lithuania, gaps in previous research, availability of empirical data. The four selected aspects are highlighted in the following research goals, while further rationale for their selection is outlined in the respective sections:

1. To evaluate the impact of the system of cash social benefits on work incentives at the bottom of the income distribution and among low-earner families in Lithuania (*disciplinary role: Section 4.1*);
2. To analyse protection provided through the Lithuanian cash benefit system in cases of income shocks and life-course transitions (*redistributive role: Section 4.2*);
3. To identify factual coverage of cash social benefit system with a focus on the bottom of the Lithuanian income distribution (*social inclusion role: Section 4.3*);
4. To analyse the extent of social investment into families with children**,** especially those income poor, through the system of cash social benefits in Lithuania (*social investment role: Section 4.4*).

The analysis of the four aspects of the Lithuanian cash social benefit system focuses on intended and unintended consequences for individuals, both actual (e.g. poverty transitions, coverage) and potential (e.g. work incentives, compensation for child needs). The following sections describe the methods used for attaining research goals, the way poverty is operationalized, the data used for analysis, definition and categorization of cash social benefits and research limitations.

3.2. Methods

The following research on the four outlined aspects of the Lithuanian cash benefit system is based on a quantitative analysis strategy by using representative survey data. Below, general methods used for analysis in each of the four research spheres and rationale for their selection are overviewed. Detailed information on the calculation procedures is presented in respective Sections 4.1 – 4.4.

Work incentives: marginal effective tax rates and decompositions

Analysis of work incentives in Section 4.1 complements previous research by analysing the indicators of the work incentives (i.e. marginal effective tax rates) within the actual Lithuanian population using tax-benefit microsimulation model EUROMOD. The use of the EUROMOD model allows analysing work incentives at the bottom of the income distribution and decomposing indicators to single out the effects of cash social benefits. Furthermore, EUROMOD-based model family estimates are used and cross-validated with the official OECD/EC indicators to gain additional insight. For detailed description of the calculation procedures see Section 4.1.1.

Protection against income shocks and life-course transitions: longitudinal analysis of poverty persistence, transitions and triggers

The role of the cash social benefit system in reducing poverty incidence and severity in cases of income shocks and life-course transitions is analysed in Section 4.2 by using longitudinal survey data. The analysis starts with a general look at poverty dynamics in Lithuania, including within, between and overall variation of individual poverty patterns, estimation of the longitudinal poverty rate for Lithuania and tabulation of poverty spells by length. Income-related poverty triggers and life course transitions are singled out, separating the latter between demographic and labour market events. The triggers are also identified based on the function prescribed to cash social benefits (i.e. unemployment, old-age, survivor, sickness, disability, education, family/children). An important addition to methodology is the identification of poverty transitions due to changes in the at-risk-of-poverty line itself. Finally, significance of the analysed poverty trigger events is statistically tested using a logistic regression model with random effects. For detailed description of the calculation procedures see Section 4.2.2.

Benefit coverage rates: survey-based analysis

Descriptive analysis of the SILC data is used to analyse cash social benefit coverage. Three ways of measuring benefit coverage are used ranging from the most narrow way of conceptualizing benefit coverage in response to those affected by a specific contingency at which the cash social benefit is targeted to a broad notion of benefit recipiency at the bottom of the income distribution (Matsaganis et al. 2014). Characteristics of those covered and not covered by the system of cash social insurance, assistance and categorical benefits is analysed, as well as multiple cash benefit entitlements. For detailed description of the calculation procedures, see Section 4.3.1.

Social investment in families with children: needs-based and decomposition analysis

Empirical analysis in Section 4.4 aims at grounding social investment idea within a life-course perspective, the notion of child needs and by decomposing the effects of cash social benefits on poverty reduction among income poor families with children in Lithuania. The analysis starts with looking at an age-related income profile of the Lithuanian population. Cash benefit provisions are then compared to the estimated minimum resources required for covering child needs. Finally, contribution of different cash benefits towards reducing at-risk-of-poverty rate and gap is assessed among families with children using poverty decomposition by income components based on Shapley value (Shorrocks, 2013). For detailed description of the calculation procedures, see Section 4.4.1.

The estimations are carried out by using Stata SE 12.1 statistical package. DASP module version 2.3 in Stata is used for decomposition analysis (Araar & Duclos 2013). Marginal effective tax rates are estimated by using the Lithuanian component of the EUROMOD tax-benefit microsimulation model version G1.0 (Sutherland & Figari 2013).

3.3. Operationalization and measurement of poverty

Poverty is a complex phenomenon and its measurement is not an exception. There is a number of ways poverty may be conceptualized and measured. As the following analysis is aimed at identifying the direct effects of the cash social benefits on poverty, the focus is on income poverty. To be more exact, relative poverty measures defined with regard to the equivalised household disposable income is used. This method is common in the EU and was officially adopted by the Eurostat in the context of implementation of the Lisbon Strategy. A group of so-called 'Laeken' indicators was endorsed at the Laeken European Council in December 2001 and included a number of at-risk-of-poverty measures based on the relative poverty notion. The EU headline indicator of at-risk-of-poverty rate is defined as a share of population aged 0 and above with an equivalised disposable income below 60% of the national equivalised median income after social transfers (European Commission 2014). The EU prefix of 'at risk of' the notion of poverty received since the 2001 Laeken summit does not reflect the underlying probabilistic analysis, but "is in fact motivated by the current (political) disagreement on how the complex and multidimensional concept of poverty should be translated into a single indicator" (Decancq et al. 2013, p. 3). Indeed, there are numerous aspects of the relative income poverty notion that are subject to discussion. Further on, the four aspects are discussed: measuring poverty in relative terms (Section 3.3.1); measuring poverty using the income metric (Section 3.3.2); measuring poverty using household level characteristics (Section 3.3.3). Finally, the formulae for measuring relative income poverty is presented in Section 3.3.4. The following discussion of the four named poverty measurement issues will also set the proposed measures within the Lithuanian context.

3.3.1. Measuring poverty in relative terms

The notion of poverty as a relative phenomenon has deep philosophical, political and methodological roots. The notion highlights that poverty can only be identified relative to the standard of living, level of income, consumption, wealth, capabilities, education, health and/or other characteristics in a given society. Conceptually, the notion of relative poverty stems from the works of Charles Booth at the beginning of the XX century on judgement-based acceptability of applied poverty lines, Seebohm Rowntree’s notion of secondary poverty, Peter Townsend’s research in 1960s by using a relative poverty line and many more (for a review see e.g. Glennerster et al. 2004).

As it was already mentioned, the relative poverty notion has been officially adopted within the EU context and has deep political roots. The European Council of Ministers defined the poor as ‘individuals whose resources are so small as to exclude them from the minimal acceptable way of life of the Member State in which they live’ back in 1975 (European Commission 2014, p. 3). The notion is relative to the standard of living in each individual EU member state.

The idea of measuring poverty in relative terms is often portrayed as alternative to absolute poverty measures. The latter are conventionally based on the notion of basic needs or capabilities and estimated based on food baskets, reference budgets or capability sets (see e.g. Atkinson 1987, Atkinson et al. 2002).

It should be noted, however, that under closer scrutiny it is difficult to find pure absolute poverty measures (Atkinson et al. 2002, p. 29). The dichotomy of the relative versus absolute poverty measures, while common, is often artificial. As noted by Foster (1998, p. 340) the question ‘absolute or relative?’ should better be changed to ‘exactly how relative?’

To illustrate, in Lithuania the relative-absolute poverty measure debate in the academic sphere intensified around the accession of the country to the EU (Šileika & Zabarauskaitė 2006, Zabarauskaitė 2008, Šileika & Zabarauskaitė 2009). As relative at-risk-of-poverty measures were promoted as headline indicators for measuring progress in the sphere of reducing poverty and social exclusion in the EU, Šileika & Zabarauskaitė (2006) argued for the absolute measures to be better suited for poverty research in the post-socialist countries, including Lithuania. The authors criticized relative poverty measures based both on consumption and income as being brought about by the EU agencies mainly for comparative reasons. In countries where incomes and consumption levels are relatively low, according to the argument, the relative poverty estimates may not suffice for ensuring basic socio-economic needs. The relative statistics were criticized as hiding the ‘true’ levels of poverty and deprivation. Hence, the preferred method, was based on estimating reference budgets – i.e. the costs of the basic needs (Šileika & Zabarauskaitė 2006, Šileika & Zabarauskaitė 2009).

However, the proposed absolute poverty measures, as authors themselves admit, do include not only the basic material needs, but social needs (Šileika & Zabarauskaitė 2009). It is difficult to argue that while even the basic material needs are relative to the society one lives in, the latter – non-material needs – are intrinsically relative and cannot be estimated in absolute terms. The proposed measure, while supposedly absolute, can still be argued to include relativity, which is difficult to escape from in practice.

Among other advantages, the relative poverty measures incorporate an important dimension of inequality. Levels and profiles of inequality are known to affect both individual well-being and socio-economic development at the macro level (Ravallion 2007, Cingano 2014). The problem of inequality and polarization of income and wealth is among the most urgent and discussed challenges of present and future economic development (e.g. Stiglitz 2013, Piketty 2014, Atkinson 2015). Hence, poverty measures capturing inequality might be argued to bring additional value rather than being inferior to poverty measures. Moreover, relative poverty measures tend to be less computationally intensive. At-risk-of-poverty measures also benefit from being well-known and widely-used across the EU, adding to their transparency.

3.3.2. Measuring poverty by using income metric

There is a wide consensus on multidimensionality of the poverty phenomenon. Indeed, poverty cannot be restricted to any one dimension, be it income, wealth, skills, health, education, etc. With an expanding availability of data and sophistication of statistical analysis methods there is a move towards developing multi-dimensional poverty measures, especially a strand of research inspired by Sen’s capability approach (see e.g. Bourguignon &

Chakravarty 2003, Chakravarty 2006, Alkire & Foster 2008, Alkire & Foster 2011a, Alkire & Foster 2011b).

While informative and opening a new perspective on the way poverty is operationalised, there are technical, methodological and practical limitations that need to be overcome when aggregating poverty dimensions into a single measure (see e.g. Alkire & Foster 2008, Alkire & Foster 2011a, Alkire & Foster 2011b). It should also be noted that monetary and multi-dimensional poverty indicators are neither categorically opposite nor inconsistent: "Income and consumption indicators reflect material resources that are vital for people's exercise of many capabilities" (Alkire & Foster 2008, p. 77). Hence, income (or consumption) may serve as a proxy for poverty, valid both from a theoretical as well as from the political point of view. The latter is illustrated by the following and numerous similar statements by the European Commission (2014, p. 3):

> "While this notion is multidimensional, a lack of financial resources is an important dimension of poverty. The at-risk-of-poverty rate indicates the share of the population with a relative low income. This low income will most likely hamper their capacity to fully participate in social life of the Member State where they reside."

A shift away from measuring economic indicators was also argued to be premature and deflect attention away from income poverty, which is still an important problem (Room 1995, Berghman 1995). The argument is still relevant for the contemporary EU and Lithuanian context. While choosing one dimension necessarily provides a limited view of the problem of poverty, income serves as a robust proxy for measuring poverty.

Finally, when analysing the effects of the cash social benefits on poverty, the choice of the income dimension for measurement is the most evident choice with transparent direct first-order effects. Analysis of indirect effects of cash social benefits on other poverty dimensions is outside of the scope of this dissertation, but is relevant for further research.

3.3.3. Measuring poverty by using household level characteristics

One may want to measure the characteristics at the individual level when analysing poverty dimensions, say health. However, as far as income, wealth or consumption are concerned it is common to measure the characteristics taking household level data into account. Here and below the term ‘household’ is defined according to the Eurostat’s definition: “as a person living alone or a group of people who live together in the same private dwelling and share expenditures, including the joint provision of the essentials of living” (Eurostat 2013). Several aspects of the above definition and of using household characteristics to measure poverty need discussion.

First, it is generally accepted, that taking joint characteristics, i.e. income or expenditure, of people living together into account only makes conceptual and practical sense when assessing well-being if there is a spill-over effect among the members of a measurement unit, i.e. some degree of intra-household resource sharing (Atkinson et al. 2002, Burton et al. 2007, Eurostat 2013). The latter assumption is little contested when measuring poverty, although in practice income may not be equally shared between the household members. For example, Burton et al. (2007) documented a growing body of academic evidence on household inequality between men and women, adults and children, boys and girls, especially with regard to less developed countries and less well-off households. Furthermore, mothers are more prone to spend additional income on children, even at their own expense. The latter is again more apparent in the income-poor households where “mothers are more deprived than ‘equal sharing’ would suggest” (Burton et al. 2007, p. 114).

Nevertheless, recent empirical research showed that the income sharing assumption is quite robust for Lithuania (e.g. Ponthieux, 2013). In the cited paper Lithuania appears to be among the countries with the highest fraction of partners (around 80%) pooling their income. Contrary to above arguments by Burton et al. (2007), the author demonstrates that both in Lithuania and in a wider EU context pooling and equal sharing of income tends to decrease with the income level, while those at the bottom of the income distribution pool their income more. With this conflicting evidence in mind, there is no strong empirical ground for dropping assumption on income pooling and sharing, especially with regard to Lithuania.

The second aspect to discuss is a common practice to equivalise income of households of different composition and size aiming to adjust for consumption patterns. Common underlying assumptions are on larger households having an advantage of economies of scales in consumption, while children consuming less compared to adults. While the letter assumptions are little contested, there is a variety of equivalence scales accounting for differential consumption patterns in different ways. For example, Eurostat applies an OECD-modified equivalence scale first proposed in 1994, which gives weights of 1 to the first person aged 14 or more in the household, a weight of 0.5 to other persons aged 14 or more and a weight of 0.3 to persons below 14 (European Commission 2014). The modified OECD scale is also used for estimating the above mentioned Laeken indicators. The main point of critique for this expert-based scale is the underestimation of needs of single persons of working age and those of families with children.

The original OECD equivalence scale is more generous for children and additional household members, assigning the weight of 1 for the first adult, 0.7 for other adults and 0.5 for children. The original OECD scale was in its turn criticized for developed countries as being too steep, overestimating the needs of large households in comparison to small households (Vos & Zaidi 1997).

Yet another well-known scale is the one proposed by Atkinson et al. (1995) and using a square root of the household size to adjust for economies of scale. In practice this scale is flat, implying significant reduction of need for every next household member and therefore stringent on large households. For a two parent family with two children it is, however, very similar to the modified OECD scale.

In Lithuania there is little research on the economy of scales within households of different composition and size, as well as for those at the bottom of the income distribution. The use of the original OECD scale was advocated by Šileika & Zabarauskaitė (2006, 2009) and Zabarauskaitė (2008). In the policy practice of setting cash benefit amounts in Lithuania there were no equivalence scales applied until the recent reform in social assistance that use the scale of 1 for the first adult in the eligible family unit, 0.8 for the second member and 0.7 for every other member of the household, irrespective of age. While generous, this statutory scale is applied on the base – state supported income – which is considerably lower compared to the 60% of the median equivalised disposable income used for estimation of the at-risk-of-poverty line. Otherwise, the modified OECD scale is dominant both in the official statistics and academic research in Lithuania.

With an absence of robust estimates that could be used for constructing an equivalence scale specifically adjusted for Lithuania, the modified OECD scale is used further for estimations. It should however be kept in mind that it is quite flat, therefore the needs of large families with children might be under-estimated.

Finally, while household characteristics are taken into account when estimating equivalent household income, the unit of analysis is an individual. The poverty statistics are presented with regard to counting individuals, which is consistent with the official methodology adopted by Eurostat (2013) and other methodological recommendations (see e.g. Atkinson et al. 2002).

3.3.4. Formulae for measuring relative income poverty

The notion of relative income poverty in the following empirical analysis is operationalised using Foster-Greer-Thorbecke (FGT) class of poverty measures (Foster et al. 1984) and is defined as:

$$P(z;y;\alpha) = \frac{\sum_{i=1}^{n} w_i \left(\frac{z-y_i}{z}\right)_+^{\alpha}}{\sum_{i=1}^{n} w_i}$$

, where z is a poverty threshold, y is equivalised household disposable income and w is the weight assigned to individual i in a survey sample of size

n. P stands for poverty headcount ratio when $\alpha = 0$, poverty gap ratio when $\alpha = 1$, and poverty severity when $\alpha = 2$. Poverty line z is set at 60% of median equivalised disposable income in the total population, if not stated otherwise. Equalization of income y_i is made using the modified OECD scale, which gives weights of 1 to the first person aged 14 or above in the household, 0.5 to other persons aged 14 or above and 0.3 to persons aged below 14.

The class of FGT poverty measures has a number of useful axiomatic qualities. As noted by Foster et al. (1984) the FGT class of measures was proposed as “a simple, new poverty measure that (i) is additively decomposable with population share weights, (ii) satisfies the basic properties proposed by Sen, and (iii) is justified by a relative deprivation concept of poverty” (p.761). Additive subgroup decomposability is a primary quality that is utilized in the following empirical application, i.e. FGT measures can be decomposed by subgroups as well as for different income component.

An often misconception about the relative FGT class poverty measures is that they violate the normalization axiom – the quality of the poverty index to go to a minimum value of zero. For example, Šileika & Zabarauskaitė (2009) note that a fraction of population always remains poor when a relative poverty threshold is used. The latter statement does not hold given the income distribution is flat enough that no one has income below, say, 60% of the median equivalised disposable income in the population. In fact, no EU member state has yet eliminated relative poverty completely.

3.4. Data

The empirical analysis of disciplinary, redistributive, social inclusion and investment functions of cash social benefits in Section 4 is based on the representative micro-level data of the EU Survey on Income and Living Conditions (EU-SILC) for Lithuania. Both its cross-sectional and longitudinal components are used. The period of analysis is restricted by the availability of the data to the period after the EU accession of Lithuania in 2004. Cross-sectional and longitudinal waves of the data for the period of 2005-2013 are available at the time of writing and are used for estimations.

Detailed documentation of the EU-SILC methodology is presented in quality reports produced at both the EU and national level each year.[26] In brief, EU-SILC survey has a four year rotational panel survey design. The data is collected using face-to-face interviewing of all respondents aged 16 and over. In Lithuania households are selected from the Residents' Register using stratified sampling method in 7 non-overlapping strata (five largest cities, towns and rural areas) with one-stage simple random selection within strata. The minimum effective sample size is 3000 households for the longitudinal EU-SILC component and 4000 household for the cross-sectional EU-SILC component for Lithuania. The Lithuanian EU-SILC data can be noted for high quality: low gap between the actual and achieved sample sizes (around 15%), low unit non-response rates (at around 11%) and low number of proxy interviews (around 15%).[27]

Important to note, that the EU-SILC sampling frame only includes private households. Persons living in institutions (e.g. in care or imprisonment institutions etc.), collective households (e.g. collective dwelling shared by more than five persons without sharing household expenses) as well as homeless population are excluded. Restricted sampling frame creates a limitation in the context of poverty research since the most deprived homeless individuals, vulnerable institutionalized population groups as well as people residing in dormitories or shared living quarters are not included in the sample. These excluded population groups needs further research and investigation.

The longitudinal component of EU-SILC traces individuals for a four-year period. However, in the implementation of EU-SILC some restrictions on how the sample persons are traced are applied for practical reasons. The movement of the sample persons are traced only for those remaining or

[26] EU-SILC documentation and quality reports are available at: http://ec.europa.eu/eurostat/web/income-and-living-conditions/quality
[27] For details see comparative EU-SILC quality reports: http://ec.europa.eu/eurostat/web/income-and-living-conditions/quality/eu-quality-reports

moving within private households in the national territory covered in the survey (Eurostat 2013). So those moving into institutions or abroad are not traced, except when the move is temporary (less than 6 months). Independent movements of children aged under 14 in the initial sample are normally not traced. In the context of high emigration in Lithuania after the EU accession and during the financial crisis the above mentioned following rules imply that households of emigrants and their children are not traced in the longitudinal SILC component and fall off the panel.

With regard to the income concepts, the total disposable income in the EU-SILC is defined as: “gross income less income tax, regular taxes on wealth, employees', self-employed and unemployed (if applicable) compulsory social insurance contributions, employers' social insurance contributions and inter- household transfers paid” (Eurostat 2013, p. 60). The disposable income before social benefits is the sum of all net personal income components in the household excluding cash social benefits. The former include work-related incomes, income from rent, gains on capital, regular inter-household cash transfers net of taxes, social insurance contributions and regular cash transfers paid, except of interests paid on mortgage.

The EU-SILC does not use the term of a “head of household”. Instead the "household reference person" is the household member responding to the household questionnaire and ideally is the person responsible for the dwelling. In cases where characteristics of the household head need to be used as a proxy for the whole household, the head is defined in the further analysis based on the notion recommended by Eurostat – as a person above the age of 15 which contributes most to the total household income and eldest in case there are several such individuals in the household.[28] Household reference person is assumed to be household head when these characteristics do not distinguish between the members of the household.

[28] See EU-SILC descriptions of target variables here: http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions

Four important points related to income data should be highlighted. First, a distinction should be made between a user database (UDB SILC) provided directly by the Eurostat and a national user database (national SILC) made available by the Statistics Lithuania. The UDB SILC dataset is synchronized aggregating income sources by function according to a common methodology across the EU (see Eurostat 2013). Individual benefits and taxes are only available to users of the national SILC datasets. Therefore, the national SILC datasets are used in the following analysis, if not specified otherwise.

Second, attention should be given to the income reference period when analysing and interpreting figures reported using EU-SILC. The EU-SILC information on incomes refers to the calendar year prior to the year of survey (*t-1*), while reporting by Eurostat and other statistical agencies is done using the year of survey as a reference. The latter practice will also be adopted in the following analysis to avoid mismatches with official statistics. Nevertheless, the results should be interpreted taking the income reference period into account.

Yet another time-related aspect is that the EU-SILC data on income is based on a 12-month receipt period. More detailed information on the number of income payments per year and monthly amounts can be obtained from the national SILC database. Similar to the common practice, all monetary incomes are used for calculations in monthly terms, if not stated otherwise. It is therefore assumed that income is received at the same rate throughout the year. While being a common practice, the latter assumption bears important implications on poverty analysis. Averaging income across the year smoothes income profiles, therefore the short periods of low income are missed out. However, it can be argued that income volatility as such does not imply poverty, given the low income periods are relatively short and can be mitigated through borrowing from the past or future incomes. The period of one year is long enough to mark significant disadvantage in cases when income is low.

Third, the design weights included into both national and the UDB SILC datasets are calibrated towards the external statistics on age, sex and strata to arrive to the exact weighted estimates of these demographic estimates. However, no calibration is made towards the income aggregates in the Lithuanian SILC. Hence the total income receipts reported in the survey may deviate from the macro-level totals, i.e. the national accounts' or tax authorities' estimates.

While income estimates may not be precisely matching external aggregates, the EU-SILC data for Lithuania can be noted for a good quality of the individual level income estimates. The item non-response for the income components of the gross and disposable income is reported to be marginal, with the fraction of household with missing values generally not exceeding 2%.[29] Moreover, additional information on income and taxes paid is obtained from the State Tax Inspectorate and the State Social Insurance Fund Board. The latter procedure reduces reporting errors for taxes and benefits. The phenomenon of shadow economy in Lithuania is dealt with by imputation procedure, the rule of thumb being a selection of higher of the self-reported and externally recorded market income amounts. The underlying assumption is of partial or full tax non-compliance and report of the non-taxable income in cases when self-reported market income amounts exceed the records of tax authorities.[30]

3.5. Definition and categorization of cash social benefits

According to the definition of cash social benefits in the EU-SILC:

> "Social benefits are defined as current transfers received during the income reference period by households intended to relieve them from the financial burden of a number of risk or needs, made through collectively organised schemes, or outside such schemes by government units and non-profit institutions serving households." (Eurostat 2013, p. 323).

[29] For details see Lithuanian national EU-SILC quality reports: http://ec.europa.eu/eurostat/web/income-and-living-conditions/quality/national-quality-reports
[30] Based on personal consultations with Statistics Lithuania.

The definition is broad in the sense that it refers to ‘current transfers’ as well as to benefits paid by non-profit institutions. Social benefits included in the EU-SILC are by definition restricted to cash benefits, though with an exception of in-kind housing benefits. In our case, the focus if strictly on cash social benefits, excluding in-kind housing benefits. Payments by non-profit organizations are also excluded. In effect, cash social benefits are defined as one-time or regular in-cash social insurance, categorical or social assistance payments to individuals, families or households by the public authorities. Near-cash payments, e.g. compensations, are attributed to the category of cash social benefits if are paid in cash directly to benefit recipients, rather than providers of services or goods.

All social benefits are reported individually in the national SILC datasets and aggregated into nine groups by function in the UDB SILC datasets. These include: unemployment, old-age benefits, survivor’, sickness, disability benefits, education related allowances, family and children related benefits, housing allowances and social exclusion not elsewhere classified (Eurostat 2013). When analysing social benefits by function, the latter grouping will be used in the further analysis, if not stated otherwise.

Cash social benefits are normally reported in gross terms in the EU-SILC, i.e. including the value of any social contributions and income tax payable on benefits to social insurance schemes or to tax authorities by beneficiary. In practice, cash social benefits in Lithuania are non-taxable, hence their net and gross values for Lithuania coincide.

Finally, social cash benefits in EU-SILC exclude benefits paid from the schemes into which the recipient has made voluntary payments only, independently of her employer or government (i.e. payments received from the private insurance schemes). These are also not included into the cash social benefit category in further analysis.

3.6. Limitations

Limitations of the following analysis have been already mentioned and are summarized again here.

With regard to substantial limitation, the choice of redistributive, disciplinary, social insurance and social investment aspects of the Lithuanian cash social benefit system is necessarily selective. The four aspects chosen for the analysis – work incentives at the bottom of the income distribution, protection provided against income shocks and life-course transitions, issue of benefit coverage, adequacy of cash social benefit provisions for families with children – reflect, in author's opinion, some of the most urgent issues with regard to the role of cash social benefits in reducing poverty in Lithuania.

Second, the further analysis of the impact of cash social benefits on poverty in Lithuania is limited to its income component. Other socio-economic outcomes as health, wealth, education, capabilities, etc. are not considered in the following analysis. Instead, income is treated as a proxy for poverty and a liquid resource that can be transformed into means for satisfaction of needs or other non-monetary dimensions of well-being. The effects of cash social benefits on income poverty are interpreted as the first-round direct effects. The indirect and lagged effects of cash social benefits on poverty are outside the scope of the analysis.

In terms of technical limitations, the period of analysis is restricted by the availability of the SILC data to the period of 2005-2013 after the EU accession of Lithuania in 2004. Finally, the EU-SILC data used for analysis only includes private households. Persons living in the institutional households (e.g. in care or imprisonment institutions etc.) as well as homeless population are excluded. Restricted sampling frame creates a limitation in the context of poverty research since the most deprived homeless individuals and vulnerable institutionalized population groups are not included. The latter groups should be further researched.

4. THE FOURFOLD ROLE OF CASH SOCIAL BENEFITS IN POVERTY REDUCTION IN LITHUANIA: THE FINDINGS

4.1. The disciplinary role: impact of cash social benefits on work incentives

If designed appropriately, cash social benefit systems, can be powerful in providing monetary incentives for behavioural change (see Section 1.5.1). As it was further highlighted in Chapter 2, disciplinary role of the system of cash social benefits in Lithuania is mainly focused on the work incentives with both positive and negative incentives to work built into the system of cash social benefits.

The review of the previous studies suggests that disincentives to work or increase one's working efforts for those at the middle and upper parts of the income distribution in Lithuania are below the EU average due to relatively low levels of direct taxation and social insurance contributions (Jara & Tumino 2013, Jara & Leventi 2014). However, at the bottom of the income distribution the situation is different. High negative work incentives for low-wage earners in Lithuania were documented through both model family calculations (e.g. Tamašauskienė 2003, Lazutka & Poviliūnas 2010, UNDP 2010, Lazutka et al. 2013a) and by using microsimulation techniques (Jara & Tumino 2013, Jara & Leventi 2014).

However, previous analysis only captured the effects of social assistance (Tamašauskienė 2003), incorporated Lithuania within a broader comparative analysis with only a short discussion of the national case (Jara & Tumino 2013, Jara & Leventi 2014) or discussed model-family-based indicators published by the OECD/EC (Lazutka & Poviliūnas 2010, UNDP 2010, Lazutka et al. 2013a). There is scope for further analysis, looking at and cross-validating complementary indicators of work incentives, decomposing them to single out the effects of different elements of the Lithuanian tax-benefit system and capturing the distribution of work incentives in the actual Lithuanian population, especially those related to lower income groups.

Hence, the aim of this section is to evaluate the impact of cash social benefits on work incentives at the bottom of the income distribution and among selected model family types in Lithuania.

The analysis of the work incentives is based on the estimates made by using tax-benefit microsimulation model EUROMOD (Sutherland & Figari 2013) and on the official OECD/EC indicators. The use of EUROMOD allows analysing work incentives in the lower quintile of the income distribution, which is in line with at-risk-of-poverty rate fluctuating at around 20% in Lithuania (as measured at 60% of the median equivalised disposable income).[31] It also allows decomposing indicators to single out the effects of cash social benefits. Model family estimates are also used to capture work incentives among specific family types in Lithuania: those with inactive or unemployed members, or low-earners. Both estimates by EUROMOD and OECD/EC are used and cross-validated to gain additional insight.

The structure of this section is the following. Calculation procedures and measures used for operationalizing work incentives are discussed in Section 4.1.1. Section 4.1.2 looks at work incentives in the Lithuanian population, especially at the bottom of the income distribution, cash social benefit effects and their changes over time. In Section 4.1.3 readily available and complementary model-family-based indicators of work incentives are analysed, cross-validated and decomposed to single out the role of cash benefits in Lithuania. The section concludes with a discussion of the main findings and implications for the development of cash social benefit system in Lithuania.

Several limitations of the below analysis need to be acknowledged. First, only direct effects of cash social benefits are accounted for when analysing work incentives. Benefits in kind, indirect compensations and value of deferred benefits bought by current contributions to social insurance are not considered. Second, the analysis only takes work incentives of the working age

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[31] Income distribution statistics. EUROSTAT, http://ec.europa.eu/eurostat/statistics-explained/index.php/Income_distribution_statistics#At-risk-of-poverty_rate_and_threshold

population into account, whereas those of old-age are excluded. Work incentives of the latter group in Lithuania would be affected by the possibility to combine work-related incomes with pensions. The possibility to combine work-related income with pensions has been in effect since 2002 due to the changes in the legislation of 2010 caused by the financial crisis (see Lazutka et al. 2013a, p.165) and reinstated since 2012.[32] The latter change in legislation removed disincentives for labour market involvement among this group. Finally, the analysis does not capture the effects on work incentives of the most recent social assistance reform for long-term unemployed due to its phase-in period. The reform potentially has a positive effect on work incentives of the long-term unemployed social assistance recipients, its actual extent, however, is expected to be limited (Lazutka et al. 2013b).

4.1.1. Measurement: marginal effective tax rates

When analysing the role tax-benefit systems play in influencing work incentives, a distinction is usually made between the incentives to work versus not working and the incentives to work more. The two effects are often referred to as, respectively, incentives at the extensive and intensive margin of labour supply (Jara & Tumino 2013). Both effects can be captured through marginal effective tax rates (METR), i.e. a measure that shows the percentage of additional income that is taxed away through benefit withdrawal, direct taxation and deduction of social insurance contributions (Jara & Tumino 2013 p.29). In practice, taxes and social insurance contributions often play significant role at the higher levels of earning, especially in case of progressive taxation. On the other hand, benefit withdrawal gains more importance at the bottom of the income distribution where the benefit recipients are often located. Still, tax-benefit systems are often constructed in such a way that there are important interactions between cash benefits, taxes and social insurance

[32] According to the following law: “Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinojo įstatymo 5, 8 straipsnių ir 2 priedo pripažinimo netekusiais galios įstatymas. 2012 m. birželio 30 d. Nr. XI-2195. Žin., 2012-07-13, Nr. 82-4274”

contributions. For that reason these elements should be analysed together, rather than independently.

Several measures reflecting work incentives can be constructed using METR calculations. The most common are three types of ‘traps’: unemployment traps, low-wage / poverty traps, inactivity traps (Carone et al. 2004). Unemployment and inactivity traps reflect METR at an extensive margin – measuring the percentage of gross earnings taxed away though withdrawal of cash benefits, direct taxes and social insurance contributions when an unemployed or an inactive person gets a job. Low wage trap captures work incentives at an intensive margin – measuring the percentage of gross earnings taxed away through the same channels when the gross earnings of an employed person increase.

The three indicators of work incentives are regularly estimated by the OECD in partnership with the European Commission based on the selection of “model families” facing predefined situations. While useful, model-family-based estimates cannot be extrapolated and are insensitive to actual distribution of income and household characteristics within the population of any particular country. The latter would only be possible using a tax-benefit model in conjunction with representative household micro-data (Carone et al. 2004, p. 14).

The current analysis uses the discussed measures – unemployment traps, low-wage / poverty traps, inactivity traps – for the analysis of the work incentives provided through cash social benefits and taxes in Lithuania. Complementary to the readily available indicators reported by the OECD/EC, the actual structure and income situation within the Lithuanian population is taken into account using tax tax-benefit microsimulation model EUROMOD. The model allows using representative survey-based micro-level data, conducting model family type estimations, decomposing total work incentives indicators to single out the effects of withdrawal of cash social benefits with income or employment.

In brief, EUROMOD is a static tax-benefit microsimulation model developed for the European Union. EUROMOD models monetary social benefits, direct taxes and selected social insurance contributions according to the rules in place on the 30th June of each year. The labour market income and other non-simulated income sources are taken directly from the data and updated based on average growth by income source based on external statistics from administrative sources or official projections. The input data for simulations is derived from the EU Survey of Income and Living Conditions (EU-SILC). In addition, hypothetical data with model family types as defined by OECD/EC was used for estimations. The latest public release of the model (version G1.0) which covers the tax-benefit systems for the period of 2005-2013 in Lithuania is used. For more information see Sutherland & Figari (2013); for the information on the Lithuanian component of the model see Ivaškaitė-Tamošiūnė et al. (2014).

Simulations of METR in this section are made for the period of 2005-2013 based on the EU-SILC data for Lithuania collected in 2006, 2008 and 2010. The general procedure for calculation of METR for a poverty trap indicator is:

$$\mathrm{METR} = 1 - (\Delta \mathrm{Y}_{\mathrm{net}})/(\Delta \mathrm{E}_{\mathrm{gross}}) \qquad (1)$$

, where $\Delta \mathrm{E}_{\mathrm{gross}}$is the change in gross earnings of the household member. $\Delta \mathrm{Y}_{\mathrm{net}}$ is the corresponding change in net household disposable income after taxes, social insurance contributions and changes in benefits are calculated at the household level.

The effects of both discrete and marginal changes in gross earnings are analysed. Discrete changes in earnings as set in the standard OECD/EC calculations (at 33%, 50%, 67% and 100% of the average wage) are complemented with additional thresholds at 50% and 100% of the minimum wage in Lithuania. Furthermore, the effects of marginal change in income are evaluated, allowing for looking at actual earnings levels at the bottom of the Lithuanian income distribution. For this purpose, marginal increase in income is set at the 3% of earnings, corresponding roughly to an extra working hour per week for a full-time worker (at 40 hours per week). Similar to Jara and Tumino (2013), the latter calculations are performed using EUROMOD micro-simulation model based on an iterative procedure: calculating the total household disposable income; increasing earnings of one earner in the household at a time; recalculating household disposable income taking increased earnings into account. Repeating the procedure METRs are assigned to every individual with earnings in the household, while the total poverty trap indicator is an average of individual METRs. The model family estimation are made recalculating the discreet change in earnings for a selected family member.

The total poverty trap indicator in (1) is further decomposed to single out the effects of changes in cash benefits on work incentives (Jara & Tumino 2013):

$$\mathrm{METR} = 1 - \left(\frac{\Delta \mathrm{O_{hh}} + \Delta \mathrm{B_{hh}} - \Delta \mathrm{T_{hh}} - \Delta \mathrm{S_{hh}}}{\Delta \mathrm{E_{gross}}}\right) \tag{2}$$

, where changes in the total net household disposable income are decomposed into a change in original income *O* and changes in benefits *B*, direct taxes *T* and social insurance contributions *S*, all at the household level.[33] As the change in original income in (2) equals to the change in individual gross earnings, the expression can be rewritten as:

$$\mathrm{METR} = -\left(\frac{\Delta \mathrm{B_{hh}} - \Delta \mathrm{T_{hh}} - \Delta \mathrm{S_{hh}}}{\Delta \mathrm{E_{gross}}}\right) = \mathrm{METRB} + \mathrm{METRT} + \mathrm{METRS} \tag{3}$$

, where the total indicator is decomposed into METR due to the changes in cash social benefits, taxes and social insurance contributions. Each METR component may further be decomposed, e.g. to reflect the role of individual benefits, group of benefits, or for population subgroups.

[33] Original income as defined in EUROMOD include employment, self-employment income, private pensions, investment income, income from property, income of children under 16 years of age, private transfers received and maintenance payments (Ivaškaitė-Tamošiūnė et al. 2014).

4.1.2. Work incentives at the bottom of the income distribution

In order to contribute to better understanding of work incentives in Lithuania and how those are affected by the system of cash social benefits, the discussion starts with analysing work incentives at the lower end of the Lithuanian income distribution. In this section, the distribution of the marginal effective tax rates (METR) in the Lithuanian population is presented as captured by the representative SILC data. As already discussed, METR indicators reflect the percentage of extra gross earnings that are taxed away through social benefit withdrawal, direct taxation and deduction of social insurance contributions. Below, work incentives are estimated at the intensive margin – resulting from a marginal increase of the hours worked for those already in work, i.e. for low earners or sole earners of households with several dependent members. Work incentives at the extensive margin, i.e. for those unemployed or inactive, are discussed in Section 4.1.3.

Figure 12 (below) reflects the size and spread of METR in five quintiles of the Lithuanian income distribution in the starting and final year of the period in question. Detailed data on the distribution of work incentives in all years between 2005-2013 can be found in Annex 1.

Figure 12 reveals several important aspects of METR distribution in Lithuania. First, the average level of METR in 2013 is slightly below that in 2005, which highlights an improvement in work incentives on average in Lithuania between 2005-2013. However, reduction in METR came through the decrease in their levels at the top and increase at the bottom of the income distribution. In effect, work incentives were strengthened for richer and were hindered for poorer households. This holds both looking at the mean, median METR and at their spread. The distribution of the mean METR can be said to have been progressive in 2005 and have become regressive by 2013. Looking at the detailed data in Annex 1 this transformation happened gradually between 2006-2008 and more substantially in 2009. For the period from 2009 the distribution of METR was similar to the picture presented in Figure 12 for the final year of analysis.

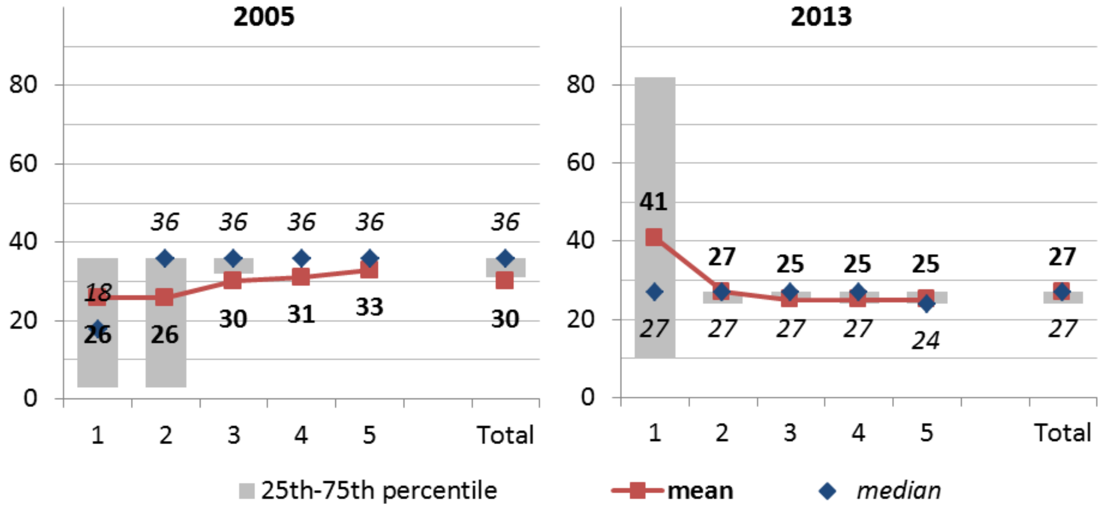

Figure 12. Marginal effective tax rates (METR) by income quintile, %

Source: authors' calculations using EUROMOD v. G1.0

Note: Employer social insurance contributions not included. METR estimated among those in receipt of employment or self-employment income for a marginal increase in income by 3%. Income quintiles by equivalised household disposable income in the total population.

Moreover, the spread of METR in the first income quintile widened substantially by 2013 compared to 2005 levels. As reported, half of the population within the 1st quintile faced METR of 3-36% in 2005. These boundaries changed to 10-82% in 2013. High levels of METR at around 80% observed at the end of the analysed period in the first income quintile are alarming. High METR faced by the poor households may undermine work incentives and discourage more active labour market participation, contributing to the formation of low wage traps.

Below the reason of such change are decomposed. The first decomposition is made to identify effects of the three elements of the Lithuanian tax-benefit system: cash social benefits, direct taxes and social insurance contributions (Figure 13). Again, the figures reflect the situation at the beginning and in the end of the period, while detailed data on all the years between 2005-2013 can be found in Annex 2. Total METR are then decomposed to single out effects on the recipients and non-recipients of cash social benefits (Figure 14).

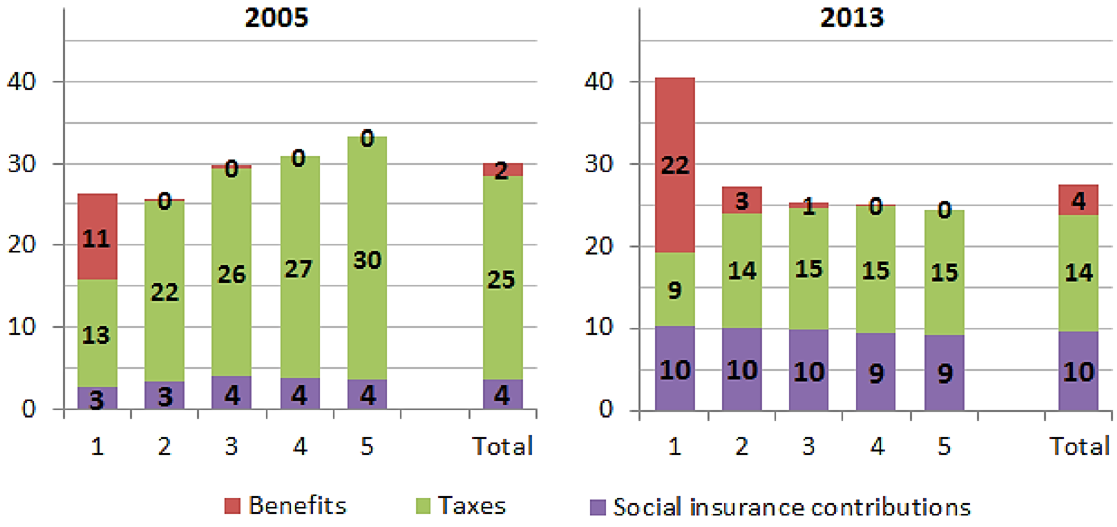

Figure 13. Decomposition of mean METR by component and quintile, %

Source: authors' calculations using EUROMOD v. G1.0

Note: Employer social insurance contributions not included. METR estimated among those in receipt of employment or self-employment income for a marginal increase in income by 3%. Income quintiles by equivalised household disposable income in the total population.

Figure 13 shows that these were all three elements – benefits, direct taxes and social insurance contributions – that caused the change of the METR distribution between 2005-2013. The three factors are discussed in turn below.

First, there was a substantial increase in the share of METR caused by benefit withdrawal between 2005 and 2013. Different from the situation in 2005, work disincentives caused by benefit withdrawal play a major role compared to direct taxes and social insurance contributions in the lower income quintile in 2013.

As the METR in Figure 13 are estimated at an intensive margin (for a marginal increase in income rather than change in employment status), the increase in the benefit-driven METR could be due to either introduction of additional income-tested benefits or due to the changes in levels and procedures of income testing.

Indeed, on the one hand, child benefits in Lithuania became means tested for children aged 3 and above in families with one or two children since

2009[34], income test levels were tightened and extended to families with three and more children since 2010[35] and for children below 3 years of age since 2012.[36] Introduction of income testing for child benefits potentially have negative effects on work incentives of families with children in Lithuania. This, however, mainly affects families with income close to the income test threshold, as by design child benefits are not reduced with additionally earned income, but withdrawn once the income test threshold is crossed.

On the other hand, there was a substantial increase in the level of income testing for social assistance benefits in Lithuania. The level of state supported income, which is used for income testing in social assistance, rose in nominal terms from around EUR 40 (LTL 135) in 2005 to around EUR 100 (LTL 350) since 2008.[37] While in real terms the increase was not that substantial, it coincided with a drop in the disposable income in the population during the economic crisis since 2009 and resulted in a sharp increase in the number of social assistance recipients at the bottom of the Lithuanian income distribution who qualify for the income test. As social assistance benefits in Lithuania are withdrawn at nearly 100% rate of additionally earned income[38], it is unsurprising that the share of people facing high METR in the first quintile of the income distribution went up between 2005-2013 (see Figure 12) and an increase of the contribution of benefits into the total METR was observed (see Figure 13).

[34] According to the following law "Lietuvos Respublikos Išmokų vaikams įstatymo 6, 8, 12, 13, 20 straipsnių pakeitimo ir papildymo ir 22 straipsnio pripažinimo netekusiu galios įstatymas". 2008.12.19 Nr. Xi-90. Žin. 2008 , Nr. 149-6016.

[35] According to the following law "Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas". 2009.12.09 Nr. XI-537. Žin., 2009, Nr. 152-6820.

[36] According to the following law "Lietuvos Respublikos Išmokų vaikams įstatymo 2, 3, 4, 6, 8, 9, 12, 13, 14, 15, 17, 18 straipsnių, trečiojo, šeštojo skirsnių pavadinimų pakeitimo ir papildymo ir 21 straipsnio pripažinimo netekusiu galios įtatymas". 2011 m. gruodžio 1 d. Nr. XI-1756. Žin., 2011, Nr. 155-7350.

[37] According to the resolutions of the Government of the Republic of Lithuania: "Lietuvos Respublikos Vyriausybės nutarimas Dėl valstybės remiamų pajamų dydžio patvirtinimo" Nr. 696 (Žin., 2005, Nr.80-2900), Nr. 1 (Žin.2006 , Nr.3-25), Nr. 934 (Žin., 2006 , Nr.104-3969), Nr. 1217 (Žin., 134-5087, Nr.), Nr. 824 (Žin., 2007, Nr.91-3633), Nr. 1328 (Žin., 2007, Nr. 135-5472), Nr. 538 (Žin., 2008, Nr. 67-2531).

[38] According to the following law: "Piniginės socialinės paramos nepasiturintiems gyventojams įstatymas". 2003m. liepos 1d. Nr. I x-1675. Žin., 2003, Nr. 73-3352.

Importantly, this highlights a trade-off between adequacy of social assistance and its effects on work incentives. Strict withdrawal of social assistance with earned income in Lithuania was criticized as *naïve* with several proposals to decrease the benefit's withdrawal rate with earned income (e.g. UNDP 2010, Zabarauskaitė 2008). Around 80% of male and 90% of female social assistance recipients were reported to be not in work in 2006 survey of social assistance recipients (Lazutka et al. 2008). There were, however, no income disregards imbedded into the system of cash social assistance, except for work related income of full-time students since 2008 and temporary income disregards for long-term unemployed since 2012.[39] The latter changes however are episodic, with potentially marginal effects on work incentives of the income poor households (Lazutka et al. 2013b).

Second, the role of taxes that directly affect household disposable income and their interactions with cash benefits should be discussed. Direct taxes as defined for calculations include property, wealth and personal income taxes. Among the three, it is the personal income tax that has potential first-order implications on work incentives. Personal income tax in Lithuania is calculated on individual basis using a flat tax rate, with tax allowances for low income earners, those raising children and people with disabilities.[40]

Several important changes in the system's design between 2005-2013, affecting the levels and distribution of METR across income groups, need to be noted. Most importantly, the differential tax rate of 15% and 33% depending on income source was gradually reduced to a single rate of 15% in 2009; lower tax rate of 5% was introduced in 2010 on the specific types of individual income; the amount of the general tax allowance was gradually

[39] According to the relevant amendments of the law: "Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymas". 2003 m. liepos 1 d. Nr. IX-1675, Žin., 2003, Nr. 73-3352
[40] According to the following law: "Lietuvos Respublikos gyventojų pajamų mokesčio įstatymas". 2002 m. liepos 2 d. Nr. IX-1007. Žin., 2002, Nr. 73-3085

increased since 2005 and reformed in 2009 to gradually decrease with income.[41]

The design and above-mentioned changes of the personal income tax in Lithuania contributed to decreasing average METR levels between 2005-2013 as portrayed in Figure 13 (and Annex 2). While based on a flat tax rate, the system is slightly progressive at the bottom of income distribution in Lithuania due to allowances for low income earners, families with children or people with disability. The positive effect of progressivity of tax allowances on work incentives at the lower part of the Lithuanian income distribution is, however, undone by high METR caused by strict cash benefit withdrawal and an increase in social insurance contributions (see below for details). This highlights a limited role of income tax reforms in improving work incentives among low income groups and importance of design of cash social benefits and its interactions with tax system in Lithuania.

Last but not least, the effects of social insurance contributions on work incentives in Lithuania need to be discussed. As portrayed in Figure 13, the effects of employee and self-employed social insurance contributions on the total METR in Lithuania are proportionally distributed across all income groups. This is due to their flat-rate design and inexistence of either grounds or ceilings for social contributions in Lithuania, except for the self-employed. Increase in the level of the employee social insurance contributions by about 6 percentage point between 2005 and 2013 was due to a shift of deductions towards health social insurance from personal income tax to social insurance contributions in 2009.[42] Although being technical, this reform had a potentially negative effect on the work incentives at the bottom of the income distribution, since no deductions or allowances apply to social insurance contributions in Lithuania. In effect, the METR increased in the first income quintile from around 15% in 2005-2008 to almost 20% since 2009 due to combined effect of

[41] According to the relevant amendments of the law: “Lietuvos Respublikos gyventojų pajamų mokesčio įstatymas”. 2002 m. liepos 2 d. Nr. IX-1007. Žin., 2002, Nr. 73-3085
[42] According to the following law: “Lietuvos Respublikos gyventojų pajamų mokesčio įstatymas”. 2002 m. liepos 2 d. Nr. IX-1007. Žin., 2002, Nr. 73-3085

taxes and social insurance contribution (see Figure 13 and Annex 2). Again, interactions between the elements of tax-benefit system should not be overlooked.

To further illustrate the role income testing of cash social benefits plays in undermining work incentives in Lithuania, METR indicators are decomposed by tax-benefit element for those in receipt and not in receipt of cash social assistance (Figure 14). As mentioned above, cash social assistance is the major income-tested benefit in Lithuania, potentially contributing to high work disincentives among recipients due to its design and strict withdrawal with income.

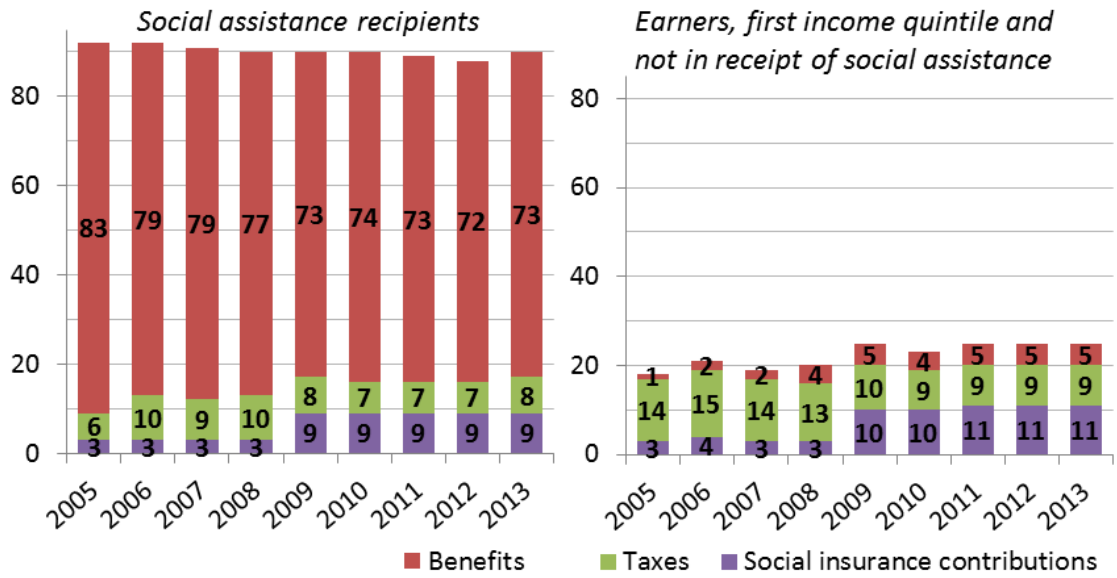

Figure 14. METR among individuals in receipt and not in receipt of social assistance, %

Source: authors' calculations using EUROMOD v. G1.0. Notes: Employer social insurance contributions not included. METR estimated among earners (those in receipt of employment or self-employment income) for a marginal increase in income by 3%. Income quintiles by equivalised household disposable income in the total population.

Figure 14 reveals high disincentives to work among social assistance recipients. Around 90% of the extra earned gross earnings is estimated to be taxed away through combined effects of withdrawal of cash benefits, direct taxes and social insurance contributions. As expected, withdrawal of cash social assistance is the dominant contributor into the total METR for those in receipt. The estimates are in line with the model-family based estimations on the effects of cash benefits for Lithuania reported by the UNDP (2010). Moreover, the *naïve* reduction in social assistance at nearly 100% rate of additionally earned income mitigated the effects of changes in other elements of the tax-benefit system with regard to work incentives for those in receipt of social assistance. For that reason, the potential of tax reforms to increase work incentives among social assistance recipients is limited in Lithuania, unless income disregards or other measures are introduced into the design of social assistance that ensure gradual rather than strict proportional withdrawal of cash social assistance benefits with additionally earned income.

On the other hand, the total METR among the earners in the lower quintile of the Lithuanian income distribution and not in receipt of social assistance were at substantially lower levels of around 20%-25% between 2005-2013 (see Figure 14). The total METR in this sub-group were at lower levels compared to the rest of the income distribution before 2009 and at similar levels thereafter. Direct taxes and social insurance contributions played a dominant role. As mentioned above, the introduction of means-testing into the design of child benefit in Lithuania since 2009 might have undermined work incentives for families with children with earning close to the income-test threshold.

Finally, it can be noted that while the latest estimates in the above graphs relate to 2013, there were no structural reforms in either the system of cash benefits, direct taxation or social insurance contributions in 2014 and 2015. Thus the distribution of METR for the latter years should be comparable to the estimates presented above for 2013 both with regard to levels and distribution across the income groups.

4.1.3. Model family indicators of work incentives for Lithuania

In this section, model family estimates are used to capture work incentives among specific family types in Lithuania: those with inactive, unemployed members or low-earners. EUROMOD-based and official readily available OECD/EC indicators are used and cross-validated to gain additional insight. Using EUROMOD for calculations also enables to decompose total indicators of work incentives to single out the effects of cash benefits on work incentives in Lithuania.

Table 3 shows the latest OECD/EC estimates of work incentives across the model family types. To remind, higher inactivity, unemployment and low wage traps indicate potentially lower incentives to increase one's labour supply at an extensive (getting into employment) or intensive (increasing the number of hours worked) margin.

Table 3. OECD/EC indicators of work incentives for Lithuania in 2013, % of extra gross earnings that is taxed away

	Single person	One-earner married couple	Two-earner married couple	Single parent	One-earner married couple	Two-earner married couple
	No children			2 children		
Inactivity trap[43]**.** *Transition of a family member from inactivity to employment at:*						
33% of AW	**62**	**91**	14	**84**	**82**	34
50% of AW	**50**	**75**	18	**64**	**83**	41
67% of AW	44	**63**	21	**62**	**84**	37
Unemployment trap[44]**.** *Transition of a family member from unemployment to employment at:*						
33% of AW	**102**	**102**	**102**	**97**	**97**	**102**
50% of AW	**77**	**77**	**77**	**73**	**73**	**86**
67% of AW	**64**	**64**	**64**	**68**	**61**	**71**
Low wage trap[45]**.** *Increase in family members' gross earnings:*						
33%-67% of AW	27	35	27	40	**85**	41
50% -100% of AW	27	27	27	36	**60**	27
67%- 100% of AW	27	27	27	27	46	27

Source: OECD http://www.oecd.org/els/benefits-and-wages-statistics.htm [last accessed on 25/05/2014]. Note: AW – gross average wage. Income levels sorted in ascending order. Traps over 50% in bold. Children aged 4 and 6, neither childcare benefits nor childcare costs

[43] The estimates relate to the situation of a person who is not entitled to unemployment benefits, instead, social assistance and other means-tested benefits are assumed to be available subject to relevant tests.

[44] The estimates relate to the situation of a person who has just become unemployed and receives unemployment benefits based on previous earnings equal to earnings in the new job. No social assistance "top-ups" or cash housing assistance are assumed to be available.

[45] Hourly earnings correspond to AW level (i.e. half-time employee has earnings equal to 50% of AW).

are considered. For married couples the percentage of AW relates to one spouse only; the second spouse is assumed to be 'inactive' with no earnings in a one-earner couple and to have full-time earnings equal to 67% of AW in a two-earner couple. Where receipt of benefits is subject to activity tests, these are assumed to be met.

Table 3 shows that among the analysed family types, single persons and members of the one-earner couples with or without children face high negative incentives to transition from inactivity or unemployment into employment. Two-earner married couples with or without children face high unemployment traps, while disincentives to seek work after the periods of inactivity are substantially lower. Low wage traps are above the 50% threshold only at lower wage levels among one-earner couples with two children according to the OECD/EC estimates.

Table 3 also shows that incentives to work tend to be higher for higher levels of earnings in Lithuania and lower for households with lower earning capacity. This confirms the above analysis of distribution of the METR across income groups in Lithuania. The regressive pattern of work incentives in Lithuania is also in line with the previous finding on the above EU-average prevalence of high METR at the bottom of the Lithuanian income distribution (Jara & Tumino 2013).

As discussed in the previous section, the regressive pattern of work incentives in Lithuania is mainly due to the system of personal income taxation and cash benefit withdrawal. Moreover, the gap between in-work income and cash benefit provisions was highlighted to be narrow for Lithuania (Zabarauskaite & Blaziene 2010, UNDP 2010). There are no in-work benefits or refundable tax credits aimed at increasing this gap. The latter is especially important for labour market transitions on an extensive margin, i.e. from inactivity or unemployment into employment. Hence, a combination of the Lithuanian system of income taxation, strict withdrawal of cash social benefits with income or employment and a narrow gap in levels of in-work income and cash benefit provisions in Lithuania create higher poverty, inactivity and low wage traps for those with lower earning capacity.

Several points of caution should be noted when discussing the OECD/EC work incentives indicators for Lithuania presented in the Table 3.

First, the OECD/EC indicators show high unemployment traps in Lithuania, especially at the lowest income levels (at 33% of average wage). High reported unemployment traps are contradicting numerous estimates showing low replacement rates of the unemployment benefits in Lithuania. For example, the net replacement rate of the social insurance unemployment benefit was estimated to be at 35% on average in 2010 when the benefit ceiling of around EUR 190 (LTL 650) was introduced (Lazutka et al. 2013a). Average unemployment benefit replacement rates over a one year period for low wages in the first quintile of the wage distribution were estimated to be at around 60% in 2010-2012 in Lithuania (Navicke 2015).

The estimates of the unemployment trap in Lithuania by the OECD/EC contradict to these findings as the estimates relate to the situation of a person who has just become unemployed and receives unemployment benefits at its initial rate. In Lithuania this relates to 3 initial months of unemployment benefit receipt, as the amount of the benefit is reduced thereafter and withdrawn altogether after 6-11 months depending on the previous contribution history and age.[46] On a substantial level, high replacement rates of the social insurance unemployment benefits at the initial stage of benefit receipt should not be problematic, even if present. While unemployment benefits can discourage job seeking and put upward pressure on wage levels, they also contribute to a more efficient match between the workers and jobs and prevent the waste of human capital in the long-run (see e.g. Carone et al. 2004).

Second, relatively low levels of low wage traps in Lithuania are unexpected, especially with regard to single parent families. High disincentives to increase work intensity among the households with children working at minimum wage was documented through the model family calculations for

[46] According to the following law: “Lietuvos Respublikos nedarbo socialinio draudimo įstatymas”. 2003 m. gruodžio 16 d. Nr. IX-1904. Žin., 2004, Nr. 4-26

Lithuania by the UNDP (2010). The analysis of the distribution of METR in the Lithuanian population presented above also suggest higher levels of low wage traps, especially for low income families with dependents eligible for social assistance receipt. Relatively low inactivity traps estimated by the OECD/EC for the mentioned groups require some caution when interpreting.

Third, it can also be noted that the levels of earning used in the model calculations, i.e. transitions to 2/3 or full average national wage and above, are over-optimistic when analysing the low-wage transitions in Lithuania. According to Statistics Lithuania (2015), around 20% of all employees worked at a minimum or below minimum wage in Lithuania in 2010-2013.[47] Hence, low wage transitions at half a minimum and a minimum statutory monthly wage would bring the analysis closer to the national context. The minimum wage was at around 45% of the gross average national wage in Lithuania in 2013, while within the period between 2005-2013 this fraction was at around 40%.[48] Moreover, including households with one child into this analysis would contribute to its external validity, while decomposing results to single out the role of cash social benefits would strongly contribute to the aim of this research.

Following these points of critique, the indicators of work incentives are estimated and decomposed using tax-benefit model EUROMOD. Alternative calculations provide a possibility to cross-validate estimates and gain additional insight. To ensure comparability, model families and income levels are defined in line with those used by the OECD/EC. In addition to the standard indicators, work incentives are reported for families with one child and for the income thresholds at half and full statutory minimum monthly

[47] Structure of employees by wage levels as of October: full and part-time employees at minimal monthly wage and below, % of all employees including individual firms. Estimates available for 2010-2013. Source: Statistics Lithuania (2015) Database of Indicators. Online resource: http://osp.stat.gov.lt/en/statistiniu-rodikliu-analize1 [accessed 27/07/2015]

[48] The author's calculations based on annual gross earnings [earn_nt_net] and averaged bi-annual data on monthly minimum wages [earn_mw_cur] in Lithuania. Source: Eurostat (2015c) [accessed 15/04/2015]

wage. Moreover, the estimates of the total levels of inactivity, unemployment and low wage traps are decomposed to identify the role of cash social benefits.

Table 4. EUROMOD-based indicators of work incentives for Lithuania in 2013, % of extra gross earnings (total / due to cash benefit withdrawal)

	Single person	One-earner couple	Two-earner couple	Single parent	One-earner couple	Two-earner couple	Single parent	One-earner couple	Two-earner couple
	No children			1 child			2 children		
Inactivity trap[49]**.** *Transition of a family member from inactivity to employment at:*									
50% MMW	**81/70**	**94/83**	10/0	**94/84**	**87/78**	21/10	**87/78**	**84/75**	19/5
33% AW	**63/48**	**94/79**	14/0	**92/88**	**88/75**	21/7	**87/78**	**84/75**	18/4
MMW	**53/35**	**81/63**	18/0	**75/58**	**89/72**	23/5	**88/74**	**85/71**	20/3
50% AW	**51/31**	**76/57**	19/0	**70/52**	**89/71**	23/5	**86/71**	**85/70**	30/12
67% AW	45/23	**64/42**	21/0	**63/43**	**76/56**	24/3	**71/53**	**86/68**	29/9
Unemployment trap[50]**.** *Transition of a family member from unemployment to employment at:*									
50% MMW	**81/70**	**99/88**	**58/48**	**98/89**	**95/86**	**70/59**	**95/86**	**94/85**	**62/49**
33% AW	**63/48**	**98/83**	**51/37**	**96/83**	**94/81**	**58/44**	**94/84**	**92/82**	**52/37**
MMW	**53/35**	**84/66**	**47/29**	**78/61**	**94/77**	**52/34**	**93/79**	**91/77**	**47/29**
50% AW	**51/31**	**78/59**	**45/26**	**73/55**	**93/75**	**50/31**	**90/75**	**91/75**	**55/36**
67% AW	45/23	**66/44**	41/21	**65/45**	**80/59**	45/24	**75/56**	**90/72**	**48/28**
Low wage trap[51]**.** *Increase in family members' gross earnings:*									
50 to 100% MMW	26/0	**69/43**	25/0	**57/32**	**90/65**	25/0	**89/70**	**86/68**	22/0
33 to 67% AW	28/0	34/6	27/0	35/7	**65/37**	27/0	**56/28**	**88/60**	40/14
50 to 100% AW	28/0	28/0	27/0	32/5	36/8	27/0	37/9	**51/23**	27/0
67 to 100% AW	28/0	28/0	27/0	28/0	35/7	27/0	42/14	31/4	27/0

Source: authors' calculations using EUROMOD v. G1.0

Notes: MMW – gross monthly minimum wage, AW – gross monthly average wage. Income levels sorted in ascending order. Traps over 50% in bold. Children are aged 4 and 6, neither in-kind childcare benefits nor childcare costs are considered. For married couples the wage relates to one spouse only; the second spouse is assumed to be 'inactive' with no earnings in a one-earner couple and to have full-time earnings equal to 67% of AW in a two-earner couple. Where receipt of benefits is subject to activity tests, these are assumed to be met.

Comparison of the two sets of indicators in Table 3 and Table 4 shows that the EUROMOD based indicators of work incentives are to a large extent

[49] The estimates relate to the situation of a person who is not entitled to unemployment benefits, instead, social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions.

[50] Average annual unemployment traps with an unemployment duration of one year assumed, person receives unemployment benefits based on previous earnings equal to earnings in the new job. Eligibility for social assistance according to statutory rules, active job search requirement is assumed to be met.

[51] Hourly earnings correspond proportionally to the AW or MMW levels throughout.

consistent or even identical to those reported by the OECD/EC. Consistently among both groups of estimates, higher unemployment, inactivity and low wage traps are observed at lower income levels. Both models produce nearly identical results for inactivity traps among families with no children and for low wage traps. There are, however, important differences when looking at unemployment traps and for inactivity traps among families with children. These are discussed below in turn.

First, Table 4 shows considerably lower unemployment traps for dual earner households and singles without children, i.e. in situations when social assistance system does not interact or interacts to a lesser extent with contributory unemployment benefits. The total unemployment traps of 40%-60% in Table 4 are lower compared to those shown by the OECD/EC estimators and are better in line with the previous research on low generosity of unemployment benefits in Lithuania. As mentioned, the difference is due to EUROMOD estimations showing average annual unemployment traps. This reveals disincentives to seek work in a longer one-year timeframe – the period when high unemployment traps are of more concern compared to the initial unemployment period.

On the other hand, higher disincentives to seek employment are estimated for single parents and single earner couples with children. This reveals interaction between the systems of unemployment benefits, social assistance and also child benefits at higher income levels. Again, the interaction is of particular importance after the initial period of unemployment, as unemployment benefit gets reduced after 3 months and terminated after 6-11 months of receipt.[52]

Second, the EUROMOD-based indicators of inactivity traps for Lithuania are largely consistent with those reported by the OECD/EC. However, substantially higher inactivity traps are estimated for single parents with children for transitions at 50% of average wage and above. Similar to the

[52] According to the following law: “Lietuvos Respublikos nedarbo socialinio draudimo įstatymas”. 2003 m. gruodžio 16 d. Nr. IX-1904. Žin., 2004, Nr. 4-26

previous case, EUROMOD better captures the effect of social assistance and child benefit withdrawal for single parents. On the other hand, somewhat lower inactivity traps are estimated for dual-earner families with two children. This might be due to the fact that the OECD/EC indicators incorporate indirect compensations for school lunches and teaching materials for pupils, while EUROMOD estimates only include benefits and taxes that directly affect household disposable income.

Furthermore, the complementary indicators of the work incentives at additional levels of income highlight the regressive effect of the Lithuanian tax-benefit system on work incentives. The inactivity and unemployment traps at half a minimum wage and low wage traps for transitions between half a minimum and a minimum wage are at the highest levels compared to virtually all other family and income situations. This reveals economic unattractiveness of half-time employment in Lithuania, especially for single individuals and people with dependent household members or children. As noted above, a combination of a narrow gap in levels of wages and cash benefit incomes in Lithuania, and inexistence of a wider system of income disregards in social assistance contribute to this phenomenon. The work incentives in the complementary family types with one child are largely consistent with those in families with two children, except of lower low wage traps for single parents with children and lower inactivity traps for the same family type at earnings level at or above the minimum statutory wage.

Decomposition of the total levels of the inactivity, unemployment and poverty traps in Table 4 reveals the dominant role of cash social benefits at creating disincentives for those not in work or on low wages in Lithuania. Again, this highlights a trade-off between adequacy of cash social benefit provisions for the able-bodied working age adults and work incentives in Lithuania, both due to design of the cash social benefit system and its components, as well as to low levels of earning in Lithuania. This challenging situation was pointed out as ‘the glass ceiling of minimum income protection’ – a situation when disposable income of low wage earners are at the levels below or about the minimum incomes for jobless persons (Cantillon et al. 2015, p. 8). The challenge for policy design is to encourage and promote active labour market participation through ensuring sufficient work incentives for low earners without eroding the minimum income protection floor.

Finally, work incentives in different family types are analysed looking at their changes over time. The period of 2005-2013 is decomposed into two sub-periods of 2005-2009 and 2009-2013. The former period was characterized as a period of expanding generosity of the system of cash social benefits, while the latter period can be characterized as a period of austerity – with cuts on cash benefits (Ivaškaitė-Tamošiūnė 2013).

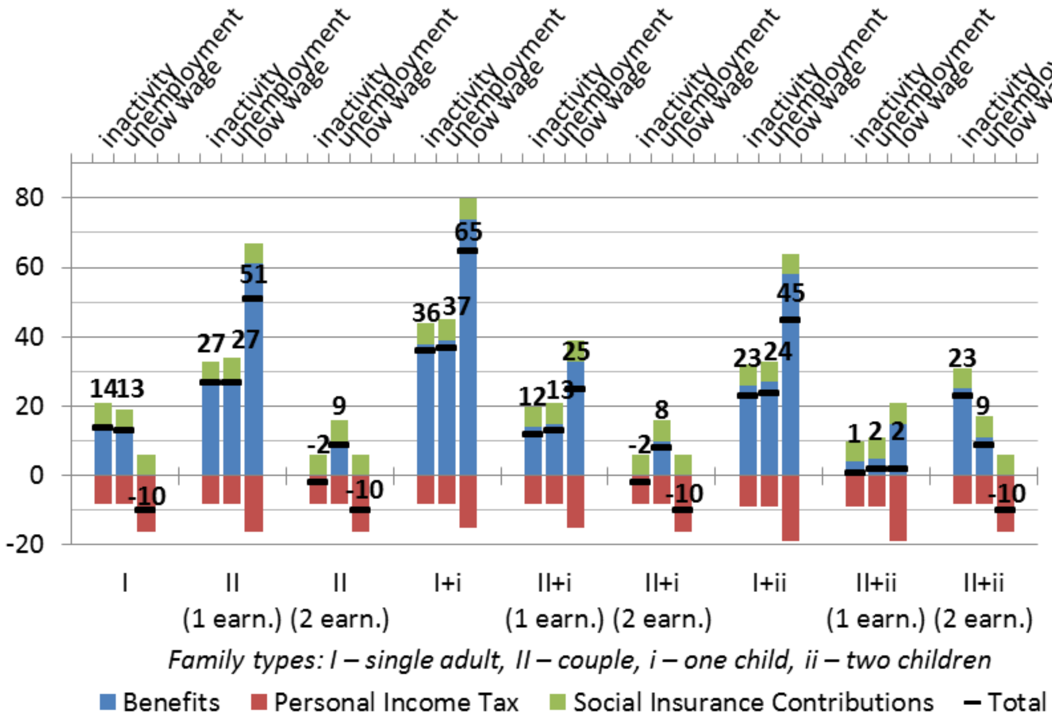

Figure 15. Change in the work incentives between 2005-2009: inactivity, unemployment and low wage traps by family type, %

Source: authors' calculations using EUROMOD v. G1.0

Note: Number of earners in brackets. Inactivity and unemployment traps estimated as in Table 4 for the transition to monthly minimum wage; low wage traps estimated for transition between half a minimum and a minimum monthly wage.

Figure 15 shows increase in inactivity, unemployment and low wage traps in the majority of family types between 2005-2009. Changes in cash benefits played the dominant role compared to deductions of the personal income tax and social insurance contributions. The increase in levels of cash benefits in Lithuania between 2005 and 2009 resulted in increasing disincentives to work. This highlights the design of the system that embeds a trade-off between the adequacy of the system and work incentives. Indeed, between 2005-2009 the minimum wage increased by around a half in Lithuania from around EUR 152 (LTL 525) to EUR 232 (LTL 800).[53] At the same time state supported income which is the base for estimation of both social assistance and for the basic part of unemployment benefits increased rapidly in nominal terms from around EUR 40 (LTL 135) in 2005 to around EUR 100 (LTL 350).[54] The observed increase in work incentives due to benefit withdrawal was not homogenous among groups – with highest changes for those with income levels close to the minimum wage level and eligible for assistance and/or unemployment benefits. These were single parents with one or two children and one-earner couples.

Figure 16 (below) shows a different picture of dynamics of work incentives for the period of 2009-2013, although the role of benefits was again dominant. The cuts on benefits in conjunction with the growing minimum wage levels widened the gap between the two, resulting in decrease in inactivity, unemployment and low wage traps in most family types included into the analysis. Indeed, the minimum statutory wage level was further increased by 25% to around 290 EUR (1000 LTL) between 2009-2013.[55] At the same time, the adequacy of social cash benefits reduced during the period, especially in scope of the temporary austerity measures effective since 2010[56]

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[53] According to the resolution of the Government of the Republic of Lithuania: “Lietuvos Respublikos Vyriausybės nutarimas dėl minimaliojo darbo užmokesčio didinimo”. 2007 m. gruodžio 17 d. Nr. 1368. Žin., 2007-12-28, Nr. 137-5592

[54] According to the resolutions of the Government of the Republic of Lithuania: „Dėl valstybės remiamų pajamų dydžio patvirtinimo“ Nr. 696 (Žin., 2005, Nr.80-2900), Nr. 1 (Žin.2006 , Nr.3-25), Nr. 934 (Žin., 2006 , Nr.104-3969), Nr. 1217 (Žin., 134-5087, Nr.), Nr. 824 (Žin., 2007, Nr.91-3633), Nr. 1328 (Žin., 2007, Nr. 135-5472), Nr. 538 (Žin., 2008, Nr. 67-2531).

[55] According to the resolution of the Government of the Republic of Lithuania: “Lietuvos Respublikos Vyriausybės nutarimas dėl minimaliojo darbo užmokesčio didinimo”. 2012 m. gruodžio 19 d. Nr. 1543. Žin., 2012-12-22, Nr. 152-7772

[56] According to the following law “Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas”. 2009.12.09 Nr. XI-537. Žin., 2009, Nr. 152-6820.

and social cash benefit reform in 2012[57] (for detail see Section 2.2). Thus the positive effect on work incentives between 2009-2013 was to a major extent achieved through decreased adequacy of benefits relative to minimum wages, rather than by an improved cash benefit design.

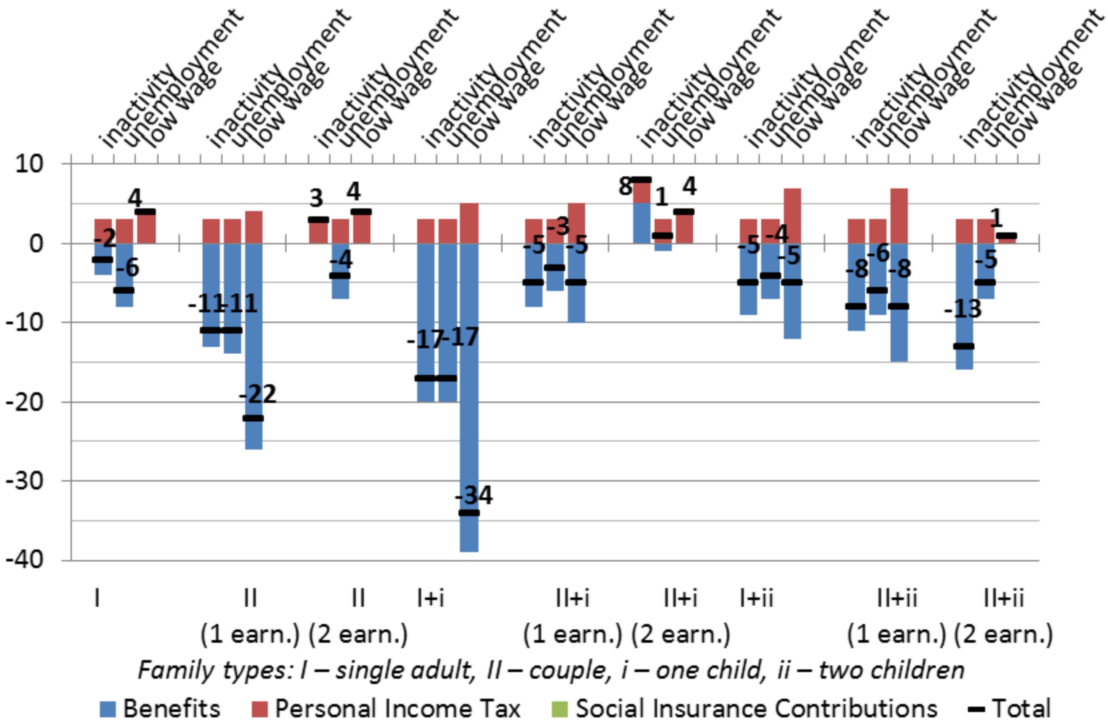

Figure 16. Change in the work incentives between 2009-2013: inactivity, unemployment and low wage traps by family type, %

Source: the author's calculations by using EUROMOD v. G1.0

Note: Number of earners in brackets. Inactivity and unemployment traps estimated as in Table 4 for the transition to monthly minimum wage; low wage traps estimated for transition between half a minimum and a minimum monthly wage.

Last, but not least, Figure 16 reveals that single parents and one earner couples were again affected most, which highlights high sensitivity of work incentives in these family types for changes in wage levels and levels of cash benefits. The volatility of benefit levels in respect to the minimum wage in Lithuania highlights *ad-hoc* nature of their changes due to the absence of indexation rules in Lithuania.

[57] According to the following law: "Lietuvos Respublikos piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymo pakeitimo įstatymas". 2011 m. gruodžio 1 d. Nr. XI-1772. Žin., 2011-12-20, Nr. 155-7353

4.1.4. Conclusions

In this section, the disciplinary role of the Lithuanian cash benefit system was analysed, focusing on its effects on work incentives at the bottom of the income distribution and among the vulnerable family types.

The analysis showed that while incentives to work more are relatively high at the middle and upper part of the Lithuanian income distribution, these are substantially lower for people in the lower income quintile. Such regressive profile of work incentives is due to a combination of strict withdrawal of cash social benefits with income or employment, a narrow gap between in-work income and cash benefit provisions for low earners with children, flat-rate system of personal income taxation (except of tax allowances) and social insurance contributions. High disincentives to work at the bottom of the Lithuanian income distribution are dominated by the effect of cash social benefits, while effects of taxes and social insurance contributions on work incentives are limited.

A strong trade-off was noted between work incentives and adequacy of the unemployment benefits and social assistance payments for the able-bodied working age adults in Lithuania. The design of cash benefit system and its components result in negative effects on work incentives with increasing benefit levels and *vice versa*. This was the case during the period of expanding benefit generosity between 2005-2009 in Lithuania and during the cuts on benefits caused by the financial crisis. The challenge is to encourage and promote active labour market participation through ensuring sufficient work incentives for low earners without eroding the minimum income protection floor.

Social assistance is a prime income-tested element of the system with strong negative effects on work incentives at the bottom of the income distribution. The total negative work incentives associated with receipt of social assistance amounted to around 90% of the extra gross earned income within the period of 2005-2013. *Naïve* nearly one-to-one withdrawal of cash social assistance with additionally earned income not only undermines work incentives of its recipients. It also limits the possibilities to encourage labour market participation among social assistance recipients though other components of tax-benefit system (e.g. direct taxes), unless a wider system of income disregards, in-work benefits, tax credits or other measures are introduced into the Lithuanian tax-benefit design. This and other interactions between the elements of tax-benefit system are important for the total levels of work incentives and should not be overlooked.

As far as the distribution of work incentives among different family types is concerned, single parents and sole earners with dependent family members are subject to the highest inactivity, unemployment and low wage traps in Lithuania. This is especially true when earning capacity of the single parent or sole earner in the family is below or around a minimum wage. Such families are also most sensitive to *ad-hoc* changes in cash social benefits levels relative to wages. Absence of indexation of cash benefits and minimum wages in Lithuania contributes to this volatility.

Finally, the analysis demonstrated an added value of using alternative measures of work incentives from different sources. The OECD/EC model family indicators of work incentives provide important insights into functioning of the tax-benefit system. Nevertheless, the Lithuanian estimates for single parents and unemployment traps should be treated with caution. EUROMOD based estimates are better in line with previous research on unemployment traps and situation of single parents. Moreover, the model provides a lot of flexibility for analysis: a possibility to use both representative population sample and variety of model family types, to estimate work incentives at both extensive and intensive margins of labour supply, to disaggregate total work incentives by income components.

4.2. The redistributive role: protection against income shocks and risks

As it was stressed in Section 1.5.2, the redistributive role of the cash social benefits in the context of poverty reduction is associated with its protective capacity. With regard to income poverty, this includes ensuring minimum income for the poor as well as mitigating income shocks and risky life-course transitions that may potentially drive people into poverty. The review of the poverty research in Section 2.3 showed that redistributive role of cash social benefits was analysed in a number of studies in Lithuania (e.g. Lazutka et al. 1999, Zabarauskaitė 2008, Šileika & Tamašauskienė 2003, Lazutka et al. 2008, Lazutka 2014). The analysis is however dominated by cross-sectional research with a focus on poverty prevalence among different groups, incidence of at-risk-of-poverty rate before and after social transfers and analysis of the impact of different factors on poverty prevalence. The protective effects of the Lithuanian cash benefit system with regard to income shocks and life course transitions were however little studied. Evidence available in this area in Lithuania mainly includes the analysis of the cash benefit replacement rates and benefit coverage. As the longitudinal EU-SILC becomes available, more attention can be given to the protective role of the cash social benefit system by analysing poverty transitions, spells and poverty trigger events.

The motivation for investigating the protective role of cash social benefits from a longitudinal perspective is, however, not restricted to the fact that longitudinal poverty analysis in Lithuania is underdeveloped. On the substantial level, dynamic poverty analysis helps get closer to understanding the causes of poverty rather than treating poverty symptoms and can facilitate the development of more effective policy design (Alcock 2004, Jenkins 2011). For example, changes in poverty prevalence may indicate either fewer transitions into poverty, or more transitions out of poverty, or both. Knowledge on the most common triggers associated with poverty entries and exits can inform the design of social policies that prevents, facilitates or protects against these transitions, including social cash benefits. For example, conditional cash benefits, in-kind provisions and services may be argued to be more appropriate for long-term working age poor, while unconditional cash benefits may help effectively mitigate shorter poverty spells without undermining recipients' autonomy or causing stigma or problems of benefit non-take-up.[58]

Moreover, the study of poverty dynamics highlights the inter-temporal distributional aspect of cash social benefit system. Extending time horizon beyond a one year timeframe is a powerful tool for demonstrating that poverty is more fluid and universal phenomenon than conventional poverty statistics show. Dynamic poverty research starting with the pioneering study of poverty spells in the US by Bane & Ellwood (1986 cited in Jenkins 2011) consistently demonstrated that poverty affects wider groups of populations within a period of several years compared to a cross-sectional snapshot of poverty incidence in every single year. The evidence on the degree of movement in and out of poverty and the role of cash benefit system in preventing poverty entries is instrumental in building wider consensus on the importance of the redistributive function of cash social benefits.

Hence, the aim of this section is to analyse the protection provided through the Lithuanian cash benefit system in cases of income shocks and life-course transitions.

Income shocks and life-course transitions are identified following Jenkins (2011), borrowing and expanding on his approach. Distinction is made between income-related poverty triggers and life course transitions, separating the latter between demographic and labour market events. Measurement methodology is discussed in detail in Section 4.2.1.

The discussion of obtained results starts with a general overview of poverty dynamics in Lithuania, which sets further analysis in context and helps identify the level of poverty persistence and its spread in the Lithuanian population (Section 4.2.2). Section 4.2.3 is focused on income shocks and life-course events driving poverty transitions in Lithuania and the role of cash

[58] For a discussion on Lithuania see e.g. Žalimienė & Dunajevas (2014).

social benefits in mitigating those risks. The empirical analysis is based on the longitudinal component of the Survey on Income and Living Conditions (SILC) for Lithuania for the period of 2005-2013.

4.2.1. Measurement: poverty persistence, transitions and triggers

This section outlines the methods used for identifying poverty persistence, transition patterns, main poverty triggers and the role of cash social benefits in mitigating those.

The analysis starts with a general look at poverty dynamics in Lithuania, aiming at complementing previous knowledge on poverty persistence, recurrence and spread in Lithuania. The notion of within, between and overall variation of poverty spells is utilized. From a longitudinal perspective individuals are systematically different from each other (between-individual variation), individual characteristics also vary across years (within-individual variation). The overall variation depicts the combination of the two. The conventional analysis of the current at-risk-of-poverty figures picks up only between-individual variation, but misses across-years dynamics. The current at-risk-of-poverty rates may create a false picture of a fixed and stagnating fraction of the population being poor from one year to another, contributing to low public and political support for income maintenance policies, cash benefits in particular.

Longitudinal at-risk-of-poverty rate is then defined as a fraction of people at-risk-of-poverty in at least one of the four years available in the panel dataset (Layte & Whelan 2002). The longitudinal at-risk-of-poverty measure gives insights into the spread of poverty in the population extending the period of analysis to four years available in the EU-SILC panel, rather than current at-risk-of-poverty rates conventionally referred to in the official poverty statistics.

While longitudinal at-risk-of-poverty measure gives insights into the spread or concentration of poverty in the population, additional measures are required to get a better picture on poverty persistence. Complimentary to the official figures on persistent at-risk-of-poverty rates published by Eurostat, a more detailed distribution of poverty spells by lengths and household characteristics is presented. Selected household types are based on the characteristics recorded in the first year of the panels and are similar to those chosen by Jenkins (2011).

Next events triggering both poverty entries and exits are explored. Poverty triggers are defined as changes in household characteristics that coincide with poverty transitions. As concluded by Smith & Middleton (2007, p. 43 in Jenkins 2011) there is no strict categorization of poverty triggers in literature. Rather it is defined depending on research questions and data availability. For the purpose of this analysis, we aim to distinguish between income-related and life-course triggers, separating the latter between demographic and labour market events. The triggers are also identified based on the function prescribed to cash social benefits (i.e. unemployment, old-age, survivor, sickness, disability, education, family/children).

In addition, poverty transitions due to changes in the at-risk-of-poverty line are singled out. A shift in the poverty line is considered to be a trigger into (out of) poverty in a situation when household disposable income increases (decreases), though in absolute terms the change is below that observed in the poverty line and there is no change in the household structure. In effect, the trigger is associated with marginal changes in income and can be called a 'non-event', as opposed to 'true' demographic and income-related poverty transitions. On the other hand, a high degree of poverty transitions among benefit recipients due to the changes in poverty line may indicate their high concentration near the at-risk-of-poverty line and a lack of indexation of cash benefit system to growth in income in the general population.

In cases when there are several events observed simultaneously in the data, these are analysed assuming they are mutually exclusive or non-exclusive. Both methods are used in the following analysis. According to Jenkins (2011), the two methods were pioneered by Bane and Ellwood and first applied to the US data in 1970s and 1980s. In case of mutually non-exclusive events, each of them is assumed to be associated with observed poverty transitions. For example, if there is a new dependent member in the household and a simultaneous decrease in work-related income that coincides with a poverty entry, both events are interpreted as triggering poverty transition. In the second case, the notion of mutually exclusive trigger events is based on assumption of a hierarchy of triggers. For example, Jenkins (2011) argues that the change in the demographic structure of the household is particularly important and drives further behavioural changes and changes in income. Hence, the change in the household structure, i.e. arrival of a new dependent member (e.g. child birth), would be interpreted as a trigger event that resulted in decreased work intensity in the household and, respectively, dragged the household into poverty.

One advantage of identifying mutually non-exclusive events is that the common effect of all mutually exclusive triggers sums up to 100% of poverty exits or entries in the population. It is therefore easier to interpret the relative importance of a single trigger or a group of triggers for poverty transitions. The non-exclusive events, on the other hand, help release the assumptions used when constructing the hierarchy of the mutually exclusive trigger events.

To sum up, a hierarchy of poverty trigger events is constructed (see Figure 17) in line with Jenkins (2011), i.e. demographic events appear above the labour-market and income-related events. An important addition to methodology is the identification of poverty transitions due to changes in the at-risk-of-poverty line itself. Furthermore, the hierarchy distinguishes trigger events in line with cash benefits' functions, i.e.: unemployment, old-age, death, disability, education, illness, increased child needs. Housing needs and social exclusion are not included when analysing poverty transitions as it is difficult or impossible to identify related trigger events from the data.

Several notions need to be clarified in Figure 17 (below). First, the definition of the household head is used in the above hierarchies as recommended by Eurostat[59] – a person above the age of 15 which contributes most to the total household income and eldest in case if there are several such

[59] See EU-SILC descriptions of target variables:
http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions

individuals in the household. The notion of contributor *versus* dependent member of the household is defined based on whether the arrival or departure of the person results in an increase (for dependents) or decrease (for contributors) in household 'needs' compared to the concurrent change in income. 'Needs' are operationalized using proportional change in the households' equivalence scale. Finally, the priority of income trigger events is identified by their absolute magnitude. All identified changes in income are negative for poverty entries and positive for poverty exits.

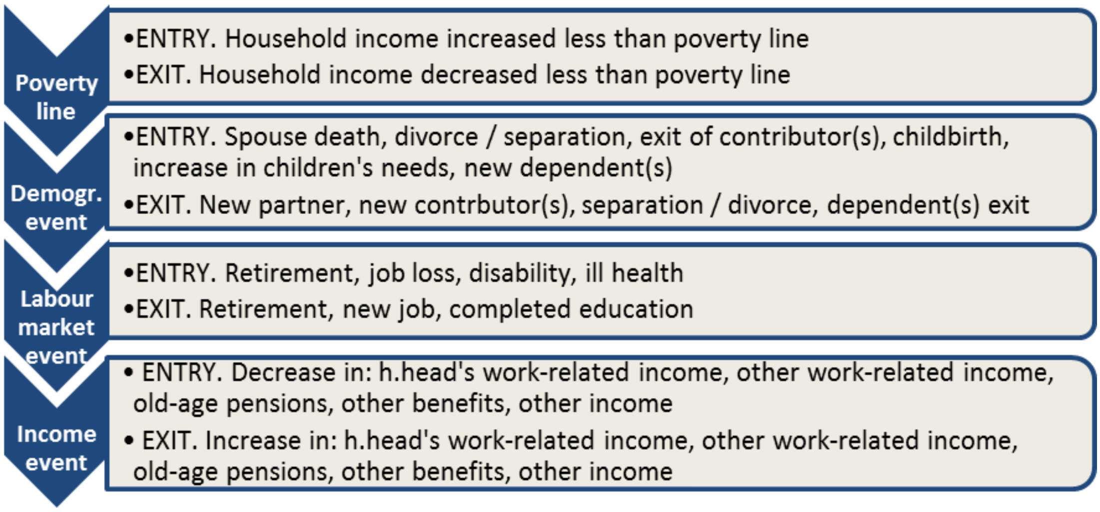

Figure 17. Hierarchy of mutually exclusive poverty trigger events

Source: compiled by the author.

Note: Work-related income includes employment and self-employment income.

Finally, the significance of the analysed poverty trigger events is statistically tested. As it was noted, the construction of the poverty trigger hierarchy requires assumptions on importance of triggers for poverty transitions. The analysis of the overlapping trigger events has a drawback of being less informative, as it is not evident what triggers overlap and to what extent. Both methods do not control for differences in the structure and other characteristics of households experiencing the trigger events, neither for the exogenous factors that may have implication on poverty transitions.

To control for the coinciding poverty triggers and test their individual significance logistic regression model with random effects is applied in the final stage of the analysis. The dependent variable in the model is a probability of entering poverty. Independent variables include insured as well as uninsured trigger events and changes in different sources of income. Control variables used in the specification of the model are in line with those commonly used in literature (e.g. see Canto 2003, McKernan and Ratcliffe 2005). Additional controls are included to single out the effects of cash social benefit receipt and exogenous characteristics, such as changes in poverty line.

With regard to limitations, current analysis performed on the pooled data for the period of 2005-2013 in Lithuania reflects the poverty dynamics smoothed over the economic cycle. A detailed analysis of poverty transitions during the economic boom, recession and recovery in Lithuania, while not included here, has strong potential for providing additional evidence and insights. While analysis of the poverty trigger events comes close to the understanding the causes of poverty, accompanying rather than causal effects should be assumed, since exact timing of events and transitions is difficult to verify in the annually collected SILC data. The four-year SILC panels are also limited in duration. Despite this, the section demonstrates potential of dynamic poverty analysis for providing valuable insights into the role cash social benefits play in protecting against risks and preventing poverty in Lithuania.

4.2.2. Poverty dynamics: high incidence and rotation of the poor

The general patterns of poverty dynamics in Lithuania from a longitudinal perspective over the period of 2005-2013 are described in Table 5. The table is based on the concepts of overall, between-individual and within-individual variation observed in the panel data. Between-individual variation reflects the difference of characteristics between all individuals observed in particular year, while within-individual estimates show the extent of variation of characteristic of individuals across years. The overall variation depicts the combination of the between and within variation of the poverty status of all individuals across all years. Table 5 also provides the information on the total number of observations (68.6 thousand) and individuals traced (21.4 thousand) in the pooled longitudinal UDB SILC data.

Table 5. Overall, between-individual and within-individual variation of non-poor and poor spells, 2005-2013 SILC

	Non-poor, %	Poor, %
I. Overall time across all observations spent:	81.5	18.5
II. At least 1 year of observed time spent:	93.3	33.8
III. Average time individuals of group II spent:	87.3	54.7
Number of observations:	*68,645*	
Number of individuals traced:	*21,387*	

Source: the author's calculations based on the pooled UDB SILC panels 2005-2013.
Note: Poor defined as those at-risk-of-poverty using a threshold of 60% median equivalised disposable income. Full unbalanced panel, weighted estimates.
Variation: I – overall, II – between-individual, III – within-individual.

Patterns presented in Table 5 show that 81.5% of the overall time across all individuals and years observed in the data was spent above the at-risk-of-poverty line and 18.5% of time below it. Around 93% of observed individuals spent at least 1 year being non-poor out of any four consecutive years recorded in the panel SILC data. Correspondingly, it was only around 7% of individuals on average who spent all time below poverty threshold in the SILC panels covering the period of 2005-2013. Those who spent at least one year above the poverty threshold were non-poor for around 87% of observed time. Furthermore, around a third of the population (33.8%) spent at least one of any consecutive four years below at-risk-of-poverty line at 60% of the median equivalised disposable income. The latter figure is referred to as a longitudinal at-risk-of-poverty rate. Among those who spent at least one year at-risk-of-poverty, an average duration of poverty spells was 54.7% of any consecutive four-year periods, i.e. 2.2 years.

Hence, if the period of the poverty analysis is extended to four years rather than a current year snapshot, there was a small minority of those who spent all the time in at-risk-of-poverty (around 7%) and a wide group – around a third of all observed individuals on average – who experienced at least one at-risk-of-poverty spell within any consecutive four-year periods observed in the EU SILC data of 2005-2013. These figures show substantial rotation within the population of the poor in Lithuania. A high degree of vulnerability to poverty highlights the importance of income protection measures for a potentially large fraction of the Lithuanian population, cash social benefits in particular. It is worth noting that the above figures incorporate risk-mitigating effect of the Lithuanian cash benefit system, as all estimates are based on the total household disposable income after social benefits.

To put into a broader context, the prevalence of the longitudinal at-risk-of-poverty rate can be compared to the current at-risk-of-poverty rates at different thresholds as recorded in official statistics. Table 6 (below) shows that the fraction of people who spent at least one of any consecutive four years in at-risk-of-poverty was at around 15% (at 40% median poverty line), 24% (at 50% median poverty line) and 33.8% (at 60% median poverty line). The table reveals three important differences between the current and longitudinal at-risk-of-poverty rates in Lithuania: levels, variance and trends.

Table 6. Total current and longitudinal at-risk-of-poverty rates, 2005-2013

	40% median	50% median	60% median
Current at-risk-of poverty rates:			
2005	8.7	14.3	20.5
2006	8.3	13.2	20.0
2007	7.1	12.3	19.1
2008	7.0	13.7	20.0
2009	6.8	12.5	20.3
2010	10.1	14.6	20.5
2011	8.3	13.0	19.2
2012	6.5	11.3	18.6
2013	6.7	13.1	20.6
Average current [A]:	***7.7***	***13.1***	***19.9***
Std. Dev.	*1.20*	*1.02*	*0.72*
Longitudinal at-risk-of-poverty rates:			
2005-2008	12.7	20.7	31.5
2006-2009	12.8	23.1	33.4
2007-2010	14.7	25.2	33.6
2008-2011	17.6	28.2	40.0
2009-2012	17.2	25.9	34.1
2010-2013	14.9	21.0	30.1
Average longitudinal [B]:	***15.0***	***24.0***	***33.8***
Std. Dev.	*2.09*	*2.95*	*3.40*
Ratio [B/A]	**1.9**	**1.8**	**1.7**

Source: Eurostat for current at-risk-of-poverty rates at different thresholds; else: the author`s calculations based on the pooled UDB SILC panels for Lithuania 2005-2013.

Notes: Poverty threshold as % of the median equivalised disposable income; full unbalanced panels, weighted estimates; simple arithmetical averages.

First, longitudinal at-risk-of-poverty rates as measured across any consecutive four years, are higher compared to the current at-risk-of-poverty rates by a factor of 1.7 to 1.9. The latter ratio is higher for lower poverty thresholds, indicating more rotation within groups with lower income.

Second, current at-risk-of-poverty rates fluctuate less around their respective averages (standard deviation of 0.7-1.2 p.p.), pointing to a balanced number of year-on-year poverty entries and exits. On the other hand, the longitudinal at-risk-of-poverty rates are more volatile at all thresholds (standard deviation of 2.1-3.4p.p.). This reveals the changes in degree of rotation within the population of the poor within four-year periods observed in the SILC panels. Panels with largest downward deviations from the mean longitudinal at-risk-of-poverty rate indicate the years with more stable population of the poor, while those with the highest deviations reflect more volatile periods.

Third, and related to the previous point, no significant changes show up in the total current at-risk-of-poverty rates within the period of 2005-2013, in spite of the rapidly changing economic situation. In the meantime, the longitudinal at-risk-of-poverty rates increased sharply at all thresholds in 2008-2011 SILC panel, revealing a high degree of vulnerability to poverty and rotation in the population of the poor in Lithuania. Among other factors, this points towards the weakness of social protections mechanisms and lack of its counter-cyclical effect during the recent economic crisis.

Putting the above estimates for Lithuania in context, the longitudinal-current at-risk-of-poverty rate at 60% of the median is slightly below the average ratio of 1.8 reported by Layte & Whelan (2002) for the selection of the 11 EU member states. It should be however noted that the prevalence of the current at-risk-of-poverty rate for their period of reporting was at the level comparable to the one observed for Lithuania only in the countries of Southern Europe (Greece, Spain, Portugal, Italy) and the liberal UK and Ireland. While the longitudinal estimates for Lithuania reveal a wider spread of the relative income poverty in the population than conventionally shown by the current at-risk-of-poverty rates, the numbers are in line with longitudinal at-risk-of-poverty rates estimated for other countries and similar to Southern European and liberal welfare regimes.

The aggregate longitudinal poverty rates, while informative, hide substantial differences in the levels of persistence of the relative income poverty and its prevalence across groups. As noted in the introduction of the section, both are important for designing income maintenance systems, cash social benefits in particular. Table 7 shows that the population that experienced at least one at-risk-of-poverty spell as observed in the panel SILC data was about equally split between those experiencing poverty spells of one, two and three to four years. Hence, poverty is transient rather than long-term experience for the majority of those poor. The patterns of poverty persistence also differ by household type (see below).

Table 7. Durations of at-risk-of-poverty spells by household characteristics in 2005-2013, %

Years spent in poverty:	None	One	Two	Three/four
All individuals	66.2	12.5	9.3	12.0
Household type:				
Pensioner couple	83.3	10.4	4.7	1.6
Single pensioner	38.9	16.5	19.8	24.8
Couple with children	65.4	13.6	10.8	10.2
Single with children	36.6	13.6	13.3	36.5
Couple, no children	70.5	11.3	6.9	11.3
Single, no children	48.2	12.0	8.7	31.1

Source: the author`s calculations based on pooled UDB SILC panels for 2005-2013.
Notes: Full unbalanced panels; left and right censored spells included; weighted estimates. Household type as recorded in the first year of survey. Pensioners identified based on their reported economic status and income from pensions in the household. Categories of couples and singles with/without children exclude pensioners.

With regard to poverty dynamics among different household types, couples versus singe-adult households can be distinguished. Couples – both pensioner and non-pensioner – were the group most resilient to the relative income poverty within the analysed time window. Pensioner couples appeared to be among those with the lowest probability of experiencing at-risk-of-poverty spells, followed by couples with no children, i.e. around 80% of pensioner couples and 70% of couples with no children had no recorded poverty spells within the four-year panel SILC datasets covering the period of 2005-2013.

On the other hand, single households did worse than the population average, with the highest shares of single parents with children (around 63%), single pensioners (around 61%) and single adults with no children (around 52%) who experienced at least one episode of the relative income poverty. The persistence of the relative income poverty is high among all three later groups, with a quarter to about a third of single households experiencing three or four years of the relative income poverty within the observed time windows. Single pensioners can be noted as a group being more prone to transient poverty, with more than a third experiencing shorter 1-2 year poverty spells. Households with children are more likely to experience poverty spells compared to similar household without children. Substantial differences in poverty persistence and dynamics among couples *versus* single-adult households demonstrate the importance of family support as the means of mitigating income shocks in spite of the tendencies of individualisation in the sphere of social protection.

To sum up, the evidence presented above reveals that the relative income poverty is not contained to a fifth of the Lithuanian population as conventionally shown by the current at-risk-of-poverty estimates at 60% of the median equivalised income. Substantially higher at-risk-of-poverty level at 33.8% observed in the 2005-2013 SILC panels highlights the vulnerability of people to the relative income poverty in Lithuania. The share of those trapped in poverty for at least four years in a row was at around 7%. Hence, for the majority of those in at-risk-of-poverty it is a transient rather than long-term experience. Vulnerability to poverty and rotation within the population of the poor was especially high during the years of rapid economic growth and the onset of the economic crisis in Lithuania as shown by the EU-SILC data of 2008-2011. Analysis of poverty spells by characteristics of the household suggests that income support within the immediate family plays an important role. The evidence points towards a need of extensive social protection mechanisms in Lithuania, targeted at the wide groups of population facing transient as well as longer-term poverty spells, including single-adult households and households with children. Further on, we look at poverty triggers and the role cash benefits play in preventing poverty entries and facilitating poverty exits in Lithuania.

4.2.3. Poverty triggers and protective role of cash social benefits

The focus in this section is on the population going through poverty transitions – either entries or exits. Knowledge on the most common triggers associated with poverty entries and exits can inform the design of social policies that prevent, facilitate or protect against these transitions, cash social benefits in particular. Table 8 and Table 10 provide a detailed breakdown of the poverty triggers distinguishing between the effects of the shifts in the relative poverty line, demographic, labour market and income-related events and highlighting risks that cash benefit system aims to mitigate.

A word of caution should be given before discussing the results. While trigger events such as childbirth and death of the spouse are directly identifiable in the UDB SILC data, the transition into retirement, job loss or acquired disability status is identified through a combination of the self-reported economic status and receipt of income recorded in the data.

Table 8 and Table 10 reflect situation if poverty triggers are assumed to be non-overlapping (*'hierarchy'*) and relaxing this assumption (*'overlap'*).[60] Probabilities of events occurring (*P(event)*) are also discussed, as well as probabilities of events in the population of non-poor (*P(event|non-poor)*) and probabilities of transitioning into poverty on the event (*P(into poor| event)*). All household members are assumed to experience the effect of the trigger event if at least one member experiences it during the observation period.

[60] See section 4.2.1 for details.

Table 8. At-risk-of-poverty entry triggers and probabilities, 2005-2013

	% of all entries		N obs.	P(event)	P(event| non-poor)	P(into poor | event)
	Hierarchy	Overlap				
1. Poverty line shift	12.45	12.45	5440	8.48	7.41	9.37
2. Demographic						
spouse death	*1.52*	*1.52*	*596*	*0.58*	*0.60*	*14.29*
divorce / separation	2.21	2.22	412	0.72	0.78	15.91
exit of contributor (s)	2.18	4.61	1182	1.73	1.7	15.47
childbirth	*1.62*	*1.62*	*871*	*1.97*	*1.99*	*5.97*
increase in children’s needs	9.51	9.51	1070	1.85	1.92	27.67
new dependent (s)	0.84	2.55	1313	2.76	2.80	6.89
3. Labour-market events						
retirement	*1.26*	*1.53*	*2167*	*2.42*	*2.51*	*3.49*
job loss	*16.92*	*22.71*	*5340*	*8.14*	*8.15*	*15.62*
disability	*2.04*	*2.78*	*2031*	*3.28*	*3.50*	*4.60*
ill health	*0.22*	*1.29*	*274*	*0.37*	*0.39*	*18.54*
4. Reduction in income:						
work-related, hh. head's	26.9	33.99	6543	10.34	10.92	17.37
work-related, other	3.64	5.88	2516	4.07	4.58	7.17
old-age pensions	4.30	5.42	1863	2.47	2.68	11.28
other benefits	8.42	14.82	3023	4.86	4.55	18.17
other income	4.31	6.10	1431	1.98	1.98	17.22
5. Unidentified	1.67	1.67				

Source: the author`s calculations in accordance to Figure 17 based on the pooled UDB SILC panels for 2005-2013. Notes: Insured risks in Italics. *P* – probability. Shares and probabilities reported at the individual level. Individuals are assumed to go through transitions or being affected by a poverty trigger if at least one member of the household experiences it. Full unbalanced panels; work-related income include employment and self-employment income; household head is the eldest prime earner in the initial survey year; dependent members defined as adults whose entry into household increases needs relative to the disposable income; change in needs is calculated based on the modified OECD scale equivalence scale.

As demonstrated in Table 8, decrease in earnings of the household head is the main poverty trigger event, which drove around one fourth of all poverty entries (26.9%) in Lithuania on average as observed in the SILC panel data for 2005-2013. The latter excludes the situation of job loss, which is associated with additional 16.9% of poverty entries. Reduction in in-work income other than those of the main earner in the household contributes to further 3.6% of all poverty entries. Moreover, the events of job loss and reduction in work-related income are relatively common in the Lithuanian population, with around 4-10% of people living in households subject to the named income shocks. High probabilities of falling below the poverty line in cases of job loss and reduction in work-related income show low degree of de-commodification and income protection in Lithuania.

Other triggers that are insured against through the system of cash social benefits (i.e. spouse death, childbirth, retirement, disability, ill health) together contributed to only around 7% of the new poverty entries each year on average. This is both due to a combination of low probabilities of the events and relatively robust degree of income protection, especially in cases of childbirth, retirement and acquired disability status. Probabilities of poverty transitions in case of ill health should be treated with caution as it is based on the self-reported accounts and the incidence is low.

With regard to cash social benefits, prevalence of poverty entries due to reduction in pensions was relatively low during the period (4.3%) and was higher for benefits other than pensions (8.4%). On a substantial level, prevalence of poverty entries due to the reduction in pensions was low due to the increase in old-age pensions on the onset of the crisis in 2009, progressive nature of pension cuts in 2010-2011 and their recovery since 2012. In effect, the incomes of pensioners at the lower end of the distribution in Lithuania had improved relative to the rest of the population during 2009-2012 (Avram et al. 2012). On the other hand, benefits other than pensions were subject to cuts and a period of austerity in 2009-2012, especially with regard to child, family and unemployment benefits (Avram et al. 2012). The prevalence of poverty entries due to reduction of non-pension benefits may also be explained by insufficient length of unemployment benefits to cover long-term unemployment spells during the recent economic crisis in Lithuania (Lazutka et al. 2013a).

The most common demographic trigger into poverty (9.5%) was an increase in needs of adolescent children, i.e. as captured by an increase in the modified OECD equivalence scale when children turn 14. While the age threshold at which increase in needs is assumed is arbitrary, the households at the bottom of the income distribution may be said to have difficulties meeting the growing needs of their adolescent children. It also indicates a high concentration of households with adolescent children around the relative poverty threshold at 60% of the median equivalised disposable income.

Other poverty transition triggers include reduction in other non-work income (4.3%), entry of dependent members other than newborn children into the household (0.8%), exit of contributors (2.2%), divorce or separation (2.2%), shifts in the relative poverty line (12.5%). The latter figure indicates that growing poverty line during years of economic expansion dragged a substantial fraction of those at the bottom of the income distribution below the official at-risk-of-poverty line. This highlights that income of the poor or those near poverty threshold – both from work and cash social benefits – lag behind the general population during the economically good years. The absence of statutory indexation of cash benefits in Lithuania contributes to this process.

Table 9 shows the share of at-risk-of-poverty entries associated with life-course events that are protected against by means of cash social benefits. Additionally, it reflects probabilities of receiving cash social benefits aimed at mitigating these risks (*P(targeted benefit| event)*), as well as the share of benefits targeted at particular risk and all other benefits in the total equivalised household disposable income.

Table 9. Insured poverty entry triggers and benefit receipt, 2005-2013

	% of all entries	N obs.	P (targeted benefit | event)	Benefits as share of recipient's household disposable income	
				Targeted:	All:
Spouse death	1.52	596	0.48	0.13	0.59
Childbirth	1.62	871	0.88	0.24	0.36
Retirement	1.26	2167	0.99	0.39	0.52
Job loss	16.92	5340	0.32	0.12	0.37
Disability	2.04	2031	0.99	0.12	0.37
Ill health	0.22	274	0.38	0.06	0.30

Source: the author's calculations based on the pooled UDB SILC panels 2005-2013.
Notes: Individuals are considered to go through transitions or being affected by a poverty trigger if at least one member of the household experiences it. Targeted benefits as classified in EU-SILC. Ill health risk should be treated with caution as is based on the self-reported accounts and the incidence within the working-age population is low. P – probability.

Table 9 shows that the least risky insured transition identified in Table 8, i.e. childbirths, transition to retirement and acquired disability status, are distinguished as having the highest coverage rates – all at around or over 90%. The share of benefits in the total disposable income in case of the three above mentioned risks is the highest in case of retirement, especially if all benefits in the household are taken into account. The latter may, for example, include pension of the spouse in the old-age pensioner households.

In case of childbirth and disability the shares of the targeted cash social benefits are lower. This is however in line with the fact that the two types of benefits as identified in the UDB SILC classification are paid to the working-age adults, who or whose partners or other household members have higher earning capacity compared to the old-age pensioners.

On the other hand, the more risky transitions in Table 9 were associated with lower benefit coverage, lower relative benefit size or both. In case of job loss the coverage is estimated to be at 32% and the share of the unemployment benefit at around 12% of the total disposable household income within the first year of job loss. Around half of instances of spouse death are covered, with similar shares of benefits within household disposable income. Benefit shares are the lowest in case of ill health, although changes in health status are self-reported and should be treated with caution.

Similar to the above, life-course events associated with poverty exits are presented in Table 10 (below). The most common routes out of poverty were again associated with the labour-market and income-related events. New jobs contributed to around a third (36%) of all poverty exits in Lithuania, with about 50% probability to exit poverty on getting a job. Other labour market events played less significant role in poverty exits. It can be noted that completing education, while on its own played a marginal role of around 1.2% of associated poverty exits, was significant and associated with around 8% of poverty exits in conjunctions with other events, getting a new job in particular. Increases in work-related income (both of the main and other earners') together contributed to further 16% of all the poverty exits, while increases in pensions and benefits played a more significant role (around 30% of all exits).

Table 10. At-risk-of-poverty exit triggers and probabilities, 2005-2013

	% of all exits		N obs.	P (event)	P (event | poor)	P (into non-poor | event)
	Hierarchy	overlap				
1. Poverty line shift	2.45	2.45	1561	2.19	2.75	19.59
2. Demographic						
new partner	1.75	1.75	444	0.76	0.89	57.21
new contributor (s)	0.25	1.11	316	0.47	0.45	70.13
separation / divorce	1.19	1.19	412	0.72	0.92	28.82
dependent(s) exit	3.26	4.11	1920	2.71	2.83	31.97
3. Labour-market events						
retirement	4.87	5.24	2167	2.42	2.56	45.71
new job	35.97	40.9	7904	12.79	18.37	49.51
completed education	1.19	8.15	2808	4.35	4.61	39.15
4. Increase in income:						
work-related, hh. head's	11.23	12.24	7589	12.62	7.33	36.77
work-related, other	4.80	5.52	4600	7.85	2.78	43.71
old-age pensions	13.46	16.79	6401	7.68	10.63	34.79
other benefits	15.22	22.57	5617	8.66	12.61	39.40
other income	3.95	5.84	2017	2.85	2.85	45.15
5. Unidentified	0.42	0.40				

Source: the author`s calculations based on pooled UDB SILC panels for 2005-2013.
Notes: Incidence of trigger events at the household level, share and probabilities of transitions on an individual level. Full unbalanced panels, transitions pooled over 2005-2013 SILC; work-related income include employment and self-employment income; household head is the eldest prime earner in the initial survey year; dependent members defined as adults whose entry into household increases needs relative to the disposable income; change in needs is calculated based on the modified OECD scale equivalence scale.

The above figure shows the potential of the cash social benefit system to reduce poverty levels, especially for the groups situated close to the poverty line (e.g. pensioners). On the other hand, relatively low importance of increases in work-related income for improving the situation of the poor can be due to a combination of factors, including the poverty gap among the working poor in Lithuania. The positive effect of the growth in work-related income at the bottom of the income distribution can also be set-off by benefit withdrawal with additionally earned income. Incidence and extent of the high marginal effective tax rates in Lithuania was already demonstrated in Section 4.1.

The role of the demographic events for poverty exits was relatively small, as they were associated with only about 6.5% of all transitions out of poverty in the EU-SILC data of 2005-2013 for Lithuania. Exits of dependent(s) matter most among the analysed demographic poverty triggers for exiting poverty. These could be children, other family members or unrelated adults leaving the household. The arrival of new contributors into the household providing poverty relief is relatively rare and accounts for only around 2% of all poverty exits. This reflects low chances of those below the poverty line to get supported by a new better-off partner. In conjunction with relatively low 4% prevalence of poverty exits due to 'other income', which includes inter-household transfers, the income poor households are left with few options of relying on own earning capacity or cash benefit support. Both strengthening people's employability prospects as well as maintaining adequate cash benefit provisions for the poor are the important routes for mitigating poverty.

Overall, the poverty exit probabilities are high and close or exceed 30% on most of the identified trigger events, excluding the shift in the poverty line. Not all of the exit routes can however be stimulated by means of social policy, cash social benefits in particular. However, activation into work and improving education opportunities can be pursued. There is also potential for boosting work-related income of those at the bottom of the income distribution by expanding the system of tax allowances, tax credits and lowering benefit withdrawal with income, especially with regard to social assistance.

Finally, the logistic regression model is estimated for testing the statistical significance of trigger events and cash benefit receipt for poverty entries, while controlling for personal and exogenous characteristics. Interaction terms of the trigger events with receipt of cash social benefits were included in cases when benefit coverage was low enough for the two effects to be separated. Household characteristics controlled for include characteristics of the household head as well as household structure, participation in the labour market and living area. Controls for periods when the poverty line was on decrease or increase are also included.

Table 11. Logistic regression for the probability of entering poverty

	Probability of poverty entry		
Independent variables:	**Coef.**	**Std. Err.**	**P>z**
Insured risk triggers:			
spouse death	0.615	0.280	0.028
childbirth	-0.470	0.650	0.469
job loss	2.193	0.164	0.000
retirement	-0.906	0.270	0.001
disability	-0.602	0.276	0.029
ill health	0.300	0.702	0.670
*Interaction with targeted benefit receipt**			
spouse death (survival)	-0.674	0.398	0.090
job loss (unemployment)	-1.153	0.258	0.000
ill health (sickness)	-1.044	1.052	0.321
Uninsured risk and trigger events			
divorce / separation	0.220	0.340	0.518
exit of contributor	0.059	0.235	0.803
new dependent	0.384	0.535	0.473
increased children needs	0.835	0.252	0.001
Reduction in income			
work-related, hh head	2.314	0.113	0.000
work-related, other	1.715	0.205	0.000
old-age pension	0.968	0.176	0.000
other benefits	1.769	0.144	0.000
other income	1.795	0.186	0.000
Household head characteristics			
male	-0.541	0.094	0.000
single	1.035	0.126	0.000
age group (< 25)			
25-64	-0.429	0.368	0.244
65+	-0.504	0.389	0.196
education (up to lower secondary)			
upper second, non-tertiary	-0.476	0.111	0.000
Tertiary	-1.300	0.154	0.000
Household characteristics			
urban	-0.388	0.092	0.000
number or hh members (less head and partner)			
1	0.181	0.167	0.276
2 +	-0.132	0.168	0.429
number of children			
1-2	0.248	0.150	0.097
3+	0.442	0.174	0.011
work intensity (none)			
very low, low (<0.45)	0.990	0.168	0.000
medium (0.45-0.55)	0.358	0.194	0.065
high, very high (0.55+)	-0.811	0.172	0.000
Decreasing poverty line	-0.794	0.096	0.000
Constant	-2.366	0.410	0.000

N of obs. = 15504, N of hh. = 5225. Prob > chi2 0.0000
Wald chi2 (33) = 1102.63, Pseudo R2 = 0.2412

Source: the author’s calculations based on the pooled UDB SILC panels 2005-2013.

Note: Dependent variable is the household transition into at-risk-of-poverty at 60% of the median equivalised disposable income, left censored spells excluded.

As it could be expected from the previous analysis of poverty triggers, Table 11 (below) reveals significant positive effects of job loss and increase in child needs on poverty entries at 99.9% confidence level. Job loss is the most important factor associated with transitions into poverty. The receipt of unemployment benefit is associated with a significant reduction of the probability of moving into poverty, although the letter effect does not fully mitigate the increased probability of falling into poverty due to job loss itself.

On the other hand, both risks of retirement and disability show negative and statistically less significant coefficients, indicating that these two transitions covered by cash social benefits are associated with decrease in the probability of moving into poverty during the initial year. While counter-intuitive at first glance, lower probabilities of becoming poor when in receipt of old-age and disability benefit during the initial one-year period may reflect improvement of one's situation or its relative stability compared to the period before entitlement for receipt of pensions was granted. Low probabilities of poverty entries for retirement and disability transitions reported in Table 8 confirm this finding.

Other identified life-course events (i.e. childbirth, ill health, divorce / separation, exit of contributors from the household or entry of new dependent) did not show statistically significant effect of transitions into poverty in Lithuania during the period observed in the 2005-2013 SILC panels.

Reduction in household incomes (work-related, cash benefits and others) played a significant role in increasing probability of poverty entry. Decreased earnings and self-employment income of the household head played a predominant role, but other sources of income, including pensions and other cash benefits, were also important in preventing poverty entries.

The effects on the controlling variables reflecting household characteristics are of expected direction and magnitude. The probability of transition into poverty in Lithuania was higher for singles, those living in a household with a female household head, or one with low education, as well as for those with three and more children, living in rural areas or in a household with very low or low work intensity. The main characteristics safeguarding from transitioning into poverty are associated with having higher education level, high work intensity levels and living in a household with male household head.

Finally, decrease in poverty line significantly decreased probability of falling into poverty. This highlights more stable income patterns and lower losses of income at the bottom of the income distribution compared to the median in economically harsh times and lags in income growth in the same group during the period of rapid economic growth in Lithuania.

To summarize, among the most risky transitions observed in the 2005-2013 SILC panel data for Lithuania were decreases in household head's work-related income, job loss, increase in child needs in adolescence, cuts or withdrawal of non-pension cash benefits and households splits, including separation and divorce. The most risky insured trigger into poverty was job loss (17% of all poverty entries). To put in perspective, other insured events, i.e. childbirth, retirement, disability, ill health and spouse death, together contributed to only around 7% of new poverty entries over the observed period. Childbirths, transition to retirement and acquired disability status were among the least risky insured transitions in Lithuania within the period in question. The probability of transition into poverty in Lithuania was higher for singles, those living in a household with a female household head, or one with low education, as well as for those with 3 and more children, living within households with low or very low work intensity. Changes in the relative poverty line across years did affect poverty prevalence in Lithuania, although this is mostly true for poverty entries during the years of economic growth. This highlights that income of the poor or those near the poverty threshold – both from work and cash benefits – were more stable during the period of the latest economic crisis and lagged behind the growth in the income of general population during the economically good years. The absence of statutory indexation of cash social benefits in Lithuania contributes to this process.

4.2.4. Conclusions

The aim of this chapter was to analyse the protective role of the Lithuanian cash social benefit system in mitigating income shocks and life-course transitions. The analysis revealed the challenge to the Lithuanian cash benefit system in responding to high spread of the relative income poverty and substantial rotation within the population of the income poor. Extending the time horizon to 4 years rather than the current year situation, there was a small minority of those who spent all time in at-risk-of-poverty (around 7%) and a wide group – on average a third of the population (33.8%) – who experienced at least one at-risk-of-poverty spell at 60% median poverty line within the analysed four-year periods observed in the panel SILC data of 2005-2013. At 50% median poverty line this fraction was at around a quarter of the Lithuanian population. Hence, the relative poverty is a transient rather than long-term experience for the majority of the income poor individuals.

The analysis of the poverty trigger events and spells showed that work-related income events dominated the pathways both into and out of poverty during the period of analysis, with almost half of all poverty entries and exits related to, correspondingly, decreased or increased work-related income in the household. High probabilities of falling below the poverty line in cases of job loss show low degree of de-commodification and weakness of the unemployment insurance in Lithuania.

Vulnerability to poverty and rotation within the population of the poor was especially high during the years of rapid economic growth and the onset of the economic crisis in Lithuania. This highlights the lack of indexation of cash social benefits to income growth in the general population and insufficient capacity of the system to act as a robust income stabilization mechanism.

Changes in cash benefits played a non-negligible role in poverty dynamics in Lithuania as observed in the 2005-2013 SILC. Around 30% of all poverty exits were associated with increases in pensions and other cash social benefits. This shows the potential of the cash benefit system to reduce poverty levels, especially for the groups situated close to the poverty line. Prevalence of the poverty entries due to reduction in old-age pensions was relatively low during the period (around 4.3%). On the other hand, decreases in cash social benefits other than pensions drove a more substantial share (of around 8.4%) of people below the poverty threshold. This reflects both the positive effect of progressivity of the pension cuts on poverty prevalence during the latest economic crisis in Lithuania, as well as sensitivity of the poverty prevalence to cuts on non-pension cash social benefits during the same period.

Among demographic triggers, low vulnerability to poverty risk was identified in case of child birth. This is in line with previous evidence on high protective capacity of contributory maternity and paternity cash social benefits in Lithuania. The opposite was true for families with adolescent children. Growing child needs in this group contributed to around 9.5% of all transitions into poverty observed in the EU-SILC data of 2005-2013. Hence, households at the bottom of the income distribution may be said to have difficulties meeting the growing needs of their adolescent children with little support provided within the system of cash social benefits.

The analysis also demonstrated weak capacity of the Lithuanian cash benefit system in protecting single parents and inadequacy of income support for single individuals. During the analysed period in Lithuania the chances were also low (at around 6%) for exiting poverty due to inter-household transfers or a new better-off partner in Lithuania.

The analysis highlights the need for strengthening social protection mechanisms in Lithuania targeted at wide groups of population facing transient as well as longer-term poverty spells, especially the single-adult households and households with children. Both strengthening people employability prospects and maintaining adequate cash social benefit provisions for the poor and those experiencing income shocks and life-course transitions are essential for building a comprehensive poverty reduction strategy.

4.3. The social inclusion role: benefit coverage

The role of cash social benefits in strengthening social inclusion of the least well-off and marginalized groups is the next aspect to be investigated. As it was argued in the first chapter of the dissertation, despite the vagueness of the social inclusion and exclusion concepts, incomes play a major role in operationalization of poverty and social exclusion in the EU. The long-standing social inclusion objective of the EU is concerned with participation of all the citizens in the benefits of economic integration and economic growth. Incomes from both private and public sources contribute to this objective.

Review of the previous research related to the issue of inclusiveness of the cash benefit system in Chapter 2 revealed several its traits. Lithuanian system of cash social benefits was characterized as inclusive with regard to a relatively wide and expanding institutional coverage of the social insurance benefits (Lazutka et al. 2013a). This means that according to institutional rules ever expanding groups of individuals have been included into the system of social insurance since the Lithuanian accession to the EU. Institutional coverage of benefits may, however, differ from the factual coverage due to non-compliance to rules, such as tax evasion or benefit non take-up. Little is known on the links of the population groups working in the informal sector with the system of cash social benefits in Lithuania and on the interactions of the different elements of the cash social benefit system.

Available estimates on the factual coverage of the Lithuanian cash benefit system in Lithuania are scarce and based mostly on the comparison of the administrative figures on the number of benefit recipients to respective population estimates. More is known on the coverage of the major types of cash social insurance benefits in Lithuania (see e.g. Lazutka et al. 2013a). In the mentioned study the coverage of the unemployment benefit was assessed as being problematic in Lithuania and among the hardest to reach compared to the other EU countries. For other social insurance benefits wider coverage was estimated based on the administrative records.

With regard to the poor, their coverage by cash social benefits in Lithuania has not been systematically studied. Different estimates scattered among years are based on the information derived from the surveys or a combination of administrative and survey-based information. For example, Lazutka et al. (2008) estimated a fraction of the poor covered by social assistance benefits to be at around 44% in Lithuania according to 1998 Households Budget Survey data. For more recent estimates, Matsaganis et al. (2014) estimated the share of people of the working age and in receipt of social benefits in Lithuania to be above the EU average based on 2010 SILC – at around 80% of those below the poverty line set at either 40% or 60% of the median equivalised income. Figures reported by the UNDP (2010) indicate low coverage rates of social assistance among those eligible according to income, i.e. at 18% in 2008 and at around 30% in 2009-2010. More analysis is required to understand the sources of discrepancy between these different estimates. Moreover, no studies are known to the author on the interactions of different cash benefit components on the household level.

The aim of this section is to analyse the coverage of cash social benefit system with a focus on the bottom of the Lithuanian income distribution.

The structure of this section is the following: first the methodology under estimations is discussed (Section 4.3.1), followed by the discussion of benefit coverage (Section 4.3.2) in Lithuania.

Several limitations of the following analysis need to be mentioned. The analysis only includes coverage by the system of cash social benefits with regard to social insurance, assistance and categorical benefits. Health insurance system is excluded from the analysis as it does not generate eligibility for cash benefit, but rather for healthcare services and compensations. More substantially, the following analysis is restricted to benefit coverage, while it is admitted that it is only one indicator of inclusiveness of the system. Stigmatization effects as well as conditional links of cash benefits system to services, education, healthcare or labour market may also play a role in defining inclusiveness of the system of cash social benefits.

4.3.1. Measurement: benefit coverage

There are several notions of benefit coverage and different data can be used to analyse it – all with advantages and limitations. Below the three ways of measuring benefit coverage to be used for further empirical analysis are presented. Advantages and limitations of using SILC data for analysing benefit coverage and its effects on poverty are then discussed.

While no single notion of benefit coverage can be found in the literature, it is common to define it in a narrow sense as a "proportion of those affected by a specific contingency who receive a benefit payment that is conditional on that contingency" (Immervol et al. 2004). The coverage rate reflects, for example, a share of people in retirement age receiving old-age pension or a share of unemployed receiving unemployment benefits, etc. The coverage of individual targeted benefits can be analysed, as well as their groups. All the cash social benefit are aggregated by the Eurostat into seven categories by associated contingency or need, i.e. old-age, unemployment, disability, survivor, sickness, child/family, housing, social assistance (see Section 3.5 for details).

A broader perspective on benefit coverage encompasses not only benefits that are targeted at a specific contingency or need, but also other benefits that can substitute or complement those. For example, early retirement benefits may be used as a substitute for unemployment benefits; social assistance benefits complement child and family benefits for families that are most in need, etc. Hence, coverage by cash benefits targeted at specific contingency and coverage by all benefit types can be distinguished.

Third, it can also be useful to access the share of benefit recipients in relation to a wider population group, but not only among those facing a specific contingency. In this case, a term of benefit recipiency is used interchangeably with the notion of benefit coverage (e.g. Matsaganis et al.

2014). In our case, the recipiency of benefits at the bottom of the income distribution is of interest when analysing the poverty reducing capacity of the Lithuanian tax-benefit system.

With regard to data, different sources of information may be used for analysing benefit coverage rates. Institutional benefit coverage may be assessed by analysing legal rules defining eligibility for benefit receipt (e.g. Lazutka et al. 2013a) or using microsimulation techniques (e.g. Matsaganis et al. 2014). Factual coverage may be studied by analysing microdata or aggregated statistics derived using administrative sources or surveys. Each method has its advantages and limitations.

As elsewhere, the representative SILC data is used for the empirical analysis in this section. The choice of the SILC data to study benefit coverage in Lithuania is due to several aspects. First, it is available for the general academic use in Lithuania as opposed to administrative sources. Second, using microdata allows analysing the coverage rates within subgroups and at the bottom of the income distribution, as well as multiple entitlements with the households. These data are also used as a source of official poverty statistics in Lithuania. Third, the reliability and accuracy of the SILC data in Lithuania is satisfactory when speaking about benefit receipt as the data reported by benefit recipients is complemented by the Statistics Lithuania with the information from the administrative sources (see Section 3.4 for details).

The primary advantage as well as a challenge of the SILC data for analysis of the benefit coverage in Lithuania is due to changes in the SILC survey methodology with regard to an increasing reliance on administrative sources for recording tax liabilities and benefit entitlements between the data waves of 2005-2013. Second, there is no calibration made in Lithuanian SILC for external aggregates of any income components, including the aggregate benefit amounts. Despite these limitations using survey data allows investigating coverage of the cash benefit system taking the functioning of the whole system and effects on households and at the bottom of the Lithuanian income distribution into account.

4.3.2. Survey-based evidence on cash social benefit coverage

So how inclusive the Lithuanian system of cash social benefits is with regard to its coverage? First, the factual coverage of the Lithuanian social insurance system, social assistance and other cash social benefits is explored in the broadest sense. Figure 18 shows the Lithuanian population shares covered by social insurance (either paying social insurance contributions or receiving benefits), assistance or categorical benefits. The analysed group of individuals covers adults starting 18 years of age and before the statutory pension age. Both children and pensioners are not included in Figure 18. The coverage of the latter group by, respectively child benefits and old-age pensions is analysed further in the text. The focus is on the population of adults before the retirement age and their participation in the Lithuanian social insurance system or receipt of categorical or social assistance benefits.

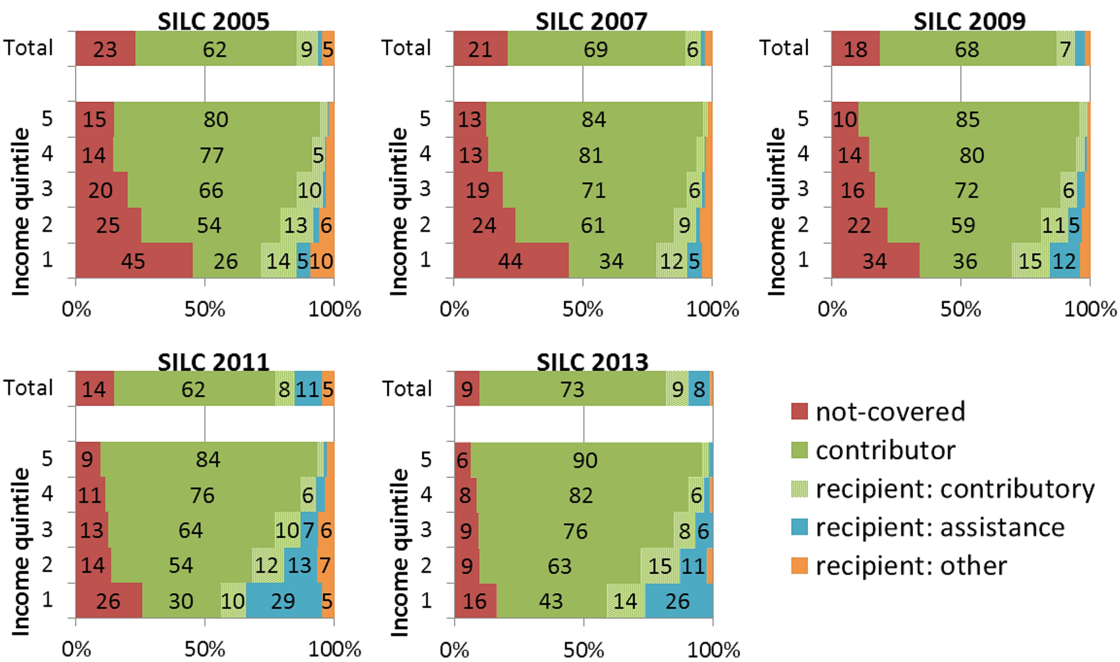

Figure 18. Coverage (%) by cash social benefits in Lithuania by income quintile, all adults before the statutory pension age

Source: the author's calculations based on SILC data of 2005-2013
Note: Estimates at the individual level; shares below 5% not indicated; detailed data in Annex 3. Assistance benefits include social assistance benefits (*socialinė pašalpa, vienkartinė savivaldybės mokama pašalpa*), social assistance pensions (*šalpos (socialinė) pensija, šalpos kompensacija*), compensations for utilities (*kompensacijos už būsto šildymą,*

karštą ir šaltą vandenį). Non-contributory child benefits allocated to mothers (or fathers if no mother); social assistance and compensations for utilities allocated to all members of the household. In cases of several income sources, a person is assigned based on the highest source of income.

Figure 18 reveals the growing factual coverage of the system of cash social benefits in Lithuania shown by 2005-2013 SILC, which is in line with the reported increase in institutional coverage of cash social benefit system noted by Lazutka et al. (2013a). According to the records of the 2005-2013 SILC around 83% of adults before the retirement age in Lithuania were covered by cash social benefits or paying contributions for social insurance. This share varied between around 77% at the beginning of the period to 91% at its end. The share of non-covered population was respectively shrank to around 9% by the end of the period.

The total share of the working age adults covered by the system of social insurance in Lithuania was at between 70% to 82% during the observed period, with between 62% to 73% contributing into the system and 6% to 9% receiving contributory cash benefits. The remaining share of the adult population before the pension age either relied on non-contributory social assistance or categorical benefits, or were not covered, i.e. not insured and not in receipt of any cash benefits. Not being covered by the system of cash social benefits may be less problematic at the higher income levels, as people living in affluent households may choose to remain economically inactive or insure themselves in the private sector. This should not be of social policy concern, unless the periods of inactivity are hindering employment prospects or eligibility for long-term benefit receipt, i.e. contributory pensions. However, at the bottom of the income distribution not being socially insured and not being eligible for any cash benefits may indicate high levels of financial vulnerability and strain. For that reason, the share of individuals at the bottom of the income distribution not covered by either by the system of social insurance or non-contributory benefits requires special attention.

Before looking into the characteristics of those insured and not insured at the bottom of the income distribution, the general pattern of coverage of the cash transfer system in Lithuania needs discussing. Importantly, the distribution of those covered and not covered by social protection varies across the income groups. The coverage rates are higher at the top of the income distribution and decrease at the lowest income quintile. The lowest coverage rates were observed at the bottom of the income distribution at the beginning of the observation period (i.e. in the EU-SILC data of 2005), i.e. the fraction of not covered population group at the lowest income quintile was at around 45%, with other 15% receiving social assistance or categorical benefits as a main source of income and only around 26% of adults in employment and contributing to the system. Since 2007 SILC the share of those in employment and paying social insurance contributions among the first income quintile fluctuated between 30% and 43%, while the share of not covered population in the lowest quintile was on a gradual decrease.

The most notable reduction in the share of non-covered population at the bottom of the income distribution, as well as in the general population, was recorded in 2011 and 2013 SILC, although with an increase in number of those in receipt of social assistance as a main source of income. This shifts reflect the counter-cyclical effect of the Lithuanian social assistance system in the context of the economic crisis and slow recovery in Lithuania, as well as potentially higher take-up rate of social assistance during the economic crisis due to increased economic hardship. Higher coverage may be also attributed to the shrinking gap between income levels of the lowest income quintile in Lithuania and fixed levels of the social assistance base (the state supported income) since late 2008.

On a substantial level rapid increase in social assistance receipt indicates vulnerability of the households to income shocks in Lithuania. Low level of de-commodification in Lithuania was already noted in Section 4.1. Higher probability of transition into poverty in Lithuania between 2005-2013 was noted for singles, those living in a household with a female household head, or one under 25 years old or with low education, as well as for those with children, living within an extended family or household with low or median work intensity.

Figure 19 depicts the economic status of those covered by the system of social insurance, by social assistance or other benefit types and not covered. It provides further insights on the structure of the population and its changes with regard to coverage of the Lithuanian system of cash social benefits.

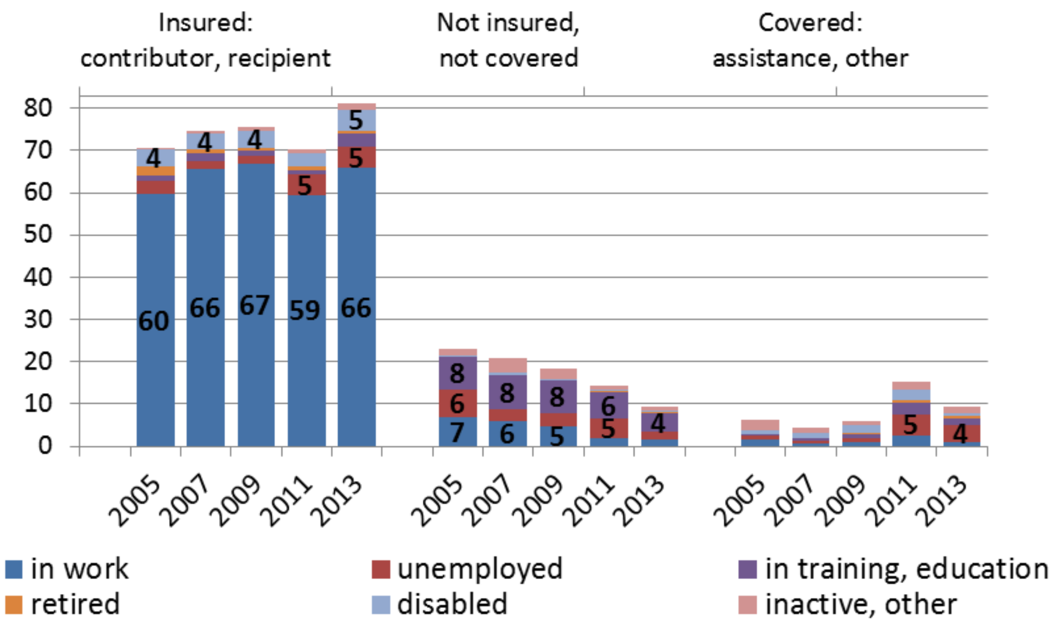

Figure 19. Self-reported economic status of population by type of cash benefit coverage in 2005-2013, %

Source: the author's calculations based on SILC data of 2005-2013
Note: the total sum of the population shares is equal to 100% in each year; adults of at least 18 years of age and up to the statutory retirement age. The shares below 4% not indicated; detailed data in Annex 4.

Figure 19 demonstrates that the majority of people aged between 18 years old and the statutory retirement age in Lithuania were in work and covered by the system of social insurance. The shares of people who were in work, but not covered by social insurance indicate those who according to their reports and administrative data were not paying social insurance contributions on all received employment income.[61] This group of people working in the

[61] According to Statistics Lithuania, the administrative data on social insurance contributions and taxes has been used for compiling the Lithuanian SILC data since 2007 [personal communication].

informal sector was on decrease as recorded by the SILC data of 2005-2013. It should be acknowledged, though, that the share of employed who are not paying any social insurance contributions derived from the survey data should be treated with caution. First, as in any survey there might be reporting errors and bias due to sampling, non-response and weighting procedures. People may also hide incomes they receive illegally from the interviewers, despite the fact that all the collected information is anonymized. Hence, the reported estimates of those working and not paying any social insurance contributions constitute a lower bound estimate.

Still, the steady decline in the reported numbers of people not paying social insurance contributions on their work-related income in SILC 2005-2013 data indicate a source of increase in social insurance coverage in Lithuania. Together with the increasing institutional social insurance coverage noted in Section 2.3, this explains why the share of people covered by social insurance did not decline below the level recorded in the SILC data of 2005 even in the midst of the financial crisis (i.e. 2011 SILC), although the total employment rate was at its lowest during the period as indicated by both the SILC data (if both formal and informal employment is accounted for) and the LFS official figures.[62]

Other substantial group of individuals covered by social insurance include disable persons and unemployed. The share of the latter group receiving cash social benefits – both contributory and non-contributory – increased by the end of the period, which could be expected given the period of economic hardship. Finally, unemployed students in vocational, tertiary education or training make a substantial share of those not covered by social insurance (4-8 p.p.).[63]

Narrowing down the analysis, the coverage rates of benefits targeted at the particular vulnerable groups are further discussed. The identified groups

[62] For sources of discrepancies between the EU-SILC and LFS based employment and unemployment estimates see e.g. Navicke et al. (2013). Nevertheless the total employment levels and dynamics over time are largely consistent between the two sources. Larger discrepancies are observed for unemployment levels, especially in the case of small population groups are concerned.

[63] Except for employment injuries and occupational diseases insurance during vocational training.

include old-age pensioners, people with disability, unemployed, children below 18 year of age and those in need of social assistance. The benefits targeted at these groups are identified according to the standard SILC classification (see Section 3.5). Additionally, the coverage of those below 60% poverty line by all types of cash social benefits is reported.

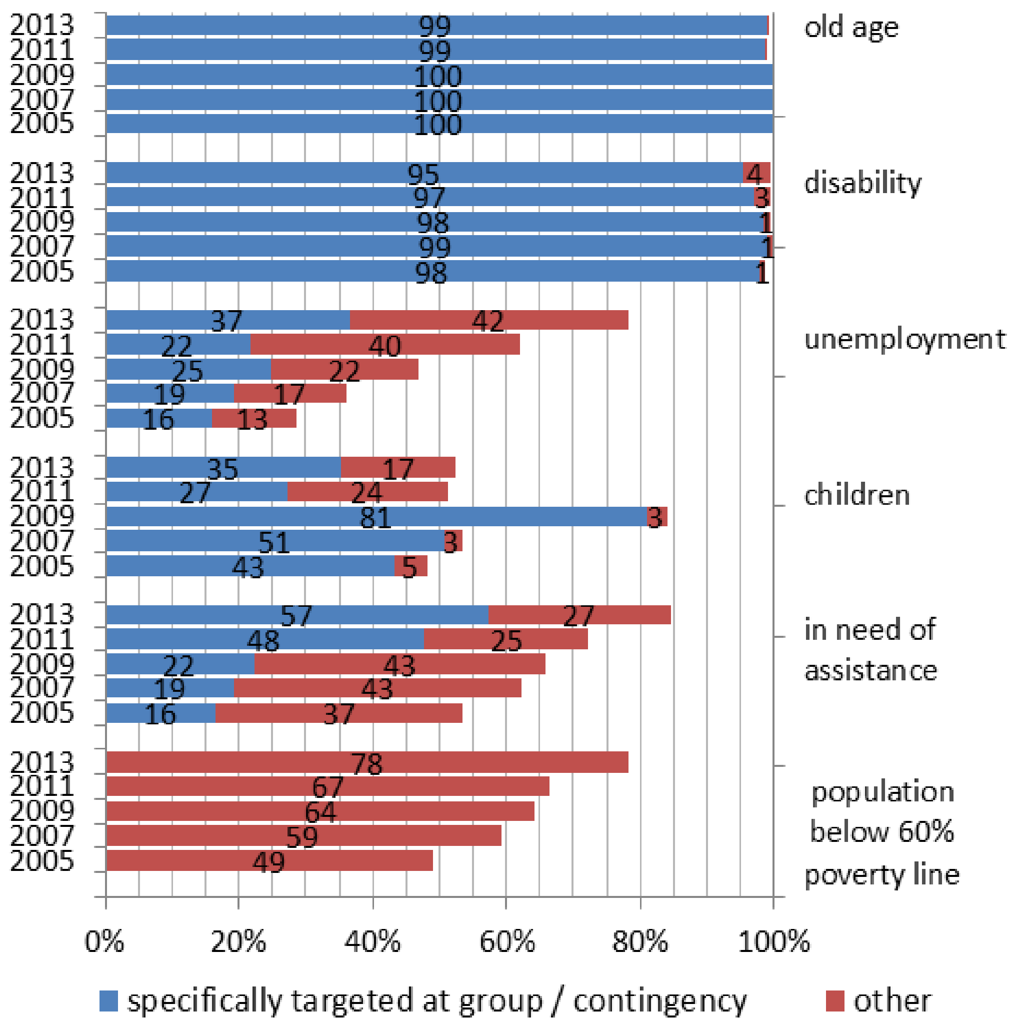

Figure 20. Coverage of cash benefits by the population group and contingency, %

Source: the author's calculations based on SILC data of 2005-2013

Note: years refer to SILC data collection year; old-age pensioners identified based on age and self-reported economic status of being retired; people with disability and unemployed identified based on the self-reported economic status; those in need of social assistance identified as those below the poverty line of 60% median and reporting having 'big difficulty' in making ends meet, excluding the self-employed; children below 18 years of age.

As shown in the Figure 20, the benefit coverage levels differ substantially across the groups of individuals targeted by the system of cash social benefits. The two groups that can be identified as being fully covered by the system of cash social benefits are old-age pensioners and people with disability. The coverage rates in these two groups are almost absolute and stable across years.

Coverage rates are substantially lower among the three remaining groups: the unemployed, children and those in need of social assistance. Similar to Matsaganis et al. (2014) the latter group is identified as those below the poverty line of 60% median and reporting having big difficulty in making ends meet, excluding the self-employed. The coverage rate of the unemployed by unemployment social insurance benefits increased during the reported period since around 16% in 2005 SILC to 37% in 2013 SILC, showing extending coverage. The contributory unemployment benefits that are targeted at the unemployed may also be complemented or substituted by other cash benefits, most notably social assistance. If benefit other than contributory unemployment benefits are taken into account, the coverage of the unemployed by the system of cash social benefits in Lithuania expanded from around 30% at the beginning of the period to around 80% at its end.

Another group where coverage was on increase during the period in question were those in need of social assistance as identified based on the combination of disposable incomes and self-reported difficulty to make ends meet. The provision targeted at those in need of financial assistance and experiencing difficulties in making ends meet were social assistance benefits. The fraction of those in need and in receipt of social assistance benefit was relatively low, i. e. at around one fifth on average in 2005-2009 SILC. A rapid increase was recorded since 2011 when an increased share of around a half of those in need of income support received cash social assistance. As already discussed the factors driving higher coverage of social assistance during the economic crisis may include increased long-term unemployment, a shrinking gap between income levels of the lowest income quintile in Lithuania, ceilings of social assistance payments and potentially higher take-up rate of social assistance. The higher take-up may stem from higher willingness of those in financial distress to apply for social assistance in times of financial crisis, despite stigma in the sphere of social assistance (Žalimienė 2011, Lazutka 2014, Lazutka et al. 2013b, 2015) and increasingly punitive character and monitoring of social assistance provisions in Lithuania (Gruževskis & Blažienė 2012). In effect, relatively high coverage rates of social assistance recorded in the 2011 and 2013 SILC should be interpreted as an upper bound estimates due to a combination of the above-named factors expanding coverage of social assistance during the crisis.

The coverage of cash social benefits targeted at children fluctuated most dramatically in Lithuania during the analysed period. The benefits targeted at children include both contributory maternity/paternity benefits and non-contributory benefits targeted at children. Provisions to children and their coverage were expanded substantially between 2005-2009. The child benefit amendments implemented in 2008 universalized the benefit provision for all children. The factual coverage reported in EU-SILC reflects the rapid increase in child benefit coverage, although it may potentially be under-reported in the SILC data at around 80% of the population of children. The coverage drop in 2011 reflects the introduction of the means test on child benefits and its restrictions to children below 7 years old if living in families with up to two children.[64] The duration of payment of the contributory maternity and paternity benefits was also reduced.[65] Importantly the graph reveals that a substantial fraction (around 20%) of families whose benefits were withdrawn were those in receipt of social assistance or relying on other cash benefits. These may include families with one or two children of school age.

[64] According to the following law: 'Lietuvos Respublikos Išmokų vaikams įstatymo 2, 3, 4, 6, 8, 9, 12, 13, 14, 15, 17, 18 straipsnių, trečiojo, šeštojo skirsnių pavadinimų pakeitimo ir papildymo ir 21 straipsnio pripažinimo netekusiu galios įstatymas'. 2011 m. gruodžio 1 d. Nr. XI-1756. Žin. 2011-12-20, Nr. 155-7350

[65] According to the following law: 'Dėl Lietuvos Respublikos Vyriausybės 2001 m. sausio 25 d. nutarimo nr. 86 „dėl ligos ir motinystės socialinio draudimo pašalpų nuostatų patvirtinimo" pakeitimo'. 2011 m. birželio 29 d. Nr. 765. Žin. 2011-06-30, Nr. 79-3868

Last, the share of the population below the poverty line covered and not covered by cash social benefit system is of practical interest when analysing the effect of cash benefits on poverty prevalence and severity. As recorded in 2005-2013 SILC the coverage rate by all types of benefits was expanding in Lithuania from around a half of the population below the poverty line to around 80, similarly to the numbers reported by Matsaganis et al. (2014).

Finally, it is not only coverage by individual benefits that improves the possibility of individuals to live at a standard acceptable in the society, but also the way these are combined. As it was demonstrated in Section 2.2.1, the Lithuanian system of cash social benefits consists of around 40 elements, many of which are small in their amounts or targeted at the narrow groups of individuals.

Figure 21 shows the way benefits are combined within the population of the poor and those who exit poverty after pensions or other benefits.

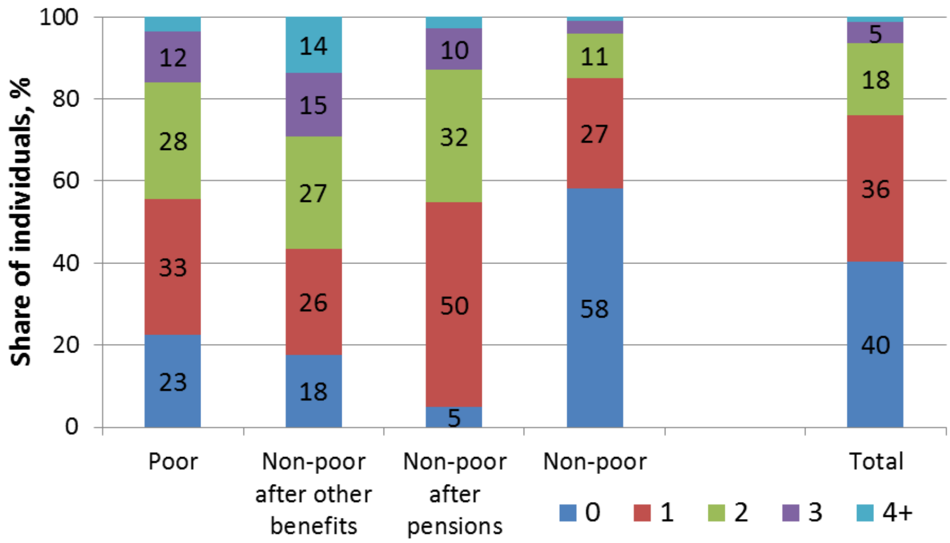

Figure 21. The number of cash social benefits individuals combine, 2013

Source: the author's calculations based on SILC data of 2005-2013
Note: Poor if below the at-risk-of-poverty line at 60% of the median equivalised disposable income. Shares below 5% not indicated. Non-contributory child benefits allocated to mothers (or fathers if no mother); social assistance benefits and compensations for utilities allocated to all members of the household.

Figure 21 shows that combining several types of benefits substantially increases chances of exiting poverty in Lithuania. Around 45% of those who exited poverty due to pensions combine two or more types of benefits. This fraction reaches around 55% for those who exited poverty due to benefits other than pensions. Among those who remain poor after receipt of all social benefits more than a half received no benefits or only one type of benefit. There is however a high share of cash benefit recipients (around 45%) who remain poor despite receiving several benefit types. Within the Lithuanian context of a widely spread informal sector, a complex system of cash social benefits with around 40 element (see Section 2.3) may also undermine the will to contribute into the system by paying social insurance contributions and taxes, since the potential benefit entitlements are difficult to understand and the amounts of the single benefits are relatively low.

4.3.3. Conclusions

The analysis in this section revealed expanding inclusiveness of the Lithuanian cash benefit system with regard to its coverage. As revealed based on the SILC data of 2005-2013 the share of adults before the statutory pension age and not insured or receiving cash social benefits in Lithuania was on a steady decline from around one fifth at the beginning to around 10 percent at the end of the analysed period. The major part of the covered population were contributing into the system by paying social insurance contribution. The expanding factual coverage of the system of social insurance and non-contributory cash benefits is in line with the documented increase in the institutional system’s coverage in Lithuania. Sharp increase in cash social assistance recipiency during the recent economic crisis and a decline in the numbers of people not paying social insurance contributions on all their work-related income contributed to the trend.

The distribution of those covered and not covered by social insurance and non-contributory benefits varied across the income groups. The coverage rates are higher at the top of the income distribution and decrease substantially within the lowest income quintile. The highest coverage gaps were observed at the bottom of the income distribution at the beginning of the observation period (45% in the SILC data of 2005) with a steady declined thereafter (to around 16% in the SILC data of 2013). The decline is mainly driven by an increase in cash social assistance receipt at the bottom of the income distribution during the crisis. The latter can be attributed to a combination of factors, including increased long-term unemployment, higher take-up rate of social assistance during the later economic crisis, as well as shrinking gap between income levels of the lowest income quintile and ceilings of social assistance payments in Lithuania. On a substantial level rapid increase in social assistance receipt toward the end of the period indicates the vulnerability of households to income shocks in Lithuania.

With regard to coverage of benefits targeted at particular groups, the main benefit coverage gaps were identified in the population of children (35% coverage), unemployed (37% coverage) and those in need of social assistance in Lithuania (57% coverage). The level of coverage of social assistance should be interpreted as its upper bound due to a combination of factors expanding its coverage during the economic crisis. The benefits targeted specifically at the above mentioned population groups were complemented and substituted by other elements of the cash social benefit system in Lithuania.

Finally, the analysis showed that the majority of those exiting poverty after benefits other than pensions manage to do so only by combining multiple benefit sources. Within the Lithuanian context of a widely spread informal sector, a complex system of cash social benefits with around 40 element and low levels of individual benefits may undermine the will to contribute into the system by paying social insurance contributions and taxes, further contributing to the system’s erosion.

4.4. The social investment role: investment in families with children

Social investment role is the final aspect of the Lithuanian cash benefit system to be analysed. As it was discussed in the theoretical part of the dissertation (see Section 1.5.4), the social investment function of policies, including that of cash social benefits, is best understood within the life course framework and is not restricted to any single population group. The life course perspective highlights inter-temporal dynamics of inputs and outputs of social investment, contract between generations and across population groups, as well as the importance of investing into successful transitions between life stages (see e.g. Kvist 2014). While investment in development of capabilities and skills may be important at any life stage, social policy interventions are often focused on children and their families, especially mothers (Esping-Andersen 2002b, European Commission 2013a, Kvist 2014). Poverty prevention and mitigation is essential within an effective and sustainable social investment strategy, as it helps avoid excessive waste of human capital (Jenkins 2011).

Following on the above arguments, this section focuses on investment into families with children through cash social benefits in Lithuania. As it was shown by the analysis of previous research and national poverty reduction programmes, investment in children in Lithuania is portrayed as a cornerstone in the efforts to reduce poverty (see Section 2.1). Investing in children is also among the main EU priorities: access to adequate resources through a combination of parental employment and social cash benefits is, according to the European Commission's recommendations, the first pillar of developing integrated strategies of investment in children and families (European Commission 2013b).

Despite the priority on investment in children within the Lithuanian and the EU political debate, the most recent at-risk-of-poverty figures among children, especially those of school age, in Lithuania show a worrying picture (see Section 2.4). The at-risk-of-poverty rate among households with three or more children was on average around 40% in 2005-2013 SILC for Lithuania and at around 45% for single parents, which is extremely high.[66] The problem of child poverty in Lithuania was also highlighted by a broad range of previous research (e.g. Šileika & Blažienė 2000, Poviliūnas, 2007, TARKI 2010, Salanauskaitė & Verbist 2013, etc.). As highlighted by Salanauskaitė & Verbist (2013) Lithuania has below EU average performance with regard to monetary poverty, but also in other dimensions of child poverty and well-being. Lithuania was also marked as the only country with a consistent 'bottom third performance' on all child wellbeing dimensions (Bradshaw & Richardson 2009 in Salanauskaitė & Verbist 2011).

Taking into account attention given to children within the EU and the Lithuanian policy debate and the high prevalence of poverty among children in Lithuania, it is not surprising that there were numerous reforms in the Lithuanian cash social benefit system after the EU accession in 2004. The period up to 2009 was termed by Ivaškaitė-Tamošiūnė (2013) as a 'child and family welfare era' with generous expansions of child benefits, as well as contributory maternity/paternity leave benefits targeted at families with new-borns (see Section 2.2).

The period of relatively generous cash benefit policies towards children was followed by a period of constraints since the beginning of the financial crisis in Lithuania in 2009. Both contributory and non-contributory benefits for families with children were cut back. The most recent reform of the social assistance in 2012[67] also constrained income support provided to families with children (see e.g. Avram et al. 2012, Lazutka 2014).

The argument was raised in Section 2.2 that the system of cash social benefits for families with children in Lithuania is rather a pro-natalist and largely oriented towards small children, especially infants in insured families,

[66] Source: the author's calculation based on at-risk-of poverty rate by household type (source: Eurostat 2015 [tessi121])

[67] According to the following law: "Lietuvos Respublikos piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymo pakeitimo įstatymas". 2011 m. gruodžio 1 d. Nr. XI-1772. as: Žin., 2011-12-20, Nr. 155-7353

rather than a genuine long-term child investment strategy. Numerous *ad-hoc* changes in the system of cash social benefits in Lithuania since the accession to the EU highlight the absence of a consistent long-term strategy and a clear threshold to anchor the debate and policies on minimum child investment levels that need to be maintained. Minimum child needs may serve as such an anchor in the case of cash social support.

The aim of this section is to analyse the extent of social investment into families with children, especially those income poor, through the system of cash social benefits in Lithuania.

The analysis starts from grounding the need for investment in families with children from a life-course perspective and then continues to the analysis of the role of cash benefits for the income-poor families. The methodology of estimations is outlined in Section 4.4.1. The discussion of the results starts with an age-related income profile and prevalence of poverty among different child groups by age in Lithuania (Section 4.4.2). Cash benefit provisions are also compared to the estimated minimum resources required for ensuring children's needs. Next, investment efforts targeted at children living in poor families is analysed (Section 4.4.3). Contribution of different cash benefits towards reducing the at-risk-of-poverty rate and gap is assessed among families with children using poverty decomposition by income components based on Shapley value (Shorrocks, 2013). The analysis is novel in that it grounds child investment debate in Lithuania within the life course perspective on social investment and the notion of child needs. As in other sections, the period reflected in the SILC data of 2005-2013 is covered.

Several limitations of the following analysis need to be noted. First, the age-related income profile of the Lithuanian population is constructed based on cross-sectional SILC data as there is no longitudinal data covering extended periods of time available for Lithuania. Hence, it reflects situation of different cohorts averaged over the analysed time window, rather than a life-course of any single cohort. Despite capturing age rather than cohort effects, cross-sectional picture reflects current trends in the Lithuanian income distribution relevant for social policy design. Second, tax-related instruments and investments into children through service provision are outside of the scope of this section. While tax-related instruments targeted at families with children are of limited scope in Lithuania, services play an important and non-negligible role within child social investment strategy, especially with regard to education and healthcare. The social investment effects of taxes and services on families with children and their links to cash social benefits should be further investigated.

4.4.1. Measurement: needs-based investment and decompositions

Based on the idea that individual needs vary across the life course, the analysis starts with looking at the age-related income profile of the Lithuanian population estimated by using the SILC data of 2005-2013. The age-related income profile is reported in one-year age groups between 0 to 85. On the one hand, this covers the total age range reported in the SILC data, as the latter is top-coded at the age of 85. On the other hand, this stretches the data, causing the problem of small sample sizes in each age cell. To resolve this issue, the data is pooled and averaged across individual cross-sections. The resulting number of individual observations over 9 waves of SILC data between 2005-2013 is 112 081, with a minimum number of observations in each age cell being 459, and 1434 observations per cell on average. When pooling individual data waves all nominal income as well as poverty thresholds for individual years are normalized by mean equivalised disposable income in the population for a given year.

As elsewhere, household disposable incomes are equivalised by using the modified OECD scale. The at-risk-of-poverty line is set at 60% of the median equivalised income. Three components of total disposable income are distinguished to single out the role of cash benefits: disposable income before cash social benefits; old-age pensions; other benefits (see Section 3.4).

Disaggregating further cash social benefits are split by the function in accordance to the standard EU-SILC procedure between child and family benefits, social assistance benefits, old-age pensions, disability benefits and other benefits (see Section 3.5). Child and family benefits include the following contributory and non-contributory benefits in net terms: birth and pregnancy grants, maternity and paternity benefits, child, guardianship and other benefits identified in the national SILC data.[68] Benefit amounts are assigned assuming all received cash family and child benefits are split equally among children in the household. This might cause spill-over effects on elder children in households with newborns and small children that are subject to more generous cash benefit provisions.

The estimates are provided for two periods as well as an average across all years between 2005-2013. The splitting point of 2009 is chosen in accordance to the changes in child and family benefits, i.e. ‘child and family welfare era’ between 2004-2008 and cuts on contributory and non-contributory benefits for families with children since 2009 (Ivaškaitė-Tamošiūnė 2013, Avram et al. 2012).

The adequacy of provided support is also evaluated comparing cash social benefit provisions to child needs. Child needs are estimated using three methods: based on the needs of children implicit in the equivalence scale used in the calculation of the official at-risk-of-poverty line; on food basket estimations for Lithuania by Zabarauskaitė (2008) and on the maximum levels of social assistance available for children (see Table 12).

Table 12. Child needs by age, % of the median eq. disposable income

Age:	0-3	4-6	7-10	11-13	14-17
I. OECD scale, at 60% median pov. line	18.0				30.0
II. Food basket, indexed mean 2005-2013	18.2	22.4	27.5	30.7	
III. Cash social assistance, as of 2013	18.1				

Source: the author’s calculations based on OECD scale, Zabarauskaitė (2008) and cash social assistance rules. Note: Inclusive age boundaries. Two-parent household with one child assumed for I and III.

[68] Child/familybenefits are identified in SILC in variable *hy050n* (Eurostat 2013).

When using the OECD scale, the implied weight on child needs (0.3 for children below 14 years and 0.5 for children of 14 years or over) is taken into account for a two-parent household with one child with total equivalised disposable income at poverty threshold (60% of the median equivalised disposable income in the population). Food basket calculations are based on the estimates of food needs for children by Zabarauskaitė (2008). Available estimates for 2006 are indexed by the harmonized consumer price index (Eurostat 2015d) to cover the period of 2005-2013. The estimate presented in Table 12 is derived as a weighted average for families living in rural and urban areas and averaging those across years. Expenditure on children aged 11-14 and 14-17 was assumed equal to avoid inconsistency in estimations. I.e. Zabarauskaitė (2008) used different methodology for calculation of the needs of children up to 14 years of age and over: non-food expenditure was included in the latter case, but not in the former. Finally, child needs implicit in the Lithuanian system of cash social assistance are estimated based on the rules used for benefit calculation for a two-parent family with one child as of 2013, i.e. the coefficient of 0.7 is applied for children on the social assistance base (the state supported income at around 100 EUR (350 LTL)).[69]

Next, the share of expenditure on child and family cash social benefits received by children at risk of poverty relative to their proportion of all children is analysed following TARKI (2010). This indicates the degree of redistribution towards children living in the income poor households.

Finally, the first-order effects of different benefit types on reduction in at-risk-of-poverty rate and gap among families with children is analysed. The decomposition algorithm based on Shapley value (Shorrocks, 2013) is used to derive a mean value of absolute contributions of separate income components towards the total alleviation of poverty. The algorithm takes all sequential

[69] Rules according to the following law: “Lietuvos Respublikos piniginės socialinės paramos nepasiturintiems gyventojams įstatymas”. 2003 m. liepos 1 d. Nr. IX-1675, Vilnius. Žin., 2003, Nr. 73-3352. Size of state supported income according to the resolutions of the Government of the Republic of Lithuania: “Lietuvos Respublikos Vyriausybės nutarimas Dėl valstybės remiamų pajamų dydžio patvirtinimo“, Nr. 538, Žin., 2008, Nr. 67-2531.

combinations of income component recipiency into account. A negative sign on a decomposition term indicates that an income component reduces poverty. Thus for K income sources and s_k denoting income source k the FGT poverty index is defined as:

$$P(z;\ \alpha; y = \sum_{k=1}^{K} s_k\ ) = \frac{\sum_{i=1}^{n} w_i \left(\frac{z\ -\ y_i}{z}\right)_+^{\alpha}}{\sum_{i=1}^{n} w_i}$$

, where z is a poverty threshold at 60% of median disposable income in the total population, y is equivalised disposable income and w is the weight assigned to individual i, n is sample size. DASP Stata module version 2.3 (Araar & Duclos 2013) estimates:

- the absolute contribution of each income source k to the value of (P - 1) when $\alpha = 0$ for reduction in poverty rate;
- the absolute contribution of each income source k to the value of (P - 1) when $\alpha = 1$ for reduction in poverty gap.

As above, cash social benefits are split to identify the effects of cash social benefits by function (i.e. child and family benefits, social assistance benefits, old-age pensions, disability benefits and other benefits).

4.4.2. Reflection of child needs in cash social benefit design

The analysis starts with looking at the need for investment in children from the life course perspective. Unequal distribution of resources across the life course underpins the rationale for shifting income inter-temporally and between the population groups. Figure 22 shows an age-related income profile of the Lithuanian population averaged over the SILC data of 2005-2013.

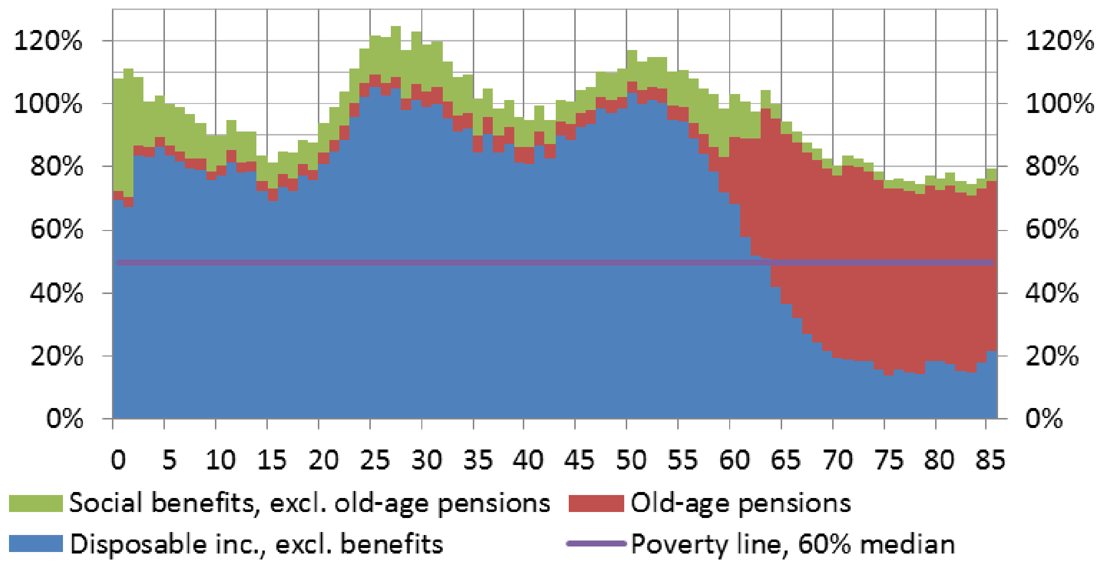

Figure 22. Age-related income profile of the Lithuanian population 2005-2013, % of the mean equivalised disposable income

Source: the author's calculations based on SILC data of 2005-2013
Note: nominal income levels for each year are equivalised using the modified OECD scale and normalized by the mean equivalised disposable income in the population.

Figure 22 reveals non-linearity of the age-related income profile in Lithuania, as well as the relative magnitude of the cash social benefits versus non-benefit income sources. A number of life stages may be identified from the graph, similar to Rowntree's (1901) periods of comparative want and plenty (see Section 1.1). These can be identified in the graph by falls and raises in the total disposable income of individuals by age groups and can be termed: infancy, childhood, early adulthood, parenthood, middle-age and old-age.[70] Infancy, early adulthood and middle age – are the three relatively affluent periods due to a combination of own or parental earning capacity and effects of the cash social benefits and pensions. On the opposite side are the three periods of 'want': childhood, parenthood and old-age – when the levels of disposable incomes fall below the average across population by age group. This brings to the idea of the systematic variation of income across the life-

[70] By age: infancy (approx. 0-3 years), childhood (approx. 4-17 years), early adulthood (approx. 18-29 years), parenthood (approx. 30-49 years), middle age (approx. 50-64 years), old-age (approx. 65 years and over).

course despite the fact that life-courses are much more diverse compared to the beginning of the previous century.

The perspective of social investment highlights the importance of redistribution over a life-course, especially with regard to earlier life stages. The dip in income of families with school-age children visible looking at the Lithuanian age-related income profile is problematic in this respect. The below average income of families with school age children within the Lithuanian population highlight the inability of the Lithuanian cash benefit system to counter-balance the increased child needs. As it was demonstrated through longitudinal analysis in Section 4.2, unmet increased need of families with teenage children is among the main demographic poverty triggers in Lithuania. Looking at the general picture presented in Figure 22, the only group of children whose families enjoy generous income protection are infants. For the latter group the abrupt dip in the household work-rlated income is not only mitigated though cash social benefits, but the overall disposable income levels are boosted above the average in the population. The effect is largely driven by the generosity of the contributory maternity-paternity benefits in Lithuania (Lazutka et al. 2013a, Navicke 2015).

The argument towards better income support for elder children is also backed up by high prevalence of the relative income poverty in Lithuania among children of different age. As it was demonstrated in Section 2.4 Lithuania has below average performance on reducing at-risk-of-poverty levels among the children in the EU, with higher poverty rates observed only in Romania and Spain, and Bulgaria for the middle age group of children. While there may be a number of factors behind high at-risk-of-poverty rates among children, we further look into age-related distribution of cash social benefits towards children and their families in Lithuania.

Figure 23 shows the levels of all child and family cash social benefits per child as compared to the median equivalised household disposable income. The average benefit levels are compared to the needs of children calculated using three methods: the modified OECD scale used in the official statistics, food baskets by Zabaraukaitė (2008) and the political threshold used for children when calculating social assistance.

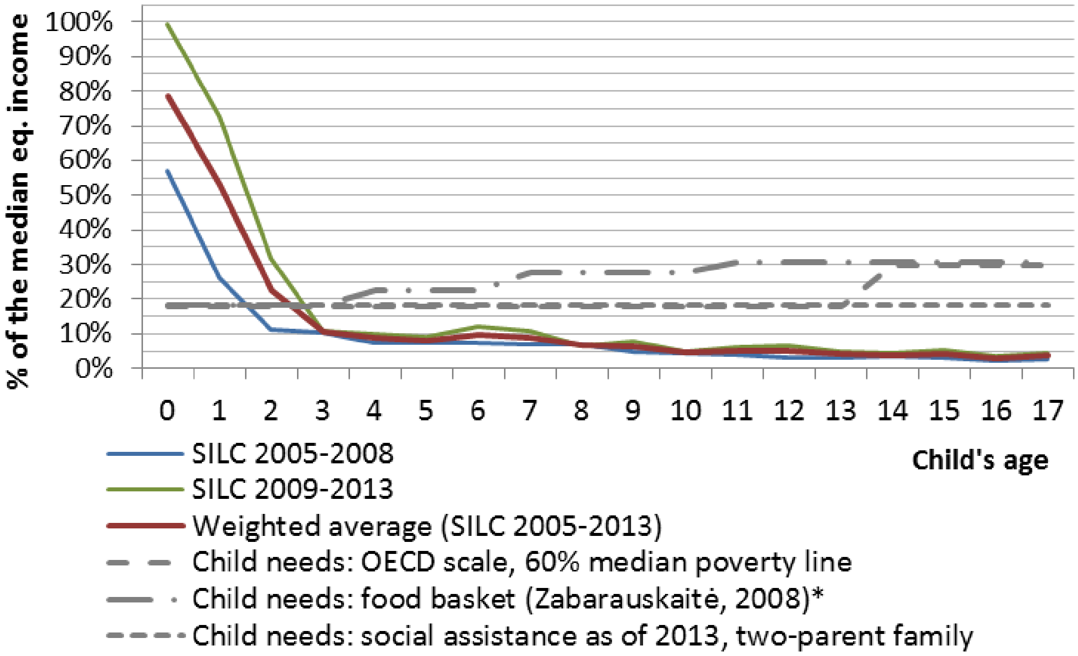

Figure 23. Distribution of child and family cash benefits and child needs by age, % of the median equivalised disposable income

Source: The author's calculations based on SILC 2005-2013. Child needs as in Table 12.
Notes: All child and family benefits per child as a share of the median equivalised household disposable income. Net child and family benefits include contributory and non-contributory maternity/paternity benefits, birth and pregnancy grants, child, guardianship and other benefits identified in SILC (variable *hy050n*). Benefits for children aged 0 corrected for months in receipt.

The three ways of estimating the child needs show consistent levels of needs for children aged 0-3 in Lithuania, and differ for elder children (see Figure 23). I.e. social assistance in Lithuania disregards changes in needs of children by age altogether; the official OECD scale assigns higher weight (0.5) on the needs of children elder than 13; the food basket estimates indicate a gradual increase in child needs with age up to the level similar to the one used applying the OECD equivalence scale on the medium equivalised income in Lithuania.

Figure 23 shows that the levels of the child and family benefits in Lithuania are adequate in the very early childhood if compared to child needs, standing on average at around 50% of the median equivalised income within the age group of 0-2 years as reported in 2005-2013 SILC. Generosity of cash benefit provisions for families with children under two years of age was on increase if the periods before and since 2009 are compared. The latter was due to *ad-hoc* increases in the duration, eligibility and replacement rates of the contributory and non-contributory child and family benefits during 2005-2008 in Lithuania (Ivaškaitė-Tamošiūnė 2013, Avram et al. 2012).

There is however a sharp decline in the cash social benefit provisions for elder children – those over two years of age, which continues into adolescence despite the raising child needs as indicated by both the OECD scale and the food-basket estimation. The average levels of provisions vary between around 9% of the median equivalised disposable income for children aged 3-6, to only 3.6% on average for children aged 14 and over between 2005-2013.The decline of cash support for children of elder age highlights the potential under investment through cash social benefit system into school age children. One example of policies discriminating elder children in Lithuania is child benefit. Child benefit payment is lowered in Lithuania for children over two years of age, while the latest change in the legislation excluded children over 6 years of age living in families with one or two children from receipt of child benefits altogether, even if living in poor households.[71]

It should also be emphasized that contributory maternity and paternity benefits are included into the Figure 23, accounting for the generosity of cash benefit provisions for families with infants. Contributory benefits however replace the incomes of parents who take maternity/paternity leaves and are mainly targeted at maintaining the income levels after childbirth, rather than explicitly for compensation for increased child needs. The non-contributory benefit levels available for families with new-borns and pregnant women reflect the degree of investment into families with new-borns aimed at compensating increased family needs. The latter is limited to the lump sum

[71]According to the following law: "Lietuvos Respublikos socialinių išmokų perskaičiavimo ir mokėjimo laikinasis įstatymas". 2009 m. gruodžio 9 d. Nr. XI-537. Žin., 2009, Nr. 152-6820, Vilnius

pregnancy and birth grants, complemented with child benefits. Table 13 indicates the evolution of the non-contributory pregnancy and birth grants in 2005-2013 and their generosity as compared to the median equivalised disposable income.

Table 13. Non-contributory pregnancy and birth grants in 2005-2013, Eur.

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pregnancy grant (A)	72	72	75	75	75	75	75	75	75
Birth grant (B)	290	290	301	301	414	414	414	414	414
Annual child ben. (C)	326	326	339	339	339	339	339	339	339
Annual median eq. income (D)	2057	2534	3273	4168	4715	4026	3857	4337	4699
(A+B) / D	*18%*	*14%*	*12%*	*9%*	*10%*	*12%*	*13%*	*11%*	*10%*
C/D	*16%*	*13%*	*10%*	*8%*	*7%*	*8%*	*9%*	*8%*	*7%*
(A+B+C) / D	***33%***	***27%***	***22%***	***17%***	***18%***	***21%***	***21%***	***19%***	***18%***

Source: Eurostat (2015) for median income (D); the author's calculations based on benefit rules for A, B, C. Notes: child benefit – per child, one or two children in the family and in 2010-2013 qualify for income test. Official exchange rate of 3.4528 applied for conversion to EUR, rounded values.

Table 13 shows that the total amount of the non-contributory pregnancy grant, birth grant and child benefits deteriorated over the period of 2005-2013: from around 33% of the annual median equivalised disposable income in the population in 2005 to 18% in 2013. This was due both to high growth in the median income during the period and no indexation of the non-contributory pregnancy, birth grants and child benefits. In effect the change in the pregnancy grant and child benefit was at around 4% of their initial size between 2005-2013, birth grant increased by around a half while the median income more than doubled. The listed benefits just about cover the child needs between 2008-2013 in Lithuania and do not allow for any additional needs of the mother. This under-investment in pregnant women and mothers with new-born children who do not qualify for receipt of the contributory maternity cash benefits is worrying. The pregnancy grant level was inadequate compared to the needs of infants identified in Figure 23 for all years, with levels below the state supported income threshold used for social assistance since 2008.

4.4.3. Investment in children living in poor families

While the above analysis concerned children in general, special attention should be given to social investments into children living in poor families. Share of child and family benefits for children living in poor households, total expenditure on these benefits and share of poor children among all children are reported in Figure 24.

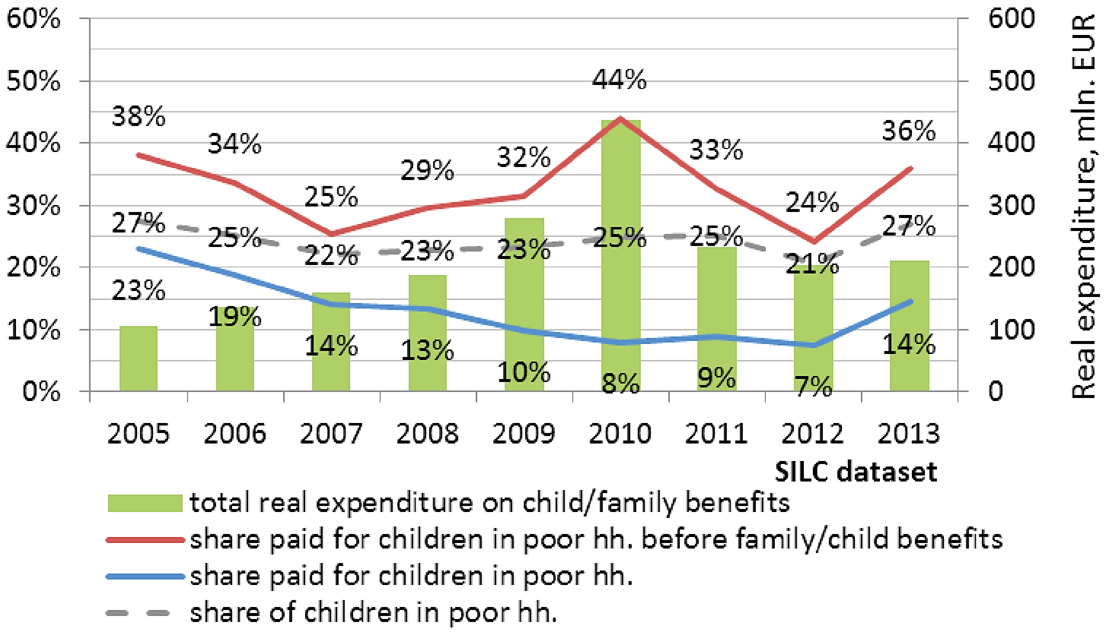

Figure 24. Child and family benefits – total expenditure, % spent on poor children and % of children living in poor households

Source: the author's calculations; share of children living in poor households as reported by Eurostat (at-risk-of-poverty line at 60% of median equivalised income); real expenditure on benefits calculated taking account of inflation, i.e. HICP index (Eurostat 2015 [prc_hicp_aind] – all items). Official exchange rate (3.4528) applied for conversion to Euro.

Figure 24 shows that the major part of all child and family cash benefit expenditure in Lithuania was paid to children living in non-poor households over the reported period of 2005-2013. The share of child and family benefits paid for poor families with children was on decrease between 2005-2012 from around 23% to 7%, despite the remarkable increase of the total expenditure on child and family benefits up to 2010.

To put this in the context, the share of benefit expenditure spent on poor children was termed in TARKI (2010) as 'the transfer distribution index', highlighting the degree of vertical redistribution towards poor children and their families. The latter study showed that in the EU on average children at risk of poverty receive more benefits than their proportion of all children. The Baltic countries, Italy and Spain were highlighted in the study as exceptions, spending less on poor children than their share would imply. As shows, the gap between the share of children living in poor households and the share of total child/family benefit expenditure spent on this group widened in Lithuania during the analysed period, highlighting an increasing degree of under-investment into children at-risk-of-poverty.

The question remains though on how the increase in expenditure on child and family benefits was distributed. The above gap between the share of children at-risk-of-poverty in Lithuania and share of benefits going to this group highlights that the changes in the system were mainly beneficiary for non-poor families. Indeed, the expanding coverage of child benefit up to 2007 and its universalization in 2008 made non-poor households with children eligible for benefit receipt. While eligibility for child benefit was restricted in 2009 and further in 2010 with an introduction of the income test, the poor households have lost on the child benefits as well, especially as all children over 6 years old living in households with one or two children became ineligible for child benefits. The non-poor households that have benefited from the changes in the benefit system were also those in receipt of contributory maternity and paternity benefits, which increased substantially in their duration and replacement rates, especially with regard to the period of 2008-2010.

The changes in the share of expenditure on benefits paid for children in households that would have been poor in absence of child and family benefits indicate the shift of the resources towards this group (see). The effect of increased generosity of the contributory maternity benefits or increased coverage of child benefit under initial examination seem not to transfer into the lower at-risk-of-poverty rates among children, with around a quarter of children being in at-risk-of-poverty in Lithuania as reflected in the SILC data of 2005-2013. Under closer scrutiny, however, increased factual expenditure on child/family benefits during the latest economic crisis helped mitigate the drop in the non-benefit income of families with children and stabilize child poverty rates. The detailed analysis of this effect is further discussed.

Figure 25 and Figure 26 reflect first order effects of the Lithuanian cash benefit system on poverty levels among families with children. The decomposition of at-risk-of-poverty rates using the Shapley value indicates the absolute contribution of cash social benefits by type in reducing at-risk-of-poverty rate (Figure 25) and gap (Figure 26) among families with children.

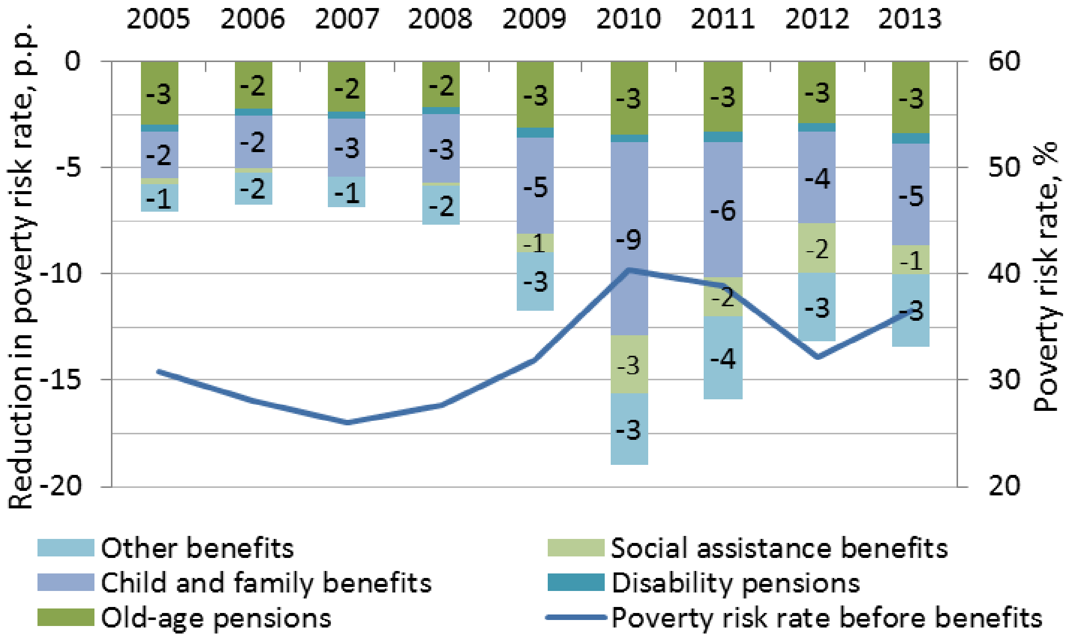

Figure 25. Absolute contribution of income components in reducing at-risk-of-poverty rate among families with children in Lithuania, 2005-2013

Notes: Based on 2005-2013 SILC; decomposition based on Shapley value using DASP module v. 2.3 in Stata (Araar & Duclos 2013). Only contributions of above 1 p.p, indicated. negative sign on a decomposition term indicates that the component reduces poverty.

Figure 25 and Figure 26 (below) indicate a differential effect of child/family benefits versus social assistance benefits on reducing at-risk-of-poverty rate and gap among families with children in Lithuania. Contributory family and child benefit had larger effect on reduction of at-risk-of-poverty rates and helped substantially mitigate an increase in the relative income poverty during the latest economic crisis since 2009. At the point when expenditure was the highest (2010 SILC) child and family benefits helped reduce the at-risk-of-poverty rate among families with children by around 9 p.p. The effect was smaller in other years and varied between 2 to 6 p.p. Child and family benefits also contributed at 6 to 10 p.p. towards reducing at-risk-of-poverty gap.

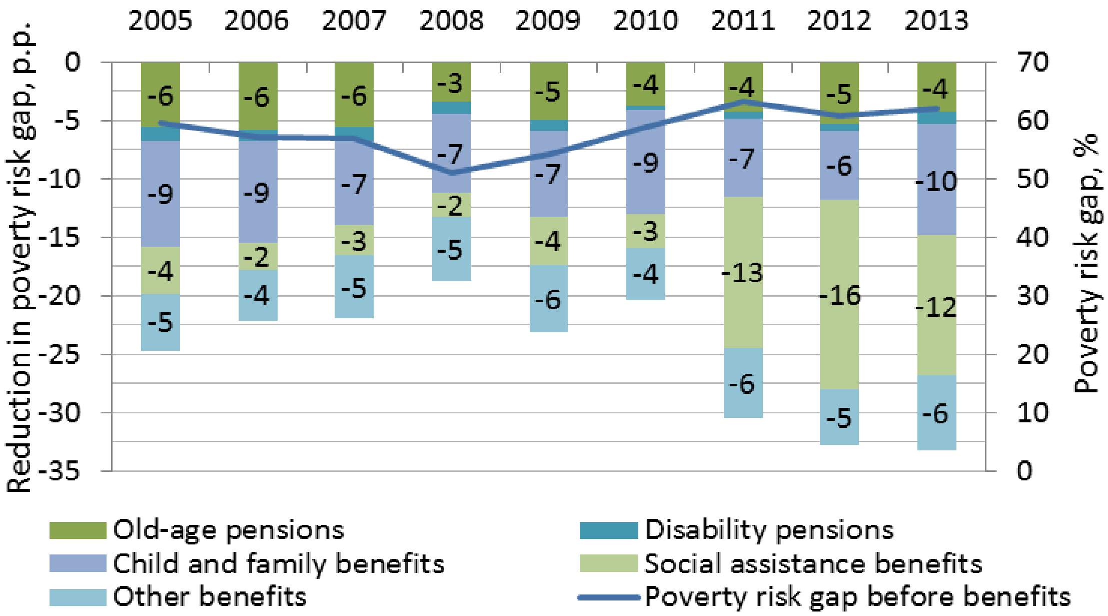

Figure 26. Absolute contribution of income components in reducing at-risk-of-poverty gap among families with children in Lithuania, 2005-2013

Note: Based on 2005-2013 SILC; decomposition based on Shapley value using DASP module v. 2.3 in Stata (Araar & Duclos 2013). Only contributions of above 1 p.p, indicated. A negative sign on a decomposition term indicates that the component reduces poverty.

On the other hand, social assistance had only marginal effect on reducing at-risk-of-poverty rate among families with children before the onset of the crisis in 2009 and thereafter. The latter highlights the fact that the maximum amounts of cash social assistance are well below the at-risk-of-poverty line at 60% of the median equivalised disposable income in Lithuania.

Nevertheless, social assistance benefits played an important role in decreasing at-risk-of-poverty gap among families with children, especially as the family and child cash benefits were cut back since 2010. The effect was of around 13 p.p. to 16 p.p. The effect of cash social assistance has however decreased since 2012 (2013 SILC) highlighting a negative effect the latest social assistance reform had on families with children. A major change was the introduction of the equivalence scales into calculation of the social assistance since 2012.[72] This change effectively reduced the levels of assistance to families with children. No supplements for children or single parents were foreseen, neither there was a compensating increase in the base for the calculation of social assistance – state supported incomes.

Other benefits important for reduction of at-risk-of-poverty rate and gap among households with children included old age pensions (2-3 p.p. effect on the at-risk-of-poverty rate and 3-6 p.p. on at-risk-of-poverty gap) and other benefits including unemployment benefits (1-4 p.p. effect on at-risk-of-poverty rate and 4-6 p.p. on at-risk-of-poverty gap). Disability benefits had marginal effect on at-risk-of-poverty rate and gap among families with children in Lithuania.

4.4.4. Conclusions

To sum up, the age-related income profile and high at-risk-of-poverty rates among children in Lithuania highlight the need for more investment through cash social benefits into the families with children, especially those of school age. While social investment discourse in Lithuania is targeted at children, the actual income support policy is highly concentrated on new-borns of insured parents and can be called pro-natalist rather than a genuine long-term child investment policy.

The income support for uninsured mothers with new-borns is inadequate in respect to the child's and mother's needs and deteriorated during the period of 2005-2013 observed in the SILC data. Furthermore, additional needs of single parents and increases in child needs with age are not incorporated either into social assistance, or into child/family cash benefit systems. On the contrary, children of 6 years and over living in families with

[72] According to the following law: "Lietuvos Respublikos piniginės socialinės paramos nepasiturinčioms šeimoms ir vieniems gyvenantiems asmenims įstatymo pakeitimo įstatymas. 2011 m. gruodžio 1 d. Nr. XI-1772. Žin., 2011-12-20, Nr. 155-7353"

one or two children became not eligible for receipt of child benefits since 2010, even if living in the income-poor families.

A differential effect was noted for child and family benefits versus social assistance benefits on reducing at-risk-of-poverty rate and gap among families with children in Lithuania. Family and child benefit had larger effect on reduction of at-risk-of-poverty rates and helped substantially mitigate increase in the relative income poverty during the latest economic crisis. On the other hand, the role of cash social assistance in reducing at-risk-of-poverty rates among families with children was relatively low. Nevertheless, social assistance benefits played an important role in decreasing at-risk-of-poverty gap among families with children, especially as the family and child cash benefits were cut back since 2010. The capacity of social assistance benefits to reduce poverty gap was, however, undermined with introduction of equivalence scales into the system of social assistance since 2012, with negative effects on families with children.

An overall decrease in investment in children living in families at-risk-of-poverty was noted for the period of 2005-2013. The gap between the share of children living in poor households and the share of total child/family benefit expenditure spent on this group widened in Lithuania during the analysed period. Moreover, the changes in the system and factual increase in expenditure on child and family benefits during the analysed period were mainly beneficiary for non-poor families. Under closer inspection, increased factual expenditure on child and family benefits helped mitigate income losses of non-poor households during the latest economic crisis, stabilizing child poverty rates.

Finally, high at-risk-of-poverty rates among children in Lithuania are worrying. The long-term effect of under-investment in children living in poor families in Lithuania is of major concern. Further research on child and family needs and inter-generational poverty transfer is urgent to inform policy debate and improve social investment function of cash social benefit system for families with children in Lithuania.

5. DISCUSSION

Despite the economic development and political efforts the problem of poverty is still urgent in Lithuania, in the EU and worldwide. The dissertation was aimed at contributing to a better understanding of the diverse ways the problem of poverty is framed, of the array of social policy strategies for poverty reduction and their outcomes for individuals. Poverty reduction debate and practice was analysed through the prism of cash social benefits – one of the major tools directed at poverty reduction in the sphere of social protection. Given the resources dedicated for cash social benefit provisions in Lithuania and the EU, the debate and developments in this sphere bear theoretical and practical importance, and reflect the general understanding, strategies and tendencies in the efforts to tackle the problem of poverty.

The research strategy chosen for analysis of the role cash social benefits play in poverty reduction relied on an assumption of existence of links between the perceptions of the problem of poverty, its causes and the institutionalised strategies of dealing with it. The aim is to deconstruct the ways the problem of poverty is framed in the academic and political debate and link it to proposed solutions and 'lived' effects for those considered poor and the population in general. While the direct causal effects cannot be strictly inferred and are influenced by numerous factors, the analysis helps uncover inconsistencies and limitations in the ways the problem of poverty is framed and in the implementation of poverty reduction strategies.

The above analysis revealed four way poverty is framed and four corresponding poverty reduction strategies, i.e. disciplinary, redistributive, social inclusion and social investment. As it was noted, the role of cash social benefits is often perceived as being 'passive' and bearing mainly redistributive function, as opposed to more 'active' preventive measures aimed at labour market activation, removal of institutional participation barriers and investment into development of human capabilities and skills. The tendencies towards individualization and Europeanization in social protection determine a shift of poverty reduction debate away from redistributive policies, cash social benefits in particular. The reduced attention to redistributive policies is however problematic with regard to poverty outcomes. Hence, reorienting the debate on cash social benefits from them being solely a redistributive tool towards other functions is important for maintaining political and public support for cash social benefits, for strengthening manifold potential of this tool for poverty reduction, for improving cash social benefit design.

Following the argument, it was argued that cash social benefits have a strong potential to play an active role in poverty reduction by means of direct redistribution as well as by performing disciplinary, social investment and social inclusion functions. While there are close links as well as trade-offs between these four roles, these are mainly subject to cash social benefit construction and design. In accordance with the proposed theoretic scheme, better performance in each of the four areas contributes to better poverty-related outcomes and *vice versa*. The contribution of cash social benefits in reducing poverty can be expected to be strong and positive if:

- positive incentives are built in and/or negative incentives are avoided within the system of cash social benefits for labour market participation as well as affecting other behaviours, e.g. in the spheres of education, healthcare, nutrition, etc. *(disciplinary role)*;
- benefits are of adequate size for attaining preferable levels of re-distribution, especially for protection against acute income shocks and provision of minimum income for the poor (*redistributive role*);
- there is high benefit coverage and low levels of stigmatization of benefit recipients (*social inclusion role*);
- there is sufficient investment into the development of human capabilities through direct cash benefit provisions, especially for families with children, but also youth, prime-age adults and elderly (*social investment role*).

The analysis of the development and institutional traits of the Lithuanian cash benefit system as well as the national poverty reduction strategies showed that the contemporary political debate in Lithuania shifts away from redistributive and income maintenance policies towards problematization of poverty as social exclusion since the accession to the EU in 2004. Tendencies towards individualization and Europeanization in social protection in Lithuania noted by a number of Lithuanian researchers contribute to the process. Moreover, the disciplinary elements of the system of cash social benefits also enjoyed political attention and were by and large strengthened, especially during the last decade and since 2009. Finally, commitments of investing into children articulated in the Lithuanian poverty reduction programmes were followed up with numerous changes in the system of child and family benefits, especially in 2004-2008.

Following the outcomes of these changes in poverty debate and policy practice in Lithuania, wide and expanding inclusiveness of the Lithuanian cash social benefit system was noted with regard to its coverage. Nevertheless, this mainly concerns the system of social insurance, while negative connotations and stigmatization of social assistance recipients persist and are given little political attention. The system relies almost entirely on the negative disciplinary measures for incentivizing people into work, generating high disincentives to work at the bottom of the Lithuanian income distribution. Investments into children through the cash social benefit system are primarily concentrated on insured families with very small children and can be called pro-natalist rather than a genuine long-term social investment policy. In terms of redistributive outcomes, the overall increase in the system's redistributive capacity during the first two decades since 1990 can be interpreted as a catch-up effect, while the aggregate expenditure and absolute levels of cash benefits in Lithuania remain relatively low. Furthermore, the empirical analysis showed weak capacity of the Lithuanian cash benefit system in protecting individuals against income shocks and in case of increased needs. The under-performance of the system in fulfilling its redistributive, disciplinary and social investment roles, as well as stigmatization of social assistance recipients, form a pre-requisite for below average performance of the Lithuanian system of cash social benefits on poverty reduction within the EU.

Finally, it should be noted that the above analysis is limited in that it puts explicit attention on the role of the cash social benefits in reducing income poverty in Lithuania. The role of other social policy elements and on other poverty dimensions requires further research. The use of the proposed scheme for the analysis of poverty reduction strategies can potentially be extended for investigating the disciplinary, redistributive, social inclusion and social investment roles of social services and regulations. Cross-country analysis of would help establish the contribution and links of the four components to poverty reduction.

6. CONCLUSIONS

Poverty is a complex phenomenon that requires a complex response. In this dissertation, a scheme encompassing a diversity of poverty notions and poverty reduction strategies was proposed and used for analysing the role of cash social benefits in poverty reduction in Lithuania. The following conclusions can be made:

1. **Disciplinary, redistributive, social inclusion and social investment strategies of poverty reduction can be identified in academic and political domains in Lithuania and in a broader EU context.** The four strategies are related closely to the perceived causes of poverty, i.e.: poverty as individual deviation, poverty as a basic needs problem, poverty as social exclusion, poverty as lack of capabilities for functioning. The four strategies constitute an 'ideal type' classification with a degree of hybridization in the academic and political debate and practice.
2. **The system of cash social benefits has a potential for playing an active fourfold role in reducing poverty by the means of income redistribution *per se* as well as by incorporating disciplinary, social inclusion and social investment functions.** While there are close links as well as trade-offs between these four functions, these are mainly subject to construction and design of the system of cash social benefits. Complementarity of the four functions should be pursued when building and reforming the cash social benefit system.
3. **The role of the cash social benefit system in poverty reduction in Lithuania is jeopardized by negative effects on work incentives built into design of cash social assistance benefits, by low redistributive capacity and protection against income shocks, by insufficient level of investment into children living in the income poor and near-poor families**. The under-performance of the system in fulfilling its disciplinary, redistributive and social investment roles form a pre-requisite for below average performance of the Lithuanian system of cash social benefits on

poverty reduction within the EU. High at-risk-of-poverty rates among families with children, especially those of school age, is especially worrying aiming for both short and long term aims of poverty reduction. On the other hand, the inclusiveness of the Lithuanian cash benefits system is relatively high and expanding as far as its coverage is concerned, especially in the sphere of social insurance. Nevertheless, stigmatization of social assistance recipients undermines social inclusion and broader poverty reduction goals.

The following features of the design of the cash social benefit system and its functioning have been identified based on the proposed theoretic scheme:

The disciplinary role:

1. **The disciplinary role of the system of cash social benefits in Lithuania is mainly focused on work incentives.** Most work incentives' measures are encompassed into the contributory unemployment and non-contributory income-tested benefits and compensations. Negative incentives that discourage benefit receipt directly (though strict conditionality, benefit reduction over time), or indirectly (by keeping unemployment and social assistance benefits at low levels, reducing them with extra earned income) dominate the system. There is a lack of positive work incentives built into the system that would boost the level of income for low earners.
2. **While the incentives to increase work efforts are relatively high in the middle and upper part of the Lithuanian income distribution, these are substantially lower for people in the lower income quintile.** Such regressive profile of work incentives is due to the combination of strict withdrawal of cash social benefits with income or employment, a narrow gap between in-work income and cash benefit provisions for low earners with children and flat tax-rate system of personal income taxation (except of tax allowances) and social insurance contributions. High disincentives to work at the bottom of the Lithuanian income distribution are dominated by

the effect of cash social benefits, while the effects of taxes and social insurance contributions on work disincentives are limited in this group.

3. **The design of the cash social assistance benefits in Lithuania creates a strong trade-off between adequacy of the cash social benefit for the able-bodied working age adults and work incentives in Lithuania.** *Naïve* nearly one-to-one withdrawal of cash social assistance with additionally earned income not only undermines work incentives of its recipients. It also limits the possibilities to encourage labour market participation among social assistance recipients though other components of tax-benefit system (e.g. direct taxes).
4. **Single parents and single earners with dependent family members are subject to the highest inactivity, unemployment and low wage traps in Lithuania.** This is especially true when earning capacity of the single parent or sole earner in the family is below or around a minimum wage. Such families are also most sensitive to *ad-hoc* changes in cash social benefits levels relative to wages. Absence of indexation of cash benefits and minimum wages in Lithuania contributes to the volatility of the levels of work incentives among benefit recipients.

The redistributive role:

1. **The analysis of the redistributive role of cash benefits showed relatively low aggregate levels of redistribution through cash social benefit system in Lithuania, low levels of income protection and de-commodification.** This contributes to high incidence of poverty and substantial rotation within the population of the poor, with around a quarter of Lithuanian population who experienced at least one at-risk-of-poverty spell (at 50% median poverty line) within the consecutive four-year periods between 2005-2013. Volatile socio-economic conditions in Lithuania challenge the system of cash benefits, but also revealed a high need for strengthening income maintenance mechanisms.

2. **The Lithuanian cash benefit system has a weak capacity in protecting individuals against income shocks due to unemployment or under-employment, growing children needs in adolescence, household splits (including separation and divorce), as well as against *ad-hoc* changes in cash benefit amounts.** The most risky insured trigger into poverty was job loss. Among other insured events childbirths, transition to retirement and acquired disability status were among the least risky transitions in Lithuania within the period of 2005-2013.
3. **The main characteristics safeguarding from transitioning into poverty are associated with having tertiary education, high work intensity levels and living with a partner.** The probability of transition into poverty in Lithuania between 2005-2013 was higher for singles, those living in a household with a female household head, or one under 25 years old or with low education, as well as for those with children, living within an extended family or household with low or median work intensity.
4. **The routes out of poverty for poor households are to a large degree constrained to relying on own earning capacity or cash social benefit support**. Around a half of all the poverty exits during 2005-2013 were associated with getting a new job or increase in earnings. Another quarter of poverty exits on average were associated with increases in pensions and other cash social benefits. Beside these options routes for escaping poverty in Lithuania were scarce. Hence, both strengthening people employability prospects and maintaining adequate cash social benefit provisions for the poor are essential for building a comprehensive poverty reduction strategy.

The social inclusion role:

1. **The research revealed wide and expanding inclusiveness of the Lithuanian cash social benefit system with regard to its coverage.** The share of adults before the statutory pension age and not insured or receiving cash social benefits in Lithuania was on a steady decline from around one fifth to around 10% as revealed by the SILC data of 2005-2013. The

expanding factual coverage of the system of social insurance and non-contributory cash benefits is in line with the documented increase in the institutional system's coverage in Lithuania.

2. **The distribution of those covered and not covered by the system of social insurance and non-contributory benefits varied across the income groups.** Coverage rates were higher at the top of the income distribution and decrease substantially for lower income quintiles. The highest coverage gaps were observed in the lowest income quintile at the beginning of the reference period (at around 45%) with a steady declined thereafter (to around 16%). Increase in coverage of cash social assistance during the recent economic crisis and a decline in the numbers of people not paying social insurance contributions on all their work-related income contributed to this trend.
3. **The main coverage gaps of the cash social benefit system were identified in the population of children, unemployed and those living on very low income in Lithuania.** Towards the end of the analysed period the coverage rates of cash social benefits in the first two groups was at around a third, while in the latter group it reached around a half of all potential recipients. Nearly full coverage of the system was observed in cases of old-age and disability in Lithuania.
4. **A complex system of cash social benefits, its numerous *ad-hoc* changes, the existence of privileged groups and low levels of individual benefits in Lithuania may undermine the willingness to participate in the system and jeopardize its development prospects.** While the Lithuanian cash social benefit system contains around 40 benefits, allowances, direct compensations and stipends, the majority of those exiting poverty after benefit receipt manage to do so only by combining multiple benefit sources. Numerous *ad-hoc* changes of the system and existence of the privileged groups eligible for state pensions makes the system less transparent and may negatively affect the incentives of the latter, often influential, group to improve the design of the system.

The social investment role:

1. **Social investment efforts in the Lithuanian cash social benefit system are primarily oriented towards children. Nevertheless, the income support policy is highly concentrated on new-borns of insured parents and can be called pro-natalist rather than a genuine long-term child investment policy.** The cash social support provided for children born into uninsured families is inadequate for covering child needs and deteriorated between 2005-2013 relative to the median income in the population. The introduction of the equivalence scale for the calculation of the social assistance size is unfavourable to families with children. Few links with the system of education, healthcare or personal social services are built into the system of cash social benefits targeted at families with children in Lithuania.
2. **Increases in child needs with age, as well as additional needs of single parents are not incorporated either into social assistance, or into child benefit systems in Lithuania**. Cash benefit support for children living in single-parent households and during the later periods of childhood and adolescence is inadequate and reflected in high at-risk-of-poverty levels among these groups in Lithuania.
3. **The systems of child and family benefits and social assistance have different effects on poverty levels and gaps among families with children in Lithuania**. The child and family benefits play an important role in reducing at-risk-of-poverty rates, while social assistance help reduce poverty gap among families with children, especially during the latest economic crisis. The capacity of social assistance benefits to reduce poverty gap was, however, undermined with introduction of equivalence scales into the system of social assistance since 2012, with negative effects on families with children.
4. **Despite the expanding generosity of child and family benefits in 2004-2008 noted by previous research for Lithuania, there was an overall decrease in investment in children living in families at-risk-of-poverty**

between 2005-2013. The gap between the share of children living in poor households and the share of total child and family benefit expenditure spent on this group widened in Lithuania during the reference period. The changes in the system and factual increase in expenditure on child and family benefits during the analysed period were mainly beneficiary for non-poor families. These, however, helped mitigate income losses of the non-poor households during the latest economic crisis, stabilizing child poverty rates in Lithuania.

Wide political and social consensus on the importance of building and implementing comprehensive poverty reduction strategies is essential for a long-term poverty response. The fourfold approach to evaluating social protection policies has strong potential for reinforcing such a consensus. A broad understanding of the role cash social benefits play in poverty reduction contributes to strengthening its redistributive capacity, as well as disciplinary, inclusion and investment functions, which is a prerequisite for a comprehensive design and implementation of the poverty reduction policies.

7. RECOMMENDATIONS

The recommendations for further research and monitoring of the cash social benefit system:

1. **Further analysis of the under-researched disciplinary, redistributive, social inclusion and investment aspects of the Lithuanian cash social benefit system is needed.** First, this concerns stigma experienced by benefit recipients, especially those in receipt of social assistance and the related issue of benefit non-take-up. Other little investigated areas include social and economic returns on cash benefit investments, the extent of benefit dependency and its inter-generational aspects, the links between in-cash and in-kind social benefit provisions.
2. **The proposed theoretic scheme can be incorporated into research and monitoring of the cash social benefit system and its reforms in Lithuania.** The potential of using the proposed scheme for the analysis of the functioning of other instruments of social protection and social policy should be explored. A cross-country analysis would help better establish the inputs of the four components into poverty reduction and the magnitude of the effects.
3. **Further analysis of poverty dynamics and effects of the Lithuanian cash benefit system is essential and can be undertaken taking a longitudinal view.** The longitudinal component of the EU SILC data, especially its national component, provides detailed accounts of cash benefit receipt combining both self-reported and administrative records.
4. **The OECD/EC estimates of work incentives for Lithuania, especially among single parent and on the extent of the unemployment traps have to be treated with caution.** The work incentives indicators estimated by using EUROMOD provide an alternative source of information and a possibility to analyse the effects of the tax-benefit system on a representative population sample rather than by solely using a model family methodology. The tool is flexible for model family type calculations in

respect of both income thresholds and family types in the national context. Moreover, decompositions of the indicators of work incentives to single out the effects of components of the tax-benefit system may be carried out.

The recommendations for strengthening the role of cash social benefits in reducing poverty in Lithuania:

1. **To adjust the design of the Lithuanian system of cash social benefits aiming to reduce negative and strengthen positive incentives to work.** To consider replacing the *naïve* nearly one-to-one withdrawal of cash social assistance with additionally earned income with a less steep taper. To consider introduction and strengthening of measures that widen the gap between in-work income and cash benefit provisions without eroding the protection floor, e.g. income disregards, in-work benefits or tax-related mechanisms. Reducing disincentives to work embedded in the Lithuanian system of cash social benefits is especially important for the group of the single parents and individuals with children who have low earning capacity at below or around a minimum wage.
2. **To strengthen the capacity of the Lithuanian cash benefit system in protecting individuals against income shocks, in cases of increased needs or multiple risks.** Consider expanding generosity of cash benefit provisions in cases of unemployment, introduction of contributory benefits in case of partial reduction in employment, incorporation of the growing child needs in adolescence as well as that of single parents into child benefit and/or social assistance design. Supplements for people facing multiple risks, e.g. for single pensioners, within the system of cash social benefits in Lithuania can strengthen its poverty-reducing capacity.
3. **The coverage of the system of cash social benefits should further be expanded, especially among children, unemployed and those living on very low income in Lithuania.** To continue expansion of the coverage of the social insurance system in Lithuania, encompassing uninsured groups and expanding the scope of insurance. Consider naming and framing of

cash social benefits, especially social assistance, in more neutral and non-stigmatizing terms.

4. **To reform the Lithuanian system of cash social provisions to families with children into a genuine long-term child investment policy**. The cash social assistance provided for newborn children in uninsured families is inadequate for covering child and mother's needs and needs to be strengthened. Increases in child needs with age, as well as additional needs of single parents should be incorporated either into social assistance, child benefit systems or in-work allowances in Lithuania.
5. **To reduce complexity and avoid *ad hoc* nature of changes in the system of cash social benefits.** To consolidate cash benefit provisions avoiding doubling of cash benefits. To consider introduction of indexation into the system of cash social benefits to increase transparency and reduce the possibilities for political manipulation. The consolidation of the system and introduction of indexation can strengthen the protective and income stabilization capacity of the system, as well as minimize unintended negative effects on work incentives of the beneficiaries.

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ANNEXES

Annex 1. Distribution of the marginal effective tax rates (METR), %

	Income quintile						*Income quintile*					
	1	2	3	4	5	Total	1	2	3	4	5	Total
Year:	**2005**						**2006**					
mean	26	26	30	31	33	30	33	27	29	32	34	31
median	18	36	36	36	36	36	36	36	36	36	36	36
P25	3	3	32	36	36	31	3	7	33	36	36	33
P75	36	36	36	36	36	36	36	36	36	36	36	36
Year:	**2007**						**2008**					
mean	32	24	25	27	29	27	34	22	23	25	26	26
median	30	30	30	30	30	30	27	27	27	27	27	27
P25	3	3	30	30	30	30	3	25	27	27	27	27
P75	30	30	30	30	30	30	28	27	27	27	27	27
Year:	**2009**						**2010**					
mean	38	30	25	25	25	28	37	31	26	25	25	28
median	27	27	27	27	25	27	27	27	27	27	27	27
P25	9	24	24	24	24	24	9	24	24	24	24	24
P75	42	27	27	27	27	27	34	28	27	27	27	27
Year:	**2011**						**2012**					
mean	38	31	25	25	25	28	40	27	25	25	25	27
median	27	27	27	27	27	27	27	27	27	27	26	27
P25	9	24	24	24	24	24	10	24	25	24	24	24
P75	52	27	27	27	27	27	82	27	27	27	27	27
Year:	**2013**											
mean	41	27	25	25	25	27						
Median	27	27	27	27	24	27						
P25	10	24	25	24	24	24						
P75	82	27	27	27	27	27						

Source: the authors' calculations using EUROMOD v. G1.0

Note: Income quintiles by equivalised household disposable income in the total population. P25 – 25th percentile, P75 – 75th percentile of the income distribution. Employer social insurance contributions not included. METR estimated among those in receipt of employment or self-employment income for a marginal increase in income by 3%.

Annex 2. Decomposition of the METR by element of tax-benefit system, %

	Income quintile						*Income quintile*					
	1	*2*	*3*	*4*	*5*	Total	*1*	*2*	*3*	*4*	*5*	Total
Year:	**2005**						**2006**					
Total	26.4	25.6	29.5	30.9	33.2	29.9	33.2	27	29.2	31.7	33.6	31.3
Benefits	10.6	0.3	0.1	0	0	1.5	15.5	0.4	0.1	0.1	0	2.2
Taxes	13	21.9	25.5	27.1	29.6	24.8	14.1	23.5	26.1	28.1	30	25.7
SIC	2.7	3.4	3.9	3.7	3.6	3.6	3.7	3.1	3.1	3.6	3.6	3.4
Year:	**2007**						**2008**					
Total	31.7	23.7	25.5	27.1	28.6	27.4	34	22.2	23.1	24.7	25.9	25.6
Benefits	15.8	0.4	0.2	0	0	2.2	18.3	0.6	0.2	0	0	2.7
Taxes	12.8	19	21.5	23.5	24.8	21.4	12.6	18.5	19.8	21.3	22.3	19.7
SIC	3.1	4.3	3.8	3.7	3.8	3.7	3	3.1	3.1	3.4	3.5	3.3
Year:	**2009**						**2010**					
Total	38.1	30.4	24.8	24.9	24.7	27.6	37.4	31.4	25.9	24.9	24.7	27.8
Benefits	19.3	7.4	0.4	0.6	0.1	4.2	18.8	9.1	1.7	0.3	0	4.5
Taxes	8.8	13.3	14.7	15.1	15.4	13.9	8.6	12.7	14.5	15.2	15.5	13.8
SIC	10	9.8	9.7	9.3	9.1	9.5	10	9.7	9.7	9.3	9.2	9.5
Year:	**2011**						**2012**					
Total	38.1	30.6	25.2	24.9	24.7	27.7	40.3	27	24.8	24.8	24.6	27.3
Benefits	19	7.8	0.8	0.1	0	4.1	21.3	3.6	0.1	0.2	0	3.6
Taxes	8.7	12.9	14.6	15.4	15.5	13.9	8.7	13.4	14.9	15.2	15.4	14
SIC	10.3	10	9.8	9.4	9.2	9.7	10.3	10	9.8	9.5	9.2	9.7
Year:	**2013**											
Total	40.7	27.1	25.2	24.9	24.5	27.4						
Benefits	21.5	3.3	0.5	0.1	0	3.6						
Taxes	8.8	13.8	14.9	15.4	15.3	14.1						
SIC	10.3	10.1	9.8	9.4	9.2	9.7						

Source: the authors' calculations using EUROMOD v. G1.0

Note: Employer social insurance contributions not included. METR estimated among those in receipt of employment or self-employment income for a marginal increase in income by 3%. Income quintiles by equivalised household disposable income in the total population. SIC – social insurance contributions.

Annex 3. Coverage of the cash social benefits by income quintile, %

	Income quintile					
	1	*2*	*3*	*4*	*5*	Total
Year:	**2005**					
not-covered	45.1	25.1	19.8	14.2	14.8	23.0
contributor	26.3	53.7	65.5	77.4	79.5	62.2
recipient: contributory	14.1	13.1	10.4	4.8	3.1	8.5
recipient: assistance	5.0	2.0	0.9	0.3	0.4	1.6
recipient: other	9.5	6.1	3.4	3.4	2.2	4.7
Year:	**2007**					
not-covered	44.2	23.6	18.6	13.0	12.5	20.8
contributor	34.2	61.2	71.4	80.7	83.8	68.9
recipient: contributory	11.9	9.0	5.9	3.3	2.0	5.8
recipient: assistance	5.5	1.3	1.0	0.5	0.0	1.4
recipient: other	4.2	4.9	3.1	2.5	1.7	3.1
Year:	**2009**					
not-covered	33.9	21.6	16.5	14.3	10.2	18.5
contributor	35.7	59.2	72.0	80.2	85.3	68.4
recipient: contributory	14.6	10.7	6.4	3.3	3.4	7.2
recipient: assistance	11.7	5.1	2.8	0.5	0.1	3.6
recipient: other	4.1	3.4	2.3	1.6	1.0	2.3
Year:	**2011**					
not-covered	25.7	13.7	12.6	11.2	9.3	14.5
contributor	30.5	54.5	64.2	75.7	84.1	62.5
recipient: contributory	9.6	12.2	10.2	6.1	2.5	7.7
recipient: assistance	29.3	13.1	6.8	3.2	1.3	10.6
recipient: other	4.9	6.6	6.3	3.8	2.8	4.7
Year:	**2013**					
not-covered	16.1	9.5	9.1	8.3	6.0	9.5
contributor	43.0	62.9	76.1	82.2	89.9	72.6
recipient: contributory	14.5	14.8	8.1	6.0	2.9	8.6
recipient: assistance	25.9	10.6	5.9	2.2	0.9	8.3
recipient: other	0.5	2.2	0.9	1.3	0.4	1.0

Source: the author’s calculations based on SILC data of 2005-2013

Note: Estimates at the individual level, all adults before the statutory pension age. Disposable equivalised income quintiles used for calculations. Assistance benefits include social assistance benefits (socialinė pašalpa, vienkartinė savivaldybės mokama pašalpa), social assistance pensions (šalpos (socialinė) pensija, šalpos kompensacija), compensations for utilities (kompensacijos už būsto šildymą, karštą ir šaltą vandenį). Non-contributory child benefits allocated to mothers (or fathers if no mother); social assistance and compensations for utilities allocated to all members of the household. In cases of benefit receipt from several income sources a person is assigned to the category based on the highest source of income.

Annex 4. Self-reported economic status of the population by coverage type, %

	In work	Unemployed	In training, education	Retired	Disabled	Inactive, other	Total
Insured: contributor, social insurance benefit recipient							
2005	59.7	3.1	1.4	2.0	4.1	0.4	70.7
2007	65.6	1.9	1.8	1.0	3.8	0.7	74.7
2009	66.8	2.1	1.3	0.6	3.9	0.9	75.6
2011	59.3	5.1	0.9	1.0	3.3	0.7	70.2
2013	65.9	5.1	3.2	0.7	4.9	1.5	81.2
Neither insured, nor cash social benefit recipient							
2005	7.0	6.4	7.8	0.1	0.4	1.5	23.0
2007	5.8	3.1	7.9	0.1	0.7	3.3	20.8
2009	4.6	3.2	7.8	0.1	0.2	2.6	18.5
2011	1.9	4.6	6.5	0.3	0.1	1.1	14.5
2013	1.5	1.9	4.5	0.4	0.1	1.2	9.5
Covered: recipient of social assistance or other cash social benefits							
2005	1.6	0.9	0.3	0.1	1.0	2.5	6.3
2007	0.7	0.6	0.5	0.3	1.0	1.5	4.5
2009	1.0	0.8	1.0	0.2	1.9	1.1	6.0
2011	2.6	5.0	2.8	0.4	2.8	1.7	15.3
2013	0.9	4.0	1.7	0.4	0.9	1.4	9.3

Source: the author’s calculations based on SILC data of 2005-2013

Note: the total sum of the population shares is equal to 100% in each year; adults of at least 18 years of age and up to the statutory retirement age.