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## RURAL POPULATION INCOMES IN LITHUANIA

### Abstract

Income is the main factor which influences individual consumption and shows the standard of living. In recent years Lithuania, as all the Baltic countries, have seen a low income level, considerable income differentiation and increasing poverty. These problems are especially acute in the countryside. Striving to change this situation it is very important to determine the low rural population income level, problematic population groups and to foresee a means for improving income level.

This article characterises the general Lithuanian rural condition twelve years after the restoration of Lithuania's independence: farm structure, their economic capacity and determining factors, the state support system, agricultural production, changes in property and other farming conditions, influencing farm productivity, rural population living standards, gives an evaluation of influencing factors, highlights the more important means for improving the rural situation.

Keywords: rural population, incomes, life quality, poverty, living standards.

### INTRODUCTION

Rural population incomes are approximately a third lower than those of urban households. Besides that, in about 76 per cent of rural households, with the exception of bigger farmers, incomes are natural incomes. These people produce their own food, but they lack money for primary commodities. Farmers' incomes, in comparison with wage-earners, are even lower – being about 55%. Social benefits are a large part of their income. In rural areas the most destitute people are the unemployed, farmers and households with 3 or more children. Their poverty level, calculated according to relative poverty level, exceeds 32.5. The spread of poverty is shown by low income and expenditure level. Not all population groups are able to get medical treatment, education or cultural facilities. This is

proved by negative poverty results: poor health, high mortality rate, poor education, crime.

Therefore, research of the rural population income level and ways of improving the situation are necessary.

The research purpose is to evaluate the income level and living standards of the rural population; to estimate reasons of low rural population income and to make an analysis of living standards in the countryside, to determine problematic rural population groups according to household incomes and expenditure; to evaluate farm structure, economic capacity and determining factors; to evaluate factors, which essentially influence life quality; to distinguish more important means for improving rural population income level.

In this article data was used from: the Lithuanian Department of Statistics, farming business accounts, agricultural enterprises, rural municipality questionnaires, policy means for improvement of living standards in rural areas, initiated by Social Security and Labour and Agricultural Ministries of the Lithuanian Republic.

The situation of rural areas, state support system, agricultural and food production, the changes of property and other farming conditions, influencing farm economy, which have an essential influence on family farm incomes and rural population living standards, were analysed.

## GENERAL SITUATION IN THE LITHUANIAN COUNTRYSIDE

Rural areas cover 96 per cent of the total national territory. One third of the Lithuanian population live there. The territorial distribution of population in different regions is uneven. In less favourable farming regions the density of rural population is over 20 per cent smaller than average in rural areas. In forested and less favourable farming rural areas the density of the rural population is 8–12 inhabitants per km<sup>2</sup> and villages are simply disappearing. The especially bad demographic situation is in eastern regions, where the death rate is three times higher than the birth rate.<sup>1</sup> The demographic situation is also influenced by low rural incomes and its consequences. Mainly elderly or socially insecure people live in rural areas. In the countryside there is a very distinct population ageing process. In 2001 people aged over 60 in rural areas were 23% of the entire population, as compared to 17% in urban areas. In areas with a low population density schools, health centres, bank branch offices are closing. The number of rural schoolchildren with only secondary education, and the number of school age children not

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<sup>1</sup> E. Ribašauskienė, V. Uždavinienė, *Žemės ūkio ir kaimo regioninė specifika (Agricultural and rural regional specifics)*, *Agricultural Sciences*, Vilnius 2001.

attending school are both increasing because of their families' poor financial situation and the high number of pathological families.<sup>2</sup>

During soviet times agricultural work was the main source of income in the Lithuanian countryside. Agricultural reform, which was started after Lithuania's independence, only partially solved rural population problems and was also a background for serious economic and social problems: the emergence of increasing unemployment, deeper income differentiation and greater poverty.<sup>3</sup> It is difficult to evaluate exactly the distribution of rural inhabitants in economic activities, because the transformation of agricultural subjects is continuing: small-scale farms and agricultural processing enterprises are going bankrupt. Besides, there is unofficial employment in the grey economy.

Household characteristics have an evident impact on the level of income: a higher number of children is significantly related to greater material problems.<sup>4</sup> In recent years the situation of farmers in Lithuania has worsened: the income per family member is decreasing and the share of earned income in the total household income structure is decreasing while dependence on social benefits is growing.

In 2001 the disposable income of rural population households was 76% of the average national level and 68% of urban households' disposable income (evaluating income in terms of money, that is 61% and 51% respectively). The income of farmer families is 61% of the average national income, 55% – urban and 80% – rural disposable income (income in terms of money 38%, 33% and 63% respectively).<sup>5</sup>

According to the Lithuanian Department of Statistics data, the majority of the rural population are still employed in agriculture (figure 1).

The analysis of data from rural municipality questionnaires, carried out in 2001, shows that the agricultural sector employs about 60 per cent of the rural population (in separate regions it differs from 52 to 83 per cent). At the beginning of 2002 about half of the rural population was engaged in agricultural activities. The majority of the rural population have chosen farming rather than unemployment.<sup>6</sup> In the intensive reform period, from 1990 to 1995, in comparison with kolkhoz times, the number of those employed in agriculture was still increasing.

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<sup>2</sup> V. Uždavinienė, L. Kriščiūnaitė, E. Ribašauskienė, *Kaimiškujų seniūnijų apklausos anketų duomenys* (Data of rural municipalities questionnaires), Lithuanian Institute of Agrarian Economics, Vilnius 2001.

<sup>3</sup> G. Jalinskienė, *Lietuvos kaimo gyventojų ir žemdirbių pajamos ir jų kitimas 1996–2001 metais* (Lithuanian rural population and agriculturalists income and its changes in 1996–2001), Vilnius 2003.

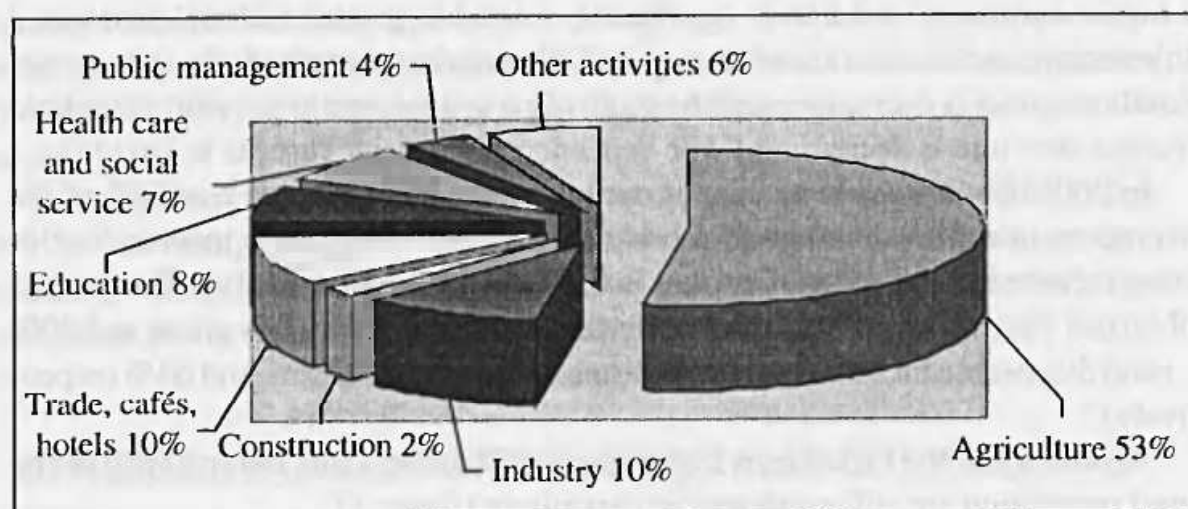
<sup>4</sup> D. C. Clay, H. K. Schwarzweiler, *Research in rural sociology and development, Households strategies*, Vol. 5 (1991).

<sup>5</sup> *Namų ūkių pajamos ir išlaidos 2001 metais* (Household income and expenditure in 2001). Lithuanian Department of Statistics, Vilnius 2002.

<sup>6</sup> Cf. footnote 2.

Alternative non-agricultural activities have so far had little socio-economic importance: in the period 1996–2001 income from those activities was just 1.9–2.8%. The high concentration in agricultural activities was determined not only by the economic transformation processes, but also by social factors. Not only the rural population, but also people who had lost their city jobs and could not find other means of subsistence moved to the countryside and started farming on small land plots.<sup>7</sup> Since 1996, when more new jobs emerged in cities, and younger people started moving to cities to study or work, the number of those employed in agriculture and the number of rural inhabitants in general, started to decrease.

Figure 1  
Distribution of employed rural inhabitants in economic activities in 2001



Source: Workforce, employment and unemployment (research data), Lithuanian Department of Statistics, Vilnius 2001.

After the liquidation of kolkhozes, under new ownership relations the majority of the rural population had difficulty adjusting to the market economy. New organisation of production determined an increase in unemployment. According to official statistics, in 2002 the unemployment level in rural areas was 12.8 per cent.<sup>8</sup> But according to rural municipality reports, in some rural localities 18 to 34 per cent of the working age population were unemployed.<sup>9</sup> The cleverest young people are moving from villages, thus decreasing the rural population business potential and increasing the necessity of social benefits.

<sup>7</sup> L. Kriščiūnaitė, Skurdo priežastys Lietuvos kaime (Poverty reasons in countryside), *Agricultural Sciences*, No. 4 (2002).

<sup>8</sup> *Darbo jėga, užimtumas ir nedarbas* (Labour force, employment and unemployment), Lithuanian Department of Statistics, Vilnius 2001.

<sup>9</sup> Cf. footnote 2.

In the post-soviet privatisation period part of the social infrastructure disappeared, another part lost its attractiveness. At present the social infrastructure meets just the most basic rural population needs.<sup>10</sup> The social security of the rural population is declining. There are many problems in the environmental sphere. Poor social infrastructure in the countryside reduces the attraction of tourism. Due to the underdeveloped infrastructure and longer distances from main markets in less fertile land areas the development of economic activities is slower.

## INCOMES AND POVERTY LEVEL

Failing the diversity of economic activities, low incomes barely meet the consumption requirements and block investment processes. Because agriculture absorbs workforce redundancy, it provides conditions for the existence of small-scale farms.<sup>11</sup> On these small-scale farms, the employment of farmer family members, proper agricultural productivity and necessary income are not secured. In most large-scale agricultural enterprises employees are merely part-time workers, therefore their incomes are lowest in comparison with incomes in other employment spheres.<sup>12</sup> Moreover, 76 per cent of rural population income, with the exception of larger farmers, make natural income. On small farms (up to 3 ha) all disposable incomes are two times smaller than on bigger (over 10 ha) farms.<sup>13</sup>

The gap between urban and rural (especially farmers') household income is increasing every year. Rural household monthly disposable income per household member was on average 73.9 per cent in 1996, 68.3 per cent in 2001, and accordingly, farmers – 70.5 per cent and 54.9 per cent of all citizens' incomes.<sup>14</sup> In 2001 in the households of farmers owning more than 10 ha land, this income was 94% of an average household income and was 24% higher than the average rural household income. In the households of farmers owning 3 to 10 ha of land, this income was 62% of the national average level.<sup>15</sup>

This all determines the low living standard in rural areas. In farming and other rural population incomes some allowances and other social benefits have a tendency to increase, and earned income to decrease. In 1996 social benefits in house-

<sup>10</sup> *Gyvenimo sąlygos* (Living conditions), Ministry of Social Security and Labour of Lithuanian Republic, Vilnius 2001, 2002.

<sup>11</sup> Cf. footnote 7.

<sup>12</sup> V. Vitunskienė, *Kaimo gyventojų pajamų nelygybė bei jos ekonominiai ir socialiniai veiksniai* (Rural population income inequality and its economic and social factors), *Agricultural Sciences*, No. 4 (2000).

<sup>13</sup> *Gyvenimo lygis ir skurdas* (Living standards and poverty), Lithuanian Department of Statistics, Vilnius 2002.

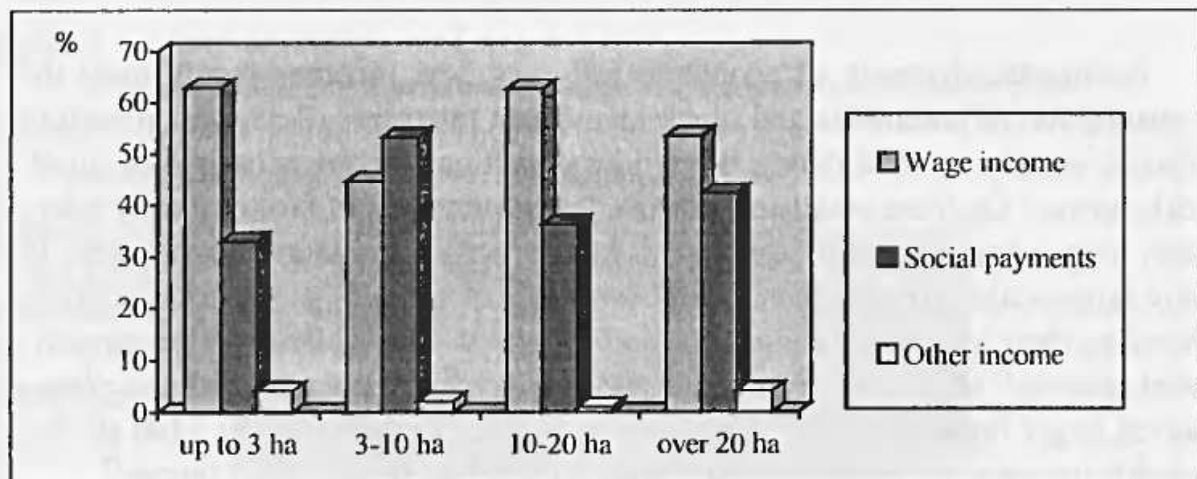
<sup>14</sup> Cf. footnote 5.

<sup>15</sup> Cf. footnote 3.

hold income was 29.1% and in 2001 it reached 39.3%. The biggest part of social benefit was in small (up to 10 ha) farms and it made up 44.5% of total income. Besides, in the majority of farming households a very big part of income comes from natural incomes. They cannot afford such possibilities as income in terms of money. Therefore, households with small income in terms of money are more economically and socially insecure<sup>16</sup> (figure 2).

Figure 2

## The main sources of farming household incomes



Source: Household budget survey data in 2001, Lithuanian Department of Statistics.

In Lithuania there is high income inequality between various social groups (figure 3).

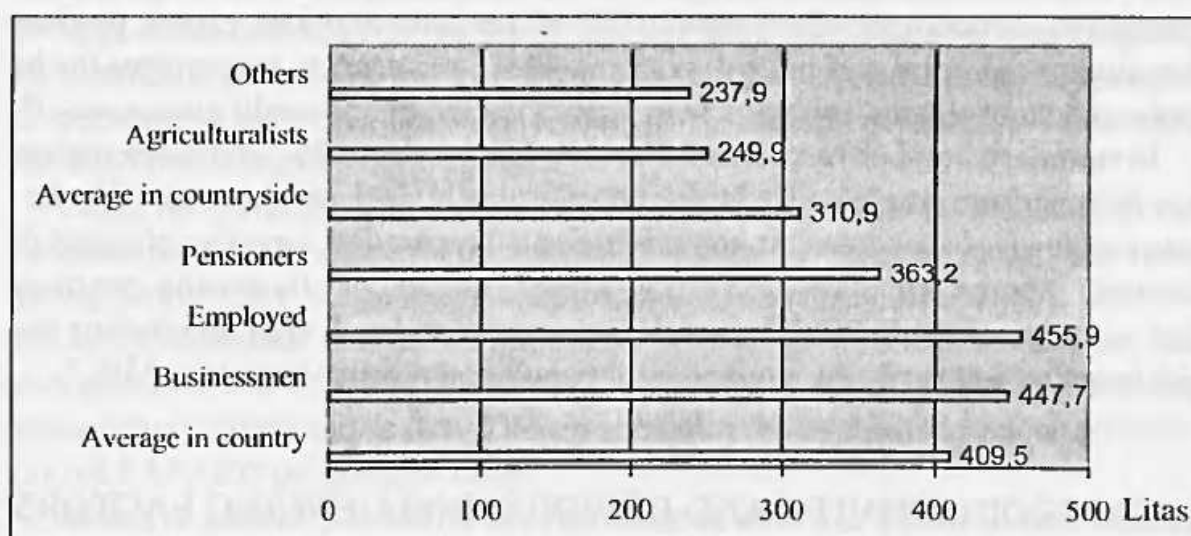
Due to the decrease in rural inhabitants' income, most of the rural population became poor. According to the Lithuanian Department of Statistics data, from 1996 to 2000 the poverty level of rural inhabitants and farmers under relative poverty level (in per cent) increased, while the urban poverty level decreased<sup>17</sup> (figure 4).

<sup>16</sup> L. Žalimienė, *Gyvenimo lygis* (Living standards), Lithuanian human development report In: Lithuania in 2000. United Nations development program, Vilnius 2000.

<sup>17</sup> Cf. footnote 3.

Figure 3

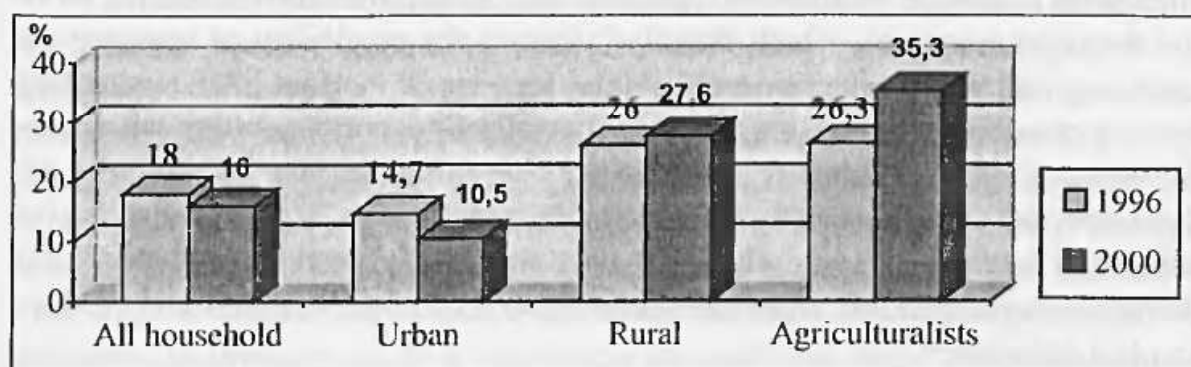
Household of different social groups average disposable income  
(per household member per month in litas)



Source: Household income and expenditure in 2001, Lithuanian Department of Statistics, Vilnius.

Figure 4

Poverty level (in per cent) in 1996 and 2000



Source: Lithuanian Economic Review, Vilnius 2001.

In 1996 the poverty level of the whole rural population was almost equal (26 per cent), but 1.8 times higher than in the urban population. Up to 2001 the poverty level of farmers increased most and exceeded the urban poverty level 3.3 times. Farmers are therefore the most deprived group. A low standard of living determines increasing crime, drinking, pathological families and their number of



children, other social problems.<sup>18</sup> About half of the farmers who have a rough time, live on small plots and get social benefits, are people in the 30–39 age group.<sup>19</sup>

Countryside social disjuncture was also influenced by state policy, which was oriented to support agriculture: mainly (85–90 per cent) to prices, export, production storage subsidies and much less (about 10–15 per cent) to investments (technique and technologies, infrastructure, human resources and credit guarantees).<sup>20</sup>

In summary, rural poverty is influenced by low productivity, which determines low income from small family farms, unemployment, lack of labour mobility because of inadequate education and professional preparation, negative changes in farmers' income structure (decreasing earned income and increasing pensions and social benefits). In 2001 farmers' relative poverty level, after eliminating social benefits, was 40%, the average rural population poverty level was 33%.<sup>21</sup>

## FARM PRODUCTIVITY AND REVENUE INFLUENCING FACTORS

The efficiency of agricultural activity is influenced by many factors. Some of them form farm abilities and constraints: the restitution of land ownership and agricultural reform problems, the creation of a badly run tax system and implementation process, regulating economic relations in agricultural policy, limited state budget possibilities supporting agriculture, inflation rate, interest rates, inhabitants' purchasing power, market information system etc. Private farms have very little or no influence on all of this. Factors such as qualifications, material, work and financial resources, which directly influence the possibility of applying effective agricultural production technologies are more important.<sup>22</sup> Understanding farming possibilities, choosing the right specialisation, corresponding with natural, technical and workforce resources, a positive attitude to new technologies are also important factors, directly influencing farming results. Total revenue is also influenced by farm size, on which not only amounts of production depend, but also costs, corresponding techniques relating to farm size, buildings and production technologies.<sup>23</sup>

In the Lithuanian countryside, as in most other countries, the standard of education is lower than in urban areas. Not the best values, or to be more precise,

<sup>18</sup> Cf. footnote 7.

<sup>19</sup> Cf. footnote 8.

<sup>20</sup> *Specialioji kaimo rėmimo programa* (Special rural support programme), Agricultural Ministry of Lithuanian Republic, Vilnius 2002.

<sup>21</sup> Cf. footnote 3.

<sup>22</sup> V. Uždavinienė, L. Kriščiūnaitė, *Ūkių ekonominio pajėgumo ir konkurencingumo didinimo galimybes regionuose* (The possibilities to increase farm economic power and competitiveness in the regions), [in:] *Competitive agriculture and its importance to the national economy*, Vilnius 2001.

<sup>23</sup> Cf. footnote 22.



anti-values were formed in soviet times, when people had a different attitude to working in kolkhozes than for themselves. Part of the rural population, especially older people, with lower education or without professional skills, are hardly able to farm or have some other business, because their consciousness was atrophied by a centrally planned economy.<sup>24</sup> People with higher education may have cognitive resources and better skills for dealing with financial pressure which lessens the need for household adjustments.<sup>25</sup>

Cities have always been an attraction for the cleverest youth. Recently in our cities the demand for qualified specialists has increased. Therefore, more and more young people leave the countryside. Besides that, as says A. Marshall, because of the lack of education the way of thinking of inhabitants of rural areas is more conservative than that of urban inhabitants.<sup>26</sup> Therefore, the spirit of entrepreneurship among rural inhabitants is low. This can be observed in the insufficient assimilation of SAPARD programme funds.

Initiative and the possibility of organising an effective business also depends on age. Owners of large farms are generally young. Productivity of farmers who are over 54, as is shown by corresponding data, starts to decrease and the productivity of farms run by farmers over 65 is almost twice as low as that of young farmers. The largest farms are owned by 35–44 year old farmers and the smallest farms by farmers aged over 64. The youngest farmers rent three quarters of the total land area.<sup>27</sup> Therefore, education, qualifications, age and personal characteristics have an influence on farm efficiency and income.

In Lithuania there have so far not been any conditions to obtain reasonable sized farms, because some areas lack free land, land restitution has not everywhere been completed, the land market is not functioning properly due to various limitations, but the most important is insufficient capital. Agricultural property (land, buildings, agricultural technique, animals, personal and capital property) is more than 8 times smaller than in the EU member countries, the 2001 average being 2886 litas/ha (836 euro/ha).<sup>28</sup> In Lithuania, in comparison with EU countries, there is considerably worse endowment in agricultural techniques, modern buildings, technology etc. It is insufficient on small and larger farms, thus limiting productivity and Lithuanian farm efficiency.

Due to high interest rates the possibilities of farmers getting bank loans are limited. They have insufficient capital to take out bank loans. This is especially a problem for small farms.

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<sup>24</sup> Cf. footnote 16.

<sup>25</sup> Cf. footnote 4.

<sup>26</sup> A. Marshall, *Principles of economics*, Amherst, New York 1997.

<sup>27</sup> *Žemės ūkio respondentinių įmonių duomenys* (Data about agricultural enterprises), Lithuanian Institute of Agrarian Economics, Vilnius 1999, 2000, 2001, 2002.

<sup>28</sup> Cf. footnote 22.

In comparison with EU member countries, where farm subsidies are about 830 euro/ha or 2870 litas/ha, in Lithuania agricultural subsidies are low (in 2001 124 litas/ha or 36 euro/ha). Besides, in Lithuania state support is almost exclusively given to commercial farms (where the income from agricultural production is over 50 per cent), not to semi-natural farms. Therefore, some farms do not get any state support.<sup>29</sup> State support means could be divided into two groups: the first, prices and income support and the second, structural measures and measures for agricultural production quality improvement. The following means could also be attributed to this group: allocations for scientific research, advantageous bank loans, tax exemption.

The diversity of Lithuanian natural conditions influences the effects of agricultural production. In fertile land areas agricultural production is generally profitable, and in less favourable areas it is unremunerative.<sup>30</sup> In Lithuania gross volume of agricultural production per 1 ha in different productivity land differs significantly. For example, at district level it differs 1.8 times, at farm level 4 or more times.<sup>31</sup> Despite constantly unfavourable natural conditions, state support was even throughout the country, except in the last 3 years, when direct payments per hectare of buckwheat and rye were paid (due to realisation difficulties their areas are not big).

The largest amount of state support was given to farmers in the most fertile regions. In less favourable farm land areas, in default of constant losses, caused by nature, there was an increase in desolate agricultural land areas, regional income differences, differentiation of rural inhabitants' wealth, other economic and social development inequalities.

In 2002 less favourable farming land areas were distinguished and support for specific agricultural production was increased. Besides, state support was intended for low productivity land afforestation. Those areas where agricultural losses are incurred because of lower agricultural land productivity and where the rural population density is lower than the country average or rural communities vitality index constantly decline. They were distinguished at subdistrict level.

## INCREASING POSSIBILITIES AND DIRECTIONS OF RURAL SITUATION IMPROVEMENT

Since 2001 Lithuania's economy has been recovering (GDP has increased over 5 per cent), allowing increased support not only for agriculture, but also for

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<sup>29</sup> V. Uždavinienė, Kokio dydžio ūkiams turėtų tekti SAPARD parama (Which size farms should get SAPARD support), *Mine farm*, No. 5 (2001).

<sup>30</sup> Cf. footnote 1.

<sup>31</sup> Cf. footnote 2.

other activities in rural areas.<sup>32</sup> Interest in the countryside and landscape preservation is growing, the countryside infrastructure is improving thus improving quality of life. Implementation of investment support for agriculture and rural development from the EU SAPARD programme and other funds has started. It will provide possibilities for quicker modernisation, development of reasonable size farms with greater efficiency, preconditions to increase income and to create favourable conditions for small farms to become commercially viable. It also increases integrated rural development possibilities: investment in infrastructure, environment management, development of tourism, small and medium scale enterprises, professional training and other support in the employment sector.

State agricultural support policy is coordinated with the EU common agricultural policy. Owners of small-scale farms hope that a EU support scheme will be applied, according to which the European Commission proposes to give fixed support for candidate states small-scale farms and to apply simplified direct payments for agricultural land system. In Lithuania this would apply to farms cultivating 3–20 ha.<sup>33</sup>

Since 2002 more attention has been paid to rural inhabitants' education. Agricultural subjects have been implemented, financed by the state, a system of agricultural subjects consultation is functioning. Coordination of integrated rural development and problems solution is confided to the Rural Development Council. Lithuanian legal instruments, which are in force, are being adjusted to EU requirements making favourable conditions for the formation of a rational rural policy.

The increase in rural population income and the improvement of the demographic situation are related to a diversification of rural economic activities, restructuring the agrarian sector and rational social safety. Economic development should proceed by increasing the production of some agricultural, non-food products, while creating and modernising national interests corresponding to the raw material processing industry.

According to the EU model, state maintenance of income and rural development policy should stimulate not only the modernisation of agriculture, but also new job opportunities as an alternative so that the number of social and not specialised small-scale farms would start to decrease. A social insurance system for economically weak small-scale farms has been created which will motivate their owners to register their farms and get state support.

In less favourable farming areas the state will support afforestation and the installation and improvement of technical infrastructure. It should stipulate business diversification and tourism development. Fishery could become an additional source of income for rural inhabitants. This branch has possibilities of developing

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<sup>32</sup> *Lietuvos ekonomikos apžvalga* (Lithuanian economy review), Lithuanian Department of Statistics, Vilnius 2001.

<sup>33</sup> Cf. footnote 29.

together with rural development, by creating workplaces in less favourable farming and forested land districts, and similarly beside rivers, ponds, lakes and other water pools, related with rural tourism and small-scale business development.

For small-scale rural business development the tax system, deposit practise mechanism should be improved and people with enterprising abilities developed. Besides, for the reduction of unemployment in the countryside the creation of small enterprises or branches of large factories in settlements and townships should be promoted. Credit terms should also be made easier for them. Favourable juridical and economic bases for union activities have already been created and tax exemption for agricultural cooperatives is provided. There are possibilities of getting state guarantees in case of raising credit from commercial banks. Decisions have been made concerning excise duty for fuel compensation for farmers.

Rural areas with a low population density in small dispersed villages need greater investment and state support for the development of the social and industrial infrastructure. Changes in this sphere could be procured by implementing SAPARD and ISPA programmes.<sup>34</sup> Alongside investment support for agriculture and restructuring problems, the problem of low income levels should actively be dealt with, especially pointing out that the majority of the rural population are losing previous possibilities of earning money from traditional agricultural activities, because farmers living from 2–3 ha plots fall into the most socially exposed population group.<sup>35</sup>

The competence of rural development management institutions is increasing and greater autonomy for local self-government, implementing rural policy, is given. Self-government law is improving, municipalities' responsibility for rural economic development and local mayors' authority and accountability to local habitants is growing. More rural problems should be solved directly in rural communities.

Poverty, like the family, is not a private problem or a problem of individuals. Rather, it is a situation with causes and consequences crossing institutional boundaries. Our traditional approaches to poverty have suffered from linear thinking, which has limited our ability to understand that only by bridging the gaps between institutions and organisation levels we can effectively begin to deal with this condition.<sup>36</sup>

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<sup>34</sup> Cf. footnote 1.

<sup>35</sup> Cf. footnote 3.

<sup>36</sup> E. Pigg, *The future of rural America. Anticipating policies for constructive change*, 1991.