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Labor code reform and flexible work arrangements in Lithuania: gender differences in demand and outcomes

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Labor code reform and flexible work arrangements in Lithuania: gender differences in demand and outcomes

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Abstract

The aim of the paper is to analyze the impact of the Labor code reform in Lithuania on the flexible work arrangements with regards to gender differences in its outcomes. We observe positive labor market trends in Lithuania for the period of 2014-2019 and since the introduction of the Labor code reform, i.e.: increase in employment rate for both men, women and for people with care-related responsibilities, increased share of permanent contracts, increased flexibility of the working schedules and more favorable evaluation of the working time as optimal by both sexes. However, the argument is that these positive changes would have happened in the Lithuanian labor market in the first year after the reform even if there was no change in employment laws. Our strategy for identifying the reform effects is based on an assumption that higher effect of the new legislation, if any, can be expected on women with care-related responsibilities due to their higher demand for flexibility, compared to both women with no such responsibilities and men with or without care-related responsibilities. The identified reform effects after controlling for other effects and individual characteristics are significant in three areas: reduction in the employment level, reduction in the prevalence of contracted work and a high positive effect in the prevalence of permanent contracts. No reform effect was identified for changes in the prevalence of full-time versus part-time work, standard versus non-standard working hours and evaluation of working time as being more or less optimal by workers. Hence, it can be stated that the Labor code reform has not, at least within its first year of functioning, achieved more flexibility in the labor market for those who have higher demands for it and no associated increase in the satisfaction with the time balance between work and care-related responsibilities.

Keywords:

labor code, gender, flexibility, reform

JEL Classification

J31

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Introduction

In response to 2008-09 economic crisis and slow economic recovery in its aftermath, Lithuania undertook reforms to liberalize its labor market, i.e., to ‘amend the labor legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements’ (Davulis and Petrylaite 2012, European Commission 2012). The new Labor Code that came into effect on July 1, 2017 was based on so called flexicurity model first created and implemented in Denmark to provide beneficial combination of flexibility in terms of employment, with security in terms of adequate provision for retraining and income support for those in transition between jobs (European Commission 2006, Heyes 2013, Petrylaite 2015). For two and a half years preceding passage of the new labor laws, politics in Lithuania was dominated by highly contentious debates on the pros and cons of the labor market liberalization (Juska and Woolfson 2017, Juska and Lazutka 2019).

The proponents of the reforms such as the Ministry of Social Security and Labor claimed that in a five-year period, the new Labor Code will allow the creation of up to 85 thousand new jobs and reduce unemployment to 7% (BNS 2015). For their part, the Lithuanian Confederation of Industrialists argued that the number of new jobs created would be even higher, up to 90 thousand, while wages would grow 3–5% (Lietuvos Rytas 2015). It is because ‘when it is easier to hire and fire, businesses are more willing to risk <expansion>’ (Kupetytė 2015). It was also claimed that more flexible employment would be especially beneficial in extending possibilities to combine work and family-related responsibilities. Thus, gender inequalities would decrease because flexible, part-time employment contracts for primary caregivers would allow to shorten breaks in labor market participation due to childbearing and family care needs (Davulis 2017).

Critics of the liberalization reforms asserted that the new jobs forecast were by far inflated. Furthermore, it was argued that the new labor law represented attempt to transplant to Lithuania not a full-fledged, but a truncated Danish flexicurity model that provided for flexibility but without adequate or comparable security. It was argued, liberalization of the labor law will most likely lead to increase precariousness of all workers, weaken their social protection, and lead to decline in wages of low-paid workers as it happened in the neighboring Poland when so called ‘civil law contracts’ aka ‘junk contracts’ were introduced in the early 2000s (Dagys 2015). By 2012 in Poland 27% of the labor force or 1.37 million workers were employed under the civil law contracts when employers did not need to pay the minimum wage and, in the case of specific tasks contracts, contribute to the pension and health insurance system (Mrozowicki, Krasowska and Karolak 2015, p. 123). Furthermore, in Poland flexible work increased gender wage gaps through higher employment precariousness and labor market segmentation with disproportionate employment of women in the secondary, low-skill and poorly paid sector (Gatti 2014).

Both, pro and against labor liberalization positions in Lithuania assume that changes in the labor law directly affect the structure of the labor market: change the law and, in response, the labor market will change as well. However, such argument is reductionist and too simplistic because changes in labor laws are only one among many factors that affect labor market in general and gender differences in employment, in particular. Employment of men and women in the labor market is affected by interaction of a number of factors present in national, regional, and global contexts such as: phase of an economic cycle, gendered cultural expectations (general to the

region as well as specific to Lithuania) especially in the division of labor in the household (which burden women more than men); gendered trajectories and barriers for selection into employment; firm, job and occupational gender segregation; welfare support such as childcare and maternity policies; taxation policies; transportation infrastructure, and, last but not least, gender-based stigmatization and discrimination.

Since impact of the changes to the labor law is mediated by a number of factors, its effect on the labor market situation and associated gender gaps can vary from reduction to increase, but also could result in marginal or no impact at all. Most recently the first data on the changes in the labor market after the liberalization of the labor law became available. This allows for testing the claims upon which the labor legislation law was debated and signed into law. More specifically, annual monitoring reports are issued on post-reform employment contracts in 2018 and 2019 (SADM 2018, SADM 2019, VDI 2018). Furthermore, the European Union Labor Force Survey (LFS) data covering period until the fourth quarter of 2019 has also become available. The LFS for Lithuania for 2018 had an ad-hoc module on balancing career and family responsibilities allowing pre and post reform comparisons.

The aim of the paper is to analyze the impact of the Labor code reform in Lithuania on the flexible work arrangements with regards to gender differences in its outcomes.

We recognize that the available data and its timeframe are still insufficient to differentiate and compare the full impacts of changes in labor law vis-à-vis a number of intervening or mediating factors affecting labor market flexibility in Lithuania. Therefore, we are limiting our empirical analysis to (a) description of changes in the Lithuanian labor market flexibility during the period of 2014-2019, and (b) analysis of gender differences in demand for flexible working arrangements and employment-related outcomes in pre- and post-labor law reform periods. Difference-in-differences evaluation design is used to separate an effect of the reform from other effects, e.g. that of the economic cycle. We hypothesize that women will have a higher demand for flexibility at the workplace to balance work and family care responsibilities. Hence a higher effect of the new legislation, if any, can be expected for women. We conclude the article with a discussion of the impacts labor law liberalization had on the labor market flexibility in general, and its gender effects, in particular.

1. Design of the Labor code reform

Before proceeding to empirical evaluations of the labor market trends and effects, the main features of the new Labor code need to be discussed in more details. The new version of the Labor Code (2016.09.14, Nr. XII-2603) that came into force since July 2017 includes 152 amendments to the previous Law, which consisted of 266 articles in total. Hence it is impossible to cover the full scope of changes in one paper. We focus on the new provisions that were aimed at increasing flexibility of employment and on extending possibilities to combine work and family-related responsibilities.

Among the most contested, as potentially having the most deleterious effects on the labor market, or, on the contrary, leading to opening of new employment opportunities and accelerating economic growth, were provisions on introducing new types of contracts, as well as new types of

working-time arrangements. New types of employment contracts in addition to already existing open-ended, fixed-term and seasonal employment contracts, include: temporary agency employment contract, apprenticeship employment contract, project-based employment contract, job share employment contract, multiple-employer employment contract (LC, Article 66). A proposal to introduce zero-hour contracts was rejected after harsh Parliamentary debates and public critique. New types of working-time arrangements include fixed duration, annualized hours, flexible work schedule, split shift working time, and individualized working-time arrangements (LC, Article 113).

Article 28 of the Labor code established the norms of respect for the employee's family-related obligations. The Law states that the employer must take measures to help the employee to fulfil his or her family-related obligations. In the cases established in the LC, employee requests related to the fulfilment of family obligations must be considered and given a motivated written response by the employer. An employee's behavior and actions at work should be evaluated by the employer in an effort to practically and comprehensively implement the principle of work–family balance.

More concrete measures and privileges for employees with children or other dependent family members are also foreseen. For example, the employer must satisfy an employee's request to work at least one-fifth of standard working hours remotely when it is requested by a pregnant, breast-feeding woman, raising child under 3 or single parent, etc. (LC, Article 52). The employer may not refuse to satisfy an employee's request to temporarily work part-time when the employee's request is based on need to care for a child under 3 or other family member (LC, Article 40). Moreover, several regulations of the previous version of the labor code with regards to extra privileges for single parents, parents of two and more children and those raising children with disabilities are maintained. E.g., the parents of two children are entitled to one extra paid leave days each month, and those with three or more children – to two paid leave days per month, etc. (LC, Article 138).

Finally, while establishing some privileges for those with family-related obligations, the new Labor code also foresees more flexible dismissal procedures and lower associated costs for the employers. I.e. the list of reasons for dismissal at employer's initiative and without worker's fault was extended, while dismissal notice periods and severance payments paid by the employer were reduced substantially, especially for those with who have a long working record (LC, Article 57). Severance payments for the latter group were replaced by long-term employment benefit paid from a special fund.

2. Implications of labor regulations for labor market flexibility and work-family balance

As outlines in the previous section, on the one hand, the new Labor code introduces more and flexible forms of contracts, establishes norms for respecting work-family balance and specific privileges for those with family-related obligations. On the other hand, it also provides for more flexible dismissal procedures and lower associated costs for the employers. Hence the effect on employment with regards to its flexibility and gender differences can vary from reduction to increase, but also could result in marginal or no impact at all.

While the ex-ante impact-assessment of the new Labor Code implied for major changes to the situation in the labor market (Socialinis modelis, 2015), Lithuania is known for the low compliance to the labor law and regulations. I.e. the above-mentioned privileges of extra paid leave days for parents with two and more children are known to be limited in practice, especially with regards to the private sector. On the other hand, more flexible dismissal procedures are recognized to be institutionalizing an already-existing and prevalent practice. I.e. only 5% of workers received severance payments and around 90% of worker quit their jobs at their own initiative during the previous economic crisis despite the legal protection for dismissed workers foreseen in the Labor Code back then (Socialinis modelis, 2015).

Furthermore, it is important to take into account other factors that exert significant impact on the labor market flexibility independently of changes in labor laws. For example, World Bank study had shown that labor market in Lithuania is characterized by “employers <...> hav[ing] a substantial degree of flexibility with employment adjustment [and] limited flexibility to wage adjustment due to a high statutory wage” (Rutkowski 2003, p. ii). Since social insurance and other taxes levied on wages in Lithuania are relatively high, this could significantly limit employer incentives to hire employees on a part time or other flexible contracts as savings would be rather limited. While there was also a recent tax reform of 2019 aimed at reducing the tax wedge on wages (Lazutka et al. 2019), there were also changes setting the floors for social insurance contributions at the level of the minimum wage, except for several groups such as youth, disabled workers, worker raising small children, etc. The latter can also limit the use of part-time and other flexible forms of contracts.

Another economic argument is of relatively low wages and weak social protection in Lithuania to allow for wage and career penalties associated with additional flexibility at work. For employees, low wages make income from part time employment insufficient for personal and household needs (Hamplova 2006, Helemae and Saar 2006), while requests for more flexible working arrangements may be limited due to fears of losing job promotion opportunities or even fears of dismissal. The latter is especially relevant if dismissal procedures and costs are low, while social protection in case of unemployment is weak. On employer’s side low wages could, paradoxically, act as disincentive for employers because part-time and other flexible forms of employment do not necessarily “bring<ing> sufficient cost reduction to counterbalance the negative effect of the unavailability of part-time employees” (Cazes and Nesporova 2004). Hence, while the new Labor code was inspired by the Danish flexicurity model, it may not be readily adoptable within the Lithuanian context. Consider that in Denmark only 2–3% of employees are paid minimum wage of €2,490 per month, and expenditure on active labor market policy measures is 3.68% of GDP. In comparison, in Lithuania more than 20% of labor force earns minimum wage of about €300 per month gross, while expenditures on active labor market policy are only 0.47% of GDP (Zasčiurinskas 2015).

Moreover, studies in Estonia and Czech Republic had shown that, in comparison to EU core countries, low proportions of part-time employment in Central and Eastern Europe are impacted not only by low levels of wages that make income from part time insufficient for household provision, but also by socialist era legacy of full-time employment among women (Hamplova 2006, Helemae and Saar 2006). Hence it is reasonable to say, that low wages in conjunction with path dependence of the existing labor-market structure and traditions of full-time dual-earner

employment model may as well outweigh the legal provisions for more flexible forms of contracts and working-time arrangements in Lithuania.

With regards to gender differences, flexible work comes with a price for both men and women known as the “flexibility stigma”. Literature on “flexibility stigma” provides evidence that the flexible working arrangements are strongly associated with women (Mary Blair-Loy, 2009) and its costs for women are mostly related to wage conditions (Walby and Olsen, 2002). Goldin (2014) suggests long working hours and working particular hours are of importance for some of the occupations and/or firms, hence a temporal inflexibility wage penalty (more likely experienced by women) may explain part of the disproportionate financial rewards resulting in the gender wage gap. Moreover, women who anticipate the need for greater flexibility at some point in their career might select occupations where the relation between hourly wages and hours worked is linear. However, evidence on this issue is mixed. On the one side, Goldin (2014) reports that the share of women in occupations offering constant wages is larger. On the other side, Glauber (2011) indicates that after controlling for individual characteristics (education, age, marital status), the relation between the proportion of gender in an occupation and the likelihood of working flexible hours is hump-shaped. Anyway, the “flexibility stigma” may further impede implementation of the new flexible Labor code into practice in Lithuania.

Nevertheless, while costs of "flexibility stigma" are strongly associated with women, women have a higher demand for flexibility at the workplace in order to balance work and family care responsibilities. Hence a higher effect of the new legislation, if any, can be expected for women. Evaluation by Eurofound (2017) shows low working time autonomy is generally low in Lithuania. I.e. around 90% of respondents indicated that their working time is set by their company or organization with no possibility for changes (compared to around 65% on average in the EU28). Hence there is a lot of scope for increasing labor market flexibility in Lithuania, with higher effect to be expected on women with care-related responsibilities.

The initial evaluation of the results of the introduction of the Labor code provided by the Ministry of Social Security and Labor (SADM 2018, SADM 2019) and the State Labor Inspectorate (VDI 2018) are positive with regards to increasing employment, wages and employee representation. However, the analysis presented in these reports undoubtedly capture, and to a major extent, the general labor market dynamics due to the economic cycle and other changes not related to the new Labor Code (e.g. increased minimum wage). With regards to changes in flexibility of employment relations, while an increase in the number of new employment contracts is recorded, their structure by type is acknowledged to remain very similar to the pre-reform situation. On the contrary, a tendency is reported toward an increase in permanent contracts, while the number of fixed-term contracts decreased by around 10%. While around 625 thousand of new contracts is reported to have been signed per year in 2008, only 3,616 contracts of a new type were signed during the first year after the implementation of the new Labor code. This would make a tiny fraction of below 1% of the new contracts. Out of the latter the major share of around 77% were project contracts, while some new kinds of contracts are barely used (e.g. 21 new shared-workplace contract). Hence no major or structural changes in the Lithuanian labor market are reported due to the introduction of the new Labor Code. There is no further research known to the authors of this paper attempting to separate the effect of the

new labor regulations from the general labor market dynamics due to economic cycle and other effect.

Before we proceed to empirical analysis, a note of caution is due. We are keenly aware that time might be far too short to register any meaningful changes on labor market since data is available for a relatively short period after the new Labor Law took effect. However, when considering timeframe of labor market changes, one also needs to take into account that the political process leading to passage of new Labor Code lasted two and a half years (from December 2014, when the government made public the first draft of the law to July 2017, when the law came into effect). During two and half years the labor law reform was among the dominant political issues of the day extensively covered by news media (Juska and Woolfson 2017). The core provisions, especially introduction of the new types of contracts and new types of working-time arrangements remained virtually unchanged when written into the law. Since the main provisions of the reform were announced and discussed around two and a half years in advance, it could be expected that at least some of the new employment contracting opportunities provided by the changes in labor law would be implemented within the period analyzed in this paper. Especially because labor turnover in Lithuania is high, e.g. around 625 thousand new contracts were reported to be signed and a similar number terminated in a labor market of around 1.4 million employment contracts in 2018 (VDI, 2018). Such turnover of around 45% provides plenty of opportunities to use the new provisions of the reformed Labor Law.

3. The impact of the new Labor code on labor market flexibility and gender differences

3.1 Methodology

We further provide empirical analysis on the impact of the Labor code reform in Lithuania on the flexible work arrangements with regards to gender differences in its outcomes.

We start with a general descriptive analysis of the employment trends by gender before and after the reform, as well as of changes in the shares of fix-term versus other forms of contracts and changes in prevalence of part-time work. We also analyze gender employment gaps among those with and without care-related responsibilities.

This before-after analysis serves as a background information for estimating the effects of the Labor code reform on the flexible working arrangements and its gender differences. General employment dynamics capture both the effects of the new legislation, as well as other effects, most importantly the effects of the economic cycle. We aim to disentangle those using identification strategy provided by the difference-in-differences (DiD) approach. DiD is a statistical technique that attempts to mimic an experimental research design using observational study data. It calculates the effect of a treatment (i.e. change in the labor code) on an outcome (i.e. change in employment arrangements) by comparing the average change over time in the outcome variable for the treatment group, compared to the average change over time for the control group. The method is intended to mitigate the effects of extraneous factors and selection bias, depending on how the treatment group is chosen (Josselin & Maux, 2017).

We compare the outcomes of the Labor code reform on women with care-related responsibilities to the two control groups: a) women with no such responsibilities and b) men with care-related responsibilities. The selection of these control groups for identification is based on an assumption that women have higher demand for flexibility at the workplace due to care-related responsibilities (see above). Hence a higher effect of the new legislation, if any, can be expected on women with care-related responsibilities, compared to both women with no such responsibilities and men with care-related responsibilities (due to different adaptation strategies). We apply DiD using a statistical procedure, which follows the logic described in Josselin & Maux (2017, p. 492-498). Six logistic regressions are run for predicting the outcomes of interest: employment status (employed / non-employed), type of employment (if contracted worked, if works full-time, if on permanent contract) and working time flexibility (if works standard hours, if evaluates working time as optimal). The specifications of the models are as follows:

$$y^{PFT} = \alpha + \beta_1 P + \beta_2 F + \beta_3 T + \gamma_1 (P \times F) + \gamma_2 (F \times T) + \gamma_3 (P \times T) + \gamma_4 (P \times F \times T) + \delta X + \varepsilon \quad [1]$$

, where P is an indicator for the period effect (2018q2), F – for sex effect (female) and T – for the effect of belonging to a group of people with care responsibilities. Interactions between these effects are also included (i.e. the period effect for women ($P \times F$), effect for women with care responsibilities ($F \times T$) and the period effect for people with responsibilities ($P \times T$). Furthermore, controls X for individual characteristics are included, which include age, marital status, education level and status, level of urbanization, employed partner and – for the models that are run in the population of employed people – for profession, industry, size of the firm and form of employment. The reform effect is identified after controlling for all other effects and controlled individual characteristics through the combined period effect for women with care responsibilities ($P \times F \times T$), building on an assumption that because of their higher demands for flexibility higher effect of the new legislation, if any, can be expected on women with care responsibilities.

We use the LFS data, including its ad-hoc module on balancing career and family responsibilities. The sample is about 10 thousand respondents. We use quarterly LFS data for 2014-2019 to discuss the labor market situation before and after the Labor Code reform. The period is selected as that of the economic growth, which followed the period of the economic crisis of 2008-2009 and subsequent recovery. We apply parametric t-tests on the quarterly pooled LFS data for testing statistical significance of the results. For DiD analysis we use an ad-hoc module which includes additional variables on care-related responsibilities (2018q2) together with the data before the reform (2017q2). The two data points are selected to neutralize seasonal differences in the labor market. Working age population is defined as population aged between 15 and 64.

3.2 Results

We start with a general descriptive analysis of the labor market situation by gender before and after the reform and for people with and without care-related responsibilities.

As already mentioned, Lithuania has a long tradition of being a dual-earner country, i.e. has high employment rates for both men and women. The total annual employment rate of 73% in Lithuania is the tenth highest in the EU28 and above the EU28 average of 69.3% in 2019

(Eurostat, 2020 [lfsi_emp_a]). We observe positive labor market trends in Lithuania for the period of 2014-2019, i.e.: decreasing unemployed and inactivity along with increasing employment rates (Fig.1). This period can be characterized as a period of resumed economic growth after the 2008-2009 economic crisis and subsequent recovery period. An increase in employment rate is statistically significant for both genders if comparing the start and the end of the period, as well as since the introduction of the Labor code in the middle of 2017. Total employment rate increased from 70.6% to 73% between 2017q2 – 2019q2. However, there was no significant increase in employment rate for women withing the first year after the reform, while significant change was only observed for men (from 70.5% to 73.6% between 2017q2 – 2018q2). During the period there were no significant differences in employment rate by sex (an average of 69.1% for women, 70.3% for men), but women were more often inactive (an average 25.8% for women, 22.6% for men), while the unemployment rate was higher for men (an average of 7% for women, 9.2% for men).

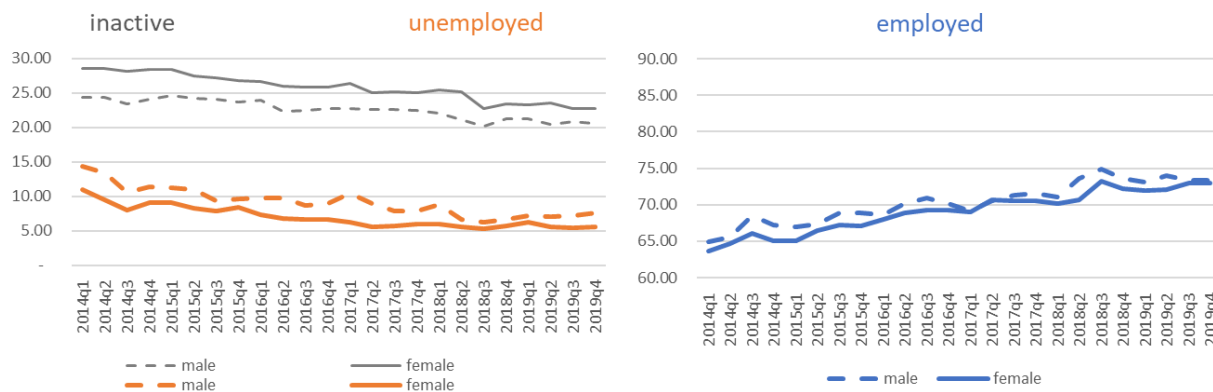


Figure 1. Employment, unemployment and inactivity rates, %

Source: own calculations based on LFS data, see data in the Annex (Table A1).

As it was noted previously, full-time employment dominates in Lithuania. Majority (91.7%) of the employed population worked full-time and only 8.3% part-time on average within the period of 2014-2019 (Fig. 2). Still, there are substantial differences in demand for flexibility in the labor market among women and men. Similar to situation in other countries, women substantially more often than men are working part-time in Lithuania (an average of 10.3% for women compared to 6.2% for men for the period of 2014-2019). The Lithuanian labor market is also dominated by the open-ended contracts, with only 1.7% of employed population having a fixed-term contract. The difference in the prevalence of the fixed-term contracts by sex is insignificant. Moreover, no significant changes in the prevalence of either fixed-term contracts or part-time employment are observed within the analyzed period.

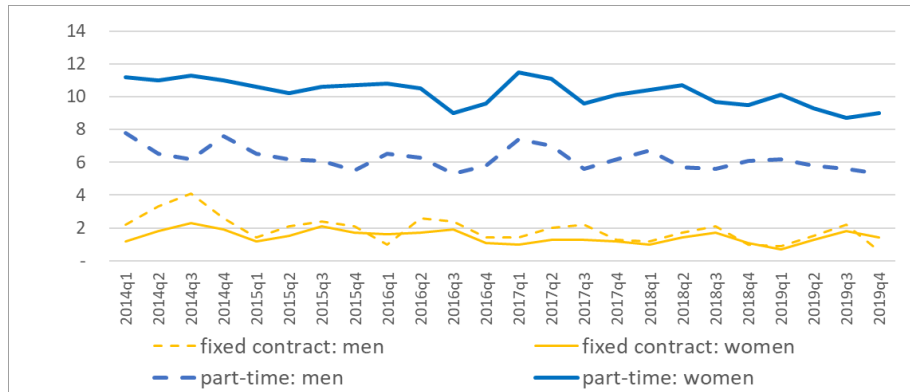


Figure 2. Share of employed on fixed contracts and working part-time by sex
Source: own calculations based on LFS data, see data in the Annex (Table A2).

The statistics so far show no significant change of employment among women and no significant change in the prevalence of either fixed-term contracts or part-time employment within the first year after the Labor code reform. These dynamics are neither in line with the intention of the reform to boost labor market flexibility, nor with the hypothesized higher impact on the labor market flexibility among women. However, the general trends capture common effect of the Labor code reform and that of other exogenous factors, including that of the economic cycle. We further aim to single out the impact of the Labor code reform by using DiD approach.

Before presenting the DiD results, some auxiliary indicators for women and men with and without care-related responsibilities are briefly presented, i.e. employment status, obstacles for balancing work and family and ways for mitigating those. These are only available for the ad-hoc LFS data (i.e. 2nd quarter of 2018), hence indicate a situation a year after the reform was implemented.

Figure 3 shows that the employment level was around 3 p.p. lower for women compared to men in the 2nd quarter of 2018. There are no significant difference in employment rate for women and men with no care-related responsibilities (i.e. 72% for women and 72.6% for men). However, for the group of working age adults with care-related responsibilities the employment rate of women is about 7 p.p. lower compared to men (i.e. 68.8% for women and 75.6% for men). Moreover, women with care-related responsibilities have lower employment rates compared to women with no such responsibilities. The opposite is true for men. Moreover, women with care-related responsibilities have the highest inactivity rates compared to all other groups of both women and men (27.4%). This signals that women more often than men have difficulties balancing work and care-related responsibilities, finding themselves in inactivity as a result.

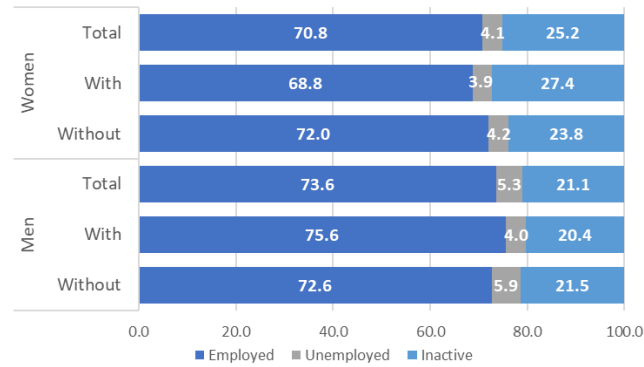


Figure 3. Share of employed, unemployed and inactive among the working age population, %
Source: own calculations based on LFS ad-hoc module for 2018q2.

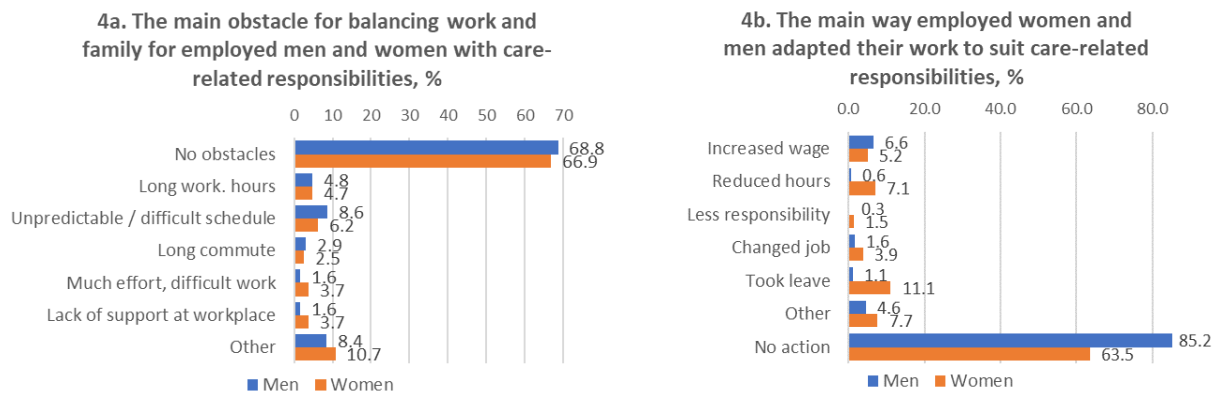


Figure 4. Main obstacles for balancing work and family and adaptation strategies by sex, %
Source: own calculations based on LFS ad-hoc module for 2018q2.

Employed men and women who have care-related responsibilities face similar obstacles to flexibly balance work and family (see Figure 4a). Men more often than women face unpredictable or difficult working schedule (8.6% versus 6.2%). While women more often than men note the lack of support at the workplace from colleagues and employers (3.7% versus 1.6%) and other obstacles (10.7% versus 8.4%). The latter is not specified, but may be related to the limited availability of the flexible working arrangements.

When faced with a need for more flexibility to balance care and work responsibilities, men considerably more often than women do not act upon it (85.2% versus 63.5%) or try to increase their wage (6.6% versus 5.2%). Women take different adaptation strategies, which can potentially reduce their earnings, i.e. take childcare leaves (11.1% versus 1.1%), reduce working hours (7.1% versus 0.6%), change job (3.9% versus 1.6%) or take less responsibility at work (1.5% versus 0.3%). These different adaptation strategies signal more demand for flexible working arrangements among women compared to men. It also helps explain the higher prevalence of part-time work among women (Fig. 2). The adaptation strategies used by women can also potentially contribute to the development of the gender gaps in the labor market, with implication on both employment situation and wages. Different adaptation strategies in response to care responsibilities are in line with the theoretical insights outlined in Section 2 of this paper,

as well as with assumptions which are further used for identifying effects of the Labor code reform on flexible working arrangements for women with care-related responsibilities compared to other groups of women and men.

We further identify the effects of the Labor reform through DiD regressions as described in the methodology. To remind, the logistic regressions are run among the working-age population. Identification strategy is based on an assumption that the group of women with care-related responsibilities has higher demand for flexibility, hence, the effect of the reform should be higher in this group. This enables to single out the effect of the reform. In the regressions we control for such individual characteristics as age, marital status, education level and status, level of urbanization, employed partner and, where appropriate, for profession, industry, size of the firm and form of employment. We run six regressions to analyse the effects on the following indicators: employment status (1), type of employment (2-4) and working time flexibility (5-6). The indicators help reflect the changes in the labor market, especially with regards to its flexibilization.

Table 1 shows the results with regards to identified effects, i.e. effect for women (F), time effect (P) and effect for people with care-related responsibilities (T), as well as their interactions. The reform effect is identified following [1] as an interaction of the period effect with the effect for women with care-related responsibilities (P^*F^*T) (see Section 2 for details). We discuss these effects in turn below.

Table 1. Effects of the Labor code reform on working arrangements of working age women

MODEL:	1. EMPLOYED	2. EMPLOYEE	3. FULL-TIME	4. PERMANENT	5. STANDARD HOURS	6. OPTIMAL TIME
<i>Number of obs.</i>	8,618	6,006	6,006	4,826	6,006	5,516
<i>Prob > χ^2</i>	0.000	0.000	0.000	0.000	0.000	0.000
<i>Pseudo R²</i>	0.212	0.283	0.186	0.217	0.153	0.127
<i>Odds Ratio (OR)</i>						
<i>Effect for women (F)</i>	0.828	1.498	0.521	1.271	0.660	0.725
<i>Effect for ppl w/resp (T)</i>	0.877	.	0.674	6.438	0.868	0.788
<i>Period effect (P)</i>	1.079	.	1.061	1.382	.	1.144
<i>Effect for women w/resp (F*T)</i>	0.592	0.824	.	0.617	1.209	.
<i>Period effect for women (P*F)</i>	.	.	.	.	.	1.111
<i>Period effect for ppl w/resp (P*T)</i>	1.099	1.117	.	.	0.893	.
<i>Reform effect: period effect for women w/resp (P*F*T)</i>	0.902	0.827	.	1.769	.	.
<i>Effects (OR-1)</i>						
<i>Effect for women (F)</i>	-0.172	0.498	-0.479	0.271	-0.340	-0.275
<i>Effect for ppl w/resp (T)</i>	-0.123	.	-0.326	5.438	-0.132	-0.212
<i>Period effect (P)</i>	0.079	.	0.061	0.382	.	0.144
<i>Effect for women w/resp (F*T)</i>	-0.408	-0.176	.	-0.383	0.209	.
<i>Period effect for women (P*F)</i>	.	.	.	.	.	0.111
<i>Period effect for ppl w/resp (P*T)</i>	0.099	0.117	.	.	-0.107	.

Reform effect: period effect for women w/resp (P*F*T)	-0.098	-0.173	.	0.769	.	.
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Source: own calculations based on merged LFS ad-hoc (2018q2) model and LFS data (2017q2).

Note: Non-significant effects at 0.001 significance level are not shown. All models control for the following characteristics: age, marital status, education level and status, level of urbanization, employed partner and, where appropriate, for profession, industry, size of the firm and form of employment.

The effects for women (F) of the six models in Table 1 show that women compared to men are less likely to be employed, to be working full-time, to be working standard hours and less likely to indicate that their working time is optimal for them (does not wish to work more or less). On the other hand, employed women as compared to men are more likely to have an employment contract (rather than be self-employed) and it is more likely to be permanent. This reflects the general trends in the Lithuanian labor market. It confirms that important differences in the labor market situation do exist for women and men, even after controlling for their demographic characteristics. In fact, the gender differences in the labor market with regards to employment and its flexibility is higher after controlling for other characteristics and factors compared to differences observed in raw data without such controls (e.g. as observed in Figures 1 and 2 above).

People with care-related responsibilities (T) are less likely to be employed, to work full time or standard hours and less likely to evaluate their working time as optimal compared to those who do not have such responsibilities. On the other hand, the members of this group who are employed are more likely to have permanent employment contract. This probably relates to being employed in the public sector, as well as the bias which appears for those returning from childcare leaves. I.e. in the latter case the work placement is guaranteed by law for those who had open-ended permanent contract before childcare leave. There are no observed differences in the prevalence of employment contracts versus self-employment when comparing those who have and those who have no care-related responsibilities.

The period effect (P) reflects the general trends in the labor market between 2017q2 and 2018q2, most importantly those related to the economic cycle. The period effects were positive in four dimensions: increasing employment level, increase in full-time and permanent contracts, as well as workers' evaluation of their working time as optimal. These effects are in line with the growing economy as well as shortages of labor in the Lithuanian labor market. I.e. employers were employing more people, as well as on more favorable conditions as the labor demand and, hence, the bargaining power of the employees increased. No period effects showed up in the models either on the type of employments (contracted or self-employed worker), or on prevalence of standard versus non-standard working hours.

Further three individual interactions of the above effects are presented in Table 1, i.e. effect on women with care-related responsibilities (F*T), period effect on women (P*F) and period effect on people with care-related responsibilities (P*T). We see that women with care-related responsibilities have significantly lower probability (-40.8%) of being employed compared to women who do not have such responsibilities. If employed, they are also less likely to have a permanent contract and more likely to be self-employed. However, those who do have a contract, have a higher probability of working standard hours. I.e. this indicates the need to combine work with care and respective preference for the working schedule that is compatible with that of the

childcare and other day-care facilities. There are almost no period effects observed which would be specific for women, except for an 11% increase in the share of women evaluating their working time as being optimal. Last, but not least, some period effects specific to people with care-related responsibilities are observed. I.e. there was 9.9% additional increase in employment in this group and a corresponding increase in the prevalence of contracted employment relations, as well as some decrease in the prevalence of the standard working hours worked.

Important to note, that all the effects presented in Table 1 are cumulative. E.g. in Table 2 all period effects ($P+P^*F+P^*T$) are summed up, which reflect the change in the labor market situation between 2017q2 and 2018q2. Table 2 shows that employment increased for both sexes, but around twice so for people with care-related responsibilities as they transit into contracted employment relations. The prevalence of full-time work arrangements increased for employed men with no care-related responsibilities, while it decreased for women with care-related responsibilities. Also working schedules became more flexible for the both men and women with care-related responsibilities. This reflects higher demand for flexible working arrangements among people with care responsibilities and higher employer flexibility in the context of the booming labor market. The share of permanent contracts also was increasing, especially among those with care-related responsibilities. This reflects, most probably, higher bargaining power of the employees as labor demand increases, as well as better working conditions proposed within such circumstances. Finally, evaluation of the working time as optimal increased in all groups.

Table 2. Cumulative change due to period effects by gender and care responsibilities (2017q2-2018q2)

MODEL:	1. EMPLOYED	2. EMPLOYEE	3. FULL-TIME	4. PERMANENT	5. STANDARD HOURS	6. OPTIMAL TIME
<i>Change for women no/resp (P+P*F)</i>	6.7%	4.9%	.	24.2%	.	25.5%
<i>Change for women w/resp (P+P*F+P*T)</i>	16.5%	16.6%	-5.6%	58.8%	-9.3%	24.2%
<i>Change for men no/resp (P)</i>	7.9%	.	6.1%	38.2%	.	14.4%
<i>Change for men w/resp (P+P*T)</i>	17.8%	13.1%	.	72.8%	-10.3%	13.0%

Source: own calculations based on merged LFS ad-hoc (2018q2) model and LFS data (2017q2).

Note: Non-significant effects at 0.001 significance level are not shown. All models control for the following characteristics: age, marital status, education level and status, level of urbanization, employed partner and, where appropriate, for profession, industry, size of the firm and form of employment.

However, the argument is that all the positive changes reflected in Table 2 would have happened in the Lithuanian labor market between 2017q2 and 2018q2 even if there were no change in employment laws. According to our identification strategy described in the methodology of this paper, the effect of the reform should be reflected in the additional period effects identified for women with care responsibilities (i.e. see P^*F^*T in Table 1). To remind, our identification strategy is based on an assumption that the group of women with care responsibilities has higher demand for flexibility, hence, the effect of the reform will show up as an additional effect in this group.

The reform effects (P*F*T) identified in Table 1 after controlling for other effects and individual characteristics are significant in three areas, i.e. negative effect show up for the employment level (-9.8%) and for prevalence of contracted work (-17.3%), while a high positive effect is identified for the prevalence of permanent contracts (+76.9%). We discuss those in turn.

The effect on the drop of employment level is contrary to the intended positive impact of the reform. Albeit, as conditions and costs for dismissal of employees are reduced by the new Labor code, it is not unexpected that the effect on the stability of employment is negative. The negative effect did not show up during the analysed period due to the positive period effect of the economic cycle. Nevertheless, it is not unreasonable to assume that within the negative cycle of an economic crisis this effect would be apparent. The negative effect on the prevalence of contracted work versus self-employment may be the result of the convergence of the conditions provided by the different new types of contracts to the conditions of self-employment, albeit the latter is less taxed. With no substantial difference in the additional security provided by employment contracts, a fraction of people may opt for a less-taxed mode of self-employment.

Finally, very high positive reform effects are indicated for the prevalence of permanent work contracts (+76.9%). Hence those who are employed as contracted workers get the permanent contract more easily. This is again a contradictive result of the reform, as by design it increases the variety of available contracts rather than permanent ones. However, it seems that the latter provisions are outweighed by the lower costs associated with having an employee on a permanent contract. So, paradoxically the new Labor code increased the probability of being hired on a permanent basis, albeit with reduced protection it now provides. The latter dynamics corresponds well with the path-dependence thesis, i.e. permanent contracts are better known and preferred in the Lithuanian labor market, hence the shift to new types of non-permanent contracts in a result of the Labor reform has not materialized within the period of 2017q2-2018q2. Finally, no reform effect is observed for changes in the prevalence of full-time versus part-time work, standard versus non-standard working hours and evaluation of working time as being more or less optimal by workers. Hence, it can be stated that the Labor code reform has not, at least within its first year of functioning, achieved more flexibility in the labor market for those who have higher demands for it and no associated increase in the satisfaction with the time balance between work and care-related responsibilities.

Discussion

The new Labor code which came into force since July 2017 was intended to liberalize Lithuanian labor market with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements. It was also claimed that more flexible employment would be especially beneficial in extending possibilities to combine work and family-related responsibilities. The opponents of the reform argued that liberalization of the labor law will most likely lead to increase precariousness of all workers, weaken their social protection, lead to decline in wages of low-paid workers and increase gender gaps in the labor market. Since impact of the changes to the labor law is mediated by a number of factors, its effect on the labor market situation and associated gender gaps can vary from reduction to increase, but also could result in

marginal or no impact at all. In order to analyze the impact of the Labor code reform on the flexible work arrangements and gender differences in its outcomes we analyze the data on employment for 2014-2019 and carry out an evaluation of reform effects on six selected indicators using difference-in-differences approach.

The empirical evaluation confirms that the Lithuanian labor market has a strong tradition of being a dual-earner country, i.e. has high employment rates for both men and women. There are no significant differences in employment rate by sex, but women are more often inactive, while the unemployment rate is higher for men. Moreover, the labor market is dominated by the permanent open-ended contracts, with no significant differences by gender. Still, there are substantial differences in demand for flexibility in the labor market among women and men: women have different adaptation strategies when faced with care responsibilities; women substantially more often than men are working part-time, while women with care-related responsibilities have the highest inactivity rates compared to all other groups of both women and men (27.4%) and their employment rate is about 7 p.p. lower compared to men. Women with care-related responsibilities have lower employment rates compared to women with no such responsibilities, while the opposite is true for men. This signals difficulties in balancing work and care-related responsibilities among women, which contribute to the development of the gender gaps in the labor market. The regression models confirm important differences in the labor market situation for women and men, which persist (if not increase) after controlling for their individual characteristics.

We observe positive labor market trends in Lithuania for the period of 2014-2019. An increase in employment rate is statistically significant for both genders if comparing the start and the end of the period, as well as since the introduction of the Labor code in the middle of 2017. Within the year after the reform, the employment increased for both sexes, but around twice so for people with care-related responsibilities. The prevalence of full-time work arrangements increased for employed men with no care-related responsibilities, while it decreased for women with care-related responsibilities. Also working schedules became more flexible for both men and women with care-related responsibilities. The share of permanent contracts also was increasing, especially among those with care-related responsibilities. Evaluation of the working time as optimal increased in all groups.

However, the argument is that all these positive changes would have happened in the Lithuanian labor market within the first year after introduction of the new Labor code even if there was no change in employment laws. Our strategy for identifying the reform effects is based on an assumption that higher effect of the new legislation, if any, can be expected on women with care-related responsibilities due to their higher demand for flexibility, compared to both women with no such responsibilities and men with or without care-related responsibilities.

The identified reform effects after controlling for other effects and individual characteristics are significant in three areas: reduction in the employment level, reduction in the prevalence of contracted work and a high positive effect in the prevalence of permanent contracts. These are contradictive results to those intended by the reform. Nevertheless, the first effect can be explained by reduced conditions and costs for dismissal of employees in the new Labor code. The second effect can be explained by the convergence of the conditions provided by the

different new types of contracts to the conditions of self-employment, albit the latter is less taxed. The positive effect on increase in permanent contracts can be explained as a positive externality of the reform. I.e. lower costs associated with having an employee on a permanent contract in the context of their long-lasting dominance and high demand for labor in the booming Lithuanian economy allow for higher probability of being hired on a permanent basis, albit with reduced protection it now provides. These results are also in line with official labor market monitoring reports (SADM, 2018; SADM, 2019; VDI, 2018). Important to note that the negative effect of the new Labor code on employment did not show up during the analyzed period, as they were neutralized by the positive period effect of the economic cycle. Nevertheless, it is not unreasonable to assume that the negative effects on employment would manifest themselves within the negative economic cycle. No reform effect was observed for changes in the prevalence of full-time versus part-time work, standard versus non-standard working hours and evaluation of working time as being more or less optimal by workers. Hence, it can be stated that the Labor code reform has not, at least within its first year of functioning, achieved more flexibility in the labor market for those who have higher demands for it and no associated increase in the satisfaction with the time balance between work and care-related responsibilities.

Finally, it should be admitted that while we tried to disentangle the reform effects and other coinciding effects in the data, this is a challenging task with limited available data in both its scope and timeframe, and challenges in finding a strong strategy for identification. The identification strategy we use and assumptions we take leave some space for bias in the estimates, i.e. some of the reform effect could be captured within the estimates of the period effects as the reform did effect simultaneously the whole population. Still, we believe that this analysis presents a better picture of the interaction of the new labor law with the general labor market dynamics and its effects for those with higher demand for labor market flexibility, which is pronounced, but not limited to, the group of women with care-related responsibilities. It should also be acknowledged that the analysis of the effect of the reform is limited in its timeframe and was carried out for the period of economic growth. While we hypothesized on the possible wider implications of the reform within the context of the economic recession, these effects are yet to show up in the society, data and future research.

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Annexes:

Table A1. Employment, unemployment and inactivity rates, %

	Inactive			Unemployed			Employed		
	male	female	total	male	female	total	male	female	total
2014q1	24.3	28.6	26.5	14.3	11	12.6	64.9	63.6	64.2
2014q2	24.3	28.5	26.4	13.4	9.5	11.4	65.6	64.7	65.1
2014q3	23.4	28.2	25.9	10.6	8	9.3	68.5	66.1	67.2
2014q4	24.1	28.4	26.3	11.4	9.1	10.2	67.2	65.1	66.1
2015q1	24.6	28.4	26.6	11.2	9.1	10.1	66.9	65.1	66
2015q2	24.2	27.5	25.9	11	8.2	9.6	67.4	66.5	67
2015q3	24.1	27.2	25.7	9.3	7.8	8.5	68.9	67.2	68
2015q4	23.7	26.8	25.3	9.6	8.4	9	68.9	67.1	68
2016q1	23.9	26.6	25.3	9.8	7.3	8.5	68.6	68	68.3
2016q2	22.3	26	24.2	9.7	6.8	8.2	70.1	68.9	69.5
2016q3	22.4	25.9	24.2	8.7	6.6	7.7	70.9	69.2	70
2016q4	22.8	25.9	24.4	9	6.6	7.8	70.2	69.2	69.7
2017q1	22.8	26.4	24.7	10.4	6.3	8.3	69.1	69	69
2017q2	22.6	25	23.9	8.9	5.6	7.2	70.5	70.7	70.6
2017q3	22.6	25.2	23.9	7.8	5.7	6.8	71.3	70.6	70.9
2017q4	22.4	25	23.7	7.9	5.9	6.9	71.5	70.6	71
2018q1	22	25.5	23.8	8.8	5.9	7.4	71.1	70.2	70.6
2018q2	21.1	25.2	23.2	6.7	5.5	6.1	73.6	70.7	72.1
2018q3	20.1	22.7	21.4	6.2	5.3	5.8	74.9	73.2	74
2018q4	21.2	23.4	22.3	6.6	5.7	6.1	73.6	72.2	72.9
2019q1	21.2	23.3	22.2	7.2	6.2	6.7	73.1	72	72.5
2019q2	20.4	23.6	22.1	7.1	5.6	6.3	74	72.1	73

2019q3	20.9	22.8	21.9	7.2	5.4	6.3	73.4	73	73.2
2019q4	20.6	22.7	21.6	7.6	5.6	6.6	73.4	73	73.2

Source: own calculations based on LFS data.

Table A2. Share of employed on fixed contracts and working part-time by sex

	Part-time work			Fixed contract		
	male	female	total	male	female	total
2014q1	7.8	11.2	9.5	2.2	1.2	1.7
2014q2	6.5	11	8.8	3.3	1.8	2.6
2014q3	6.2	11.3	8.8	4.1	2.3	3.2
2014q4	7.6	11	9.3	2.6	1.9	2.2
2015q1	6.5	10.6	8.6	1.4	1.2	1.3
2015q2	6.2	10.2	8.3	2.1	1.5	1.8
2015q3	6.1	10.6	8.4	2.4	2.1	2.2
2015q4	5.5	10.7	8.1	2.1	1.7	1.9
2016q1	6.5	10.8	8.8	1	1.6	1.3
2016q2	6.3	10.5	8.5	2.6	1.7	2.2
2016q3	5.3	9	7.2	2.4	1.9	2.1
2016q4	5.8	9.6	7.8	1.4	1.1	1.2
2017q1	7.4	11.5	9.5	1.4	1	1.2
2017q2	7	11.1	9.1	2	1.3	1.6
2017q3	5.6	9.6	7.6	2.2	1.3	1.8
2017q4	6.2	10.1	8.2	1.3	1.2	1.2
2018q1	6.7	10.4	8.6	1.2	1	1.1
2018q2	5.7	10.7	8.2	1.7	1.4	1.6
2018q3	5.6	9.7	7.7	2.1	1.7	1.9
2018q4	6.1	9.5	7.8	1	1.1	1
2019q1	6.2	10.1	8.2	0.9	0.7	0.8
2019q2	5.8	9.3	7.5	1.5	1.3	1.4
2019q3	5.6	8.7	7.2	2.2	1.8	2
2019q4	5.3	9	7.2	0.6	1.4	1

Source: own calculations based on LFS data.