



ESPN – Flash report

2015/11

Establishing an adequate and methodologically justified minimum income level

Tana Lace
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| Theme(s): | <i>Social benefits, Minimum income and Basic income</i> |
| Title: | Establishing an adequate and methodologically justified minimum income level |
| Category: | <i>Reform proposals</i> |
| Abstract: | A new minimum income threshold is due to come into effect gradually, as of 2017. The aim of the reform is to establish a minimum income level that appropriately reflects the socio-economic situation and that can serve as a reference point for improving policies in the areas of social assistance, unemployment, pensions, benefits and taxes. |
| Description: | <p>Since 2003, the Guaranteed minimum income level has been an indicator established through compromise and negotiations between the Ministry of Welfare and representatives of the municipalities. It does not reflect the living standards of the population, but rather describes the position of local governments and their ability to provide support to the poorest population. A significant step towards reducing income inequality and poverty was the approval of the Concept Paper on "Defining the Minimum Income Level" by the government in October 2014.</p> <p>The Ministry of Welfare has suggested a new methodology for establishing the minimum income level, and proposes that it should in future be linked to the following parameters: 1) labour taxation, to increase the income of employees with low remuneration; 2) social assistance, to increase support to the poorest population; 3) state social benefits, to provide support to groups of the population that are exposed to higher social risks; 4) minimum state pension, to improve the situation of pensioners with minimum benefits; 5) unemployment benefit, to provide adequate support to inhabitants who have lost their jobs. The suggested reforms are based on the results and main findings of World Bank (2013) research that addresses the post-crisis policy options.</p> <p>The government has approved that the new minimum income level in Latvia should be set at 40% of the national median equivalised disposable income. In addition to this threshold, the government plans to develop a new minimum consumer basket of goods and services for different types of households and with territorial breakdown. This consumer basket of goods and services will serve as an analytical tool in social policy making.</p> <p>This is an interesting development in the Latvian welfare system because it will set a unified threshold for planning financial support for different social risk groups in a comprehensive way. Notwithstanding general support to this policy initiative and high priority given in the policy agenda to poverty reduction, there have been some concerns expressed by municipalities about the introduction of the minimum income level. The main risks relate to the limitations of the national budget and the financial resources allocated to support social policy. Reducing the high income inequality and implementing the planned changes require appropriate funding to ensure that these initiatives do not remain dead letters.</p> |

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| | Likewise, the support of stakeholders for the planned changes is important in conducting the social assistance system reform. Concerns are aggravated by the government's statements that in the current geopolitical situation the implementation of new measures and policies becomes highly problematic. Currently, the main priority is to increase expenditures for national security needs in view of developments in Ukraine and because of Russia's foreign policy. |
| Outlook & Commentary: | In order to develop the action plan for the implementation of the new minimum income level, the Ministry of Welfare has established a working group whose focus is on areas such as social assistance, state social benefits, minimum pensions, unemployment benefits and activation measures. The government envisages that by July 2015, a draft law on establishing the new minimum income level is to be submitted to the Cabinet of Ministers. The introduction of the new minimum income and other benefits (including minimum pension) is scheduled to start gradually as of 2017. |
| Further reading: | World Bank (2013), Scientific research: Latvia: "Who is Unemployed, Inactive or Needy? Assessing Post-Crisis Policy Options", available at : http://www.lm.gov.lv/upload/aktualitates/latvia_compwbs.pdf Ministry of Welfare (2013), Proposals for improvement of the social security system, available at: http://www.lm.gov.lv/upload/aktualitates2/soc_dros_sist_priekslikumi_en_fin.pdf Ministry of Welfare (2014), Concept paper "Setting of the minimum income level" (informative part), available at : http://www.lm.gov.lv/upload/sociala_ieklausana/conceptet_paper_en_fin.pdf |
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