Lithuania social briefing:
An outlook of the impact of COVID-19 on the labour force in
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The continuing COVID-19 pandemic has raised the alarm bells concerning the potential risks of the increased income inequality and the worsening economic and social situation of a large part of society that can affect the country's poverty level. The calculations offered by the Ministry of Social Security and Labour at the end of the year indicated that the income quintile share ratio (the S80/S20 ratio), which is a measure of the inequality of income distribution, might reach 5.8 to 5.9 per cent. It means that the proportion of total income received by the 20 per cent of the population with the highest income (the top quintile) will be almost five times higher than the 20 per cent of the population with the lowest income (the bottom quintile).

The analysis of the income data of the population (using the open data made available by the State Social Insurance Fund Board for the period from 2010 onwards) has shown that Lithuania reached the lowest level of the income inequality for the observed period in January and February last year - just before the pandemic reached the country. The impact of the pandemic's first wave was immediate – in only two months (March – April) the S80/S20 share dropped by 8.6 per cent and reached the level reported in 2014. The situation improved towards the end of the pandemic's first wave, yet further worsened when the second wave arrived in October. By the start of the new year, 16.1 per cent of the workforce was out of work. Unemployment has increased during the first pandemic year by 7.4 per cent.

Below is an outlook of the potential adverse socio-economic impacts that the pandemic can cause during the continuing second wave and the subsequent periods. It will try to explain the main factors that have exposed the labour force's vulnerabilities, indicating the areas for public governance in tackling the challenges ahead.

The World Bank's "Poverty and Shared Prosperity 2020" report concludes that after each significant epidemic, the Gini coefficient (used to measure income distribution among a population by plotting the population percentile by income on the horizontal axis and cumulative income on the vertical axis on the Lorenz curve) increases about 1.5 points during the subsequent period of five years. Such impacts have been observed in the cases of all the previous epidemics such as H1N1 in 2009, Ebola in 2014 or Zika in 2016. Yet since those pandemics primarily affected the developing countries in Asia, no prior record exists on the pandemics' impact on the industrially advanced economies in Europe. Due to the higher
employment rates and the larger share of the higher paid jobs, the income inequality in the highest income countries might be even more felt and exacerbated.

Lithuania’s income inequality has been one of the largest in the EU and has reached its peak in 2014 – at that time, the Gini index stood at 7.5 per cent. The situation had started to change during the period 2018-2019 when the Gini index dropped to 6.4-6.2 per cent due to rapid development of the domestic consumer market. The research into the potential factors affecting such persistent level of a relatively high-income inequality has shown that one of the key drivers is an unequal distribution of labour income especially in the group of self-employed workers. As reported by different studies, the self-employed are over-represented in both the upper tail and the lower tail of the income distribution, and quarter of all self-employed workers in Europe are in situations characterised by economic dependence, low levels of autonomy and financial vulnerability.

In the third quarter of 2020, about 11.4 per cent of Lithuania's total labour force was self-employed. There is also a notable gender aspect that characterizing this group of workers. 14.8 per cent of the overall male labour force are in self-employment while this figure is twice as lower in the case of females (8.6 per cent).

The self-employed survey in Lithuania has shown that only half of them are content with the working conditions and their situation. Almost 40 per cent indicated that they experience periods of difficulties, including financial challenges. When asked why they chose self-employment, 18.9 per cent reported that they could not find a paid job or the former employer asked them to become self-employed (2.6 per cent of the respondents), 13 per cent did not give any reasons, while 10 per cent stated that they chose to become the self-employed because of the flexible time or unsuitable working conditions. Only 21.9 per cent of the respondents indicated that self-employment is a usual practice in their economic activity. Thus, 80 per cent of the self-employed chose this form of work not because of the economic reasons but because of social necessities that the present labour market cannot solve otherwise.

The self-employed in Lithuania constitute two groups: those who have a license to carry out individual activities according to a business certificate and those carrying activities based on a so-called self-employment certificate issued by the tax authorities. The self-employed conditions are rather precarious that provide a low level of social guarantee (if any) and high level of risk. The state taxes them at the same level as the business entities. The advantages are few and limited in scope and with little or any effect to help grow individual enterprises into business entities.
During the period 2017-2019, the number of self-employed (using business certificates) have been steadily rising by 13 per cent on average. The most popular self-employment fields for those working on business certificates have been a non-food related trade, construction work, residential premises rental, hairdressing, beauty industry, and cleaning services. The most frequent fields for working on self-employment certificates were passenger transportation and taxi services, hairdressing salons and other beauty parlours, education and private tutorship, activities of insurance agents and brokers, mail order or internet sales, activities of advertising agencies. The rise of the platform economy in transportation, food delivery, accommodation and other rental services over the last few years has undoubtedly contributed hugely to cities to the growth of the self-employed manual workers. However, the pandemic has most severely disrupted these activities.

Despite being hardest-hit by the imposed quarantine measures which put most of their activities to a halt or severely limited their activities pushing some of them out into the grey zone of the economy where individual activities are being carried out under the increased costs and risks to public safety, the support measures have not been adequate. As reported by Eurofund in its annual surveys, a quarter of all self-employed workers in Europe are in situations characterised by economic dependence, low levels of autonomy and financial vulnerability. The self-employed workers are twice as likely as employees to suffer from poverty and social exclusion – social ills threaten over a quarter of the self-employed in some countries.

While two-thirds of the EU Member States have taken into account that the self-employed are one of the groups disproportionately affected by the lockdowns and introduced effective measures early in the crisis, the previous government in Lithuania lacked such resolve and no effective measures were put in place for the self-employed. Business grants and loans (some non-repayable), the extension of short-time work schemes and unemployment benefits to cover the self-employed, as well as the deferral of liabilities such as social security or tax and loan payments for the periods more extended than the duration of the lockdowns are the examples of the measures taken by some other EU states. Until now, the self-employed support was limited to a one-time payment amounted to 260 euros per person and the deferred tax payments for the quarantine duration under the condition that their income does not exceed 642 euros before taxes.

The new government is aware that there is a need to tackle income inequality by increasing the value generated by the self-employed, effectively turning them into entrepreneurs and creators of jobs long-term, and by supporting the small and medium
enterprises (SMEs) which face the risk of laying down part of the workforce, which might end up as unemployed or partially self-employed. Hence, the strategy is to support the self-employed and the SMEs not so much in the individually affected sectors of the pre-COVID economy but more so in those sectors that show the potential of growth by attracting entrepreneurial talent, skilled labour and investments.

As of January, the micro-enterprises and other SMEs can qualify for the one-time government turnover subsidies equal to 25 per cent from the income taxes paid last year if their monthly turnover decreased on average by 30 per cent from November 2020 to February 2021. There are 94 thousand of such companies in Lithuania. Further, the companies will be able to get the loans at a reduced rate by up to 1,69 per cent depending on the loan's size and the applicant's status. A particular support measure is planned to be introduced in February, and it will be primarily targeting the self-employed. The Ministry of the Economic and Innovation announce the plan to offer the self-employed the subsidies based on the same principle, the amount of income taxes paid, as applies to the SMEs' case, only the percentage will be higher due to the lower average incomes of the self-employed persons. By linking up the size of the support measures to the level of taxes paid from the revenue generated, the government aims to help the self-employed and the small companies stay afloat during the pandemic while at the same time incentivising them to look for growth opportunities.

References:


