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## **Agricultural Reforms in Lithuania**

One of the more important features of the democratic changes in post-socialist countries (except Poland) is the creation of a new class — the class of land owner. This was possible thanks to the reintroduction of law allowing for land ownership. This restitution being due to the activities of former land owners or their descendants who, in 1940, lost the right to own land. Another important factor in the process of restitution was Lithuanian's proclamation of independence from the Soviet Union on 11 March 1990 (Lithuania, by creating its own parliament, was the first former Soviet republic to do so). It was also the first to initiate denationalization and privatization of state-owned industry. Ideologically, it was motivated by the need to rebuild an independent state, in economic terms — by the need to improve its economy: departing from a planned economy to modes of economic development characteristic for highly developed economies.

Because of the rural character of the pre-World War II Lithuanian economy (78.3 per cent of the population lived in the rural areas) it was especially important to bring back land ownership, which in turn, led to the re-creation of the peasantry.

### **CONDITION OF RURAL AREAS AND AGRICULTURE BEFORE THE 1991 REFORM**

The Lithuanian village before 1991 was characterized, contrary to rural areas in other former Soviet republics, by a stable economic situation, high standard of living of its residents and a well-developed public infrastructure.

Traditionally, Lithuanian agriculture specialized in milk, beef and pork production. Animal breeding constituted 66 per cent of all agricultural production and this constituted 85–87 per cent accordingly [1]. In the second part of 1980s Lithuania's agricultural production surpassed the average agricultural production in the Soviet Union. In grain production it reached 13 quintals per hectare, in meat 530.9 thousand tons, in milk 3153.6 thousand tons and 1,290.9 million eggs[2].

## TWO TYPES OF AGRICULTURAL FARMS

The idea of a return to agriculture based on family farms was created during Gorbachov's 'perestroika'. The beginning of agricultural reforms took place soon after introduction of an act 'About peasant farming' in 1989. It drew some of its ideas from the agricultural reform of 1910 (the so-called Stolpynska reform). In 1989 the first conflicts between proponents of the development of individual family farming and the proponents of the collective forms took place. The former ones are the individuals who in the previous system held managerial positions in agriculture. Their critics underline that there is no financial basis for reconstruction of individual farming, that work on infrastructure transformation projects has not been completed yet.

Proponents of the collective farming, usually directors of state-owned farms, stress the stability of such form of farming as well as its huge capital-technical potential that allows for the continuation of agricultural production.

Such convictions are supported by the facts — the number of Lithuanian villages decreased by half in comparison with 1940. Currently, 12 per cent of former village residents now live on city peripheries. Twenty per cent of them live in large, usually surpassing 200 families, settlements that are attached to kolkhozes. The rest of them live in medium-size and small ones. Only 35 per cent of them remained in traditional villages. Such a situation allows for favourable conditions to create individual farms in only a third of currently existing former state-owned farms. The recreation of the situation from 1940 seems to be virtually impossible [3].

In addition, the infrastructure of over 2,000 kolkhozes and sovhozes (e.g. byres with 400–1,000 places) was attached to agricultural land sufficient to produce enough feed for such big herds. The existence of such production centres also speaks for creation of big agricultural enterprises owned collectively (production cooperatives or partnerships). Another argument is that of interest in 'agriculture' expressed by urban residents who already bought 19 per cent of privatized land even though the law gives the priority in purchase to so-called natural owners. City dwellers buy out the land with the intention of leasing it in the future. Because of this, and because of shrinkage of agricultural areas in general (between 1950 and 1991 by 13 per cent[4]) the average size of newly created farm is 6–7 hectares per person (almost half the size of a private farm before collectivization). Such fragmentation of land, from the economic point of view, is not favourable.

In 1990–1992, when the conflict about the principles of the de-collectivization was still unsolved, a sociological research of rural residents was conducted. Its results show rather negative attitude of the Lithuanian

peasants toward creation of family farms (no more than 10 per cent of the researched population supported it). According to the Lithuanian sociologists, such attitudes are caused by lack of information about new forms of farming, traditionalism in thinking, and impossible to reverse changes in consciousness caused by the years of the Soviet rule [8]. It seems that the sociologists did not take into consideration such important factor as a common sense which takes over when social benefits of 'socialistic feudalism' and consequences of privatization (e.g. deepening of social stratification) collide. One cannot ignore the negative experiences of pre-World War II rural reforms or discard any of the political elites sociological research results.

### THE RURAL REFORM ACT OF 1991

A peculiarity of current changes in Lithuanian economy is a simultaneity of the two processes — creation and implementation of new regulations. The same is true for the agricultural reform (its aim was transformation of kolkhozes and sovhozes into forms of farming based on private ownership of production means, which in consequence was to lead to transformation of rural relationship). It was assumed that the creation of the new production structures must not be a factor in destruction of the 'old' means of production even though it should be conducted according to aims of the state's macroeconomics policy [5].

The following acts are the legislative basis for the rural reform:

— *About rules and conditions of re-establishing the rights to the citizen ownership in estates not falling under privatization regulations* (1991). This act allows for monetary re-compensation for lost country estates which cannot be returned to their legal owners.

— *About the rural reform* (1991). This act regulates conditions of the land division.

— *About privatization of state-owned farms* (1991). This act regulates ways and methods of dividing kolkhozes and sovhozes into smaller units and their sale to groups of people or individuals. Special allowances were established, depending on the size of purchased land, experience in farming and the age of buyers.

— *About rural partnerships* (1991). This act regulates creation and functioning of farms owned collectively and acquired through distribution or purchase of stock.

Problems occurring during the implementation of rural reforms forced the need to amend some of the above acts in 1992–1993. The amendments, on one hand, levelled the limitations in purchasing land by people who were

never land owners, and, on the other hand, encouraged creation of big farms by, among others, limiting possibilities to divide land between heirs. In late December 1993 a new act *About land lease* was introduced.

The most basic act *About land* was introduced in August 1994. This act gives the land the status of production mean, an object for sale and purchase, it also defines the notion of private and state land ownership, it regulates expropriation from land, etc. However, it is still difficult to judge its influence on the reforms.

In general terms, the existing legislature ensures the following:

- a right to own land for those who come back to it and cultivate it as well as for those who lease it to others;
- possibility to lease land bought in 1980s regardless of its size;
- enlargement of the re-privatized land ownership in urban areas to the size not smaller than 0.04 and not bigger than 0.3 hectares, with the possibility of cash re-compensation if the returned allotment is smaller than the previously lost one;
- free (for the former land owners) or paid (for those, who have never owned land before) take-over of 2–3 hectare infields.

Even though the first experiences with re-privatization do not fill one with optimism (they cause a shrinkage of people willing to take over or buy land and growth in the number of people interested in cash re-compensation), by 1<sup>st</sup> January 1993, 431 thousand people wanted to take advantage of the new law allowing them to own land. Only 15 per cent of the applications were verified positively by authorities. By 1<sup>st</sup> October 1994, 518 thousand requests for the return of lost land were made [6]. By 15<sup>th</sup> April 1993, 79 per cent of the agricultural enterprises' capital was privatized, which constituted 32 per cent of land needed to fulfil the existing demand [7].

Because the legislature process has not been completed yet (there is no act *About territorial planning* and the land registration has not been codified yet) quite numerous conflicts find their solution in constitutional courts.

## INDIVIDUAL AND COLLECTIVE FARMING

According to official statistics, in Lithuania in 1990 there were 2.9 thousand individual farmers working on 48.7 thousand hectares of land. In 1992 the number of individual farmers increased to 73 thousand, farming about 18 per cent of agricultural land. However, in 1990–1992 the average size of an agricultural farm decreased from 17 to 9 hectares [7]. In 1994 the number of individual farms increased to 113 thousand — their average size was 8.8 hectares [6].

Based on the interviews conducted in 1991–1993 [8] one can infer that individual farming was initiated by the enthusiasts who managed to overcome piling bureaucratic difficulties. Among them there were representatives of various professional groups, with different levels of education, the majority of them had been connected to agriculture in the past. Currently, an individual farm is characterized by a relatively small acreage, varied type of production, poor technical equipment and extensive usage of physical labour. Their owners usually rely on intuition and former experiences; they also complain because they lack the agricultural production means.

In accordance with the legislation the capital of kolkhozes and sovhozes and other state-owned rural enterprises was privatized. During the division of this capital they were allowed to separate cultivation from meat production and to still separate the technical basis which was created, sometimes without any economic justification, 12 thousand of such centres were additionally trimmed of capital because of theft. Agricultural partnerships were created base on their remains.

Those agricultural partnerships are enterprises created by at least two people whose aim is to produce agricultural goods or conduct other type of economic activity. The income from the former cannot be smaller than 60 per cent of the overall income. Most of the time, members of these partnerships are former kolkhozes' employees. In 1990–1994 over 5,000 of such partnerships were registered; in the meantime 800 of them dissolved. In 1992 they employed about 200 thousand people (on average, 46 employees each) and their acreage was about 400 hectares [10].

## ECONOMIC RESULTS OF THE REFORM

As a result of the rural reforms, a decrease in agricultural production was observed in all types of agricultural farms. Comparing with 1989, we note a 24 per cent drop in overall production price volume. By a 34 per cent dropped in the crop production and by 18 per cent — the stock breeding production. By a 47 per cent decrease in goods production in agricultural partnership, production on individual farms increased only by 10 per cent. Grain harvest in 1992 was only at the level of 68 per cent of the 1989 harvest; similar was the situation in meat production (70 per cent), milk (75 per cent), eggs (66 per cent), wool (72 per cent) [10]. Rather pessimistic forecasts for 1994 say that meat production may be only 33 per cent of the level from 1990. Milk production will be only 41 per cent of that from 1990 [11].

## CAUSES OF THE CRISIS

Administration, having very little to do with declared ideas of economic liberalism fashion of conducting reforms is widely considered to be the main cause of the economic crisis in Lithuanian agriculture. The basic element of this administrative approach to agricultural products' prices which, in some cases, leads to the situation where income generated by their sale is lower than costs incurred in the production process. It is being pointed out that in recent years prices of production increased 17 times while market prices of agricultural products increased only 5 times [11]. Under such conditions, agricultural production could have been conducted using the excess production means from previous years and cheap labour costs. Also subsidies from the state budget are decreasing; in 1989 they covered 30 per cent of agricultural production costs, in 1992 — only 18 per cent, and they are still falling even though subsidies for agriculture constitute 10–12 per cent of the state's budget. There is a shortage of preferential (long-term, low-interest) credits — the available ones are awarded to large and specialized farms only (the ones that have a chance to succeed in free market economy). All this means that in Lithuania only about 30 thousand farms will be able to benefit from any form of state help [12]. The situation is even worsen by high taxation of farming; in 1991 taxes from farmers constituted 33 per cent of all money collected by the state in the process of taxation [13].

To the negative consequences of centralized agricultural policy, a decrease in the demand for agricultural products was added. The collapse of export to Russia is accompanied by the internal decrease in demand caused by drastic decrease in purchasing power of Lithuanians. The fact that when in 1989 spending on food constituted 34.9 per cent of all spending in an average Lithuanian household and in 1994 it reached 62 per cent [14] does not mean that the consumption of agricultural goods has increased. Consumption power of farmers also decreased; it was caused by the payment delays for delivered agricultural goods.

In such a situation Lithuanian farmers tried to force the government to change its rural policy (they did so by threatening strikes), they demanded an increase in purchase prices of agricultural products and in subsidies. They also wanted more control over the middlemen operating in the agricultural market. The reaction of the government was to purchase agricultural goods (milk, grain and meat) abroad. The consequence of the lack of support will probably be marked by the fall of many farms which on their own cannot carry the burden put on them.

## DEMOGRAPHIC SITUATION IN THE RURAL AREAS

To the difficult economic situation of Lithuanian rural life is added a complex demographical one. It is characterized by the process of ageing, lack of sex equilibrium and increasing rate of suicide (usually under the influence of alcohol).

In 1993 for every 100 rural residents of productive age there was another 100 of non productive age. In eastern parts of Aūkštaitija the situation was even worse; the ratio there was 100 to 120–140). In urban areas the percentage of retired people is not higher than 16 per cent, in rural areas it reaches 26 per cent and in Eastern Lithuania it reached 33–37 per cent. Rural areas are inhabited by large numbers of single people — among older people there are more women, among people of productive age there are more men (for every 1,000 men in a productive age there are 828 women) [15].

Dramatic seems to be the high number of suicides. In rural areas it has doubled the number of urban suicides, and in 1989 it reached 41.1 people for every 100 thousand residents. Victims of suicides are usually men aged 40–49 or older and 25–29 [16].

Demographic forecasts bring some hope. It is expected that by the year 2000 the number of rural residents will be lowered by 1.5 per cent and the number of productive aged people will decrease by 6.5 per cent. There will be 16–18 per cent decrease in number of farms owned by retired people [7].

## CONCLUSION

The basis of the Lithuanian rural reform is the re-creation of land ownership — this is considered as one of the necessary conditions of 'the return to Europe'. Their internal effect is the liquidation of the collective system in agriculture — one of the most important elements in the de-composition of the Soviet system. In this sense, contemporary rural reform in Lithuania can be only compared with the post-war collectivization, which was not as much concerned with economic, but rather political aspects.

Domination of political over economic aspects of reform leads to dangerous crisis in rural areas and in agriculture. If this is not overcome with appropriate changes in rural policy, mass bankruptcies of newly created individual and collective farms will take place.

## NOTES

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