

GOVERNMENTAL TRANSFER PAYMENTS FOR INDIVIDUALS: GROUND AND AFTER-EFFECT ANALYSIS

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Abstract

The article was prepared to analyze different foreign author's opinions and researches about government transfer payments allocated for social security of people that can be classed as poor. There are analyzed issues of transfer payments implementation and the influence on to the residents consuming and country economics when transfer payments are diminished either grow. Government transfer payments system planning should involve researches of the situation and ensure that necessary relief from government's side will be delivered for the socially touched people and those who are making efforts to adapt in the changed situation. Analyzing the various authors articles noticed that the need of government transfer payments depend on the country, its background and the existing system. There can be separated positive and negative issues cause by transfer payments growth. The main goal of imposed transfer payments is to smooth the consumption for people temporary lost the income either possibility to earn money also to pass good experience and values for offspring showing good examples. Most of the discussions and researches are addressed towards negative results caused by transfer payments. Welfare payments, social insurance, handicap transfers, unemployment grants and other governmental transfers given to certain groups of people can cause tendentious work losses, income reduction, dropping school and other, seeking to receive transfer payments.

Keywords: transfer payment, unemployment, welfare, government spending.

Introduction

State government formulating the annual budget makes projects of future income and expenses. Part of state government estimated and implemented expenditures are allocated to residents. In addition to the cost of education, health, public policy, defense and other areas that are supported by government, big part of states budgets is allocated for government transfer payments for households and individuals. The governmental transfer payments are dedicated for states citizen's social protection. The allocation of transfer payments are made for various social groups considering at the active laws in states and state's social – economic politics.

In Lithuanian Republic governmental transfer payments are welfare payments, unemployment grants, old age pensions, maternity leave payments and others.

Every state has its own social – economic policy and laws that assign specifications for the citizens allowed to claim for government transfer payments in any conformation. The motives that determine the government transfer payment allocation can be different. Some of them can be indicated as willing to smooth consumption, keep up to level consumption either partial income compensation for those who lost their sources of income or temporary either for all disablement.

Government transfer payment volume and motives of allocation depend not only on individual's social status, but also can depend on the governance of the political forces. Authors for various countries indicate that states expenditures as transfer payments for sensitive groups of citizen sometimes depend on demographic structure in the states which means on electorate. Bureaucrats and politicians decisions sometimes are associated with the desire to be reelected.

State's transfer payments policy can be influenced not only by needs of those benefits for society, but also often can be affected by influence of politician's interests in respect of the electorate. Sometimes governments motivate and private help for poor people by taxation system changes trying to reduce direct government expenditures and the effect of the consequences that transfer payments can cause. The government transfer payments can give positive effects like help in consumption after main income source for a household was lost, but also can cause and negative reactions like incentives to cheat, avoiding accepting offered job, early pregnancy, single mothers and other.

In the article are reviewed various authors identified reasons for government transfer payment allocation and the outcomes that are researched in various countries. Also there is overview of Lithuanian transfer payment system. The main goal of the article is to identify positive and negative results of transfer payments.

The Review of Motives for Commitment of Transfer Payments for Individuals

The part of expenses that face each country's budget is governmental transfer payments to different social groups that are sensitive to country's economy fluctuation. Governmental transfer payments for private people can be called and social protection. All this can be split in to groups (Social Protection in Lithuania, 2007). As the first group can be indicated sickness (temporary inability to work) benefit. Lithuanian statistics department indicates that this group of benefits are paid to persons covered by sickness and maternity social insurance. As the second group are indicated disability, old age and survivors. Every country has their own rules for indicating target groups that can be called old age, requirements for disability can also vary. The third group can be called family and/or children. This group covers maternity and paternity benefits, children benefits and support for families. The fourth group is unemployment expenditures that face every country. This group involve unemployment insurance benefits, training allowance for unemployed, vocational training, consulting and etc. Also as groups can be indicated social housing and social assistance benefits.

There are various opinions about necessity of before listed transfer payments groups. There were made several researches in the world to find out the results of transfer payments impact on GDP and the influence on benefits receiving individuals spending.

To indicate outcomes of transfer payments will be reviewed motives of necessity to appoint transfer payments for various groups of individuals. In this article are reviewed various researches and articles prepared by authors working on the transfer payments fields.

G. Acs and E. Toder (2007) in their article reviewed evidence on the effects of subsidizing work effort of low-income families in the United States. Also they survey effects of subsidizing incomes of the poor, and other considerations, including long-term human capital development of beneficiaries and the well-being of their children (Acs, Toder, 2007).

Transfer payments introduce economic distortions because they must be financed by taxes and labour and/or the return to saving. If transfer payments were universal and were financed by labour income taxes, everyone with earnings above the tax-paying threshold would face a positive marginal tax rate on an additional hour of work (Acs, Toder, 2007).

H. G. Bloemen and E. G. F. Srancanelli (2005) in their article remind that allowing job losers to smooth consumption is one of the motivations for the existence of an unemployment insurance benefit system.

G. Acs and E. Toder (2007) indicate that there can be external benefits from encouraging labour market participation of low-income families. The labour force experience may enable individuals to develop new skills and ultimately increase their income comparing to what they are earning on their current market wage. The authors of article state reasons why unemployment should be subsidised but also why there is a need for low-income people to receive social assistance benefits. The reasons can be not only based by economics but also important for society as an investment in to the future. The example of a working parent in the house may generate a positive image for children and promote for them a work ethic and the motivation to perform better in school. But encouraging low-income people to work, especially single women with children, increases the need for non-parental childcare, with potentially positive or negative consequences (Acs, Toder, 2007).

Professors C. Gamez and A. Ibarra-Yunez (2007) in their article state that transfer payments as governmental aid to various groups of individuals can be given to assure the volume of the voters whose support politicians are expecting. The assumptions that voters are very naive, incapable of learning and prone to systematic mistakes in expectations were subject of severe criticism from the standpoint of rational expectations. Hence, this produced the second wave of the political business theory, the so-called rational approach.

J. R. Clark and D. R. Lee (2008) include not only economical but and political aspects into governmental transfer system. They state that first, while most people see market outcomes resulting from competition between different people and interests, they tend to see political outcomes as resulting from people (voters, politicians, and government employees) putting their private interests largely to one side to achieve some common social objective, such as helping the poor. Second, they believe that while there is political competition, it is a much fairer form of competition since the political currency - votes - is far more equally distributed than market currency (Clark, Lee, 2008).

A. P. Weinbach and R. J. Paul (2008) state that transfer payments are intended for spending on the goods like food, shelter, and medication.

M. Hanratty and E. Trzcinski (2008) in their article are introducing the impact of transfer payments for maternity, the unpaid job protected leave and returns to work after period is ended. The possibility to return to previous work place and social payments for various periods after child is born gives mothers possibility to take care of the family and choose the period when they are ready to take their job back. The length of period when woman's work place is secure depends on the country policy. The transfer payments also depend on the country and its economy also on demographic policy in the country.

The Transfer Payments After-effect Analysis

The variety of reasons why transfer payments are committed to various groups of people reflect by different results and after-effect. It is possible to split transfer payments effect into the positive and negative impacts.

First of all transfer payments have an effect towards GDP. The impact was analyzed by various authors Christian E. Weber (2000), L. Gallaway and R. Vedder (2002) were researching economy of United States and stated that results of increases of transfer payments in different periods were not identical. For instance Christian E. Weber noticed that reduction of governmental purchases and increase of transfer payments by 7 percent of GNP in period from 1967 to 1972 started the state's growth slowdown. Ch. E. Weber (2000) in his article concludes that to have maximum impact on growth in state should be increased government purchases that can be done only by decreases in transfer payments and not by increases in tax rates. Over the interval 1976-1987, when the increase in transfers slowed markedly, the rate of growth in real per capita GDP accelerated to 2,44 percent a year (Gallaway, Vedder, 2002). That means there are some deadweight losses between transfer payments and economy growth that is expressed like GDP.

The transfer payments are not efficient as the government purchases for the economics growth and the growth of GDP.

There were noticed by J. R. Clark and Dwight. R. Lee (2008) that the private charity amount fell when governmental welfare expenditures rise. This fact is important for government making decisions about changes in transfer payments system and governmental purchases.

The analysis of researches and articles prepared by scientists of various countries gives impression, that there are more negative outcomes of the transfer payments than positive.

As positive points can be highlighted smoothening consumption for temporary loss of income. The Unemployment Insurance program is designed to provide temporary income support to involuntarily unemployed individuals while they search for work (Klepinger, Johnson, Hoesch, 2002).

J. R. Clark and D. R. Lee (2008) state that the most important examples of transfers involve public housing, medical care, education, energy and food stamps. They note that part of all government transfers to the poor is in-kind transfers. The authors mark that cash is worth more to the recipients because it gives them more freedom to choose what they value most and at the same time government can notice that some people can not be trusted to spend money wisely. This argument is also proved by Andrew P. Weinbach and Rodney J. Paul (2008) in their researches.

J. R. Clark, D. R. Lee (2008) in their article identify the goal to help the poor as much as possible should include possibility fostering in recipients a sense of some responsibility giving far more cash than they are given now.

M. Hanratty and E. Trzcinski (2008) researched the paid leave impact on women with children and the unemployment. The authors worked on statistics when woman come back to their previous work places and how they react at possibility to save the work place. Researchers noticed that the gains of the paid leave expansions that increased resources to women with children were not distributed equally. Whether measured in terms of maternal time at home or transfer payments, the increase was larger for women from more advantaged socioeconomic groups, as defined by education, non-wage income, and marital status (Hanratty, Trzcinski, 2008).

In the article M. Hanratty and E. Trzcinski (2008) explored whether paid leave expansions affected maternal employment in the year after leave expired and if it adjust changes in employment rates for women with a youngest child age one relative to women with a youngest child age three to four. There were made presumption that paid leave should decrease returns to work while mother is eligible for receiving the

transfer payment and also that can give impact on returns to work after leave grants expires. The reason for this can be reduction of professional skills and preferences for work.

Authors G. Acs and E. Toder (2007) in their article state that working parents spending more time with their children can provide examples how to be hard working, patriotic and get better skills while studying. The research made by M. Hanratty and E. Trzinski (2008) showed that the relative employment rate increases for women with children age one were larger for women with some college degree than for women with a high school degree or less, while there was not a significant difference between two-parent and single-parent families. This is consistent with the findings from the return to work analysis that suggested that the expansion in paid leave did not reduce returns to work once paid leave expired, and that groups that made greatest use of the paid leave expansions did experience long run decreases in returns to work (Hanratty, Trzinski, 2008).

J. R. Clark, Dwight. R. Lee (2008) noticed that there can be a plausible explanation that government transfers, particularly to single women with children, have reduced the sense of responsibility to marry and support their offspring with productive activity that social norms have traditionally imposed on men.

The same authors submit a connection between government transfers to the poor and crime. This connection is more corrosive over the long run. The explanation of this can be given through studies that find that males raised without their biological fathers are seven times more likely to go to prison than those raised in stable families that include their biological fathers (Clark, Lee, 2008). The authors notice that the effect of welfare transfers on inequality does not solve the problems and sometimes are just overstated the ability to reduce lifetime income inequality.

Governmental welfare transfers should be helping for temporary extreme privation but not stimulate the abuse of welfare programs.

Andrew P. Weinbach and Rodney J. Paul (2008) published an article where is introduced research proving connection between weekly lottery sales in United States and the distribution of government transfer payments such as welfare, social security, disability and others. According to authors the marginal propensity to consume out of current income may be much higher when borrowing to smooth consumption is very costly. A significant portion of the recipients of transfer payments in the United States economy is likely to be liquidity-constrained due to relatively low current earnings, possibly poor credit history because of past financial hardships, or lack of ready access to traditional credit markets (Weinbach, Paul, 2008). There was noticed that during the weeks when welfare payments, social security and disability payments are received by transfer recipients there appears significant increase in gambling activities. This means that a part of the transfers are spent for gambling.

M. Stephens (2003) done the Consumer Expenditure Survey where he indicated that instantaneous consumption and entertainment expenditures increase on the day of transfer payment check distribution.

J. R. Clark, Dwight. R. Lee (2008) in the article analyzed the transfer payments receiver's behaviour. There was stated that recipients of government transfers eventually are ending up substituting publicly provided income for private income. This can be short-term effects to get financing from government. According to authors some people can make choices that reduce their immediate or near-term earnings, for instance refusing a job, getting pregnant or dropping out of school, to receive opportunity offered by government transfers. The temptations to take available transfers are hard to resist. The long-term effects of being on welfare can reduce earned income below what it would be otherwise (Clark, Lee, 2008).

W. T. Waller (1987) identifies transfer programs as welfare programs and states that the vast majority of transfer payments are not associated with income maintenance. The author noticed that most of Americans associate transfer payments with possibility of cheating and so do not trust such a way of help providing to those who demand that kind of help.

The transfer payments such as unemployment benefit effects the wage level in high labour demand areas. The unemployment insured people refuse to work for fixed legal minimum or a bit higher than minimum wages and chose to stay unemployment insured for longer period until they use all the possible grants and scholarships for learning new specialities (Sakiene, 2007).

It is true that many people who receive government transfers for the poor do so only temporarily and are not deterred from choices that increase their income-earning potential. But once someone begins receiving transfers predicated on being poor, he or she is faced with incentives that increase the chances of remaining poor. (Clark, Lee, 2008).

G. Acs and E. Toder (2007) state that transfer payments force economic distortions because they are financed by taxes on labour. If they were universal and were financed by labour income taxes, everyone with

earnings above the tax-paying threshold would face a positive marginal tax rate on an additional hour of work. Limiting transfers to low earners only, by reducing them as earnings rise, reduces their budgetary cost and thereby lowers marginal rates on high earners, but at the cost of subjecting beneficiaries to very high marginal rates as their benefits phase-out with higher earnings (Acs, Toder, 2007). The goal of government is to design tax system that minimizes efficiency loss in work incentives or any distortions giving transfer payments to the poor.

The Transfer Payment System in Lithuania

Department of Statistics to the Government of the Republic of Lithuania gives detailed statistics about social protection in Lithuania and all the possible data about changes in the country. There is done analysis of statistic data according to the report supplied by before mentioned department. Lithuanian transfer payments are paid by the list of following risks or needs. There are listed groups of social protection such as sickness and / or health care, disability, old age, survivorship, family and / or children, unemployment, housing and social exclusions not classified elsewhere that needed transfer payments.

There are overviewed not all possible groups of transfer payments statistics in this article. The most of the attention is placed on the data that show intention of growth during period from 2004 up to 2007. During this period the Lithuanian economics was booming and all the main indicators of the level of living like GDP, consumer price indices, average monthly earnings in whole economy, minimum monthly earnings, basic pensions and old age pensions were growing consequent. The unemployment rate during this period also was declining and dropped up to 2.9 percent during 2006 06 (www.ldb.lt).

Although the general economic indicators changes were positive, the total amount of government transfer payments in litas did not unmitigated.

Analyzing statistics of various groups of transfer payments can be noticed growth of expenditures. For instance during 2007 expenditures for sickness and / or health care increased by 24 percent comparing to previous year. In the Table 1 can be seen the growth of the paid sickness days and the expenditures on health care and support in the case of sickness.

Table 1. Number of paid sickness days and the expenditure on health care and support in the case of sickness in Lithuania (Social Protection in Lithuania, 2007)

	2004	2005	2006	2007
Sickness (temporary inability to work) benefit				
Number of cases, thousand	585,9	636,5	663,0	772,8
Number of days, thousand	5749,6	7290,8	7757,5	9088,8
Paid sick leave, LTL thousand	276141	331693	421568	641454
Sickness benefit paid from State Social Insurance Fund, LTL thousand	234849	283270	352414	503326

During period of 2004-2007 life births quantity in Lithuania was growing but not as sharp as expenditures as support for families. Expenditures as government transfer payments for maternity / paternity for period until child will become one year age during 2007 increased by 69 percent and was equal 277.7 million LTL. This increase was caused by enlarged maternity / paternity leave grant. It was changed from 70 percent up to 85 percent of work income from 1st of January, 2007 and from 1st of July, 2007 payments were changed into 100 percent of compensated previous work income until child is 6 months old and 85 percent until one year old. The increase of the births and expenditures can be seen in Table 2.

Table 2. Support for families in Lithuania (Social Protection in Lithuania, 2007)

	2004	2005	2006	2007
Live births, thousand	30,4	30,5	31,3	32,3
Income maintenance benefit in the event of childbirth, LTL thousand	66826	75163	104820	159900
Birth grant, LTL thousand	22299	28521	29732	30896
Parental leave benefit, LTL thousand	112522	135681	164179	284361
Family and child allowance, LTL thousand	149721	260732	253328	283570

After there were changed calculation methods of unemployment grant in 2005, average value of unemployment grant grown from 328 LTL in 2005 up to 463 LTL in 2007. Total expenditures for unemployment insurance during 2007 increased by 23.8 million LTL (32%) and was equal to 98.6 million LTL. Expenditures for unemployment insurance 2007 raise 1.7 times comparing to 2005.

Table 3. Statistics on unemployment and unemployment expenditure in Lithuania
 (Social Protection in Lithuania, 2007)

	2004	2005	2006	2007
Unemployment rate, Labour Force Survey data, percent	11,4	8,3	5,6	4,3
Unemployed receiving unemployment insurance benefit, thousand	14,9	15,4	15,5	18,0
Full unemployment benefit, LTL thousand	31454	58385	74791	98592
Vocational training allowance, LTL thousand	8309	8224	11293	31771
Early retirement benefit due to labour market reasons, LTL thousand	26734	65782	69123	81196

As it can be seen from Table 3, the fastest growth of expenditures is for vocational training allowance which increased by 2.8 times. Although unemployment rate is declining, the expenditures for unemployment insurance benefits are growing. Because unemployment insurance benefits are paid for new unemployed people can be stated that during period of 2004 – 2007 quantity of new unemployed is growing while whole unemployment rate is shrinking.

Conclusion

There was made a review of various author's researches in government transfer payments field. First of all were laid opinions and remarks about the grounds and motives that induce government to assign transfer payments for various groups of people. Such reasons mainly are smoothing consumption after loosing work, developing new skills in labour market. Some authors also indentify willing to assure the volume of the voters as a motive to nominate government transfer payments.

It can be stated that according to economical and political aspects transfer payments can be a supplementary tool in achieving results in social protection policy and pleasing potential voters. The expenses made as transfer payments by government come back not so efficiently as purchases of government for goods and services.

The positive point of transfer payments is support to involuntarily unemployed individuals while they are searching for work, possibility for mothers to receive paid maternity leave to be able to take care of the children until certain age.

Welfare programs for poor not always give positive return. There were noticed that for some groups of transfer payments recipients is better to supply in-kind transfers, because they are not capable to use cash wisely. The prove of that is research made by A. P. Weinbach and R. J. Paul (2008) where was identified reliance between transfer payments and lottery purchases in United States.

The negative outcomes of transfer payments can be noticed in nearly every group of recipients. Transfer payments can cause spread of single mothers which can cause even greater subsequence like crime increase. Some poor try to abuse welfare programs substituting publicly provided income for private income.

Unemployment insurance benefits, housing benefits, welfare transfers and others provoke attempts to use possibility gain from the transfer programs which makes society feel quite negative towards government transfer payment system.

Reviewing situation in Lithuanian Republic was noticed that although state's economy was growing, there are still a lot of instances when citizen are using government transfer payments for their consumption increase. During period 2004 – 2007 total amount of money paid as transfer payments in Lithuania was growing more then main economy indicators although state's economy was booming.

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