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## ASSET-BASED APPROACH TO POVERTY REDUCTION IN LITHUANIA

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**Abstract.** This paper reviews the articles of Lithuanian authors on social policy topic and assesses if the asset-based policy topic was ever explored. It briefly analyses the efficiency of current social security policy in Lithuania and social-economical state of inhabitants. It states that in order to reduce poverty and inequality, current social policy should be reformed, and the current income support (or income security) policy should be replaced by the asset-based policy which stresses the development of skills, knowledge and capabilities, promotes savings, investments and building of assets and gives everyone a possibility to become a capital owner. The paper presents results of a representative survey which was aimed to explore Lithuanian inhabitants' opinion towards the new form of social policy: asset-based policy. It uncovers that vast majority of Lithuania's inhabitants would agree to the implementation of the asset-based policy, based on children's savings accounts.

**Keywords:** social policy, asset-based policy, inequality of incomes, poverty rate, poverty reduction, children's savings accounts, child development accounts, building of assets.

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**JEL classification:** D63, I38.

### Introduction

Income inequality and high poverty rate stem the evolution of society and state; they have a significant impact on health and education of residents, conditions of housing and delinquency rate. Income inequality and wealth disparity cause political discontent that may lead to serious social upheaval.

Traditional methods that deal with poverty and social inequality focus on issues of income and consumption, with particular importance given to the idea of progressive taxation and increase of various benefits to the poor. These actions, called income security or income support

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policy, have to support individuals when they have insufficient income, face difficulties, whether temporary or constant ones, including unemployment, health problems, accidents or old age. Income security policy however is a passive one: it supports individuals in distress; however, it is not intended to develop their possibilities (Sherraden 2002, 2003). Research works suggest that transfer of benefits to the poor does not reduce a pre-transfer poverty rate.

Modern, post-industrial economy needs active social policy, based on savings, investments and wealth accumulation, encouraging personal development and providing motivation for development of one's knowledge, skills and abilities. Such a new kind of social policy, which emphasizes long-term possibilities based on accumulated wealth, is called *asset-based policy* (Sherraden 1991). It should be noted that asset-based policy does not envisage replacing current income security policy, which is a core idea of a welfare state. Both policies can mutually contribute, seeking their goals: benefits received maintain consumption, while the accumulated assets may encourage personal financial freedom and recovery from poverty.

Various authors have come up with several different methods to implement asset-based policy:

- one-time grant to all individuals reaching majority (Nissan, Le Grand 2000; Ackerman, Alstott 1998);
- regular monthly benefits for all citizens of a country, after reaching majority (Van Parijs 2005);
- benefits to new-borns: one-time transfer by the government to the *child development account* (hereinafter CDA) opened to all new-borns. Withdrawals from this type of account can be made only when the beneficiary reaches majority (Sherraden 1991; Kelly, Lissauer 2000);
- matched savings accounts for the poor and transfers by the government, that match at a certain ratio and to a certain limit the personal savings, transferred to these accounts (Sherraden 1991).

All these policies are characterized by the fact that there is accumulation of funds in an investment account for a certain period of time (in case an account is opened to a new-born, the funds are mostly accumulated until he/she reaches majority; if an account is opened to a low-income individual, funds are mostly accumulated for 2–4 years), using support of the Government (one-time benefits or matching funds); later on, these funds can be used for a predetermined purpose: mostly for education, housing or starting a small business. Although these proposals envisage fairly different implementation of asset-based policy, all of them focus on the same goal, i.e. to accumulate a certain amount of asset, escape from regular cycle of benefits, consumption and poverty, encourage development of personal capabilities and as a result, a better development of entire society and national economy.

It should be noted that the above presented policy has not only supporters but opponents as well. This policy is often criticized on these grounds:

- **stake-blowing or stake-losing.** Some critics say that a one-time lump sum paid to all individuals reaching majority (should it be paid directly by the Government to young adult or accumulated in a CDA during 18 years) may be squandered or lost because of bad investments. This critique can be countered applying some restrictions to the use of accumulated funds and better financial education at school;

- **too expensive.** Some critics say that the implementation of a universal asset-based policy providing one time lump sum to all individuals reaching majority is too expensive to put it into reality. This critique can be countered applying a CDA policy which is far less expensive;
- **it may increase inequality.** Some critics say that the implementation of the asset-based policy may increase (and not decrease) inequality as the accumulated funds in the accounts which are supplemented by personal savings at the end of the day will be much bigger than the funds in the accounts which are not supplemented at all. This critique can be countered applying a progressive asset-based policy (bigger payments to new-borns who live below poverty rate and matched savings by the Government to their accounts);
- **it is not equitable.** Some critics say that the asset-based policy is not equitable: on one hand, it gives additional resources to the rich and on the other hand, it gives resources to the persons who do not work. This critique can be countered by saying that universalism is a main feature of the asset-based policy, which makes it different from the current social policy. It's worth saying that some benefits of current social policy are universal as well (i.e. one-time payment to the parents of a new-born or a one-time payment to the relatives of a deceased person).

Interest in asset-based welfare became increasingly popular throughout the world in the last decade of 20<sup>th</sup> century. Efforts have shifted from scientific research to practical implementation of ideas: asset-based policy is tested and implemented in Anglo-Saxon countries (Great Britain, USA, Canada) and English-speaking countries of Southeast Asia, which historically inherited or simply try to imitate the model of society and social security of Anglo-Saxon countries (Singapore, Taiwan, Hong Kong, South Korea). However, there is no countries from Central or Eastern Europe in that list.

This paper seeks to review the articles of Lithuanian authors on social policy topic and to check if the asset-based policy topic was ever explored. It briefly analyses the efficiency of current social security policy in Lithuania and social-economical state of inhabitants. Finally, this paper seeks to identify the attitude of Lithuanian residents to the new social policy form so called *asset-based policy*.

Research object is the possibility to implement the asset-based policy in Lithuania.

Methods of the research are: the analysis of scientific literature, representative survey of Lithuanian residents, comparative and logical analysis of statistical data, and graphical data representation.

## 1. Social policy topic in the articles of Lithuanian authors

The topic of Social Policy is widely analysed in the works of Lithuanian authors: the works of Lithuanian Social Research Center, Institute of Labor and Social Research (authors J. Aidukaitė, B. Gruževskis, A. Šileika, R. Zabarauskaitė, D. Skučienė, R. Lazutka, V. Stankūnienė, I. Blažienė etc.) are of great importance. Aidukaite (2003, 2006a, b, 2009, 2010, 2011) analyses Lithuanian social welfare system, reforms and formation of social security institutions in a historical (post-Soviet) perspective; Guogis (2000, 2002, 2004a, b, 2005a, b,

2006, 2008, 2011, 2012), Guogis and Gruževskis (2010), Skuodis (2009) focus on the models of Lithuanian social policy and welfare, examines social services and social security; Jasilionienė (2005), Stankūnienė *et al.* (2001, 2003, 2005), Šileika and Tamašauskienė (2003) explore the family policy and benefits to families; Lazutka (2003, 2007), Lazutka *et al.* (2008), Žalimienė and Lazutka (2009), Žalimienė (2011), Skučienė (2008, 2010), Blažienė (2002), Blažienė and Zabarauskaitė (2011), Zabarauskaitė and Blažienė (2012) focus on the questions of social maintenance and social support in Lithuania, analyse welfare of inhabitants and inequality of income; Pajuodienė and Šileika (2001), Zabarauskaitė (2004, 2005, 2007), Šileika and Zabarauskaitė (2006, 2009), Šileika *et al.* (2009) analyse questions of poverty methodology, measurement, poverty rate, factors of poverty, various social layers and life standards.

Aidukaitė (2010, 2011) analyses social security systems of Central and Eastern European (hereinafter CEE) countries, and notices some similarities between them, what makes it possible to distinguish a model of post-communistic social security. The classification of European social models proposed by Guogis (2011), and typology of social policy models in the EU countries proposed by Skuodis (2009) also confirm the existence of the individual social model in the post-Soviet states. Small minimum wages, small expenses for social security, a large proportion of shadow economy, weak fiscal state, and higher poverty rate in comparison to other EU countries are the main similarities of social security systems in CEE countries. While describing this social policy model, not only its corporative and liberal elements are mentioned, but also a *clientelism*, when some privileged groups of residents get special, additional rights to the benefits and services (Guogis 2012). However, Aidukaitė (2010, 2011) pays attention to the fact that in some CEE countries (e.g. Czech Republic, Slovenia, Slovakia, and Hungary) the poverty rates and Gini coefficients are similar, or even better than in old Member States of the EU. Research of Skuodis (2009) also proves that Czech Republic, Slovenia, and Hungary have more similarities with a conservative–corporative model of continental Europe than with Central and Eastern European social policy model. Three Baltic States can also be distinguished from the rest of Central and Eastern European welfare regime. Those countries have the fastest growth of economy and smallest expenses for social security in the EU (Skuodis 2009). The social indicators of these countries (especially, indicators of Lithuania and Latvia) are far below the European average.

Many analysed authors noted the growth of income inequality in Lithuania from 1996 till 2011. Income inequality and poverty rate are among the highest in the EU (Lisauskaitė 2010). The growth of income inequality in the last decade was faster than in other EU countries (Skučienė 2008). Some articles show that the growth of inequality among various social groups (according to the age, education, etc.), was remarkable even if the general growth of inequality in Lithuania was not noticed by Eurostat (Šileika *et al.* 2009).

Aidukaitė (2010, 2011) emphasizes the growth of poverty and inequality in CEE countries during 18 years period and the fact that it did not stimulate radical reforms in the social security system in the region. Author suggests that current social security system is unable to ensure satisfactory prosperity to its citizens when certain social risks occur.

Inefficiency of economic policy, unequal distribution of recourses, unequal conditions for business and other discriminating circumstances are emphasized by some Lithuanian authors (Lisauskaitė 2010). The research, which was recently made by Zabarauskaitė and Blažienė

(2012), shows that the income inequality trend is more influenced by the economic and social policy than by cycle of economy. As a result, the present social policy and its measures can be treated as badly selected, when the inequality grows.

Other authors also mention inadequacy of current social policy. From their point of view, inability of our country to identify the focus of poverty (large families, pensioners, small farms, etc.) and to liquidate it properly using a correct social policy only strengthens the growth of income differences. Not all the payments are distributed in a socially accurate way, and sometimes it may even influence the growth of poverty (Misiūnas, Bratčikovienė 2007).

Guogis (2011, 2012) claims that the social insertion, social equality, decrease of poverty and active social policy (and not the passive one) are the significant elements of progressive normative social-policy model, which should be a target for European countries, including Lithuania. According to the author, the task of social insertion is poorly resolved in Eastern European Countries, and firstly in Baltic Countries. The author asks if *the countries that do not manage to solve social insertion and social cohesion problems can be treated as welfare countries, or the ones that try to become such?* According to the author, the welfare models can be attributed with three main models of public administration: traditional – hierarchic, New Public Management, and New Governance<sup>1</sup>. The very significant element of New Governance is the empowerment, which stresses the importance of active social policy (Guogis, Bitinas 2009). According to Guogis, New Public Management emphasized failure of passive social policy, when huge social benefits did not solve any problems but stigmatized individual groups of inhabitants. For this reason the New Public Management raised the empowerment as the main measure of active social policy, which should not be based on benefits (or at least for a long time) and should seek the inclusion and reintegration of excluded groups. But only New Governance finally solves the task of social reintegration, because this is the main aim of New Governance (Guogis 2012).

To conclude, the inefficient redistributing policy, which is oriented more to the various payments to the poor, than to the development of their long-term capabilities, can be treated as one of the most significant reasons of income inequality and high poverty rate. That is why, in order to reduce inequality, current social policy should be reformed, and the current income support (or income security) policy should be replaced by the asset-based policy, which stresses higher savings, investments and building of assets. Only the new social policy, based on saving, investments and wealth accumulation may be an appropriate measure against poverty and social inequality.

The project called *Social Problems Monitoring. Implementation of the International Program of Social Survey*, which was carried out starting October 2010, should be mentioned as one of the empirical researches of social policy application. The attitudes of Lithuania inhabitants to the social policy, their experience, behaviour, and provisions towards social inequality are the main research objects of this project. Two inhabitant surveys were conducted in the period from December 2010 till January 2011 and from November 2011 till December 2011. The empirical data showed the existence of strong expectations towards public social support in

<sup>1</sup> Traditional-hierarchic model is more characteristic to the countries of conservative corporative social welfare model of Continental Europe, while the New Public Management is typical for Anglo-Saxon countries, which are close to the ideal model of liberal marginal welfare (Guogis 2012).

Lithuania. The respondents stressed the importance of state to take care of the sick or disabled person, in a case of unemployment or retirement (Butkevičienė 2012); 94.8% of inhabitants claimed the state should be responsible to reduce the gap between the rich and the poor. The evaluation of Social Security is negative; according to the respondents, the *majority of beneficiaries abuse the support* (49%), *the current system does not promote searching for a job* (36%), *the system does not promote taking care of yourself* (36%), and the *beneficiaries feel as second-rate persons* (46%). The state actions in the field of family policy and social security are evaluated as very weak: 95% of respondents in 2010, and 93% in 2011 did not agree with the statement that *the poverty is under way to reduction*, and 93% of respondents in 2010 with 91% respondents in 2011 did not agree with an idea of *successful reduction of gap between the rich and the poor*.

To conclude, after evaluating the theoretical and practical level of analysis of the above mentioned problem in Lithuania, it could be stated that majority of Lithuanian authors analyse living standards and poverty indicators, income inequality, its dynamics, reasons and certain ways to solve these problems. However, the possibility to implement the asset-based policy in Lithuania and the possible impact of such a policy to inequality and poverty rate are not yet explored.

## 2. The social-economic situation in Lithuania

In the period of 2005–2010, the social situation of Lithuanians did not improve: nevertheless the decline of income inequality and poverty rate was remarkable in 2005–2007, the period of crisis and post-crisis in 2008–2010 reversed these achievements (Fig. 1).

National economy and residents' income have strongly increased in 2000–2010: nominal GDP increased by 107%, average monthly net salary (not adjusted to inflation) increased by 124%. However, not all types of income increased at the same rate: incomes from the investment in stock market, even taking in consideration a deep recession in 2008–2009,

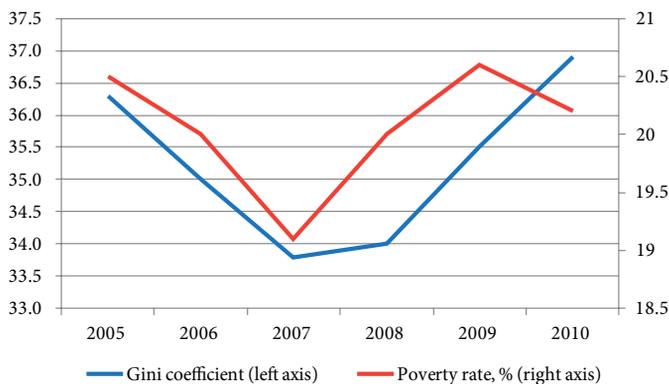


Fig. 1. Changes of Gini coefficient and poverty rate in Lithuania in 2005–2010  
(Source: Statistics of Lithuania and authorial calculation)

increased much more, even 310%<sup>2</sup>. So if the human capital (our experience, knowledge, talent, etc.) was treated as an asset generating work-related incomes, we would say that its value increased 2–3 times in the last decade, when the value of financial assets invested in Lithuanian stock market increased more than 4 times in the same period (Laurinavičius 2012a, b, c).

Similar tendencies can be seen analysing dynamics of corporate profit and workers' salaries in 2002–2011: Figure 2 illustrates that the profit of Lithuanian companies, despite the deep recession in 2008–2010, increased by 203%, while the wages increased by only 119%.

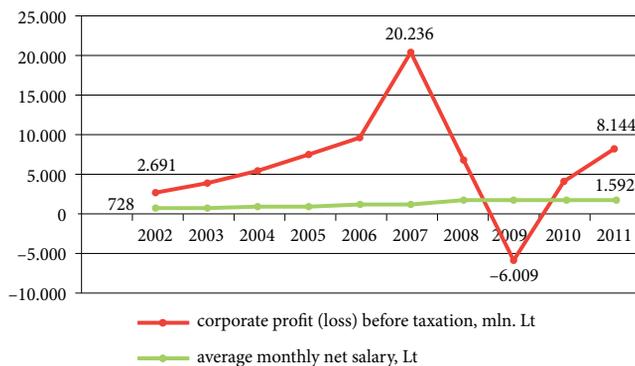


Fig. 2. Changes of corporate profit before taxation (mln. LT) and average net salary in Lithuania in 2002–2011 (Source: Statistics of Lithuania and authorial calculations)

This disproportional growth of corporate profit and salaries does not solve the poverty problems in the country. It increases social tensions and economic differentiation even more, because the income of capital owners are rapidly increasing while the lower and the average layers of population still live in poverty.

The comparison between the changes of the average net salary and stock prices and between the changes of corporate profit and the average net salary show that it is not the persons who need support the most that take advantage of national economy growth.

It could be stated, that even though Lithuania's economy and inhabitants' income were increasing rapidly in the last decade, what should have ensured the increase of living standards for everyone, the change of Gini coefficient and poverty rate were not significant and the gap between the rich and the poor has not decreased.

One of the main reasons of high income inequality and poverty is that the main livelihood of the Lithuanian residents comes from work-related incomes (i.e. wages and salaries). As it was mentioned previously, the growth rate of these incomes was much slower than the growth of stock market or corporate profit. In addition to that, the proportion of work-related incomes is relatively small in national incomes (only 40%), if compared to other members of the EU, e.g. Germany, France or even Finland and Estonia (Fig. 3).

<sup>2</sup> Change of *OMX Vilnius* index in 2000–2010, not adjusted to inflation and paid dividends

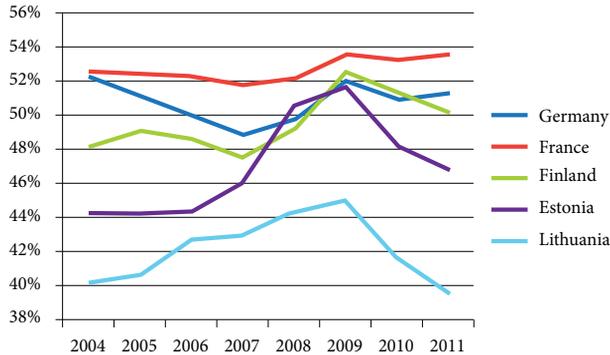


Fig. 3. Part of GDP consisting of compensations for employees in 2004–2011, %  
(Source: Statistics of Lithuania, OECD (2012) and authorial calculations)

Thus capital owners get the largest piece of country's economic "pie": those who benefit from corporate profit, who are able to invest, purchase shares, bonds, mutual funds, may benefit more from the growth of national economy, while those, who receive only work-related income (or not receive at all) cannot do this.

That is why, in order to reduce poverty and inequality, current social policy should be reformed, and the current income support (or income security) policy should be replaced by the asset-based policy which promotes savings, investments and building of assets and gives everyone a possibility to become a capital owner. In this way, a wider range of residents would have the opportunity to take advantage of country's economic growth.

### 3. Results of inhabitants' survey

In order to find out Lithuania's inhabitants' opinion towards the new form of social policy (asset-based policy) a representative survey was carried out<sup>3</sup>. 500 respondents from various regions of the country, of age varying between 16 and 50 years, participated in this survey. During the survey, the following questions were asked:

1. Would Lithuanians approve the implementation of the asset-based policy which presumes that an investment accounts (further – child development account, children's savings account or CDA) would be opened for all newborns of the country and the initial deposit would be placed by the Government?
2. What should be the initial deposit of the Government for this policy to be appealing?
3. What sum should be accumulated in CDA, when a child becomes 18 years old, to give him better opportunities?
4. Should the accumulated funds be used for several pre-established purposes, or should it be without any restrictions?

<sup>3</sup> The survey of inhabitants was carried out on 21–29 January, 2013 by market research company „Eurotela“

5. Would financial literacy courses or financial planning and management lessons be necessary?
6. Would survey participants agree to regularly supplement their CDAs with a certain amount of money?
7. Would such policy help to increase the birth rate?
8. How would participants assess various financing sources of such policy?

The chosen method of survey is Computer Assisted Telephone Interviewing (CATI)<sup>4</sup>. The target population is all inhabitants of Lithuania, under 50 years of age. It was decided to limit the age of target population to 50 years, because the advantages of presented policy (accumulation of funds in CDA) is more relevant for those, who are planning and/or are able to have children. Obviously, older people would only pay to maintain such policy and the benefits could be used by their grandchildren.

Respondents were chosen by randomly generating telephone numbers. All inhabitants of Lithuania were able to participate in the survey, however, questionnaires of respondents, older than 50 years, were removed and the survey was processed until 500 questionnaires of respondents under 50 years of age were collected. Thus, the selection of respondents was representative, probabilistic, random and unstratified.

Standardized interview method was used during the survey. The interviewer submitted standardized closed-ended questions, which were prepared by the authors, and checked one of the possible answers. Using this method, possibility of quantitative data analysis was ensured. The period of survey was 21–29 January, 2013.

Statistical error rate of survey answers can be estimated in Figure 4. Since the sample was composed of 500 elements, error of the answers (depending on the division of answers) may range between 1.9%–4.4%. I.e. if the average of positive answers to a specific question is 40%, then it means that it can be stated with the probability of 95%, that the range of real (whole population's) answers value is  $40\% \pm 4.3\%$ .

For data analysis, *Microsoft Excel* program was used.

Respondents' characteristics, providing a detailed description of a sample, that is later used for more precise and more comprehensive analysis of respondent's opinion, is presented below (Fig. 5).

Division of answers	50/50	45/55	40/60	35/65	30/70	25/75	20/80	15/85	10/90	5/95	
Sample size	400	4.9%	4.9%	4.8%	4.7%	4.5%	4.2%	3.9%	3.5%	2.9%	2.1%
	500	4.4%	4.4%	4.3%	4.2%	4.0%	3.8%	3.5%	3.1%	2.8%	1.9%
	600	4.0%	4.0%	3.9%	3.8%	3.7%	3.5%	3.2%	2.9%	2.4%	1.7%

Fig. 4. Possible statistical error of survey answers  
(Source: JSC "Eurotela" and authorial computation)

<sup>4</sup> In the process of CATI research, the received answers are immediately recorded to the computer and the survey itself is administered by using specific software, which checks the registered answers. Inappropriate answers cannot be fixed, this way avoiding violations of questionnaire logic and structure integrity.

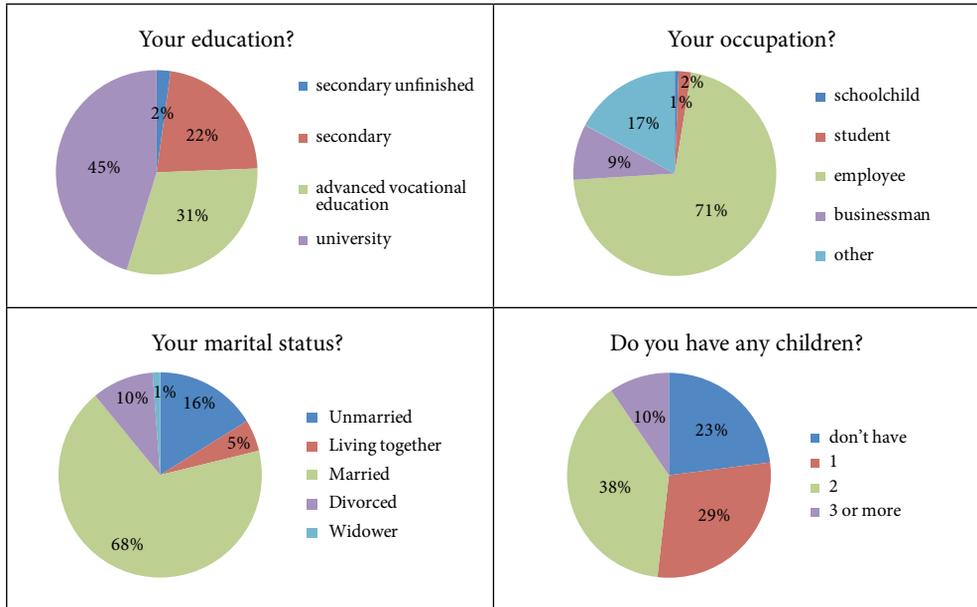


Fig. 5. Demographic and socio-economic indicators of respondents (authorial computation, according to the survey data)

As it is presented, almost half of the respondents had higher education (for comparison, in 2011 59% of inhabitants had higher education in the country) and one third had advanced vocational education or training. 71% of respondents were employees and 9% were business owners. 73% had a family, 16% were still unmarried. 67% of surveyed persons had 1 or 2 children, 10% had 3 or more children and 23% did not have any children.

Distribution of respondents, according to their incomes (Fig. 6), was similar to the country's average: 21.5% of respondents earned less than 1,000 Lt per month (after paying taxes), 37% of respondents earned 1,000–2,000 Lt, 20% of respondents earned 2,000–3,000 Lt, and 21% of respondents earned over 3,000 Lt.

Further, a brief analysis of respondents' answers to the questionnaire is presented.

According to the survey data, it can be stated that more than 76% of Lithuania's inhabitants would agree to the implementation of the asset-based policy, based on child development accounts (Fig. 7)<sup>5</sup>. It should be noted that this question was given at the end of the survey, in order to clarify the main features of the policy by prior questions and thus decrease the number of undecided persons. Apparently, it worked: although the policy, presented in the questionnaire, is new and specific (what makes it harder to comprehend for people without economic education), only 15% of respondents have indicated that they needed more information to make a decision.

<sup>5</sup> In the questionnaire, the question was: "Would you approve the implementation of new social policy based on the new-borns' investment accounts, in which the initial deposit is made by the Government?"

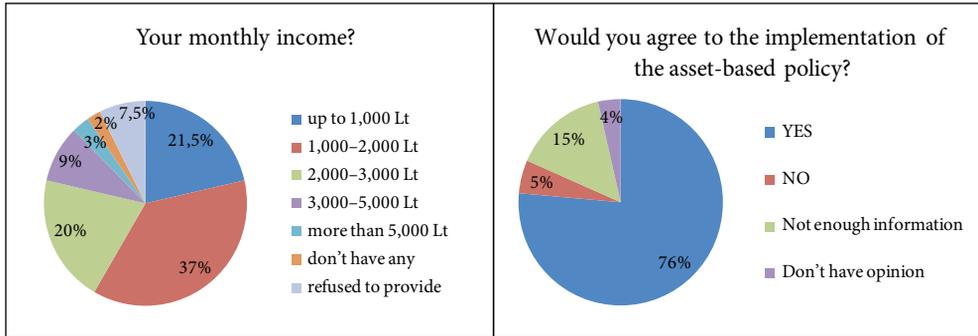


Fig. 6. Distribution of respondents according to their incomes (after paying taxes) (authorial computation, according to the survey data)

Fig. 7. Respondents' attitude towards the implementation of the asset-based policy (authorial computation, according to the survey data)

The survey sought to find out respondents' attitudes towards the main parameters of asset-based policy, i.e. how big the initial Governments deposit should be, for this policy to be attractive and what sum should be accumulated in a CDA after 18 years, to provide a child with better opportunities. According to the answers, it can be concluded that large initial deposits are not necessary for the implementation of asset-based policy: 27.5% of inhabitants noted that such deposit should account for 3,000–5,000 Lt, 19% of inhabitants declared for 2,000–3,000 Lt and 14% - for 1,000–2,000 Lt deposit. Thus, 71% of inhabitants stated that the idea of child development accounts would be attractive if the initial deposit reached 5,000 Lt (Fig. 8).

Respondents stated that when a child becomes 18 years old, there should be 10,000–20,000 Lt (27%) or 20,000–50,000 Lt (37%) accumulated in a CDA, to provide him better opportunities (to study, to start a business, to make a down payment for an apartment, to feel independent, etc.) (Fig. 8).

Collected data enabled to test the hypothesis that the level of inhabitant's incomes affects their opinion towards the initial Government's deposit and the sum that should be

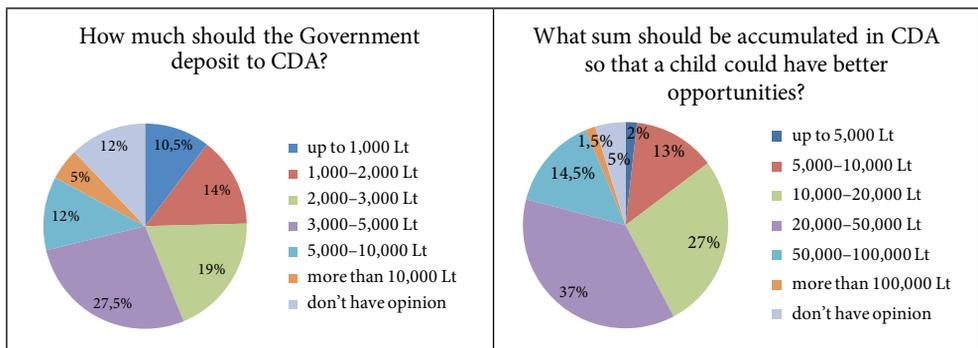


Fig. 8. Respondents' opinion towards amount of Government's initial deposit and the accumulated sum after 18 years (authorial computation, according to the survey data)

accumulated in a CDA after 18 years, to make this policy attractive. Since the number of sample members is large, it is not difficult to reject null hypothesis (with probability of 99%) that there is no connection between the level of income and opinion towards the initial payment, and that there is no connection between the level of income and opinion towards the accumulated sum.<sup>6</sup> Even though both connections exist, they are not particularly strong: in the first case, the value of *Spearman* rank correlation coefficient is 0.18, and in second case it is 0.20.<sup>7</sup> Although values of correlation coefficient are low, they are positive in both cases, meaning that those inhabitants, who receive lower income, declared for lower initial Government's payment to children's savings account and also lower sums, accumulated in those accounts after 18 years.

Vast majority of the respondents (81%) agree that the accumulated funds in children's savings account should be used only for several specific, pre-defined purposes (Fig. 9). When asked to name (without priority) the main purposes<sup>8</sup>, 98% of surveyed persons specified that the accumulated funds should be used for studies, also followed by payments for housing, starting business and healthcare expenses (52%, 41% and 32% accordingly)<sup>9</sup>.

Respondents were almost unanimous, considering the need of financial education. Answering the question about the need of courses on financial literacy, or the lessons of finance planning and management in schools, so that children could gain comprehension about proper usage of accumulated funds in CDA (when they reach majority and gain access to these funds), 90% of the inhabitants responded positively (Fig. 10). Majority of respondents (60%) believe

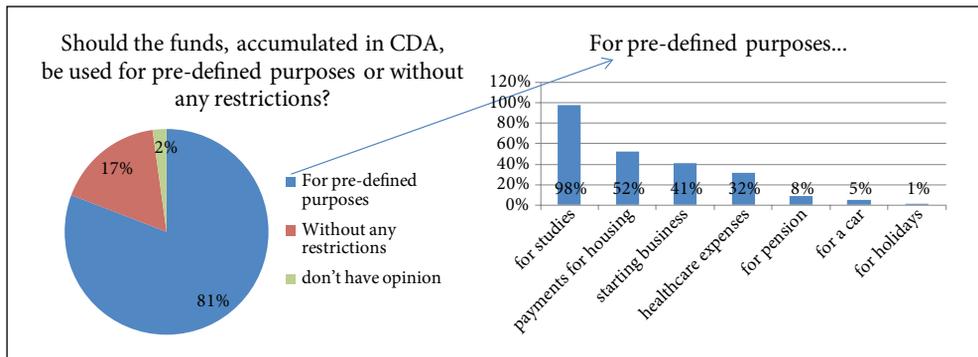


Fig. 9. Respondents' opinion towards the usage of funds, accumulated in CDA (authorial computation, according to the survey data)

<sup>6</sup> Testing the connection between level of incomes and opinion towards the initial Government's payment, critical value of t statistics with 99% of confidence level is 2.63 and calculated value of t statistics is 3.70. Testing the connection between level of incomes and opinion towards the sum, that should be accumulated in CDA after 18 years, critical value of t statistics is 2.63 and calculated value of t statistics is 4.20.

<sup>7</sup> Here and hereinafter, calculating the strength of connection, Spearman's rank correlation coefficients were calculated (and not Pearson's correlation coefficients), because the survey's data is accumulated in a rank scale (not in an interval or ratio scale).

<sup>8</sup> Answers to this question were taken from those respondents, whose answer to previous question was "accumulated funds could be used only for several specific, pre-defined purposes".

<sup>9</sup> Respondents were allowed to name several purposes.

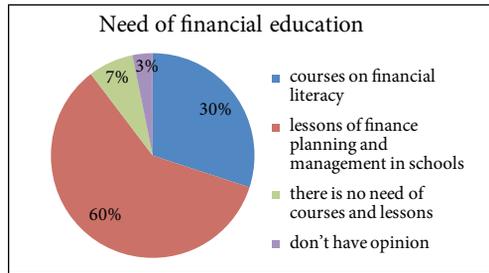


Fig. 10. Respondents' opinion towards the need of financial education (authorial computation, according to the survey data)

that financial education should be organized in secondary schools in a form of compulsory lessons on finance planning and management. For 30% of surveyed persons, limited range (e.g. 10 hours or 20 hours) courses on financial literacy would seem to be enough.

A significant aspect of CDA policy is parents' (caretakers) participation in funding the CDA with their own resources. It is important to note that the majority of Lithuania's inhabitants (81%) would agree to supplement their children's savings accounts, if the asset-based policy was implemented (Fig. 11). Only 13% of inhabitants were "against". Reasons of those who were "against": 34% of them would not have enough resources, 23% do not agree<sup>10</sup> with this policy, for 18% of discrepant inhabitants this policy is not relevant, because they have no children and for the remaining 25% this policy is not relevant, because their children are already grown-up. Analysis of respondents, who would agree to finance their child development accounts with their own resources, has shown that more than half of them (58%) would be able to contribute 100 Lt or more per month, 28% would fund 50 Lt, and the rest 14% of surveyed persons would be able to contribute 10–25 Lt per month.

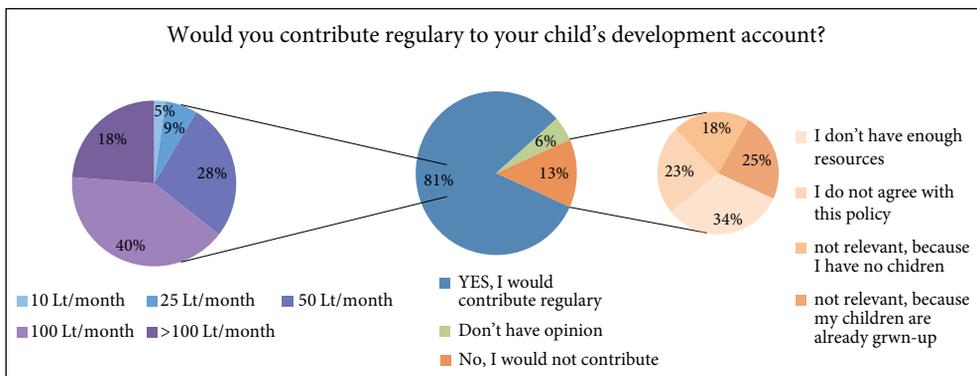


Fig. 11. Respondents' opinion towards personal contributions to the CDA (authorial computation, according to the survey data)

<sup>10</sup> It should be noted that not all respondents, who answered to this question that they would not finance their children's savings account because they do not agree with this policy, had a consistent position. 33% of these respondents answered positively to the question "Would you agree to the new asset-based policy?", provided at the end of questionnaire.

It is necessary to find out if higher inhabitants' income has an impact on their determination to invest more into children's savings account. Since the number of sample members is large, it is not difficult to reject null hypothesis that there is no connection between the level of incomes and determination to invest more into children's savings account, with probability of 99%<sup>11</sup>. The value of *Spearman* rank correlation coefficient is 0.38, so it can be stated that together with increasing income, determination to invest more money to children's savings account increases as well.

One of the aims of the survey was to determine if Lithuania's inhabitants would change their opinion towards personal contributions to the CDA, if the matched deposits from the Government were provided (at a ratio 1:1) (hereinafter – Government's co-investment). Figure 12 shows that such aspect of policy would not make a significant change in inhabitants' behaviour. However, it should be noted that the number of inhabitants, who were intended to invest smallest sums into their CDA, i.e. 10 Lt/month and 25 Lt/month, would sharply decrease (3 ppt and 2.2 ppt, respectively), while the number of inhabitants, who were intended to invest the largest sums into their CDA, i.e. 100 Lt/month, would increase (5.8 ppt). So, it is probable that the fact, based on empiric analysis in other countries, that persons consider the limit of Government's co-investment as a signal of what personal savings level is expected (and tries to implement it), would affirm in Lithuania as well.

Another relevant question – would Government's co-investment have any significant impact on the determination to invest larger sums to CDA for those, who get the smallest incomes. Chi-squared test shows, that the determination of those inhabitants, who get the smallest incomes, to invest a certain amount of money to CDA, with or without existence of Government's co-investment, are two independent variables<sup>12</sup> (the same result was received, analysing the choices of those, whose salary is 1,000 Lt per month and whose salary is 2,000 Lt per month). So, it is not possible to distinguish the significant impact of Government's co-investment for only those, who get the smallest incomes.

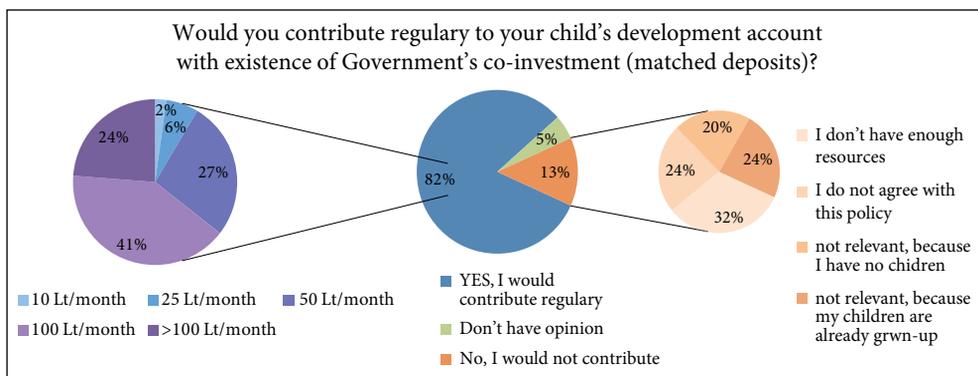


Fig. 12. Respondents' opinion towards personal contributions to the CDA with existence of Government's co-investment (authorial computation, according to the survey data)

<sup>11</sup> A critical value of t statistics with 99% of confidence level is 2.63 and a calculated value of t statistics is 7.99.

<sup>12</sup> Critical value of  $\chi^2$  statistics with 95% of confidence level is 341 and a calculated value of  $\chi^2$  statistics is 67.

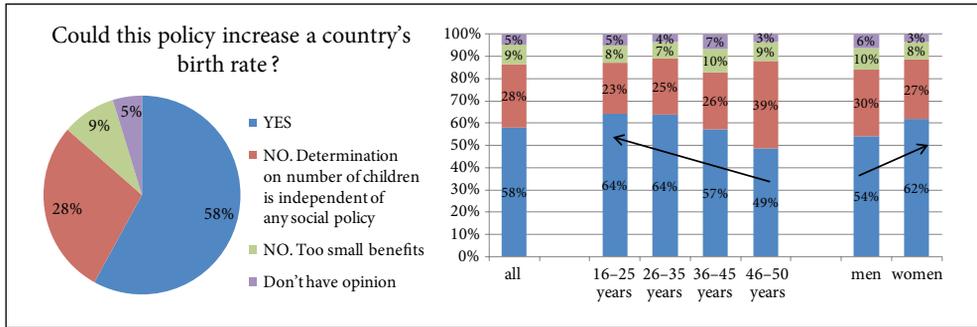


Fig. 13. Respondents' opinion towards the effect of CDA for birth rate (authorial computation, according to the survey data)

During the survey, the possible pronatalist effect of the asset-based policy was tested. Figure 13 shows that the major part of Lithuania's inhabitants (58%) believe this policy would increase country's birth rate. 28% of respondents believe that determination on number of children is independent of any social policy. It should be noted that pronatalist effect of this policy is more assessed by the inhabitants of younger age and women, while among older people and men, this tendency is lesser. Assessing the fact, that stratum of younger inhabitant's and women determine the country's population growth rate, the pronatalist effect of the asset-based policy could be especially important.

During the survey, inhabitants' opinion towards financing sources of the new policy was tested. Before presenting their opinion, some figures about policy's financing needs should be presented. Authorial computation shows, that the implementation of the asset-based policy - when there is a one-time payment of 3,000 LTL to every new-born in the country and additional payments of 1,000 LTL when a child reaches 6 years old and 12 years old (and twice as much to those who live below poverty rate) - would cost 126 million LTL<sup>13</sup> the first year and would increase to 232 million LTL the last year (Fig. 14). Financing needs would

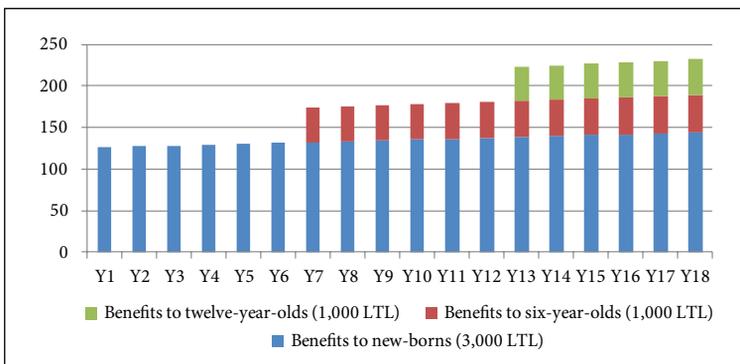


Fig. 14. Financing needs of the asset-based policy, in million LTL (authorial computation)

<sup>13</sup> Taking into consideration that there is some 35,000 newborns in Lithuania every year

increase because of increase in birth rate (pronatalist effect of the policy) additional payments to six-year-olds and twelve-year-olds.

Thus the aim of the last question of the survey was to find out if the inhabitants would agree that the Government would finance the asset-based policy:

- a) by imposing the real estate tax, obligatory for all Lithuania's inhabitants;
- b) by raising personal income tax by 1 ppt (from 15 to 16 percent);
- c) by additional tax revenue, introducing progressive rates of personal income tax;
- d) by reducing the present lump-sum payment for a new-born from 1,430 Lt to 1,000 Lt.

According to the survey, inhabitants did not approve any of the financing sources, however, the disapproval of the first three sources was not as great as of the last one (Fig. 15). To conclude, resistance towards the new taxes would not be as strong as towards a decrease of certain existing benefits. It is worth noting, that the issue of reduction of the present payment for new-borns was involved to the survey, in order to find out the reaction of inhabitants towards the refusal of certain benefit today, for receiving more in future. In fact, such financing source would not satisfy the criterion of adequacy as its incomes would be only 14 mil. Lt per year, satisfying only 10% of asset-based policy's financing needs.

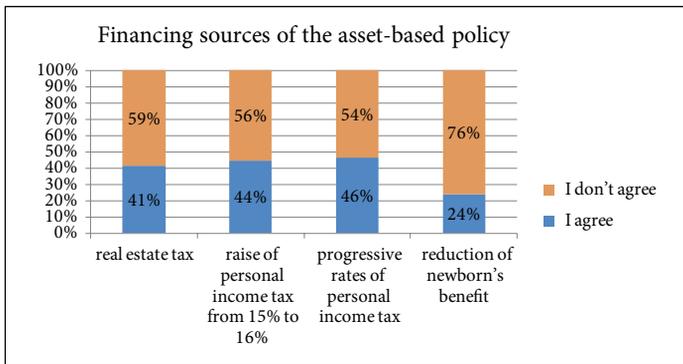


Fig. 15. Respondents' opinion towards the financing sources of the asset-based policy (authorial computation, according to the survey data)

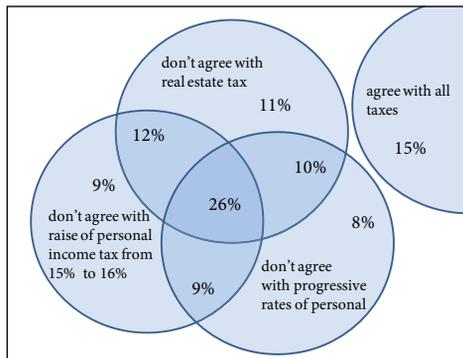


Fig. 16. Respondents' separation to sets, regarding approval/disapproval to financing sources for the asset-based policy (authorial computation, according to the survey data)

Analysing disapproval to the first three suggested policy financing sources in more detail, it appears that the set of respondents is heterogeneous (Fig. 16). Only 26% of the surveyed people did not approve to any of the three suggested taxes, while 74% of respondents agreed to at least one of the suggested alternatives (it should be noted that only 15% of respondents have approved to all three alternatives). In conclusion, despite that no suggested tax, separately, had support of majority, heterogeneity of those who disapprove implies that compromise, in respect to a certain tax, could be achieved.

## Conclusions

1. The majority of Lithuanian authors analyse living standards and poverty indicators, income inequality, its dynamics, reasons and certain ways to solve these problems. However, the possibility to implement the asset-based policy in Lithuania and the possible impact of such a policy to inequality and poverty rate are not yet explored.
2. The disproportional growth of corporate profit and salaries does not solve the poverty problems in the country. It even more increases social tensions and economic differentiation, because the income of capital owner's is rapidly increasing while the lower and the average layers of population still live in poverty.
3. One of the main reasons of high income inequality and poverty is that the main livelihood of the Lithuanian residents comes from work-related incomes (i.e. wages and salaries). The growth rate of these incomes during the period of 2000–2010 was significantly slower, compared to the growth rate of country's stock market and corporate profit. In addition to that, the proportion of work-related incomes is relatively small in national income, if compared to other members of the EU.
4. In order to reduce poverty and inequality, current social policy should be reformed, and the current income support (or income security) policy should be replaced by the asset-based policy which stresses development of skills, knowledge and capabilities, promotes savings, investments and building of assets and gives everyone a possibility to become a capital owner.
5. Generalizing inhabitants' survey results, it can be stated that vast majority of Lithuania's inhabitants would agree to the implementation of the asset-based policy, based on child development accounts. The survey also showed:
  - a) 70% of inhabitants would consider the CDA idea attractive, if the initial Government's deposit was not smaller than 5,000 Lt;
  - b) according to 64% of inhabitants, 10,000–50,000 Lt should be accumulated in CDA when the child reaches majority, in order to provide him with better opportunities;
  - c) there is a weak connection between inhabitant's income and their opinion towards the initial Government's deposit and the sum that should be accumulated in the CDA after 18 years: inhabitants, who receive lower income, declared for lower initial Government's payment to children's savings account as well as lower sums, accumulated in those accounts after 18 years;

- d) vast majority of respondents (81%) agree that the accumulated funds in children's savings account should be used only for several specific, pre-defined purposes: for studies (98%), payments for housing (52%), starting business (41%) and healthcare (32%);
- e) respondents have stressed the need of financial education. Vast majority (60%) of respondents consider that financial education should be organized in secondary schools in a form of compulsory lessons on finance planning and management;
- f) vast majority of Lithuania's inhabitants (81%) would agree to supplement their children's savings accounts, if asset-based policy was implemented. More than half of them (58%) would be able to contribute 100 Lt per month or more. In addition, it was established that together with increasing income, determination to invest more money to the children's savings account increases as well;
- g) if the matched deposits from the Government were provided (at a ratio 1:1) the number of inhabitants, who intended to invest the smallest sums into their CDA, i.e. 10 Lt/month and 25 Lt/month, would sharply decrease (3 ppt and 2.2 ppt, respectively), while the number of inhabitants, who intended to invest the largest sums into their CDA, i.e. 100 Lt/month, would increase (5.8 ppt);
- h) majority of Lithuania's inhabitants (58%) consider that such policy would increase birth rate in the country. Pronatalist effect of the policy is more assessed by the inhabitants of younger age and women - the stratum that determines the country's population growth rate;
- i) despite that no suggested tax (real estate tax, raise of personal income tax by 1 ppt or progressive rates of personal income tax), separately, had support of the majority, heterogeneity of those who disapprove (only 26% of the surveyed people did not approve to any of the three suggested taxes) implies that compromise, in respect to a certain tax, could be achieved.

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