

ENHANCING MOTIVATION TO WORK IN UNEMPLOYED PERSONS: LITHUANIA IN THE CONTEXT OF EU

Arturas Gataulinas, PhD

Lithuanian Social Research Centre, Institute of Sociology, Vilnius, Lithuania

Rasa Zabarauskaitė, PhD

Lithuanian Social Research Centre, Institute of Labour and Social Research,
Lithuania; Vilnius Gediminas Technical University

Abstract

This article provides an overview of the research in the area of motivation and activation of the unemployed and analyses work incentives for the unemployed applied in individual OECD and EU countries. In addition, the article provides the analysis of macro-level financial aspects of motivation to work in Lithuania and micro-level findings of a survey of persons registered with the Lithuanian Labour Exchange. It was found out that, in relative terms, employees should be interested in taking up low-paid jobs, but the low wage level does not ensure a decent living in reality. As a result, a relatively high portion of employees prefer undeclared work and social benefits to official employment. Findings of the survey of persons registered with the Lithuanian Labour Exchange have showed that satisfactory pay level is the strongest factor motivating persons to enter the labour market.

Keywords: Low wage trap, unemployment trap, work incentives

Introduction

A strategic goal set in the Employment Enhancement Development Programme for 2014 –2020 approved in the Republic of Lithuania on 25 September 2013 is to achieve greater employment of the population so that each resident is able to find a job matching his/her skills and ensure for himself/herself a decent standard of living. In order to achieve greater employment, enhancement of motivation to work is of the utmost importance. Unemployed people represent a group of persons which is more frequently characterised by the lack of motivation to work comparing to other population groups. Considering this, it is reasonable to analyse

measures to activate the unemployed and enhance their motivation to get employed.

Research and studies show that over the past decade strategies to activate the unemployed have been launched and actively applied by many OECD countries in order to “activate” the unemployed and other benefit recipients. These strategies are primarily aimed at improving employability of the unemployed, in the hope that jobseekers will engage in active job-search and their employment will become more accelerated in exchange for the provided effective placement services and payment of benefits. Evidence suggests that such strategies, if well designed, are beneficial and contribute to better outcomes in the labour market. They help ensure that benefit recipients have a better chance to find employment and, in turn, minimise the risk that high or long-lasting unemployment benefits reduce work incentives.

For the employment it is important both motivation to work and availability of jobs. And the availability of jobs is partly influenced by economic cycles. The unemployment level in Lithuania was quite volatile over the past few years. In general the highest unemployment in Lithuania was in 2010, when the unemployment rate reached 17,8 %. Since then it was steadily decreasing by up to 2 % a year. This dynamics of unemployment rate is strongly influenced by Global economic crisis. The employment rate is also in a similar way influenced by the crisis. The long term unemployment rate describes lack of motivation to work better than unemployment rate does because it takes in to account people that for certain reasons cannot find a job over longer periods. Long term unemployment rate by a certain extent is influenced by Global economic crisis as well. The highest long term unemployment rate in Lithuania was in 2011 when the indicator was equal to 8 %. Besides fluctuations of employment and unemployment according to the economic cycles there is a certain groups of population, for instance low skilled workers, who because of low wage, may be lacking of motivation to work.

The purpose of this article is to provide a micro and macro analysis of the motivation to work in Lithuania.

An overview of research studies on motivation of the unemployed

Over the past few decades, a number of research studies have been carried out on activation of the unemployed in different countries. Activation policies for the unemployed and interventions into the duration of unemployment have been analysed by Duell, Tergeist, Bazant and Cimper (2010), Duell, Grubb, Singh, Tergeist (2010), Graversen, Van Ours (2006), Gruzevskis and Blaziene (2012), and others. The influence of employment organisation by counsellors on motivation and employment of the

unemployed has been explored by Behncke, Frölich, Lechner (2008, 2010) and others.

In many research studies analysing motivation of the unemployed a special focus is placed on the analysis of unemployment benefits systems and their impact on motivation as well as on the duration of unemployment spells. Absar, Bui, Young (2013) examined whether the extension of unemployment insurance benefits decreases workers' incentive to return into the labour market. Results of their study supported the hypothesis that the extension of unemployment insurance benefits is positively correlated with state unemployment rates.

The relationship between unemployment benefits and motivation of the unemployed to work was also analysed by Lalive, Van Ours, Zweimüller (2011). Results of their studies showed that both warning and enforcement have a positive effect on the exit rate out of unemployment, and that increasing the monitoring intensity reduces the duration of unemployment of the nonsanctioned.

Van Ours and Vodopivec (2006) in their paper investigated the impact of unemployment benefits on several post-unemployment job characteristics such as post-unemployment wages, the duration of subsequent employment, etc. The paper took advantage of a natural experiment introduced by a change in Slovenia's unemployment insurance law that substantially reduced the potential benefit duration. According to researchers, although this reduction strongly increased job finding rates, the quality of the post-unemployment jobs remained unaffected.

Farber and Valletto (2013) examined the impact of the extensions of unemployment insurance benefits in the United States after the recession of 2008 on unemployment dynamics and duration and compared their effects with the extension of unemployment insurance benefits in the milder recession of the early 2000s. They found small but statistically significant reductions in unemployment exits and small increases in unemployment durations arising from both sets of unemployment insurance benefits extensions.

Evidence from the above-mentioned studies suggests that activation strategies can contribute to successful mobilisation of benefit recipients back into employment, which is of vital importance both for reducing benefit spending and for maintaining national budget balance in the longer term.

General characteristics of policies to activate the unemployed in oecd countries

Activation strategies were launched in OECD countries already in 1990 in order to combat high or long-lasting unemployment. Early activation measures focused on vulnerable groups facing more difficulties in the labour

market (such as youth or low-skilled persons). Only recently, activation principles have been extended to cover a wider range of population groups. Activation strategies ensure that jobseekers participate in employment-related measures, because the participation requirements and monitoring of compliance with eligibility conditions are backed up by the threat of temporary financial sanctions. The analysis of practices in OECD countries shows that these countries pursue policies to activate the unemployed basically in three directions (Immervoll, Scarpetta, 2012):

(1) Strengthening of people's **motivation** to look for job and get employed. Practice evidences that many countries have set clear job-search requirements for the unemployed, compliance with which is strictly monitored and controlled. In case of non-compliance (e.g. not looking for job), unemployed persons are applied strict sanctions related to the payment of benefits (benefits are reduced or discontinued). In a number of OECD countries at issue there are significant differences in the conditions of payment and the size of benefits, as well as differences in the level of spending for activation of the unemployed, etc. Although basically all OECD countries apply formally strict unemployment benefit payment conditions, the cross-country analysis reveals certain variations depending on the suitability of job offers, required geographical mobility, etc. In addition, different population groups are often applied different packages of labour market measures (e.g. for disabled persons, single parents, recipients of social assistance, etc.). Experience of many European countries shows that having exhausted unemployment benefits the recipients thereof move to social assistance benefits; unemployment insurance benefits are funded and managed at the national level, whereas social transfers are funded and coordinated at the local level. It should be noted that many countries reinforce activating policies after 6 months of unemployment (e.g. by applying mandatory referrals to job vacancies, sanctions on unemployment benefit payments, etc.) because, according to OECD experts, staying in unemployment for more than 6 months is usually associated with inactivity or low wage trap, inadequate expectations vis-à-vis labour market situation or serious barriers to employment.

(2) Improvement of employment opportunities for jobseekers and reduction of employment barriers. Practice shows that many OECD countries first use profiling mechanisms to assess employment possibilities of an unemployed person and identify the type of assistance the person needs. Then the person is referred to different employment programmes, trainings or rehabilitation programmes, etc. or is given an opportunity to actively look for a job independently, as appropriate.

(3) Expanding the set of earnings **opportunities** to workers in low-paid jobs by paying them targeted “in-work” benefits. This way, unemployed

people are encouraged to enter jobs that are not very beneficial in the short term. This measure is the most effective in case of lower skilled workers who may usually claim work pay that is only slightly above unemployment insurance benefit (or other social assistance). Such benefits encourage taking even low-paid jobs, concurrently retaining contacts with the labour market and motivation to work.

Better effectiveness of employment and placement services is also sought institutionally: (a) through monitoring of the activities of employment services; (b) by promoting more active cooperation between employment services and employers, and by improving the prestige of employment services. The analysis of cross-country successes suggests that successful policies to activate the unemployed are often related to broader institutional reforms aimed at merging labour market services and benefit administration (or at least approximating them). United Kingdom's (UK) experience shows that merger of public employment and benefit agency services has improved employment rates of the unemployed and reduced service provision costs. Experience of such countries as Finland, Ireland and Switzerland evidences that partnership among different institutions (including private entities and non-profit organisations) is likely to improve service delivery and coordination, in particular for populations difficult to integrate into the labour market.

One more important factor in activation policy for the unemployed is management of employment service providers and performance evaluations. The performance is usually evaluated in terms of employment of unemployed persons by setting individual national, regional and local target indicators. For example, ongoing evaluations of performance of labour market service providers are carried out in Switzerland, Australia and other OECD countries.

Motivation to work in lithuania – a macroeconomic perspective

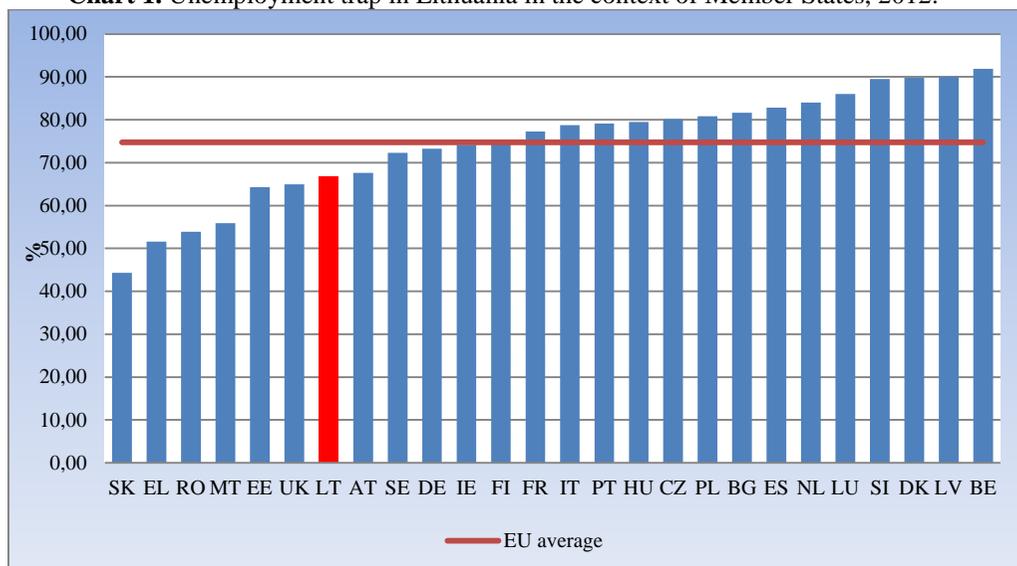
This section provides a macro analysis of motivation to work in Lithuania in the context of such indicators as unemployment trap, low wage trap, impact of employment on poverty reduction, share of the working-age population living mainly on benefits, share of people who take up a job the year after, and size of the shadow economy within the EU context.

The unemployment trap is an important macro-level indicator for motivation to work. It is a relative indicator measuring the percentage of gross earnings that is taxed away in the form of higher income tax of individuals and state social insurance contributions, as well as the withdrawal of social benefits when an unemployed person takes a low-paid job. Hence, this indicator reflects the economic motivation to take low-paid jobs. A large unemployment trap shows that changes in the disposable

incomes of employees are insignificant and thus discouraging, leading to a decision to keep living on benefits.

Looking at the Lithuanian unemployment trap in the context of EU countries, we can see that the unemployment trap was quite low in 2012, standing below the EU average (Chart 1). This can be explained by rather low unemployment social benefits and social assistance (in Lithuania in 2014 the maximum amount of unemployment benefit was 650 LTL, social benefit – 350 LTL) (1 EUR – 0.29 LTL) and relatively high tax wedge on low-wage earners. It follows that Lithuanian employees should be relatively motivated to take low-paid jobs from the economic point of view. The analysis of sufficiency of these earnings to satisfy the necessities of employees in absolute terms is provided in the next section of the article from a microeconomic perspective on work motivation. It should be noted, however, that the unemployment trap indicator is usually related to the motivation to work of low-skilled persons, i.e. persons who may claim low wages only. Accordingly, this indicator characterises only a small share of total labour.

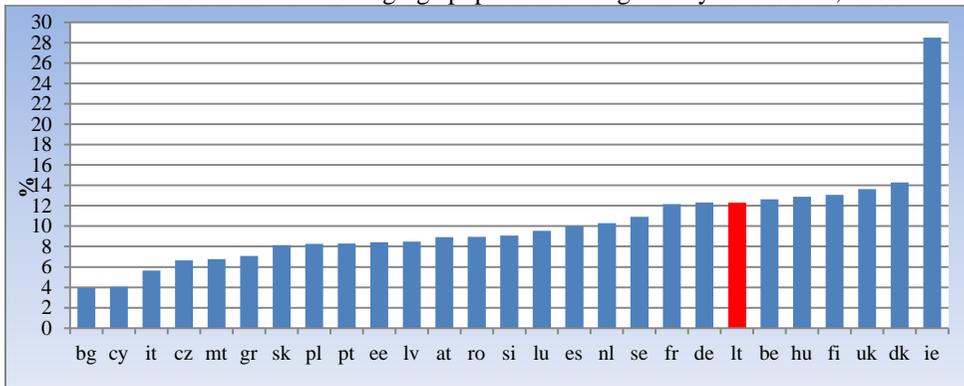
Chart 1. Unemployment trap in Lithuania in the context of Member States, 2012.



Source: Eurostat

Despite the low unemployment trap indicator, Lithuania is ranked the seventh by the proportion of the working-age population living mainly on social transfers (Chart 2). The term “living mainly on benefits” means that benefits represent more than 50% of individuals’ annual equivalised disposable income.

Chart 2.Share of the working-age population living mainly on benefits, 2012

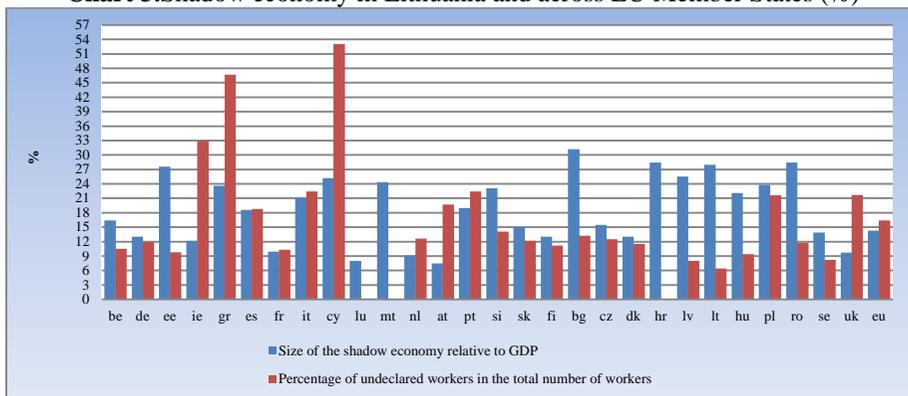


Source: Employment and Social Developments in Europe 2013. Luxemburg: Publications Office of the European Union.

Such a situation can be partly explained by the relatively widespread shadow economy in the country. It is likely that some of the individuals who declare living mainly on social benefits are employed unofficially and at the same time receive social transfers from the state.

Studies have shown that Lithuania is well above the EU average by the size of the shadow economy (Chart 3). In Lithuania, the shadow economy accounts for approx. 28 % of the national GDP, compared to 14.3 % on average in the EU. Chart 3 shows that the percentage of undeclared workers is lower in Lithuania, compared to other Member States (accounting for 6.4 % in Lithuania vs. 16.4 % on average in the EU). One of likely explanations for this is higher migration flows to other EU countries as compared to Lithuania.

Chart 3.Shadow economy in Lithuania and across EU Member States (%)

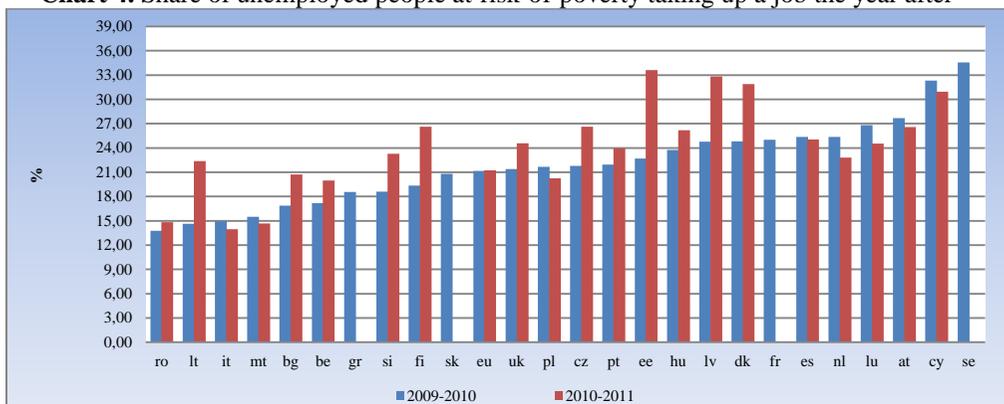


Source: Employment and Social Developments in Europe 2013. Luxemburg: Publications Office of the European Union.

Finally, it should be analysed how quickly unemployed people re-enter the labour market. Chart 4 illustrates the case of unemployed people at-

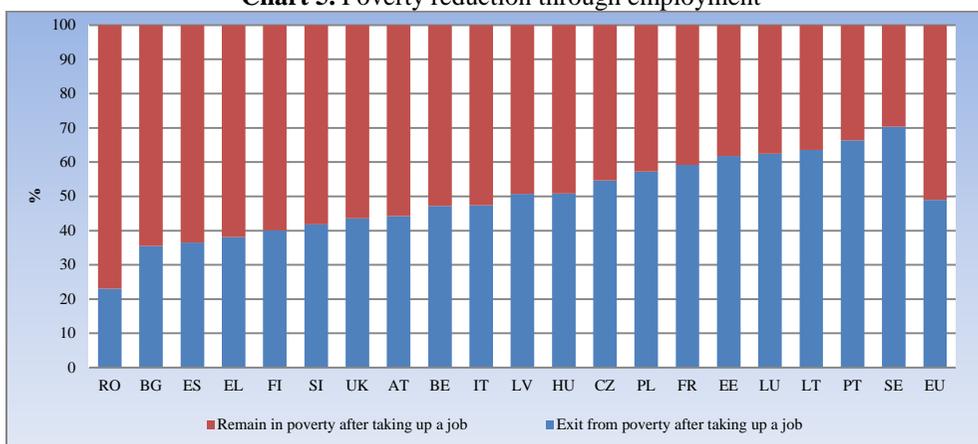
risk-of-poverty taking up a job the year after. This chart shows that during the crisis (2009-2010), the portion of people re-entering the labour market the year after was very small in Lithuania, compared to other Member States. The chances of re-entering the labour market decelerated due to the economic downturn. Although the situation considerably improved in 2010-2011, Lithuania is still lagging behind many Member States in respect of the percentage of persons who take up a job the year after.

Chart 4. Share of unemployed people at-risk-of-poverty taking up a job the year after



Source: Employment and Social Developments in Europe 2013. Luxemburg: Publications Office of the European Union.

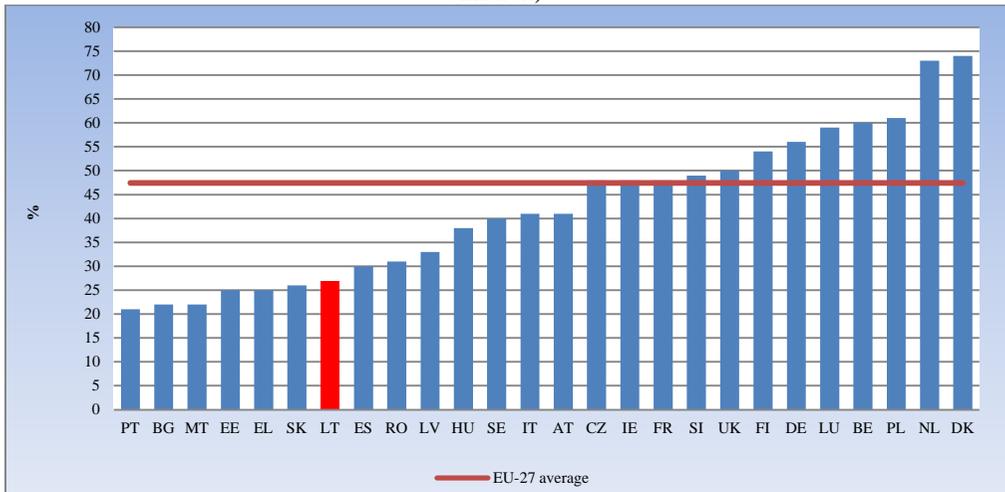
With regard to important factors for motivation to work, it should be noted that employment has a rather sizeable impact on the reduction of the number of employed people at risk of poverty (Chart 5). By this indicator, Lithuania yields only to Sweden and Portugal. The risk of poverty is least reduced by employment in Romania and Bulgaria. However, this statistics should be viewed with certain reservations because the comparison of more developed and less developed EU economies in the European Union may be somewhat imprecise. In Lithuania, the at-risk-of poverty threshold used as a basis for determining whether or not an employed person is living in poverty is considerably lower as compared to, for example, Finland or the UK. Therefore, it is easier in Lithuania to reach the level of income which is “statistically” sufficient to lift people out of poverty. Reaching this level of income, however, does not indicate that people are really not living in poverty. It should be mentioned in this context that the at-risk-of-poverty threshold in the EU is related to the national median income and is set at 60 % of national median equivalised disposable income.

Chart 5. Poverty reduction through employment

Source: Employment and Social Developments in Europe 2013. Luxembourg: Publications Office of the European Union.

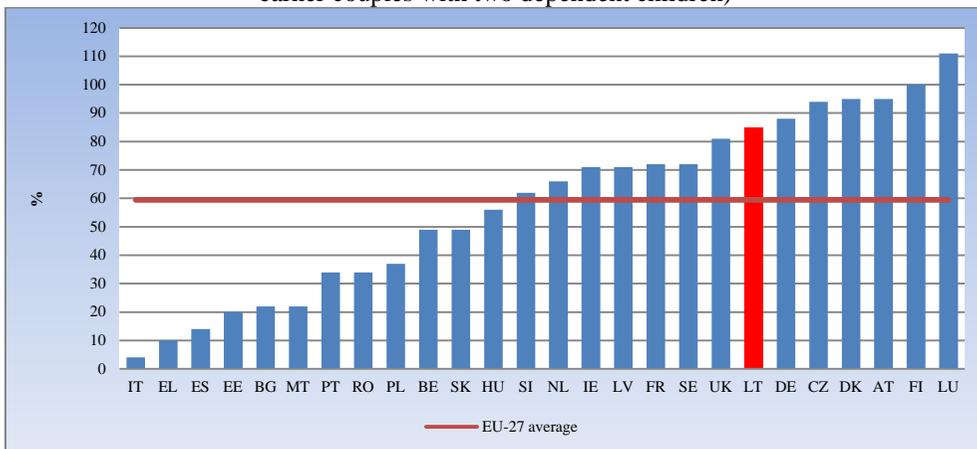
Another important indicator for the motivation to work is low wage traps. The low wage trap measures financial loss due to taxes and benefits when earnings increase from 33 % to 67 % of average gross earnings per specific household category. The low wage trap describes the situation when employees refuse of working longer hours or better paid jobs because additional earnings would be too low. In other words, this indicator shows the percentage of gross earnings which is taxed away through higher tax and social insurance contributions and the withdrawal of benefits when income of an employed person increases from 33 % to 67 % of average earnings. When a low wage trap is large, employed persons lose a sizeable portion of their earned income after tax and social contributions. This disintentionalises people from increasing their working hours or looking for better paid jobs. Chart 6 illustrates that financial loss for single persons are not very sizeable in Lithuania in the context of other Member States, whereas households consisting of one-earner couples with two dependent children suffer relatively high financial losses (Chart 7).

Chart 6. Low wage traps in Lithuania and other EU countries, 2012(single earner without children)



Source: Eurostat

Chart 7. Low wage traps in Lithuania and other EU countries, 2012 (households of one-earner couples with two dependent children)



Source: Eurostat

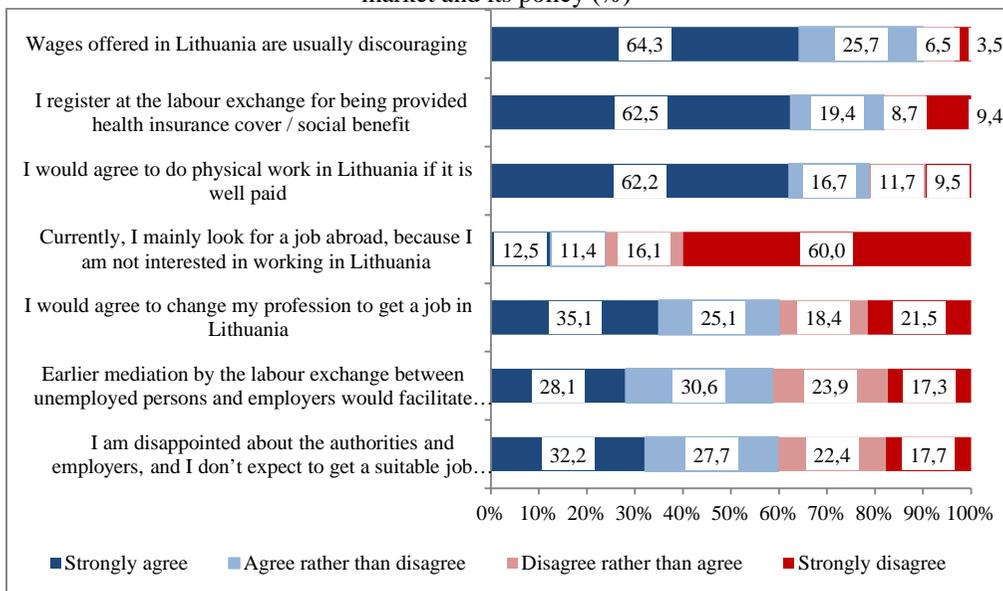
Motivation to work in Lithuania – a microeconomic perspective

In order to evaluate motivation to work in Lithuania at the micro level, a survey of persons registered with the Lithuanian Labour Exchange was conducted in April-May 2014. A total of 1,591 respondents were interviewed. Most of them were residents of smaller Lithuanian towns (45 %) and rural residents (38 %). Residents in large Lithuanian cities accounted for 17 % of the respondents. As the survey was intended to cover respondents from a variety of towns and cities, this distribution does not necessarily reflect the real distribution of the unemployed by the place of residence in Lithuania. There were more female respondents (57 %) than male ones.

Among the respondents, the larger part of the unemployed (45 %) reported having secondary education; one fifth of them (20 %) had basic education and 30 % – post-secondary/higher education. The analysis of survey findings revealed that the most frequent reason for registering with the Lithuanian Labour Exchange is permanent job search (76.7 % of the respondents) and health insurance (52.2 %). Therefore, it can be stated that the interviewed respondents are motivated to work in essence. Health insurance is indicated as the reason of registration with the labour exchange, because health care services are not compensated by the state unless the person is registered at the labour exchange.

With regard to respondents’ views about different aspects of motivation to work and labour market policy aspects, the respondents reported to agree with doing physical work or changing their profession in order to get a well paid job in Lithuania. However, the respondents admit that wages offered in Lithuania are discouraging. The respondents are motivated to work in Lithuania, but at the same time they are disappointed about the authorities, employers and expect more active mediation on the part of the Lithuanian Labour Exchange (Chart 8).

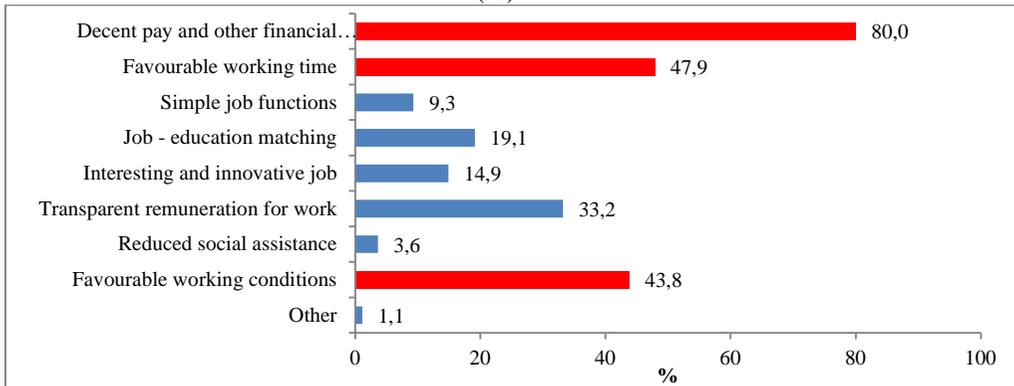
Chart 8. Respondents’ opinion about different aspects of the motivation to work, labour market and its policy (%)



Source: Survey conducted by the Lithuanian Social Research Centre

The survey revealed respondents’ attitudes regarding the most important motivational aspects of work. According to the respondents, the most important motivational aspects of work include financial aspects, favourable working time and working conditions (Chart 9).

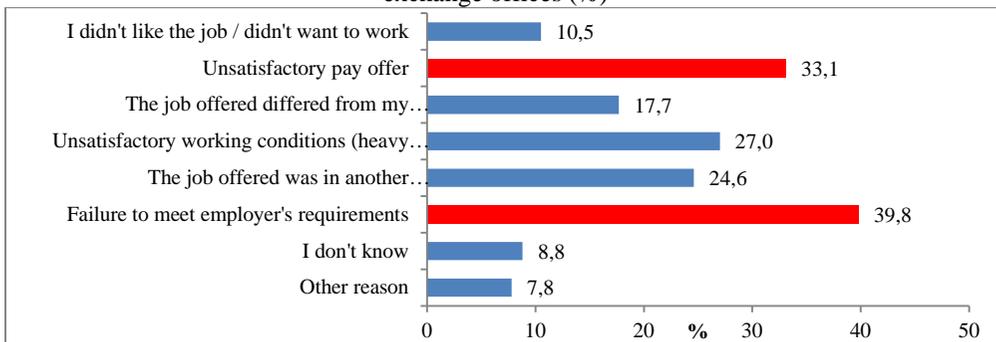
Chart 9. Distribution of respondents by the most important motivational factors of work (%)



Source: Survey conducted by the Lithuanian Social Research Centre

The main reasons of being out of work were unsatisfactory wages or failure to meet employer’s requirements (Chart 10). It is important to note that employees' expectations about net wage are not high. Approximately one third of the respondents (32.1 %) would like to receive a net wage of LTL 1,000 or similar (average net wage in Lithuania in the 2nd quarter of 2014 was LTL 1,832; minimum wage before tax in 2014 was LTL 1,000). About two fifths of the respondents (40.9 %) would be satisfied with LTL 1,100 to LTL 1,500 net wage; 12.2 % would like to be paid from LTL 1,600 to LTL 2,000; 3.9% would like a net wage of LTL 2,100 and higher. The survey shows that respondents’ expectations about work pay are not very high, but they are nonetheless above the pay in job vacancies offered by local labour exchange offices.

Chart 10. Respondents’ distribution by the reasons of not taking up jobs offered by labour exchange offices (%)



Source: Survey conducted by the Lithuanian Social Research Centre

Conclusion

The analysis of practices in OECD countries shows that these countries pursue policies to activate the unemployed basically in three directions: (1) by strengthening people's **motivation** to look for a job and get employed; (2) by improving employment opportunities for jobseekers and reducing employment barriers; and (3) by expanding the set of earnings **opportunities** to workers in low-paid jobs by paying them targeted "in-work" benefits. On the other hand, better effectiveness of employment and placement services is also sought institutionally: (a) through monitoring of the activities of employment services; (b) by promoting more active cooperation between employment services and employers, and by improving the prestige of employment services.

The macro analysis showed that low-wage earners should be relatively interested in taking up low paid jobs due to the existing size of unemployment benefit and social assistance, and the level of taxation. In addition, finding a job has a rather sizeable impact on poverty reduction in Lithuania compared to other EU countries. Likewise, in comparison with other Member States, single earners without children should be relatively interested in earning more without suffering considerable losses due to reduced social transfers and increased taxes. However, in fact there is a big number of people (approx. 12 %) living on social benefits in Lithuania vis-à-vis other EU countries. This can be partly explained by low income levels in absolute terms (level of income is insufficient to satisfy basic needs) and the large size of the shadow economy. Persons who cannot afford a decent living from low earnings opt for undeclared work and social benefits. The size of the shadow economy relative to GDP in Lithuania is one the largest in the EU accounting for 28 %. It is likely that some of the persons reporting to live mainly on social benefit in fact are in undeclared work or only a part of their wage is paid officially.

At the micro level, employees emphasise different aspects of employment. As a matter of fact, employees would be interested in getting a job or even changing their professions if they were satisfied with wages offered to them. Although the main reason why they register with labour exchange offices is permanent job search, wages offered by employers are unsatisfactory. Moreover, the survey findings reveal respondents' disappointment about the authorities and employers, as well as their wish for more active mediation on the part of labour exchange offices.

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