

SOCIAL CONSEQUENCES OF ECONOMIC DOWNTURN (2008) IN LITHUANIA

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Abstract. *The world economic recession has a significant adverse impact on social economic development in Lithuania. The article aims at assessing the possible long-term social consequences of the economic downturn in Lithuania if no actions are taken from the Government, as well as at designing recommendations on the implementation of measures with a view to mitigate the consequences of the recession.*

The article analyses various social economic indicators in Lithuania with the aim to highlight the impact of the recent economic downturn on different aspects of living standards in the country. The article seeks to provide evidence on the critical need to address social problems in Lithuania as well as to outline the next steps to be taken to mitigate the negative consequences of the economic downturn.

The analysis has shown that in Lithuania, the major negative social consequences of the economic decline for the population manifest themselves in job losses and income decrease, which in turn result in the rising long-term unemployment, growing social exclusion, higher emigration and other negative consequences. With regard to this, long-term negative consequences of the economic recession could be mitigated by addressing two vital issues, namely job losses and a decrease in household income in Lithuania.

Key words: *economic downturn, social consequences, poverty, unemployment*

Introduction

Like in many countries worldwide, the economic downturn in Lithuania has had a significant adverse impact on the national social economic development. It can be stated already that the economic decline will have far-reaching negative effects on the most vulnerable groups of the population in Lithuania, unless the Government takes additional measures aimed at employment promotion and the social protection of the population. In order to mitigate the possible negative social consequences that may occur in Lithuania in a long run, it is reasonable to assess the impact of the economic decline on the country's socio-economic development (employment of the population, income indicators of households, etc.) as well as to anticipate prevention measures.

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The aim of the study was to assess the possible long-term social consequences of the economic downturn in Lithuania and put forward recommendations on the implementation of measures aimed at mitigating the consequences of the recession in the country.

The object of the study was long-term social consequences of the economic downturn which started in Lithuania at the end of 2008.

The methods of the research involve analysis of theoretical and statistical resources, comparative analysis, expert evaluation, forecast, and inductive reasoning. The Consensus (Delphi) forecasting method, based on experts'¹ opinions, has been implemented to make projections for the future. The consensus method is usually used for forecasting complex systems and involves seeking expert opinions from more than one person. Each is an expert in his own discipline, and it is through the synthesis of these opinions that a final forecast is obtained. This method is recommended to use when no historical data are available or when the data cannot be used as a background for the forecast because of significant differences in overall conditions (Walonick, 1993). The article is based on the data of the research² carried out by the Institute of Labour and Social Research in cooperation with the United Nations Development Programme in Lithuania, the Ministry of Social Security and Labour of the Republic of Lithuania and the European Commission Representation in Lithuania.

For the purpose of the survey, with regard to long-term social consequences, the article refers to the period from 2009 through 2015 when the social consequences of the economic decline are expected to be most obvious.

Social consequences of the crisis: theoretical aspects

Economic crises usually occur as a result of sudden, unanticipated shocks (e.g., the shock that arises from large capital outflows), and they lead to a sharp decline in the output and often to a substantial increase in prices (Prennushi et al., 1999; Sumner et al., 2009). Often it is a rapid fall in exchange rates that are viewed as the key indicators of a crisis, and later on GDP contractions (Baldacci et al., 2002).

Economic crises affect communities and households in a number of ways. The most important consequences of crises are likely to be the following (Prennushi et al., 1999; Sumner et al., 2009; Knowles et al., 1999):

- reduced demand for labour, and thus lower employment;
- reduced wages and lower labour income;
- changes in relative prices, which tend to affect poor people disproportionately;

¹ Lithuanian bank, World Bank, the Ministry of Finance of the Republic of Lithuania, Lithuanian Labour Exchange, Lithuanian commercial Banks, the Ministry of Economics of the Republic of Lithuania.

² The research "Inclusive Lithuania: through analysis-based policy dialogue towards effective decision making. Economic crisis poverty and social impact analysis" was carried out by the authors of the article together with other members of the research team.

- fiscal cutbacks, which lead to reduced public services or transfers, or higher taxes;
- changes in asset prices – from shares traded in the stock market to cattle or other goods used as savings by the poor;
- changes in the community environment, in terms of both public health or public safety, bringing increased risks of disease, violence, and insecurity.

Economic crises can have devastating effects on a range of social conditions. Many of the declines have persistent or irreversible effects – costs that last for years after the financial consequences of a crisis have been mitigated (e.g., workers who lose their jobs for a year or more during a recession may find it hard to return to formal employment) (Edstrom, 1999; Cecchetti, 2009).

The earlier research shows that the incidence and severity of income poverty usually rise during a crisis, frequently in combination with pressures on other dimensions of well-being, including nutritional status, education, health, and security. While these changes may affect people in all strata of life, they can have a particularly devastating impact on those living below or close to the poverty line (Edstrom, 1999; Baldacci et al., 2002).

On the other hand, Baldacci et al. (2002) argue the poor in the lowest income quintile do not suffer the greatest income losses during crises. According to him, the main losers in terms of changes in income shares are those in the second lowest income quintile. The income share of the highest income quintile also falls in crisis years relative to precrisis years (Baldacci et al., 2002).

Baldacci et al. (2002) argue that financial crises impact poverty through several transmission mechanisms. According to him, around 60–70% of the poverty impacts of a crisis are due to four factors: unemployment, inflation, reduced public expenditure and GDP contraction. In his opinion, the extent of poverty rise during the crisis period depends, on an aggregate level, on changes in GDP and income inequality and on the household level, on household characteristics, education and location. Some of the poor will be protected by their geographical isolation and poor connectivity with national and global markets (Ravallion, 2008; World Bank, 2008a).

Studies also show that economic crises cause reduction in the labour force employed by both the private and the public sectors. The falling labour demand has a depressing effect on formal sector wage rates. Crises are generally accompanied by increased health risks and a decreased affordability of health care (Knowles et al., 1999). Furthermore, there is an evidence to suggest that recessionary periods associated with a crisis have detrimental effects on social indicators, which are greater than the gains during equivalent periods of growth (Edstrom, 1999).

As historical evidence shows, a general lesson in response to crises is that one must respond quickly before it gets worse. Again, the measures selected should have a fast

impact on the economy and population with the main focus on employment issues (Krishnamurty, 2009).

Social consequences of the economic downturn in Lithuania, 2008–2009

Unemployment. In the period of the economic recession in Lithuania, the situation in the labour market worsened significantly. According to data of the Labour Force Survey (LFS), the unemployment rate in Lithuania stood at 11.9% in the first quarter of 2009 and was one of the highest in the EU. The national unemployment rate more than doubled as compared with the first quarter of 2008 (from 4.9% to 11.9%) (see Fig. 1).

The sharply rising unemployment in Lithuania also increases the number of the long-term unemployed and their share in the unemployment structure. According to data of the Labour Force Survey, the long-term unemployment rate in Lithuania in the first quarter of 2009 went up by 1.3 percentage points (from 1% to 2.3%) as compared with the first quarter of 2008, and the number of long-term unemployed increased by 152% – from 15.1 thousand to 38 thousand.

An ever-increasing share of youth under the age of 25 whose unemployment has lasted over six months, in the unemployment structure since the beginning of 2009 is another matter of great concern. In the period from January 2009 to May 2009, the share of this group of persons in the total number of the long-term unemployed increased by as much as 11.3 percentage points (from 14.1% to 25.4%).

As a result of an increase in unemployment, the number of the employed in Lithuania decreased by 74 thousand (or 5%) in the first quarter of 2009. In the first quarter of 2009, the employment rate in Lithuania constituted 61% and was by 2.9 percentage points lower than in the previous year.

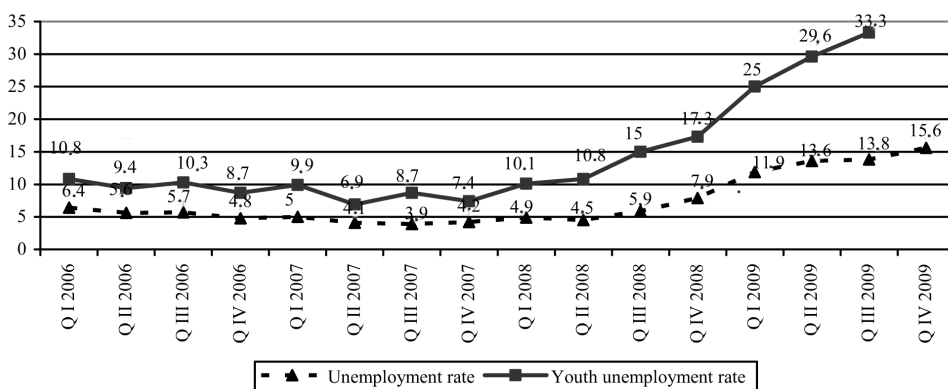


FIG. 1. Dynamics of unemployment rate in Lithuania in 2006–2009 (by quarters) (%)

Source: data of Labour Force Survey.

According to the data of the Lithuanian Labour Exchange (LLE), the number of the unemployed in Lithuania has started growing more rapidly in October 2008 and accelerated dramatically in the early 2009 (January–March). A comparison of labour market indicators at the beginning of 2009 and 2008 reveals that the number of job seekers increased from 90.9 thousand to 121.3 thousand (or by 33%). The share of the unemployed in the number of job seekers increased by more than one third (36%) – from 69.7 thousand to 95 thousand.

It should be noted, however, that in spite of the significantly increased unemployment rate at the end of July 2009, unemployment social insurance benefits were drawn by just 34.5% of all the unemployed in the country. Moreover, the share of persons receiving unemployment benefits started sharply decreasing since May 2009. The number of persons drawing unemployment social insurance benefits decreased from 81 thousand to 75 thousand in the period May–July 2009. The small share of persons receiving unemployment benefits is mostly determined by strict eligibility criteria for unemployment social insurance benefit and a relatively short benefit payment period³.

Despite the fact that employment and unemployment variation trends are affected by many factors such as internal (households' consumption changes, lending opportunities for business, etc.) as well as external ones (recovery of other countries' economies, competitiveness of Lithuanian production in foreign markets), it should be noted that the employment of Lithuanian population will be most dependent on Government's implemented employment policy and promotion of economic activity of relevant population groups.

The labour market dynamics examined during the survey show that a failure to take more active relevant labour market policy measures may increase the unemployment rate to 15.4% in 2010 (according to the data of the Bank of Lithuania to 19%). This means that the number of the unemployed in the said period would amount to some 260 thousand residents, while the average annual number of the employed would decline to 1340 thousand persons (see Table 1). The forecast is based on Lithuanian economic development prognoses (estimated by the Ministry of Finance, Lithuanian Bank, the Ministry of Economics), which foresee a slow economic recovery of Lithuania in 2011. An assumption is made that economic recovery will have a certain positive impact on employment in Lithuania; however, a relatively large portion of employees will face difficulties in reintegrating themselves into the labour market due to their lost qualifications as a result of passive Government policies. Furthermore, estimates on income and income poverty have been made for the period 2008–2015 (see Table 2), and an assumption is made

³ The unemployment social insurance benefit payment period depends on a person's unemployment insurance record obtained until the person's registration in the territorial labour exchange. If the unemployment insurance record is less than 25 years, the unemployment social insurance benefit is paid for 6 months, if it ranges within 25–30 years – 7 months, 30–35 years – 8 months, 35 and above – 9 months.

that the growing employment will have positive effects on the disposable income of the households and eventually result in a reduced absolute poverty rate in the country.

TABLE 1. The forecast of labour market indicators in Lithuania, 2008–2015

	2008	2009	2010	2011	2012	2013	2014	2015
Average annual unemployment rate (%) (according to the data of Labour Force Survey, LFS)	5.8	14.4	17.0	13.5	11.8	10.0	8.7	7.6
Average annual number of the employed (thousand) (according to LFS)	1520	1311.7	1270.5	1340	1417	1438	1468	1502
Average annual number of the unemployed (thousand) (according to LFS)	94.3	220.4	261.0	210.0	190.0	160.0	140.0	124.0
Number of long-term unemployed (thousand)	19.8	57.3	78.3	58.8	49.4	40.0	33.6	28.5

Source: calculations made by authors based on the data of Labour Force Survey.

* Reference point is August 2009. An assumption is made that no additional employment promotion measures will be implemented in the country.

The country's labour force variation in numbers during the forecast period will be influenced not only by economic processes, but also by the intensity of emigration processes as well as by the registration activity of economically non-active persons of employable age (as per the eligibility criteria set for social assistance). Thus, labour force variation in numbers may not be consistent with the changing numbers of employed and unemployed persons. Bearing this in mind, after the recovery of the national economy in the long run (2015), the number of the employed will remain lower, and the number of the unemployed will be nearly one third higher than before the beginning of the economic downturn. Young people and people aged above 50 would be faced with particularly difficult situations in 2010, while tension in the labour market would be felt in these groups (especially among senior population) as long as until 2014–2015.

A considerable increase in the number of the long-term unemployed since 2009 is also forecasted in Lithuania. In 2010, the share of long-term unemployed persons in Lithuania could constitute about one third of all the unemployed (i.e. approximately 78 thousand persons). The high rate of long-term unemployment is predicted to persist even after the recovery of the national economy (in the period from 2012 to 2015) as most unemployed persons will be less competitive on the market due to poorer or lost qualifications or professional skills.

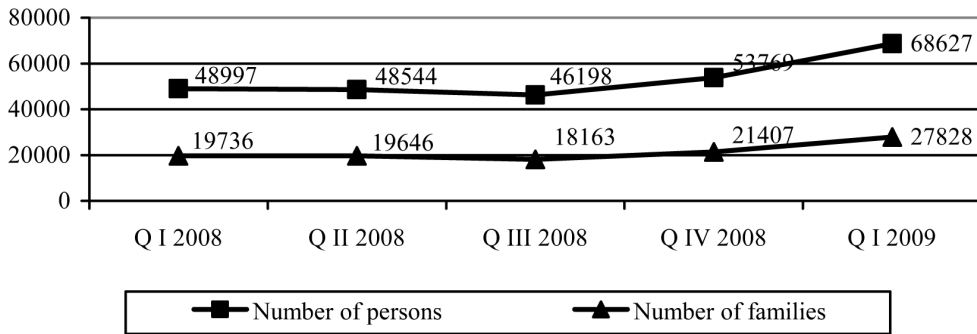


FIG. 2. Dynamics of the number of recipients of social benefits in Lithuania in 2008–2009 (by quarters)

Source: <http://www.socialiniszemelapis.lt/index.php?22274078>

Income poverty and social exclusion. With a rather ineffective unemployment insurance system in the country, an increase in the number of the unemployed is closely linked with increasing poverty in the country (especially as a result of increasing long-term unemployment when no income is earned for more than a year). This fact is clearly revealed by the sharply increasing number of persons receiving social benefits in Lithuania.

The statistical data analysis shows that since the third quarter of 2008 the number of recipients of social benefits has been dramatically increasing in the country. In the first quarter of 2009, social benefits were drawn by about 68.6 thousand persons in Lithuania, i.e. 40% more than in the first quarter of 2008. The total number of families receiving social benefits jumped by 41% (from 19.7 thousand to 27.8 thousand) (see Fig. 2). Such a sharp growth in the number of recipients of social benefits was caused by the falling income of the population and a particularly increased number of job cuts in the recent period⁴.

Data of the Survey on Income and Living Conditions by Statistics Lithuania indicate that the unemployed are a particularly vulnerable group of the population in Lithuania. In 2007, at-risk-of-poverty rate in the group of the unemployed in Lithuania was one of the highest in the EU and constituted 57%. The unemployed were at risk of poverty roughly seven times more often than the employed.

Although GDP fluctuations make it difficult to forecast accurately changes in the income of the population, the average disposable income in 2010–2015 in Lithuania will be affected by two key factors, namely by changes in unemployment rate and in earn-

⁴ Social benefits in Lithuania are paid to a family (single resident) if its average income during the period of three months preceding the month when the family (single resident) applied for a benefit was below the state supported income (SSI) per family (single resident) (i.e. 350 LTL), as well as if the value of the property owned by the family did not exceed the fixed ratio of property value. Cash social assistance is equal to 90% of the difference between the SSI per family or single resident and the average monthly income of the family or single resident.

ings. As discussed earlier, in Lithuania the unemployment rate will be rising until 2011, and this will have a negative impact on the income of the population.

Due to the rising unemployment, declining consumption and production levels, the earnings will continue falling in 2010, then will start slightly going up and should reach the level of the year 2008 in 2015. The assessment of changes in earnings and unemployment allows forecasting that household income will go down in 2010 but then will start slightly rising. The slow growth in household income could be caused by the increasing shadow economy in the country during the crisis. The growing shadow economy will generate some income for poor people involved and thus might have, to some extent, a positive effect on their consumption. However, due to a sharp decrease in earnings, the income level of the year 2008 will not be reached even in 2015 (see Table 2). Such a slow growth in household disposable income can be explained by the fact that in the post-crisis period business entities aim at improving productivity and production without substantially increasing the number of employees. This is the experience that has been learnt from the past crises (Krishnamurty, 2009).

TABLE 2. The forecast of income and income poverty indicators in Lithuania in 2008–2015

	2008	2009	2010	2011	2012	2013	2014	2015
Average disposable income* in households (LTL per person)	986.8	783.9	737.4	771.7	812.1	858.0	913.1	970.0
Absolute poverty rate** (percent)	4.8	7.5	13.2	11.5	9.8	8.1	6.4	4.8
Number of poor people (thousand)	160.2	250.4	440.7	384.6	328.5	272.4	216.3	160.2

Source: calculations made by authors based on data of the Household Budget Survey (actual data of 2008 and 2009).

* Taking into account changes in earnings and unemployment rate.

** A poverty line set by the statutory method. The poverty equals to the amount of the state-supported income in Lithuania (i.e. 350 LTL, 101 EUR).

Changes in the average disposable income are expected to have a modest effect on the relative poverty rate, provided income will change insignificantly across all population sectors. The experience of previous periods shows that the relative poverty rate measured as 60% of the median income depends little on changes in GDP and average disposable income and is more a reflection of inequality in household income distribution. In this light, the at-risk-of-poverty rate indicator seems likely to increase moderately or even decrease during the economic downturn in Lithuania. A more marked trend towards a higher rate of relative poverty in Lithuania is anticipated much later – five years or even more after the recovery of the national economy when more apparent increase in economic inequality across different population groups can be also expected.

When the per capita disposable income is falling in all or most income groups during the economic recession, absolute poverty is more relevant. The absolute poverty rate is expected to increase during the economic recession as the decrease in income will increase the share of households unable to secure even basic personal needs. In 2008, some 160 thousand persons in Lithuania (or 5% of the total population) lived in poverty according to the absolute poverty line (see Table 2).

The average income of persons living in poverty was 120 LTL (35 EUR) below the poverty line. It can be forecasted that the absolute poverty rate in Lithuania will reach 7.5% in 2009 and will touch as much as 13.2% in 2010 (i.e. it will reach the level of the year 2006). This situation will be primarily caused by a lower household income, mounting debts of the population, a higher number of the long-term unemployed and their reduced chances of employment due to lost professional skills or qualifications. Only at the end of 2015, the absolute poverty rate is expected to go back to the pre-crisis level (see Table 2).

Lower investment in human capital. The increasing unemployment and poverty in the country bring about other long-term negative social consequences.

During the economic crisis, a decrease in per capita income leads to lower household investments in human resources (i.e. education, health care, recreation and culture, etc.). According to data of the Household Budget Survey in 2008, the average expenditure per capita per month on education in Lithuania went down by 22.8%. Expenditure on education per capita per month fell by as much as 38% (from 8.1 LTL (2.3 EUR) to 5.0 LTL (1.4 EUR)) in the major cities of the country, and by 14.7% (from 6.8 LTL (1.9 EUR) to 5.8 LTL (1.7 EUR)) in other towns. Households living in the major cities and other towns of the country cut also their expenditure on recreation and culture (by 15% on average). Furthermore, households living in other towns and rural areas reduced, though slightly, their health expenditure (by 2.5% on average) (see Table 3).

TABLE 3. **Average consumption expenditure** (in cash and kind) per capita per month in Lithuania in 2007 and 2008 (LTL)

Urban and rural areas	2007	2008	Change (%)
Food and non-alcoholic beverages	248.1	276.2	11.3
Alcoholic beverages	18.7	20.9	11.8
Clothing and footwear	69.0	67.5	-2.2
Housing, water, electricity, gas and other fuels	89.5	100.2	12.0
Furnishings, household equipment	43.3	39.9	-7.9
Health	36.1	39.1	8.3
Recreation and culture	41.1	37.8	-8.0
Education	5.7	4.4	-22.8
Miscellaneous goods and services	35.1	39.5	12.5

Source: Statistics Lithuania. Data of the Household Budget Survey and the Labour Force Survey, 2008.

Reduced possibilities of acquiring education and qualifications as well as lower household investments in health care, recreation naturally lead to negative consequences in the long run. Low or none professional qualification as well as poor health markedly reduce competitiveness on the labour market, lead to a low pay, as well as promote income inequality and poverty in the country. All these conditions give rise to a vicious circle of poverty where poverty is transferred from generation to generation.

Emigration of population. Despite the fact that the wave of emigration decreased (from 15.5 thousands to 12.6 thousands) in 2006 for the first time after Lithuania’s accession to the EU and 7.7 thousand persons (or 14% more than in 2005) immigrated to Lithuania, the pace of emigration has accelerated again during the period of the economic crisis. This situation was mainly induced by the falling or lost income of the population, rising interest rates on consumer credits or housing loans (taken in the national currency), as well as the social and economic policy implemented in the country with a little focus on social problems of the population due to limited state budgetary resources. In 2008, the number of emigrants from Lithuania grew by 22.8% as compared with 2007 (from 13.8 thousands to 17.0 thousands) (see Figure 3); meanwhile, the increase in the number of immigrants to Lithuania stood at mere 8% (increased from 8.6 thousands to 9.3 thousands).

The extent of emigration did not decrease in 2009, either. According to preliminary data, around 22.0 thousand persons emigrated from Lithuania in 2009. Bearing in mind that the Lithuanian economy is foreseen to recover only in 2011–2012, Lithuania is likely to see even a higher rate of emigration in 2010, along with the recovery of economies of foreign countries. By then the rates of emigration may reach 20–25 thousands a year. Thus, as a result of increasing migration, Lithuania may lose additionally 100–150

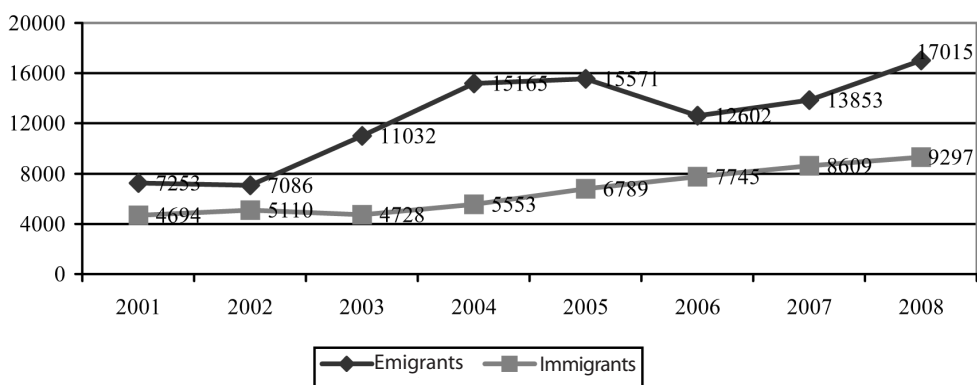


FIG. 3. Extent of international migration in Lithuania in 2003–2008

Sources: Statistics Lithuania. Data of the International Migration Survey.

thousand residents in the long run. It is particularly alarming because Lithuanian citizens find it increasingly easy to adapt to the socio-cultural environment of foreign countries (particularly English-speaking countries) and tend to stay there permanently.

The more intensive emigration of the population entails a wide range of long-term negative social consequences having a negative impact not only on individual households, but also on the country as a whole and its economic potential. It entails a decline in population, “brain drain”, demographic ageing and other problems.

Increase in the crime rate. The statistical data analysis has showed that during the economic decline, accompanied by a rising unemployment and a decreasing household income, the crime rate is increasing. Although in the first quarter of 2009 the total crime rate in Lithuania went up about 4%, the number of economic crimes increased considerably: the number of cases of the production of counterfeit currency and securities increased by 158.6% (from 237 to 613 cases), the number of frauds grew by 59.1% (from 915 to 1456), etc. Furthermore, the unlawful production of alcoholic beverages and the number of crimes committed by persons under the influence of alcohol nearly doubled during the said period (as compared with the previous year). If such trends persist, the total number of criminal acts in Lithuania may increase by 27% in 2012 (against 2008) and constitute about 3 thousand criminal acts per 100 thousand residents. The increase in crime is expected to continue till 2012–2013 as, based on the Lithuanian and foreign experience, restraints on economic crimes are more time-consuming and related to a rise in the standard of living in the country.

Growth of the shadow economy. In the face of the economic downturn, an increasing number of business entities are encountering financial difficulties and some of them turn to the shadow economy, seeing it as one of business rescues. This is particularly relevant in the area of labour relations where shadow economy means employment without formalising labour relations and failure to pay relevant taxes (income, social insurance). According to the data of the Statistics Lithuania, in 2004–2008 the shadow economy in Lithuania accounted for about 15%. It can be forecasted that the declining profitability of business entities, raised taxes and the worsening macroeconomic environment may increase the scope of the shadow economy to 20–22% by 2015. It is noteworthy that shadow activities develop very fast (usually for 12 to 18 months); their restraint (elimination), however, requires a much longer period (3 to 5 years on average).

Summarizing the analysis carried out in this section, we can state that despite the huge negative effects that are being faced by economy today, the unwillingness to address social issues would lead to even higher social and economic losses in a long run. With regard to this, with a view of mitigating the negative impact of economic crisis on the labour market, it is critical to implement the policy measures that would help secure jobs as well as strengthen the implementation of active labour market policy measures.

In line with this, the social security (support) system should be improved in the country with the aim of securing a minimum income of the families whose members were laid off at the time of the crisis.

Measures for mitigating long-term social consequences of the economic recession in Lithuania

The analysis showed that the long-term negative consequences of the economic downturn in Lithuania could be mitigated by addressing two vital issues, i.e. job losses and a decrease in household income. In this regard, the key measures at the policy level should be focused on:

1. Securing jobs.
2. (Re)integration of unemployed persons into the labour market.
3. Improvement of the support (security) network in the country.

While the first two measures would help to retain higher employment rate of the population, the last one would result in helping people secure income in the period of economic downturn.

Securing jobs. While implementing this measure, it is advisable to distinguish between measures intended for the public and the private sectors.

- Public sector: it is advisable to limit job cuts during the economic decline by promoting flexible forms of employment (e.g., shorter working day/week), primarily protecting the most vulnerable population groups (single parents raising children, large families, etc.).
- Private sector: in order to secure employment, it is recommendable to provide conditions (as well as control mechanisms making use of possibilities envisaged in collective agreements) for a wider application of:
 - a) tax deferrals;
 - b) wage subsidies to enterprises having orders in hand.

It should be noted that the implementation of these measures will highly depend on the possibilities for cooperation among social partners at the enterprise level, the understanding of social responsibility by employers, and the administrative capacities of the management of enterprises and subdivisions. The latter factor should play a pivotal role because the management will have to stimulate the work efficiency of employees while at the same time reducing their remuneration. This problem may be alleviated by non-economic work incentives (greater employment flexibility, more active use of resources of public consumption funds, etc.).

(Re)integration of unemployed persons into the labour market. Since labour supply considerably exceeds labour demand, integration measures should not only focus on

the permanent employment of persons, but also devote much attention to maintaining working skills and stimulating motivation for getting employment. On the other hand, it should be noted that, due to the economic decline and state budget constraints, financial allocations for active labour market policy (ALMP) measures may also be reduced. Thus, taking into account financial resources and changes on the labour market, priority within this measure should be given to:

- expanding public works (extending their range and promoting their organisation in the private sector, using temporarily free productive capacities to the maximum extent). When extending the scope of public works, more attention should be focused on the organisation of “green jobs” (forestry, organic farming, etc.) and jobs that could be done by persons with higher education (e.g., additional classes at general schools, vocational schools, day care centres; or counselling of persons receiving social assistance and unemployed persons at labour exchange offices and municipalities, etc.). The expansion and diversification of public works would also enable a wider involvement of women and senior unemployed persons in these labour market policy measures in Lithuania;
- developing vocational training for members of population groups least competitive in the labour market (young people from poor families, disabled persons, etc.) who for certain reasons have not acquired or cannot acquire a profession;
- organising vocational training under trilateral agreements (an agreement would be concluded among the unemployed, the labour exchange and the employer, i.e. the employee would be trained for a specific place of work);
- developing career guidance (information and counselling) services which would be particularly important given the growing social tension and the falling standard of living. In times of the economic decline, it is advisable, within the framework of this measure, to strengthen social and psychological counselling dimensions, encourage unemployed persons to develop (create) new social networks, participate in the activities of NGOs and local community support groups and thereby help them ease psychological tension and disappointment;
- developing subsidised employment by refocusing employment priorities on support for persons having family obligations (large families with children, single parents raising children, etc.) and persons of pre-retirement age.

It should be stressed that ALMP measures help maintain economic activity and protect from dequalification rather than just ensure permanent placement of the unemployed; these measures also safeguard minimum income and, as shown by surveys, have a very positive social impact (enhance self-confidence of unemployed persons, strengthen motivation for social activity, relieve anxiety over the future, help maintain social relations, etc.). All these factors contribute to social stability and the recovery of the economy in future.

However, control over the organisation and implementation of ALMP should be strengthened to ensure that measures better serve their primary purpose, stimulate cooperation among the population in the area of labour relations, enhance the confidence of the population in state institutions and help maintain the professional skills of the labour force. The implementation of these measures will highly depend on cooperation between local (self-governing) institutions and local employers in order to ensure that these measures cater to the needs of the local population to the maximum extent and make use of the local production infrastructure.

Improvement of the support (security) network in the country. While implementing this measure, it is advisable to:

- simplify conditions for the payment of social benefits by relaxing additional requirements. It is expedient to lower requirements on assets and employment attempts, as well as to improve the administration of benefits through a wider provision of information (which in turn would reduce the stigmatisation of applicants);
- extend the coverage of unemployment social insurance benefits by reducing additional requirements set for the unemployed in order to receive support in case of unemployment (e.g., opening up possibilities to get unemployment insurance benefits for persons dismissed upon the expiry of their employment contracts);
- shorten the requirement for the unemployment insurance record during the last 36 months from 18 months to 12 months for all persons, and to 6 months for persons aged under 24, etc. Such measures are important taking into account the fact that in times of economic recession employees creating a lower value added are dismissed in the first place, including employees with little work experience who would fall out of the support scheme in case of unemployment.

The improved social network is expected to help to protect society from destructive social phenomena (crime, alcohol abuse, etc.) and social disappointment; hence, it is vital to ensure the maximum involvement of all groups in need of support in these measures. On the other hand, it would be useful to have the social security network linked with labour exchange services. Thus, some improvement of the social network could be carried out through the payment of unemployment benefits. It should be pointed out that unemployment insurance benefits in Lithuania are drawn, on average, by 40% of the unemployed, whereas the poverty risk level of households of the unemployed constitutes 60% in the country.

Conclusions

1. The analysis suggests that the economic recession in Lithuania has a significant adverse impact on the national socio-economic development. The major negative social consequences of the economic decline for the population manifest themselves in job

losses and income decrease, which respectively result in rising long-term unemployment and growing social exclusion, as well as boost emigration and shadow economy in the country. In the long run, all these circumstances increase the poverty of the population and reduce the quality of the labour force (lost qualifications and reduced work motivation), as well as weaken the growth (recovery) potential of the national economy.

2. The economic crisis has had a major negative impact on the Lithuanian labour market. In the first quarter of 2009, the national unemployment rate more than doubled as compared with the first quarter of 2008. If these trends continue, Lithuania would see a dramatic increase in the number of the long-term unemployed (in 2010, their share in the unemployment structure could account for 30%, or 78 thousand persons). A high number of the long-term unemployed would persist even after the recovery of the national economy (in the period from 2012 to 2015) as most unemployed persons would be less competitive on the market due to poorer or lost qualifications after a long period of unemployment.
3. The rising unemployment in the country worsens the financial situation of households; this is indicated by the ever-increasing number of persons receiving social benefits in Lithuania. The assessment of changes in earnings and unemployment in Lithuania allows predicting that household income will continue to go down in 2010 but then will start slightly rising due to the growing shadow economy as well as slow economic recovery which might be expected in 2011; however, the income level of the year 2008 will not be reached even in 2015. The decreasing household income will boost the absolute poverty rate which may stand at 13.2% in 2010. This means that the income of 440.7 thousand persons will be below the poverty line. The absolute poverty rate is expected to go back to the level of the year 2008 (i.e. 4.8%) only in 2015.
4. The deteriorating macroeconomic situation in the country boosts emigration from Lithuania. Bearing in mind that the Lithuanian economy is expected to recover only in 2011–2012, the extent of emigration of the population is likely to grow further in 2010, along with the recovery of foreign economies. By then, the rates of emigration may reach 20–25 thousand per year. Thus, it may be projected that, as a result of growing emigration, Lithuania may lose another 100–150 thousand residents by 2015⁵. In the long run, a greater extent of emigration entails such acute problems as population decline, “brain drain”, demographic ageing, which markedly weaken the growth potential of the national economy and slow down the improvement in the standard of living in the country.

⁵ At the beginning of 2010, the company “Spinter tyrimai” conducted a survey on the attitudes of Lithuanian citizens towards emigration. In total, 1003 respondents were surveyed. According to the survey, 58.7% of the respondents would like to leave the country (65% of them were persons aged 18–25).

5. Household investment in human capital (expenditure on education, health care and other similar areas) decreases along with a decline in the income of the population. Meanwhile, lower investment in human capital (education and vocational training in particular) leads to negative consequences in the long-term perspective. Low or none occupational qualification markedly reduces the competitiveness of individuals on the labour market, entails low wages and stimulates income inequality and poverty in the country. All these conditions give rise to a vicious circle of poverty where poverty is transferred from generation to generation.
6. The analysis revealed that, with a view to mitigating long-term negative social consequences of the economic recession in Lithuania, the key measures at the policy level should be aimed at securing jobs (both in the private and in the public sectors), (re) integrating unemployed people into the labour market, as well as improving the support (social security) network in the country.

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