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ECONOMIC TRANSITION IN THE BALTICS:
INDEPENDENCE, MARKET REFORMS AND
CHILD WELL-BEING IN LITHUANIA

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EXECUTIVE SUMMARY

From 1940 to 1990 Lithuania had no independent public policy. The onset of political and economic change in the country dates from the declaration of independence in 1990.

In terms of a consolidation of the principles of the market-oriented economy and of democracy, the reform process in Lithuania can be judged positively. In a short period of time a programme of rapid privatization has been undertaken, and prices and the labour market have been liberalized. The restructuring of the tax system is almost complete. Social security institutions have been established, and the rights of the people have been strengthened before the law. Hyperinflation and the erosion in production have been stopped. High unemployment has been avoided, and the decline in real wages has been halted.

These results are doubly striking because they have been achieved in the midst of the country’s struggle for independence and its confrontation with the difficulties of the refunding of a nation.

However, from the point of view of the people, the reform process has demanded daily sacrifice.

Domestic prices soared by well over 1,000 percent in 1992. The decline in household incomes has been accompanied by a process of income differentiation. In the first half of 1994 the income of the richest decile among households exceeded that of the poorest decile by a factor of 11. At the end of 1994 the real value of the average wage was only around 50 percent of the corresponding value at the end of 1990, and the average retirement pension still equalled only about 40 percent of the average wage.

Though the reforms have been costly for wage-earners, they have been even more costly for individuals depending on social transfers, especially those who rely on benefits which are linked to the subsistence minimum. Though many of these benefits are small in scope, they are clearly not fulfilling their redistributive and compensatory functions.

The current declining demographic trend is comparable to that of the second half of the 1980s. In 1994 a high number of deaths and a low number of live births led to a negative natural population growth rate for the first time in recent history. Life expectancy at birth has been diminishing in recent years, too. Nonetheless, a new law on pensions that was passed in 1994 provides for an increase in the age requirement for pensions.

Beginning already in 1990 the policy toward income transfers was assigning priority to insurance, job incentives, the maintenance of the subsistence minimum income level and the adjustment of transfers for inflation. A basic idea behind fresh legislation has been the creation of an institutional division between social insurance and social assistance schemes. The autonomy of the social insurance fund during the transition has played a helpful role in the effort to maintain the worth of some transfers.

Despite the economic crisis, deterioration in crucial areas of the public service sector has generally been avoided. No privatization has been undertaken in the public school system or among public hospitals. Though the establishment of private schools is permitted, no Government assistance is provided, and few such schools have appeared.

Patients are not obliged to pay for hospital treatments, inpatient care, or ambulatory care by doctors. Though medical institutions have been given more leeway in their use of resources, they are not allowed to charge fees for treatments. Thus, the access to medical services has not been limited.
I. SOCIAL POLICY IN THE FINAL YEARS OF SOCIALISM

From 1940 to 1990 Lithuania, because it was occupied by the Soviet Union, had no independent public policy. The heritage of these years in Lithuania is therefore similar to that in other "post-Soviet" countries.

Under the planned economy, equality in income and welfare was secured through price controls on goods and services and through slightly differentiated wages. Moreover, it was possible to obtain housing, goods and services through state enterprises. The need for a social security system was minimal because the right to a job was guaranteed by the Constitution, and health care and education were provided free. Social security transfers were mostly financed through employer contributions and general Government revenue.

Unemployment benefits and social (poverty) assistance were not available. Unemployment and poverty were not considered possible in a socialist system.

Other social problems were targeted in ways which were similar to the approach in Western countries (Vorin 1993). However, a close look at specific schemes reveals many incongruities. Thus, the pension system did not encourage people to seek employment and save. The retirement age was very low, 55-60 years; for some job categories it was even lower. The length of the work record required for pension eligibility was rather short and included noncontributory periods, such as pregnancy, birth, childraising, studies and military service. The (very few) people who had never worked were granted a special benefit.

The amount of a pension was calculated according to a very progressive formula, which took into account only wages earned just before retirement. People close to retirement age frequently sought new jobs at higher pay so as to increase the eventual pension. There was no retirement test for pension eligibility (except in the case of some nonindustrial job categories), and pensions (like other social benefits) were not taxed. This induced people to retire and take the pension as soon as they became eligible. There was no indexation mechanism for pensions; rates were merely adjusted periodically. The differences in the level of pensions between new retirees and older pensioners were quite large.

Sickness and maternity benefits were available, and no qualifying period was required, though the amount of the sickness benefit was tied to the duration of employment.

In general, family policy was not so comprehensive in Lithuania—and throughout the USSR—as it was in other Communist countries, like Chechoslovakia and Hungary.

A tendency to disregard quality in favour of quantity (the number of doctors and hospital beds, for instance) and an inequitable distribution of resources were characteristic
of the health care system. Too little attention was paid to preventive medicine and the acquisition of new technologies. The inducements and the gathering of information were insufficient to encourage the effective application of resources and the accurate monitoring of health care costs. Neither health care "providers", such as administrators and doctors, nor users worried about the costs of medical services. In terms of the elderly being treated in hospitals, the health care system even represented a substitute for social assistance.

Inefficiencies and wastage were widespread in the system for the prescription of drugs to inpatients free of charge and the sell of drugs to outpatients at very low prices. Although health care was supposed to be freely accessible, many treatments were provided only if doctors were ("informally") bribed or if the patient was among the most important of the numerous public officials.

This expensive and ineffective social policy regime would have been feasible only under healthy economic conditions. While a rise in productivity and price stability were expected to act as barriers to unemployment and poverty, the economic growth rate decreased, productivity diminished, shortages increased, and the black market flourished. The Government was forced to apply price adjustments, permit some wage differentiation and tolerate a shadow economy. At the same time hidden unemployment rose in enterprises financed through Government subsidies.

The economic difficulties of the Soviet Union tended to curtail effective social policy initiatives. This became an insurmountable obstacle for Moscow. Meanwhile, in Lithuania, hardship was the price paid for the hope of national independence. There was a consensus that, if any external "compulsion" were eliminated, small, dear Lithuania could solve its problems in a just and rational manner.

II. ECONOMIC AND SOCIAL REFORMS, 1990-5

The beginning of political change in Lithuania dates from the establishment of the national democratic movement, the Lithuanian Movement for Reconstruction (Sąjūdis), in the summer of 1988. This movement defied the local Soviet regime in Lithuania, a regime which had been partly isolated from the perestroika of Mikhail Gorbachev in Moscow. From criticism of the local bureaucracy and the exertion of pressure to replace some officials, Sąjūdis rapidly evolved into a movement aiming at the restoration of Lithuanian independence. An
important intermediate step in this direction was the split, in December 1989, between the Lithuanian Communist Party and the Communist Party of the Soviet Union. This was the first such split to occur among the so-called "Soviet Republics".

In March 1990, Sąjūdis won the first democratic elections. It immediately declared the independence of the country (the first "republic" to do so). Only after the failure of the coup attempt in Russia in August 1991 was the independence of Lithuania relatively secure. The withdrawal of Russian soldiers in August 1993 was another important "first".

Other significant political events included fresh elections for the Seimas (Parliament) in October and November 1992 that were won by former Communists, the approval of a new Constitution in a referendum in October 1992, and the presidential elections in early 1993 that were won by a former Communist, Algirdas Brazauskas.

While independence was being peacefully restored, the need for economic and social reform was not ignored. Already in 1990-1 numerous important laws were being passed, and institutional reforms were being implemented. The declaration of independence accelerated the social and economic reform process. The speed of the reforms was influenced by the breakdown in economic ties with the USSR, and the political divorce between Lithuania and the USSR complicated general economic relations. An economic blockade undertaken by Moscow in the summer of 1990 in order to force a retraction of the declaration of independence seriously damaged the economy. Trade between the two countries was eventually restored, but Lithuania was now treated as a foreign trading partner by Moscow. The prices for the raw materials and fuel sold to Lithuania were increased rapidly in line with world prices; this process was completed in September 1992. As the economic crisis deepened in the USSR and then in Russia, trade between Lithuania and the former Soviet Union became more and more unreliable, and Lithuania had to seek other trading partners urgently. This situation favoured the more rapid liberalization of the Lithuanian economy and the creation of new national institutions.

Nonetheless, during the first years of independence (1990-2), there was little meaningful public discussion on the real issues behind social and economic reform. The expression of any doubt about the nature or the pace of the reform process tended to be viewed as reactionary. For example, in January 1991 the rejection by Parliament of a Government proposal to raise food prices and the resulting resignation of the prime minister were due not so much to sound social and economic arguments, but to accusations that the proposal represented an attempt to offer Moscow a pretext to meddle further in the internal
affairs of Lithuania. Indeed, the early reforms were not particularly geared to the real needs of the country. They tended to focus in a general fashion on the establishment of a market-oriented economy, and the social policy approaches of Western countries were adopted with little regard to the Lithuanian context. The only consensus seemed to be that the Soviet system was thoroughly bad and that it had to be replaced as quickly as possible.

On the other hand, it was clear that prices had to be liberalized, that state enterprises had to be privatized and that property which had been seized by the Communists in 1940 had to be restituted. It seemed inevitable that inflation and unemployment, largely unknown or disguised under the Communists, would emerge and that new economic and social institutions would be required.

During the first years of independence, when Moscow was still taking a threatening stance, economic and social reforms were carried out mainly through the initiative of the Government, and the speed and consistency of the reforms depended very much on individual ministers.

In late 1991 a programme of rapid privatization was undertaken; a law on privatization was passed in November. By 1994, 66 percent of all state property had been privatized (GRL 1994).

In May 1992 a temporary currency, the "talonas" ("coupons"), was circulated alongside the Soviet rouble, and as of October 1992 roubles were no longer accepted. In August 1993 a new, permanent national currency, the litas, was introduced.

In April 1992 Lithuania became a member of the International Monetary Fund, and in September the Government signed a memorandum pledging itself to a rather severe economic policy based on the principles of monetarism.

In mid-1993 the exchange rate was fixed at four litas per dollar. This rate has been maintained, and since March 1994 it has been supported by a law requiring all local currency to be convertible with a foreign hard currency. This should lend stability to the economy.

**Fiscal Policy**

An independent fiscal policy was undertaken in 1990. A law regulating the taxes on the profits of legal entities was passed that altered some of the taxes which were typical of a planned economy and had been imposed on enterprises, such as contributions for the major industrial funds and revenue accounts. A tax rate was set at 29 percent of profits. In January
1991 a provisional law regulating the taxes on the incomes of physical persons was passed imposing a progressive tax rate of 18 to 35 percent on wages. In May 1994 a proportional rate of 33 percent replaced the progressive rate, and the level of the tax-exempt minimum income was raised. At the end of 1991 the Government changed a Soviet-era turnover tax into a general excise duty set at 15 percent of the value added. In May 1994 a value-added tax was implemented; the rate was fixed at 18 percent.

Though these changes generated a tax system similar to those existing in market-oriented economic environments, from the standpoint of social welfare the system was notable for the higher taxes on wages. Aside from social insurance contributions, which are clearly targeted at social security, the three main groups of taxes remained the same: taxes on corporate profits, taxes on goods and services and personal income taxes. The share of personal income tax revenue in total Government revenue rose from 10 percent to 21 percent between 1990 and 1994, while the share of the taxes on profits fell more than twofold.

A rapid decline in capital investments and subsidies was characteristic of Government expenditure policy. Social security, education and health care became the main budget expenditure categories.

During the transition to the market, budget deficits have been insignificant. Nominal budget spending was greater than anticipated because of a sudden rise in prices. Meanwhile, tax receipts grew because of the higher profits which resulted from the fact that price liberalization was undertaken in Lithuania before this had been done among the suppliers of major imported raw materials in the former USSR. In 1992—due to inflation—budget revenue and expenditure both widely exceeded the planning estimates. Only in 1994, after inflation had been halted, was it possible to achieve a relatively balanced budget.

**Pricing Policy**

The pricing law which was passed in July 1990 provided for a mixed system involving Government-regulated prices and free market prices. Prices rose considerably starting in 1991, and a pricing reform was initiated. The Government continued to set the prices for foodstuffs, natural and liquefied gas, solid fuel, electricity and heat energy, passenger transport, water supply services and medicines. Enterprises were allowed to fix the prices of other goods independently, but within boundaries established by the Government.
Those manufacturers who were permitted to do so began to adjust their prices upward. The situation was favourable for this because of inherited supply deficiencies. The Government also raised regulated prices in an attempt to protect the domestic market, in particular against the effects of the higher prices in Poland and the food shortages in the Soviet Union. This was even more necessary because, at the time, the Lithuanian Government did not have complete control of the country’s borders. The initial price rise in April 1991 was especially significant: 27 percent. Inflation reached 383 percent during that year.

Price liberalization was quickly undertaken at the end of 1991 and the beginning of 1992. The new price regime was established during 1992. The prices of around 30 percent of all goods and services were regulated directly by the Government, while other prices were set by the free market. Only the prices of essential goods and services, the services provided by state monopolies and strategic raw materials remained regulated. This included the prices for gas, solid fuel, electricity and heat energy, passenger transport and water supply services.

The pricing policy of the Government was in large measure determined by the needs of foreign trade. The effects of the policy on social welfare were not entirely under the control of the Government.

Wage Policy

Wages and salaries were liberalized rapidly. A law passed in 1990 permitted state enterprises engaged in seeking profits to determine wages freely. A law adopted in January 1991 encouraged the application of free market principles in the payment of wages, which were to be determined either by employment contracts or collective bargaining agreements. Thus, wages generally became subject to market forces in the public and private sectors. Wage and salary increases were not limited. The Government established wage levels only for employees in institutions financed through the Government budget.

A minimum wage of 70 roubles per month (in 1990) was inherited from the Soviet era. A law passed in September 1990 stipulated that the minimum wage could not go below a minimum subsistence level (the Lithuanian poverty line). At that time, both the minimum wage and the "subsistence minimum" were fixed at 100 roubles per month. This parity continued in 1991, but eventually the minimum wage came to exceed the subsistence minimum by several percentage points. Since the beginning of 1995 the Government has been
raising the minimum wage more rapidly, so that by mid-1995 it had gone up 50 percent, while the subsistence minimum had risen only 20 percent.

To compensate for inflation, the September 1990 wage law also provided for the indexation of the wages paid out through institutions financed through the Government budget. Wage indexation in other state enterprises and in the private sector remained the province of collective bargaining agreements. However, the minimum wage was indexed for inflation by the Government.

Labour Market Policy

During the transition to the market economy, the number of private enterprises and the number of people employed in the private sector have been mounting. This has been due to the privatization of state enterprises. In the first half of 1994 private enterprises employed 59 percent of all employees. The highest level of privatization was registered in agriculture, where in 1993 the private sector accounted for 97 percent of total agricultural employment.

Employment is rather high among females. Since 1985 the share of females in total employment has fluctuated between 52 and 54 percent. A majority of working women were employed in health care and social security (84 percent of all employees), hotels and restaurants (79 percent) and educational institutions (75 percent).

Labour market regulations were already being implemented during the first year of independence. In December 1990 a law was passed covering unemployment status, reasons for dismissal, unemployment insurance and the functions of the new labour exchange offices. A law adopted in 1991 required that employers must pay a severance benefit to dismissed employees. The amount of this benefit depended on the length of the work record in the particular enterprise and could range from six to 36 times the average monthly wage of the employee (lowered in July 1993 to one to 18 times the monthly wage).

A Government decree of March 1992 established a freeze, until August, on the dismissal of employees, except managers, in state enterprises—at the time representing 80 percent of all enterprises—without the permission of a relevant ministry, unless there were extenuating circumstances. According to a Government resolution passed in 1992, only up to 10 percent of the employees in an enterprise can be dismissed during any three-month period and then only if the employer has informed the labour exchange office and local government authorities.
The employment law passed in December 1990 set the payment schedule for the unemployment benefit. Entitlement for the benefit depended on the reason an individual was unemployed. Benefit rates were fixed according to the qualifying period and prior earnings; they ranged from 40 to 200 percent of the subsistence minimum.

Despite the low level of unemployment in Lithuania, labour exchange offices and an adult retraining system have sprouted up since 1992-3. A relatively effective employment fund has been of particular importance in this. Since unemployment was expected (on the basis of the example of other Eastern European countries) to grow appreciably each year, significant payments out of the social insurance fund and the employment fund had been planned. However, because high official unemployment did not appear, these funds could be used to create and manage the labour offices and retraining system.

The Policy toward Income Transfers

Beginning already in 1990 the policy toward income transfers was assigning priority to insurance, job incentives, the maintenance of the subsistence minimum level of income and the adjustment of transfers for inflation. The legal and institutional changes necessary to implement these policy approaches were undertaken in 1990-1.

A basic idea behind the fresh legislation was an institutional separation between social insurance and social assistance schemes and between social insurance and general revenue.

1. The administration of social insurance was shifted from the Soviet-style trade unions to a newly established public social insurance institution, Sodra. However, trade unions, as well as employer organizations, are also involved as members of the social insurance council. Sodra manages all social insurance payments, which are financed through contributions. Thirty percent are paid by employers, and 1 percent by employees. Pensions, sickness benefits, maternity, childbirth and childcare benefits, funeral grants, payments to the employment fund for unemployment insurance, and payments to reimburse some expenses for medical treatment and preventive care are provided through the social insurance fund.

All individuals with an employment contract must be supplied with insurance coverage for all "social" benefits. Only pensions, some expenses for medical treatments and preventive care, and the funeral grant must be covered among the self-employed. This distinction between employees and the self-employed represents a major change in social
insurance. Although the self-employed with low (declared) incomes were exempted from paying contributions until the beginning of 1995, most self-employed, including farmers, continue to avoid paying despite the law. (Only 850 self-employed persons paid for insurance coverage in 1995, while the number of farmers alone is about 130,000.) This means that they remain excluded from the social insurance system and, indeed, do not have any insurance coverage. This appears to go against a provision of the Constitution that guarantees social insurance and social assistance to all citizens. Moreover, it may have important financial consequences on the social insurance fund when the farmers and other self-employed who have not had extensive work records (and the relevant insurance eligibility) carried over from the Communist period begin to reach retirement age.

New laws on social insurance passed in 1990-1 dealt mostly with the administration and financing of pension insurance. The eligibility for and level of benefits established through the Soviet-era pension laws adopted in 1956 were in force, with some changes, up to the end of 1994. According to a pension law of July 1990, the minimum pension was fixed at 100 percent of the minimum wage. A higher, maximum rate was available for current or retired workers in construction, mining, metalworking and some other industries. Pensions granted before the passage of this legislation were alined with the new rates taking into account the duration of the pension period.

The level of pensions for former political prisoners, deportees, participants in the resistance movement, veterans and victims of World War II and the mothers of disabled children was set at 55 percent of the former wage, plus 1 percent of the wage for every year worked up to a total of 75 percent of the wage. Moreover, the monthly pension for former political prisoners, deportees and participants in the resistance movement could not be less than 120 roubles nor more than 300 roubles. The minimum length of employment for pension eligibility among these categories of people was five years less than that for other categories.

In 1991, to offset inflation, all pensions were raised by a single fixed amount. This appreciably reduced the relative differences in pension rates. The formula for the calculation of pensions also tended to flatten out pension rates. Although, according to the law, pensions were to be wage-related and depend on the length of the insured period, the maximum old-age pension was set at 120 roubles in the case of a monthly pre-pension wage equal to or greater than 240 roubles. This maximum pension and the wage levels have been maintained at the corresponding values in litas (1.2 and 2.4 litas) since the introduction of the new
national currency. Of course, by 1992, all employees had already attained this wage ceiling. Therefore, all new pensioners since then have received the maximum pension.

A law passed in 1995 provides that the age requirement for pensions increase each year by two months for men and by four months for women until it reaches 62.5 and 60 years, respectively. Pensions now consist of two components: a basic fixed pension (110 percent of the subsistence minimum) available to all those who meet the minimum eligibility requirements and a supplementary pension which depends on job income and the length of the work record. Although the financing of social insurance faced serious problems in the past, the new pension law provides that the supplementary pension component tied to job income can be boosted and that pensions can therefore become more differentiated once the financing of the insurance fund becomes stable. The requirements for the length of the work record are to be made more strict. A portion of the basic fixed pension can become available to a worker with an employment record of 15 years, while the full basic pension is available only for those with an employment record of 30 years.

Invalids from childhood who have no possibility to participate in the labour force and have therefore never been covered by pension insurance are eligible to receive a special invalidity pension paid through the Government budget; this pension cannot be larger than the basic fixed pension. A healthy person who is not eligible to receive a pension because of a deficient work record can claim only a means-tested social benefit.

Sickness benefits and some family benefits, such as the maternity benefit and the childcare benefit, are paid out through the social insurance fund. The eligibility requirements and the level of some benefits were modified in 1990-1.

The sickness benefit is available to an insuree from the first day of illness or injury until recovery or until the insuree has been recognized by a special medical commission as having become incapacitated (if the illness persists for more than three months). Since the beginning of 1995, employers have been responsible for the payment of the benefit for the first three days of illness.

The level of the Soviet-era sickness allowance was linked to the length of the work record; for a work-record of at least eight years, compensation was equal to 100 percent of the wage. According to the new rules adopted in 1991 the sickness benefit equals 80 percent of the average wage over the three months prior to the illness, but cannot go below the minimum wage or above five times the minimum wage. After the first month of illness the benefit increases to 100 percent of the compensated wage.
The benefit offered for an insured individual who takes care of a sick family member is available for a total of seven days. In the case of care for a 7-to-14-year-old the benefit is available for 14 days, and in the case of care for an under-7-year-old it is available for the entire period of care.

The *maternity benefit* is provided to women for 70 days before delivery and for 56 days after delivery. In the case of a complicated delivery or the birth of more than one child, the postdelivery period is 70 days. The benefit is equal to 100 percent of the compensated wage, and the upper limit of five times the minimum wage does not apply. As a replacement for the social-insurance benefit for childcare that was abolished in January 1995, the maternity benefit can be prolonged for one year at 60 percent of the average wage. This change has also been due to the introduction of a social-assistance-type childcare benefit for insured parents (see later).

The *unemployment benefit* was introduced in 1990. Entitlement for the benefit varies according to the reason for the unemployment. The benefit is available to an insured unemployed individual from the eighth day after his or her registration at a labour exchange office, but only following the payment of any applicable severance settlement. The benefit is generally available for no more than six months during any single year. The period of availability is two months longer for an individual who is within five years of retirement.

The level of the unemployment benefit for an individual who had a work contract and who was insured for not less than 24 months during the three years prior to unemployment is equal during the first two months of unemployment to 70 percent of his or her most recent average wage, then during the next two months to 60 percent of this average, and for the following two months to 50 percent of this average. The level of the benefit is equal to 40 percent of the subsistence minimum for new graduates, individuals who were employed and insured for at least two years and who have not worked for at least 12 months and individuals who have not worked for at least 12 months in order to care for children or the physically disabled. In any case the benefit may not be lower than 40 percent of the subsistence minimum or higher than 200 percent of the subsistence minimum.

For the moment, because of the low official unemployment rate and the low level of the benefit, the unemployment benefit has not been very important. However, if the unemployment rate should start to rise along the lines of the "normal" trend in transitional economies (up to about 10 to 15 percent), the significance of the benefit may also climb.
2. **Social assistance** includes benefits which are targeted at particular types of families and which do not depend on family income, as well as special "social" benefits which represent means-tested cash benefits of last resort.

When reforms were undertaken in 1990, it was decided to retain and enhance the following targeted family benefits used in the Soviet system.

The *birth grant* is available to all mothers irrespective of employment status, or to others who may actually care for infants when the mothers are unable to do so for some serious reason. The level of the benefit was initially set at 30 roubles for a nonworking woman and 50 roubles for a working woman for a first child and 100 roubles for a second or following child. It was then raised to 300 percent of the subsistence minimum (or 300 roubles at the beginning of 1991). Since January 1995 the benefit has stood at 600 percent of the subsistence minimum.

The *foster care benefit* is offered for adopted or orphaned children under 16 (18 in the case of children still in school) who are in the care of guardians, as well as for children who do not live with their parents. In 1991 this benefit was increased from 30 roubles per month to 100 percent of the subsistence minimum (100 roubles at the beginning of 1991). In January 1995 it was boosted to 1.5 times the subsistence minimum.

A *benefit for single mothers* is supplied from local budgets for single mothers for each child up to 16 years of age (18 for children still in school). In 1991 this benefit was raised from 30 roubles to 0.4 times the subsistence minimum (or 40 roubles at the beginning of 1991).

The *benefit for the children of veterans* was elevated in 1991 from 35 roubles to 100 percent of the subsistence minimum (100 roubles in 1991) and in 1995 to 1.5 times the subsistence minimum.

The *temporary benefit for the teenage children of divorced parents who are not paying alimony* was increased from 20 roubles to 0.4 times the subsistence minimum (or 40 roubles in 1991).

In addition, the following new benefits were introduced.

The *maternity (leave) benefit* for uninsured female students is 80 percent of the subsistence minimum.

The *childcare (parental leave) benefit* for uninsured female students is available at 70 percent of the subsistence minimum until the infant reaches 1½ years of age and 35 percent of the subsistence minimum until the child is 3. In 1995 the benefit was raised to 75 percent of the subsistence minimum.
The \textit{preschool education benefit} for families bringing up children at home is 70 percent of the average per-child cost to the Government for preschool education.

A \textit{lump-sum grant for orphans and deserted children} is provided to such children at the beginning of their independent lives. The benefit, which is paid out of local budgets, was initially set at 12 times the subsistence minimum. In 1995 it was boosted to 18 times the subsistence minimum.

A \textit{benefit for disabled parents} with children under 16 was introduced in March 1992. The benefit is equal to 100 percent of the subsistence minimum.

A \textit{food allowance for under-1-year-olds} was also introduced in March 1992. The benefit is 75 percent of the subsistence minimum.

A \"social\" \textit{pension} is available for retirees who are not entitled to a pension under the social insurance scheme because they have not been insured. For the elderly, the social pension was initially fixed at 50 percent of the subsistence minimum and, for the disabled, at 30, 50, or 100 percent of the subsistence minimum depending on the level of disability.

The \textit{special social benefit} was created in 1990 for families with per-member monthly incomes less than or equal to an amount specified by the Government according to a complicated formula based on the subsistence minimum and other factors. The benefit is structured as a negative income tax. In practice, the provision of this benefit has encountered obstacles because of a lack of resources. During 1990-4 the eligibility requirements were changed 15 times, often in order to pare the number of claimants to the benefit or the level of the benefit. The legality of these changes are questionable, but the problems they are designed to solve are so obvious that the changes have surprised no one.

In 1991, municipal social security offices began to pay out \textit{extraordinary grants for people living in poverty}. However, because of a lack of resources these grants are not significant in value or in coverage. In 1994 the relevant outlays accounted for only 2 percent of all social assistance expenditures.

In the winter of 1993-4 a \textit{housing grant} began to be supplied for families whose wintertime expenditures for centralized water supply, heating and so on exceeded 15 percent of their monthly income. The grants defray a portion of these expenditures above the 15-percent cutoff point.

Thus, the social assistance system was maintained and even improved between 1990 and 1994 by raising existing benefits and introducing some new ones, although a few benefits have been eliminated or pared down.
This new system of income transfers based on social insurance and social assistance deals with most major "social" risks. There are two exceptions. There is no insurance scheme covering special occupational injuries and job-related illnesses, and there is no special family benefit covering all children. The latter is a social policy area especially worthy of greater attention. A universal child benefit which was introduced in 1991 had to be cancelled the very next year because it had become too costly. Social policy initiatives in favour of families with many children have been miserly; no special benefits are targeted at these families. Decisionmakers usually argue that large families without sufficient income can fall back on the means-tested special social benefit.

In general, retired pensioners have been the main beneficiaries of the new system of income transfers. Inflation has tended to have an inordinate effect on the transfers for families because the level of family benefits offered through the Government budget and through social insurance is linked to an inadequate subsistence minimum. Another important outcome of social transfer policy is the rising share of social expenditures from the social insurance fund and the falling share of expenditures from the Government budget (Figure 1). The autonomy of the social insurance fund during the transition has played a positive role in maintaining the worth of some transfers.

Unfortunately, this last, optimistic conclusion can only be considered provisional. The rapid liberalization of prices, inflation and the decline in Government budget revenue were already causing problems in the indexation of transfers in mid-1992, though the Government

Figure 1: Expenditures on Social Transfers by Type of Transfer
(In Percentages Of Total Social Transfers, 1992-4)

Source: Lithuanian Department of Statistics.
undertook adjustments through social policy measures until the very end of 1994.

At the outset of the economic reform process in Lithuania, the hyperinflation of several hundred percent in neighbouring Poland was treated as a purely Polish phenomenon. Nonetheless, at the time there was a clear understanding that Lithuania would not be able to avoid at least "normal" inflation. Therefore, a 1991 law provided for the adjustment of personal incomes for inflation. In order to protect social transfers from inflation, they were linked to the subsistence minimum.

The statistical standard method was used to determine quantitative estimates of the subsistence minimum. Thus, the level and structure of consumption were taken into account, and the subsistence minimum was adjusted for the effects of the consumption of nonessential products, such as alcoholic beverages, tobacco and luxury items. The minimum basic consumer basket was initially composed of 52 groups of food products, 55 groups of nonfood products and 18 service groups.

The subsistence minimum is approved by Parliament. It must be indexed and adjusted no less frequently than the retail price index (which is recomputed by the Department of Statistics at least once every three months), but in any case at least once each year. Of course, when inflation is very high, three months may be too long. Indeed, in 1991-3 the Government sometimes reindexed the subsistence minimum every month, though even this was not always sufficient.

The Government increased the subsistence minimum periodically, and the benefits tied to the subsistence minimum therefore rose, too. Though pensions were not linked to the subsistence minimum, they were also raised at the same time and often at the same rate. The Government succeeded in using the initial subsistence minimum to calculate the level of the related benefits only until mid-1991, and the basis of the calculation was then a basket of essential goods determined according to household budget surveys. However, because of inflation, this method of calculation generated a minimum (and thus benefits) that grew very rapidly. For this reason, the Government stopped using this "theoretical" subsistence minimum, and adopted instead an "applied" subsistence minimum to fix the level of benefits. This latter minimum was also adjusted for inflation, but it was based primarily on the revenue of the social insurance fund and Government budget revenue and therefore more directly on the ability of the Government to finance higher benefits (Table 1).
Table 1: THE "SUBSISTENCE MINIMUM"

<table>
<thead>
<tr>
<th></th>
<th>A: Theoretical Value</th>
<th>B: Applied Value</th>
<th>B/A (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1991*</td>
<td>100</td>
<td>100</td>
<td>100.0</td>
</tr>
<tr>
<td>October 1991</td>
<td>475</td>
<td>350</td>
<td>73.6</td>
</tr>
<tr>
<td>April 1992*</td>
<td>1,905</td>
<td>1,150</td>
<td>71.6</td>
</tr>
<tr>
<td>October 1992</td>
<td>4,250</td>
<td>1,600</td>
<td>37.6</td>
</tr>
<tr>
<td>April 1993</td>
<td>8,136</td>
<td>2,430</td>
<td>29.8</td>
</tr>
<tr>
<td>September 1993*</td>
<td>146</td>
<td>34</td>
<td>22.2</td>
</tr>
<tr>
<td>March 1994</td>
<td>209</td>
<td>46</td>
<td>22.0</td>
</tr>
<tr>
<td>June 1994</td>
<td>245</td>
<td>50</td>
<td>20.4</td>
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<tr>
<td>September 1994</td>
<td>218</td>
<td>50</td>
<td>22.9</td>
</tr>
<tr>
<td>December 1994</td>
<td>237</td>
<td>55</td>
<td>23.2</td>
</tr>
<tr>
<td>March 1995</td>
<td>269</td>
<td>60</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: Data of the Ministry of Social Insurance and Labour.
* The currency of Lithuania has been changed three times since 1991: roubles from May 1991, talonas from April 1992 and litas (the new permanent currency) from September 1993.

Access to Key Public Services

Official policy toward access to public services has not changed much during the transition.

1. In education a great deal of effort has been expended to reform course content, which used to be based on Communist ideology, especially in the social sciences and the humanities. The financing and administration of the public school system have not been altered in principle. No privatization has been undertaken among public schools. Although the establishment of private schools is legally permitted, no Government assistance is provided, and few people can afford to open a private school. In 1993-4 there were only 17 private schools, which were attended by only 0.1 percent of all pupils.

The overall economic situation has had a great impact on some aspects of education. For instance, teacher salaries were one-third less than the average wage between 1990 and 1993. Though the share of education in the Government budget actually rose during this time, the budget itself shrank considerably. Meanwhile, the number of pupils remained nearly the same. The quality of education fell as teachers took second jobs or changed careers.
(especially teachers of foreign languages) and as administrators cut back on the purchase of course materials and education aids and the maintenance of infrastructure.

The Constitution does not permit user fees to be charged for educational services. Nonetheless, because of inadequate financing, some universities have had to introduce payments for certain categories of students. A legal resolution of this situation has not yet been found.

2. Likewise, there has been no radical change in health care policy during the transition. The Constitution guarantees the right of residents to free health care services in public institutions. Patients are not obliged to pay for hospital treatments, inpatient care, ambulatory care by doctors or dentists (except for prostheses), or immunizations. Public hospitals cannot be privatized. Though medical institutions have been given more independence in the use of resources, they are not allowed to charge fees for treatments. Thus, the access to medical services has not been limited. However, as in previous years, there are queues at the offices of some types of specialists who have tended to open private practices. User fees cannot be charged for privately rendered services.

Certain medicines must be available free of charge or at low prices for some categories of people. Key drugs are provided free for under-3-year-olds, the mentally diseased, diabetics and people with malignant tumours. Partial compensations are offered to pensioners. One consequence of the liberalization of the trade in drugs has been the appearance of greater quantities of more expensive types of drugs on the market. This was the main reason the expenditures for medical treatment from the social insurance fund climbed from 2.5 percent in 1991-2 to 8.3 percent in 1994.

As in education, the economic crisis has been a major cause of a decline in health care. Rural residents must pay for transportation to city hospitals. Institutions such as medical schools are facing increasingly difficult financial problems. Though the share of health care rose in the Government budget (from 7.8 percent in 1990 to 10.9 percent in 1994), the drop in the budget itself has meant that the real value of expenditures on health care services has fallen, too. Therefore, capital goods and infrastructure are not being maintained, and arrears are mounting for electricity, heating and doctor salaries.

Thus, a genuine reform in health care has not yet been undertaken. Because of a shortage in management skills, a solution to the financial problems in health care will likely involve service cutbacks rather than improvements in efficiency.
3. Reforms have not been implemented in other social services either, although the Government has pledged to present a proposal for a new law on social services by the end of 1995. The changing economic environment has had an influence on the policy choices in this area, too. Public institutions for the care of the elderly and the disabled have continued to be centrally managed. However, as living conditions have deteriorated, local authorities have begun to open local care institutions and food and lodging services for the poor. Moreover, many private centres have sprouted up. These are usually managed by church parishes and Caritas, the Catholic charities organization.

III. CHANGES IN WELFARE DETERMINANTS

Prices

The rapid liberalization of and climb in prices were initially favourable for Lithuania. Domestic enterprises made quick profits by selling their goods dear in the republics of the former Soviet Union, while the prices for the natural resources which these republics bought in Lithuania went up as well. This also had a positive effect on wages, Government budget revenues and social transfers.

Prices soared by 1,163 percent between December 1991 and December 1992. This jump was due to domestic price liberalization at the end of 1991 and to the price rise for fuel and raw materials from Russia (Figure 2). If at the end of 1991 Lithuania had a certain advantage over Russia due to the fact that the liberalization and increase in prices took place earlier in Lithuania, the advantage was wiped out by the rise in Russian prices. Domestic enterprises which were forced to pay more for raw materials had to boost the prices of their products, and this immediately narrowed the available markets. Incomes, wages, salaries and Government budget revenues all fell.

Hyperinflation continued through the first half of 1993. However, in the middle of that year, following the introduction of the new national currency, the litas, inflation was greatly reduced, by as much as 4.7 percent per month. In 1994-5, with few exceptions, it has been maintained at around 2.6 to 3.1 percent per month. The annual inflation rate in 1994 was 45 percent. Thus, by the middle of 1993, the level of inflation had become "normal" for a transitional economy.
Figure 2: Monthly Price Index
(1991-5)


Household Money Incomes

The transformation of the economy and social policy is expected to alter the structure of household money incomes. Household budget survey data indicate that certain changes have already occurred in recent years.

The share of pensions in household incomes has been growing steadily. It went up from 8.1 percent in 1989 to 12.1 percent in 1994. This may be partially explained by the ageing of the population and the exclusion of the elderly from employment because of the greater competition on the labour market.

The share of social benefits in total money incomes has been fluctuating. It was just 3 percent in 1990. Following the restoration of independence, there was a rapid climb up to 7 percent. This was related to the economic crisis and the attempts of the Government to compensate the population for the losses in income. However, as the economic crisis deepened, the share of benefits rapidly declined, reaching 2.2 percent in 1994. The current low share of benefits is a reflection of the inability of the Government to assist the poor.

Earnings from employment have been the main source of household money incomes over the years. However, between 1990 and 1993 the share of job earnings in income fell by almost six percentage points (from 70.8 to 65.2 percent). In 1994 the share began to rise once
more, reattaining by June the average level of 1990. Meanwhile, the income from small agricultural production by households dropped from 10.4 to 5.9 percent during 1993-4.

The average real wage dipped slightly until October 1991, when, because of the more favourable conditions in external trade, it began to mount, registering during the last three months of the year a 34-percent increase relative to December 1990. However, the average real wage began to shrink thereafter because of the downswing in the external trade situation with Russia and a temporary freeze in the real level of wages that had been negotiated with the International Monetary Fund in order to reduce inflation. In December 1992 it was only 43 percent of the average wage in January 1991. It continued to tumble until the end of 1993 (Figure 3).

**Figure 3: INDEX OF THE AVERAGE REAL WAGE**
(January 1991-March 1995)

![Graph showing index of average real wage]

* December 1990 = 1.

Meanwhile, wages in the various branches of the state sector were becoming more differentiated. Some state enterprises were able to take advantage of the new freedom to seek profits by raising prices and therefore also wages. In others, the rise in the nominal wages and salaries of employees was limited by the capacity of the Government budget. Thus, there
was a surge in wages in some enterprises, especially those which have monopoly status, including electricity, gas and water utilities, and a relative decay in the wages and salaries of public employees in health care, social security and education (Figure 4).

Figure 4: Wage Differentiation in the State Sector*  
(In Percentages, 1992 and 1993)

* The average wage = 0.

Another very important result of wage policy has been the inadequacy of the indexation of the minimum wage not only in terms of prices, but also in terms of the average wage. The relative value of the minimum wage has lost ground during the period of reform, although it was low in the Soviet era as well (Figure 5).  

According to household survey data of the Lithuanian Department of Statistics, the average disposable income per household member in December 1990 (when inflation was just starting to soar) was 204 roubles; by 1994 it had grown to 206 litas, that is, by a factor of more than 100. Meanwhile, the prices for consumer goods and services had shot up by a factor of 255. This represented a serious decline in real household incomes. Taking into account the influence of inflation, the level of real household incomes in 1994 was only 40 percent of the level in December 1990.

Household incomes tended to rise more slowly in rural areas than they did in urban areas. The average monthly growth rate starting in 1991 was 14.1 percent in urban
households and 12.6 percent in rural households. In December 1994 the average urban household had a monthly income of 227 litas, while the average rural household received 164 litas. In terms of the changes in the prices of consumer goods and services, the current real value of the average income of urban households stands at 45 percent of the corresponding value in December 1990, whereas the relevant figure in rural areas is only 28 percent.

![Graph: The "Subsistence Minimum" and the Minimum Wage](image)

*Figure 5: The "Subsistence Minimum" and the Minimum Wage (In Percentages Of The Average Wage, January 1991-March 1995)*


The decline in household incomes has been accompanied by a process of income differentiation. Two new social groups have emerged: the poor and the rich. The income of the richest decile among households exceeded the income of the poorest decile by a factor of 11 in the first half of 1994; in 1989 the figure was only around four. Households with the highest incomes accounted for 27.8 percent of total income in 1994, and households with the lowest incomes, only 2.6 percent.

The differentiation among household incomes in rural areas is particularly striking. Few rural residents have managed to make the adjustment to the new conditions ushered in by the breakup of collective farms and the cessation of Government agricultural subsidies. As indicated by household survey data of the Lithuanian Department of Statistics, only 2.2
percent of total rural income was shared among the poorest one-tenth of rural households, whereas 31.2 percent was shared by the richest one-tenth; in urban areas the figures were 3.2 percent and 26.3 percent, respectively. The income of the richest rural households exceeded the income of the poorest rural households by as much as 14 times; in urban areas the figure was eight times.

**Employment**

At the end of 1991 there were 4,700 people registered at labour exchange offices as unemployed. At the beginning of 1992 the unemployment rate started to rise; it reached 3.6 percent in 1994. However, data based on statistics of the labour exchanges are not complete and do not reflect the real situation on the labour market. This is because labour exchange offices deal only with people who come to them. They can satisfy the needs of just a very small portion of the unemployed, and many people search for work without the assistance of the labour exchanges.

A sample labour force survey was carried out by the Department of Statistics in 1994 to ascertain the real situation on the labour market. The survey questionnaire and the methodological instructions were prepared according to the recommendations of the International Labour Organization, thereby assuring the international comparability of the survey data. The survey found that the number of unemployed is actually much higher than that announced by the offices of the labour exchange (Table 2).

People under 29 years of age make up a very significant share of the unemployed. They constituted about 50 percent of the total unemployment found by both labour force surveys carried out in 1994 (LDS 1995b). Both surveys indicated that the unemployment rate

<table>
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<th>Table 2: <strong>The Growth in Unemployment in Mid-1994</strong>*&lt;br&gt;(April To September)</th>
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<tr>
<td><strong>April 1994</strong></td>
</tr>
<tr>
<td>Survey</td>
</tr>
<tr>
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<tr>
<td>Total unemployed (000s)</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
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</tbody>
</table>

* See the text for an explanation of the table.
among males was higher than that among females. The unemployment rate was four times higher in urban areas than it was in the countryside. This last "gap" was due to the fact that most rural inhabitants have two or three hectares of land which they farm. Though all the output of these small farms is consumed locally, the farmers are considered to be among the employed. Actually, they probably represent an example of "hidden" unemployment. In September 1994 there were approximately 100,000 such people.

Family Profile

The profile of the typical family in Lithuania is approaching that in Western and Central Europe. One or two children per family has become more common. Among all births to families, the share of the number of births of a third child fell from 12 percent in 1969-73 to 10.5 percent in 1989-93, and the share of the number of births of a fourth child or higher dropped from 9.8 percent to 5.2 percent. The proportion of births outside marriage climbed from 6.7 percent in 1989 to 9 percent in 1993.

The number of marriages was increasing steadily before the transition, and a peak of 36,300 was registered in 1990. During more recent years the number of marriages has plunged; only 23,300 marriages were recorded in 1994. Per 1,000 inhabitants, the marriage rate was 9.6 in 1985, 9.7 in 1990 and 6.4 in 1994; this last was the lowest rate ever observed. Early marriage is widespread, as demonstrated by the average age at first marriage: 22.4 among women and 24.1 among men. Remarriage is becoming more frequent. About 87 percent of all the marriages performed in 1966-70 were first marriages for both the brides and the grooms; this proportion gradually slipped to 79 percent in 1986-90, before rising slightly to 82 percent in 1993.

The crude divorce rate was a stable 3.1-3.3 per 1,000 population from 1977 to 1989. Then in 1990 and 1991 it climbed to a peak of 4.1. The divorce rate fell in 1992 to 3.7 and remained at this level in 1993. In parallel with a decline in the marriage rate, the number of divorces sank from 13,884 in 1993 to 11,061 in 1994. The divorce rate per 100 contracted marriages was 47 in 1994, up from 36 in 1989.

Children are most painfully affected by divorces. Each year about 14,000 under-18-year-olds are separated from one of their parents through divorce; usually they stay with their mothers. In 1993, 4,710 couples without children were divorced. The number of divorced couples with children under 18 years of age was 9,174, of which 5,579 couples had
one child, and 3,017 had two children. At least one parent is "absentee" in more than 100,000 families with children. Around 110,000 children are growing up without their fathers, and about 10,000 without their mothers.

IV. CHANGES IN THE WELFARE OF THE POPULATION

Housing

Like other sectors, housing construction has been affected by the economic crisis. The number of residential housing starts grew steadily until 1988 and then began to fall off. The number of newly constructed dwellings per 10,000 population was 81 in 1985, 86 in 1988, 78 in 1989, 22 in 1993 and 18 in 1994.

The general slump in construction was also due to mounting construction costs. Nonetheless, the size of the average dwelling was expanding. It was 60.5 square metres in 1985, 62.4 square metres in 1989, 73.4 square metres in 1993 and 84.8 square metres in 1994. The increase in the average size of detached houses was particularly noticeable: 97.4 square metres in 1985, 101.2 square metres in 1989, 133.3 square metres in 1993 and 151.4 square metres in 1994. Clearly, only the small proportion of the population at upper-income levels can afford to construct new homes.

On the other hand, housing conditions among the rest of the population were deteriorating. Because of the rising costs for utilities, many apartment owners, especially pensioners, have been selling their apartments and buying smaller ones. The Government does not have the resources to help families improve their housing.

Poverty

At January 1990 prices, a resident of Lithuania had to spend 100 roubles per month in order to acquire a minimum essential basket of consumer goods: 45 roubles (45 percent) for food products, 32 roubles (32 percent) for nonfood products, 11 roubles for services and 12 roubles for the satisfaction of other basic needs. The cost of such a basket represented 53.4 percent of average monthly consumer outlays. People with incomes below the official subsistence
minimum, which was 100 roubles per capita per month, accounted for only 15 percent of the total population.

During 1991 the subsistence minimum approved by the Government reflected adjustments for inflation. Thus, as prices rose 3.8 times, the subsistence minimum jumped by a factor of five.

The situation changed completely in 1992. Only to a certain extent were the sudden increases in the cost of living reflected in the subsistence minimum approved by the Government. During the year, as prices ballooned by a factor of 12.6, the subsistence minimum was raised by a factor of only 3.2. This shortcoming was due to the fact that the subsistence minimum was used as a gauge to determine various social benefits, that these benefits were becoming a serious strain on the Government budget and that there was a temporary freeze on incomes (see earlier).

Up to mid-1992 all efforts of the Government to fight poverty were fruitless, because the subsistence minimum was insufficient to meet minimum nutritional requirements. During this period, the gap between the needs of the population and the possibility of satisfying them became very evident. By the end of 1992 the subsistence minimum covered only 26 percent of the cost of the original minimum basket of essential goods.

In 1993 a new method was adopted to compute the subsistence minimum. Great attention was paid to fresh estimates of minimum physiological needs. The value of a consumption basket of food products was calculated at very low prices. The subsistence minimum became inadequate and was sufficient to cover only 68 percent of real needs. Nevertheless, the incomes of one-fourth of the population of the country were below even this minimum level.

The situation did not change appreciably in 1994. From January to June, the real value of the subsistence minimum approved by the Government fell by 7.5 percent. The method of calculation of the minimum was corrected slightly. Household survey data had indicated that the relative weight of food products in consumer expenditures had dropped off. It was therefore decided to reduce the relative weight of food products by up to 70 percent. The cost of the resulting minimum consumer basket of goods was around 55 percent of the average income. People with incomes below this newly computed minimum represented about one-fifth of the total population.
Spending on Essentials

The widening gap between household incomes and prices was bound to have an impact on consumer expenditure patterns (Table 3). Expenditures on food products picked up by 21 percentage points between 1991 and 1992. This expenditure item faded somewhat thereafter, down to 57 percent of total consumption expenditure in 1994.

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<tr>
<td>Food products</td>
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<td>Services</td>
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<td>13.3</td>
<td>12.5</td>
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<td>10.0</td>
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<td>Alcoholic beverages</td>
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<td>6.1</td>
<td>6.1</td>
<td>5.5</td>
<td>2.9</td>
<td>2.0</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: Data of the Lithuanian Department of Statistics.

A decrease in relative household expenditure on food products usually reflects an increase in living standards. However, this was not the case here. According to survey data of the Lithuanian Department of Statistics, food expenditures accounted for 67 percent of total consumption expenditures among the lowest income decile in 1992, while the proportion among the highest income decile was 46 percent; in 1994 the respective shares were almost exactly the same: 66 percent and 44 percent. These data demonstrate that the differentiation in consumption patterns has not changed. In 1994 the poorest households were still spending more than two-thirds of their total outlays on food.

Per member the richest households were spending three times more on food than were the poorest households. This partly reflects the fact that the composition of households by age is different between the two groups; under-16-year-olds constituted 40 percent of family members among the lowest income decile, but only 14 percent of the members in the richest families. It also shows that the wealthier could afford more expensive (and higher quality) food products. The richest households spent 4.6 times more on meat and meat products than did the poorest households, although their consumption of these products was greater by only 43 percent. The richest households spent 3.3 times more on milk and milk
products, while their consumption of these products was only 18 percent greater. For vegetables the corresponding figures were 3.7 and 48 percent. The richest households spent 8.1 times as much on fruit, though they consumed only 2.4 times more fruit products. Only for bread and grain products were the patterns almost similar among all households.

The increase in food expenditures was accompanied by a drop in food consumption. Between 1989 and 1994 the consumption of eggs and fish fell by 55 percent, of sugar, by 47 percent, of meat and meat products, by 33 percent, and of milk and dairy products, by 29 percent. Only the consumption of bread and grain products grew, by 17 percent.

The share of expenditure on nonfood commodities started to decline in 1990. The most evident reduction (20 percentage points) occurred in 1992, when there was a jump in expenditure on food products. In 1994 the expenditure on nonfood commodities rose moderately, although as in previous years the largest share of spending in this category (44 percent) went for clothes and footwear, that is, to fulfil more urgent needs.

Expenditure on services has been increasing steadily since 1991. Within this category, spending on housing and public utility services (electricity, gas, heating, hot and cold water, and so on) has predominated. While total consumption expenditure climbed by a factor of 45.5 between 1991 and 1994, expenditure on housing and public utilities shot up by a factor of 207. Survey data of the Lithuanian Department of Statistics indicate that the households with the highest incomes spend 3.7 times more on housing and public utilities than the poorest households. This large gap reflects not only differences in the quality of housing, but also the fact that households with low incomes are encountering difficulties in paying the mounting costs of public utility services.

Though real household earnings have begun to expand, the average household clearly continues to face problems in fulfilling key requirements. To satisfy more urgent needs most households must reduce their expenditure on nonfood commodities, limit their consumption of certain food products and halt their spending on cultural and leisure activities.

Mortality, Population Growth and Migration

A low population growth rate has been a longstanding characteristic of Lithuania. At the beginning of the 1970s the rate fell to 1 percent and then became stable at 0.8-0.9 percent. The rate started to change appreciably in 1990, when it shrank to 0.75 percent. In 1992 the rate decreased by 0.28 percentage points; at the time this was the largest decline since the end of
World War II. However, the very next year the rate slid by another 0.34 percentage points, followed by a 0.17-percentage-point drop in 1994.

This sudden and marked change in population growth has been caused by the dramatic political events of recent years, including the restoration of independence and the onset of social and economic reforms. These events have generated a significant rise in emigration, especially remigration toward the republics of the former Soviet Union. Moreover, there has been a downturn in the fertility rate and an upturn in the mortality rate. In 1994 the high number of deaths and the low number of live births led to a negative natural population growth rate for the first time.

In 1950-60 the birth rate was constant at a rather high level: 23 births per 1,000 population (60,000-62,000 newborns per year). Then the rate decreased steadily for two decades, reaching 15.2 in 1980. Beginning in 1983 there was an upswing, which was probably due mainly to the availability of a childcare leave for female students and employed women that could last until the child reached 15 years of age. This rising trend continued for a few years, but then, by 1989, the birth rate had gone back down to the level of the early 1980s.

There is currently a declining demographic trend comparable to that of the second half of the 1980s. This has been caused by the difficult economic situation and by the fall in living standards during recent years.

The sharpest plunge in births was registered in 1993, when the birth rate dropped by 12.6 percent. In that year the total fertility rate sank to 1.67, and the crude birth rate went below 13 per 1,000 population for the first time in the history of Lithuania. In 1994 there were 42,832 live births, the lowest annual number in the whole postwar period. This corresponds to a crude birth rate of 11.5 per 1,000, showing an 8-percent decline from the level of the previous year and a 23-percent decline from the level in 1989.

The most noticeable shifts in the mortality rate occurred in the 1950s and 60s. The crude death rate slipped from 13 to 7.5 per 1,000 population between 1940 and 1964. Later, due to the ageing of the population, as well as to the climbing male mortality rate among the young and the middle-aged, the crude death rate rose, and in 1984 it reached 10.9. The rate dipped slightly in the mid-1980s (9.9 in 1986). However, since then the crude death rate has been mounting once more. It was 10.6 in 1990 and 12.5 in 1994.

Since 1989 the mortality rate has been going up among both urban and rural populations (26 percent and 15 percent, respectively).
Mortality among young people is caused mainly by accidents, poisoning and injuries. For instance, in the 15-to-24 age group, 85 percent of deaths among males and two-thirds of deaths among females were due to unnatural causes in 1993. In the 25-to-34 age group the share of deaths from accidents, poisoning and injuries was slightly lower: 74 percent among males and less than one-half the female mortality. Among the elderly the proportion of unnatural deaths is much smaller. Only 5 percent of men and 2 percent of women among those in the 65-and-over age group died from accidents, poisoning or injuries in 1993.

The main causes of death in Lithuania are similar to those in more developed countries. Three main causes accounted for the biggest share (83 percent) in total deaths in 1994: cardiovascular diseases, malignant neoplasms, and accidents, poisoning and injuries. Since 1989 the mortality due to almost all causes of death has been increasing. Nonetheless, certain causes have been having a greater relative impact; these include malignant neoplasms, diseases of the nervous system and diseases of the circulatory system. New trends have also become characteristic of the current period. Thus, mortality due to infectious diseases, mental disorders, pneumonia, alcoholism, suicides and homicides has increased. The rise in these causes reflects the poor living conditions, inadequate nutrition, unstable lifestyles and psychological stress that are becoming more common today.

Mortality due to accidents, poisoning and injuries is an area of great concern. These causes of death accounted for 14.9 percent of all deaths in 1993. Over the last 20 years more than 90,000 individuals have died from these causes, including 22,379 suicides, 20,689 deaths in road accidents, 8,792 drownings, 7,653 accidental alcohol poisonings and 4,754 murders. Mortality is highest among 35-to-64-year-olds, that is, the working-age population. The deaths among males by these causes exceed the corresponding female deaths by as much as four times. The mortality rate due to accidents, poisoning and injuries is rising year by year; since 1989 it has grown by 58 percent. The most significant increases have been observed in the number of suicides (a 70-percent rise) and accidental alcohol poisoning (an increase by a factor of 4.2). The number of persons who have died through violence was climbing by a constant 60-70 murders per year until last year, when the number rose by 32.

Life expectancy at birth mounted steadily in the 1960s, reaching 71 years in 1970. In 1980 it was 70.5 years, where it stayed until the mid-1980s. A campaign against alcoholism undertaken in 1985 was mainly responsible for a temporary decrease in mortality, especially that caused by accidents. This led in 1987 to a jump in life expectancy to 72.5 years. However, life expectancy began diminishing again thereafter. More recently it has shown a clear
downward trend. In 1993 life expectancy was 63.3 years among males and 75 years among females. These figures represented a 1.7-year drop among males and a one-year drop among females, thereby broadening the gap between men and women to nearly 12 years; this gap had been 9.4 years in 1989.

Up to 1990, the immigration from the republics of the former Soviet Union into Lithuania exceeded the emigration from Lithuania toward these republics. Citizens of Russia accounted for about one-half of total immigration from the republics. In 1989 immigration declined. For the first time in 30 years the number of Belarussians, Russians and Ukrainians leaving Lithuania was greater than the number of those moving in; in 1990-1 there was a net emigration amounting to 14,000 persons. Most of those leaving went to Belarus, Russia and Ukraine, that is, those very republics which had accounted for the major part of the net immigration in the past. Meanwhile, the number of Lithuanians migrating to other countries of the former USSR declined considerably, and the number of those returning went down somewhat. In 1994 overall migration diminished appreciably.

Health and Disability

Home health care services are well developed in Lithuania. In 1993 the rate of five visits by a physician for every ten inhabitants was recorded. Since all physicians and most nurses speak Lithuanian and Russian, while some also speak Polish, over 95 percent of all patients can communicate with medical personnel in their mother tongue or in a language they know.

Currently about 100,000 people are employed in the health care system. Over 60 percent of medical personnel have had some special medical education. Some experts find that there is an excess of hospital beds. However, the number of beds is being reduced only slowly (Table 4). Some hospitals are gradually being transformed into nursing facilities.

The lack of resources has been pushing health care administrators to reorganize the provision of services. The probability of a basic structural reform is therefore increasing (see earlier). On the other hand, the lack of resources is also forcing health care institutions to save money at the expense of the health of the public. Thus, for instance, the necessary drugs are not always prescribed because of the cost, and old medical equipment is not replaced.

Recent economic, social and demographic developments in the country, as well as the ageing of the population, have determined the general state of public health in other ways, too. The deterioration in living standards, a decline in the use of certain services and a
weakening of sanitary control have encouraged the rapid expansion of "social" and infectious diseases. Although these diseases still have comparatively little weight among the causes of death, the changes in incidence are worrisome. During 1989-93 the number of new cases of active tuberculosis rose by almost 1.4 times (mostly among the marginalized poor and alcohol abusers), of syphilis, 8.4 times, and of bacterial dysentery, 2.1 times.

<table>
<thead>
<tr>
<th>Table 4: Physicians, Paramedical Personnel and Beds in Hospitals</th>
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<tr>
<td>(At Year-end, Per 10,000 Population)</td>
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<tbody>
<tr>
<td>Physicians (less dentists)</td>
<td>39.6</td>
<td>39.9</td>
<td>38.6</td>
<td>39.0</td>
<td>39.4</td>
</tr>
<tr>
<td>Dentists</td>
<td>6.1</td>
<td>6.0</td>
<td>5.7</td>
<td>5.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Paramedical personnel</td>
<td>125.3</td>
<td>126.6</td>
<td>108.8</td>
<td>108.7</td>
<td>107.1</td>
</tr>
<tr>
<td>Hospital beds</td>
<td>125.8</td>
<td>123.6</td>
<td>127.2</td>
<td>119.3</td>
<td>117.8</td>
</tr>
</tbody>
</table>


Alcohol consumption rose following the dismantling of the state alcohol monopoly. This led to an increase by a factor of 3.2 in the number of cases of alcohol-induced psychosis between 1989 and 1993. At the end of 1993, 52,900 persons—of whom 6,600 (12 percent) were women—were registered as alcoholics. In 1993, 119 new drug addicts were registered, that is, 1.7 times more than in 1989, and 629 individuals were on record as drug abusers.

Each year 25,000 new cases of disability are recorded, of which more than 25 percent involve individuals under 45. The main causes of disability, accounting for 60 percent of all cases, are diseases of the circulatory system, malignant neoplasms and injuries.

Despite the economic crisis, deterioration has generally been avoided in several areas of health care. One of the most significant achievements has been the continuity in immunization programmes. Already in 1992, following a slump in 1991 that had been caused by disruptions in the supply of vaccines from neighbouring countries, previous levels of immunization had been reattained and then surpassed. The role of the Danish Government, which helped finance fresh vaccines, was especially noteworthy in this success.

The care of delivering mothers and of the newborn represents another area of health care that has shown progress. Between 1990 and 1993, new facilities for foetal reanimation were financed through the Government budget and the help of foreign donors. Moreover,
strict rules have been instituted in the monitoring of mother and child health care. Thus, since 1991, foetal deaths at a weight of 500 grammes or more (a 1,000-gramme lower limit was previously applied) and foetal deaths at 22 or more weeks of pregnancy are being registered as "infant deaths".

The Crisis in Education

The latest (1989) census data indicate that the literacy rate among the 9-to-49 age group is 99.7 percent. It is somewhat lower, 98.5 percent, among people over 14. The relative number of individuals who have completed secondary or tertiary education is rising steadily year by year. According to 1989 census data, 106 persons per 1,000 in the 15-and-above age group had completed higher education, while at the beginning of 1994 the corresponding figure was estimated at 117. Over the same period, those who had completed at least secondary school grew from 466 to an estimated 497 persons per 1,000. In 1990, 93 percent of those who had started primary school four years earlier were still in school; the share was 95 percent in 1993 and 99.9 percent in 1994. Currently, 20 percent of the population are studying or are employed in the education system as teachers or tutors. This exactly corresponds to the worldwide average.

However, these positive statistics mask other, negative trends. Thus, for example, following the onset of the transition, numerous preschools disappeared: about 200 in urban areas and 550 in the countryside. Often this happened because collective farms and many enterprises—the erstwhile "owners" of the establishments—had been closed down, and local governments had no means to continue to pay for the preschools. In some cases, preschools had to be eliminated because they had become unprofitable as attendance fell off due to mounting unemployment, especially among women, a drop in household incomes and the introduction of higher user fees. Though user fees remained low in terms of the overall costs of the provision of preschools, covering only 5-6 percent of these costs, they were equivalent to a considerable segment of average household budgets.

Between 1985 and 1989, the number of places available in nurseries and kindergartens per 1,000 children of preschool age rose from 681 to 701 in urban areas and from 368 to 424 in the countryside. By 1993 the corresponding figures were only 253 and 68, respectively.

On the other hand, between 1985 and 1989, the proportion of all 1-to-6-year-olds enrolled in nurseries and kindergartens went down from 62 percent to 53 percent. By 1993
the figure stood at only 21 percent. Between 1985 and 1993, enrolments in nurseries and kindergartens fell by about twofold in urban areas and by around fourfold in rural areas.

Between 1989 and 1993 the number of 3-to-7-year-olds attending preprimary school plummeted from 141,233 to 69,304, which represented only 30 percent of the age group. Attendance decreased in a particularly noticeable way in rural areas, where the share of children attending preprimary schools among all children in the relevant age group dropped from 37.7 percent to only 8.2 percent between 1985 and 1993.

Thus, of the available places in nurseries and kindergartens, 79 percent are now vacant in rural areas and 29 percent in urban areas. In some establishments the number of vacant places exceeds the number of children in attendance by as much as ten times.

Nonetheless, a shortage of places in preschools is still evident in newer residential neighbourhoods in the larger cities. Typically, the construction of housing in these neighbourhoods is outpacing the creation of infrastructure, and the families moving into these neighbourhoods are often composed of young couples with children.

Meanwhile, in rural areas, pupils face a transportation problem. Because of the rise in the price of fuel, the public transportation system is being trimmed. Since the collapse of collective farms, no one has stepped forward to take over the repair of roads. Articles frequently appear in the press describing instances of children unable to attend any school at all because their families are poor and cannot afford the cost of transportation.

The relative number of pupils and students registered in the education system in primary school or above has been declining over the last two decades. Between 1975 and 1993, attendance fell from 2,391 to 1,700 pupils and students per 10,000 inhabitants. This rate began to pick up again only in 1994, when it reached 1,732. The rise was due to an increase in the number of births in 1981-6 and in the number of new schools being opened, including private schools.

The number of annual elementary and secondary graduates has been plunging toward the level in 1960. In 1975, 64,000 pupils received elementary education certificates, and secondary education certificates were issued to 74,000 students in 1980. The figures had tumbled to 37,000 and 23,000, respectively, by 1994. In the case of secondary certificates, the reduction was especially notable.

At the beginning of 1994 there were 494,100 7-to-15-year-olds, of whom 450,400, or 91 percent, were attending compulsory school. Among the 43,700 not attending compulsory school, 19,700 were uneducatable children, children excused because of their health status
and children who had already entered the secondary (noncompulsory) level. According to estimates of the Lithuanian Department of Statistics, the remaining 24,000 children are not being educated in schools, though they have not been excused from compulsory education. Most of these children reside in or near large cities. Among children reaching school age in 1994, approximately 2,000 were not registered for school at all. According to data of the Ministry of the Interior, approximately 300 minors are spending most of their free time searching garbage dumps for goods to help satisfy basic needs.

The percentage of dropouts is especially high from secondary school onward (Table 5). In 1994 the ninth year of schooling was completed by 72 percent and the 12th year by just 33 percent of the children who had been first-year entrants in 1984 and 1981, respectively.

Table 5: The Lithuanian Education System and the Dropout Rate
(1993-4 Academic Year)

<table>
<thead>
<tr>
<th>Age at Entry</th>
<th>Grades or Total Years</th>
<th>Of Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preschools</td>
<td>&lt;7</td>
<td>--</td>
</tr>
<tr>
<td>Nurseries</td>
<td>0-3</td>
<td>--</td>
</tr>
<tr>
<td>&quot;Special&quot; programmes</td>
<td>3-6</td>
<td>--</td>
</tr>
<tr>
<td>&quot;Comprehensive&quot; schools</td>
<td>7</td>
<td>--</td>
</tr>
<tr>
<td>Primary schools</td>
<td>7</td>
<td>grades 1-4</td>
</tr>
<tr>
<td>&quot;Basic&quot; schools</td>
<td>--</td>
<td>grades 5-9</td>
</tr>
<tr>
<td>Secondary schools</td>
<td>--</td>
<td>grades 10-12</td>
</tr>
<tr>
<td>Special schools</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Senior (adult) secondary schools</td>
<td>≥18</td>
<td>grades 9-12</td>
</tr>
<tr>
<td>Vocational schools</td>
<td>15-16</td>
<td>2-3 years</td>
</tr>
<tr>
<td>Specialized secondary schools</td>
<td>18-19</td>
<td>3-4 years</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>18-19</td>
<td>4-5+ years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dropout total</th>
<th>%</th>
<th>Academic Failures (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time comprehensive schools</td>
<td>19,513</td>
<td>3.8</td>
</tr>
<tr>
<td>Vocational schools</td>
<td>4,579</td>
<td>9.9</td>
</tr>
<tr>
<td>Specialized secondary schools</td>
<td>2,400</td>
<td>10.1</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>7,084</td>
<td>12.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

£ The law stipulates that attendance at comprehensive or other types of schools is compulsory for children up through the age of 16. £ For handicapped children and children with developmental defects. § Offer not only elementary professional qualifications, but also equivalency for "comprehensive" education. Students with no basic education follow a four-stage course of studies. d For the training of highly skilled professionals in specific areas of economic and social activity.
The vocational school system is used mainly to train skilled labourers for agriculture, construction and metalworking. Most of the students (82 percent) enter a vocational school after completing nine years in the general education system; 10 percent have had secondary education, and 8 percent have not finished nine years of regular education.

Tertiary education has been reorganized to offer bachelor, master and doctoral degree programmes. In 1994 there were 51,200 university students, of whom 45,100 were seeking a bachelor degree, 3,800, a master degree, and 825, a postgraduate degree. The total represented a drop to 138 students per 10,000 population from 182 per 10,000 in 1985 and 187 per 10,000 in 1989. The decline was linked to a reduction in Government allocations for education, the introduction of fees for part-time students and extramural studies and the low level of support offered for full-time students.

The Institutionalization of Children

The number of abandoned children who have been registered by the authorities has been increasing recently. The number of registered abandoned children jumped by more than 200 percent, from 1,362 to 2,567, between 1989 and 1994. One-third of these children were of preschool age. Most abandoned children are from socially deprived families. In 1994, 1,301, or more than 50 percent, of all registered abandoned children were from problem families.

Of the total number of registered abandoned children in 1994, 1,286, or 50 percent, were placed under the protective supervision of public childcare or educational institutions, or in foster homes. In recent years the number of childcare establishments has climbed as childcare homes run by municipalities, parishes and public organizations have been opened.

One-half of the children in childcare homes still have one or both of their parents. One-seventh of all institutionalized children are orphans. One-half (1,281) of the children were placed in foster families or adopted in 1994; 107 of these children were placed with foreign families. Currently, 10,600 children who were abandoned in 1994 or earlier are being raised in families; 5,200 of these (49 percent) have been adopted.

Abortions

Though the abortion rate in Lithuania continues to be very high relative to that in most developed European countries, the number of abortions has been declining (Table 6). Most
abortions (82 percent in 1994) are performed upon request; more than one-half (56 percent in 1994) of the requested abortions are carried out using the "vacuum-aspiration" method ("mini-abortion"). The number of abortions among under-18-year-olds fell from 1,135 in 1992 to 739 in 1993 and 698 in 1994. Nonetheless, it is a cause for concern that these juveniles accounted for 18 percent of all females terminating pregnancy for the first time (excluding those undergoing a mini-abortion).

| Table 6: Abortions  
(In Totals And Percentages, 1991-4) |
<table>
<thead>
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<tbody>
<tr>
<td>Total abortions</td>
</tr>
<tr>
<td>Spontaneous miscarriages (%)</td>
</tr>
<tr>
<td>On request (%)</td>
</tr>
<tr>
<td>Therapeutic abortions (%)</td>
</tr>
<tr>
<td>Other (%)</td>
</tr>
<tr>
<td>Total legally induced abortions</td>
</tr>
<tr>
<td>Per 1,000 women 15-to-49</td>
</tr>
<tr>
<td>Per 100 live births</td>
</tr>
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</table>


Crime

In 1994, 58,634 crimes were registered in Lithuania. This represented a surge of about 190 percent over the number in 1989. Per 10,000 population, there were 60 crimes committed in 1985, 84 crimes in 1989 and 157 crimes in 1994. Recently, the crime rate has been showing a more stable trend; it rose by 26 percent in 1992 and 7 percent in 1993, but then fell by 3 percent in 1994 (Figure 6).

The spread of serious violent crime is worrying. The number of premeditated murders shot up by 230 percent between 1990 and 1994, while the number of other acts of serious, premeditated violence grew by 11 percent. The number of drug-related crimes skyrocketed by a factor of four. Property-related crimes account for 80 percent of all crimes.

The majority of juvenile offenders come from problem families in which a child’s right to physical, spiritual, moral and social development is sometimes not very well recognized.
In some of these families the cult of power and alcohol prevails over the desire to seek lasting solutions to family conflict; in others, a rather off-hand approach is adopted toward the maintenance of a subsistence level of income. The children in such families spend much of their time on the streets, drinking alcohol or pilfering. Each year the police identify another 1,000 or 1,500 sets of parents who are exerting a particularly bad influence on their children.

Figure 6: INDEX OF THE RISE IN CRIME
(1985 = 100, 1985-94)


Under-30-year-olds account for two-thirds of all criminals, and every fourth criminal is under 18. Juvenile delinquency is growing, and the average criminal is now younger. The very great sensitivity of young people to pernicious social processes—increasing family instability, mounting addiction to alcohol, the decline in respect for education, the inadequacy of the law in dealing with social problems, and the economic recession—is certainly one cause of this phenomenon.

V. POLICY SUCCESSES AND POLICY FAILURES

In terms of the consolidation of the principles of the market economy and of democracy, the reform process in Lithuania can be judged very positively. In a short time, prices and the
labour market have been liberalized. The restructuring of the tax system is almost complete. Social security institutions have been created, and the rights of the people have been strengthened before the law. Hyperinflation and the erosion in production have been stopped. High unemployment has been avoided, and the decline in real wages has been halted. These results are doubly striking because they have been achieved in the midst of the country's struggle for independence and its confrontation with the difficulties of refounding a nation. However, the reform process has demanded daily sacrifices from the people.

**Prices, Wages and Fiscal Policy**

During the initial period of reform in 1991 and early 1992, the sudden jump in prices caused by price liberalization permitted Lithuanian enterprises to sell their products in Russia at high prices and buy raw materials and fuel there cheaply. This had an effect on the level of wages and social transfers. Real wages in the last quarter of 1991 were up 34 percent relative to the same period in 1990, when the reforms had not yet been initiated.

The actual consequences of the price reform revealed themselves in the autumn of 1992, by which time the average real wage had dwindled by 50 percent relative to the level at the end of 1990. Pensions had plunged even further, equalling only about 40 percent of the average wage. The value of the "applied" subsistence minimum slid to only 30 percent of the value of the "theoretical" subsistence minimum and only 24 percent of the average wage.

Economic decline, inflation and sudden price liberalization had a negative impact on standards of living. This became one of the main reasons voters in the parliamentary elections in the autumn of 1992 turned away from the reformers and chose former Communists. However, despite the changes in Government, the relative value of real wages and social transfers remained virtually unchanged until mid-1995. At the end of 1994 the real value of the average wage was still around 50 percent of the corresponding figure at the end of 1990, and retirement pensions still equalled about 40 percent of the average wage.

Though the cost of the reforms has been heavy for wage-earners, it has been even heavier for those depending on social transfers, especially those who rely on benefits which are linked to the subsistence minimum. Though many of these benefits are only small in scope, they are clearly not fulfilling their redistributive and compensatory functions.

Wage policy has been applied only in two main areas: first, the determination and indexation of a minimum wage and, second, the regulation of wages and salaries in
organizations and enterprises financed through the Government budget. However, wage policy has been unsuccessful. Wages and salaries in the Government-financed sector, especially in public services such as health care and education, lag behind the average wage by 20 to 30 percent. The inability of the Government to maintain these wages and salaries at a higher level would be understandable if it could be blamed on a dynamic and expanding private sector ready to offer competitive wages to former public-sector employees. However, even the wage gaps among the various branches of the public sector have widened. Wages in the state monopolies which supply energy, gas and water are two times the average wage. The monopolistic position of these enterprises, along with the existence of Government price subsidies, offer the opportunity for these higher wages. Since these enterprises are viewed as profit seeking, the Government does not interfere with the wage levels.

This is mistaken, but society at large has accepted the situation. Theoretically, this approach fits in with the idea of "production advantage" inherited from the Communist era. "Human capital" tends to take a backseat, and employees in the education and health care systems are placed at a particular disadvantage. This approach therefore also has very negative consequences for public services.

Already during the Soviet era, the minimum wage in Lithuania was very low relative to that in other countries. In 1990 it was only 27 percent of the average wage. In 1991-4 the minimum wage remained within a few percentage points of the subsistence minimum. Because the two were indexed at the same time, they tended to change in the same way. In 1994 the minimum wage fell to 20 percent of the average wage. Since the average real wage also declined, the minimum wage was obviously inadequate. Only those who are unskilled (such as certain categories of labourers like watchmen and custodians) and who are also receiving a pension can afford to work for the minimum wage.

The policy of the Government to maintain the minimum wage at this low level may reflect a great fear of a sudden surge in unemployment. In any case, the depreciation in the real value of wages and social transfers is usually blamed by the Government on the decline in the economy, and this view is generally accepted without serious question.

Fiscal policy has also led to widening differentiation among incomes and a deterioration in the position of the poorest.

First, public expenditure relative to GDP dropped from 38 percent in 1990 to 32 percent in 1991 and 30 percent in 1993.
Second, as a share of Government budget revenue, personal income tax revenue, which comes almost entirely from wages, rose from 10 percent in 1990 to 15 percent in 1992 and 18 percent in 1993; in 1994 it continued to increase. Meanwhile, the share in tax revenue of taxes on corporate profits declined. Personal income taxes and value-added taxes represent the main sources of revenue for public expenditure.

Third, the personal income tax is not progressive, and those who have a low income must pay taxes at the same rate as those who have high incomes. Moreover, the tax rate does not take into account the number of dependents.

If the "official" employment rate is correct, then Government employment policy can be considered positively. However, the comforting official data on unemployment appear perplexing given that production has diminished appreciably since 1991. GDP has sunk by twofold. Nonetheless, the official unemployment rate is a low 2 or 3 percent.

One reason for the low unemployment rate despite the existence of a recession in production is the fact that the expanding private sector has been absorbing labour from more traditional sectors. Thus, many of the workers who left the collective farms have found jobs in private firms. This phenomenon has not been well monitored. For example, when unemployment started to rise at the beginning of 1992 and the Government reacted by establishing regulations for the dismissal of employees, many employers who were unable to pay the large severance benefits provided for by law stopped laying off workers, but instead offered to keep them on temporarily at only a minimum wage. The employers did this with the expectation that the workers would eventually find better work and quit voluntarily without claiming the severance benefit. However, the workers tended to keep these first jobs and seek extra work elsewhere even on a part-time basis. Thus, both "hidden" unemployment and "double" employment have increased.

Employment policy has not been effective. First, it has disguised the real situation in the labour market and therefore rendered accurate policy adjustments impossible. Second, the resources of the employment fund are not targeted properly, and the individuals who are really out of work are not adequately assisted through the fund.

**Social Insurance and Social Assistance**

When the post-Communist reform process was undertaken in the social security system, it was decided to maintain or even expand entitlement to social security. While it is obvious
that the reforms were influenced by the systems in Western European countries, which were pioneers in social security, the heritage from the Communist system was also important (Flora and Heidenheimer 1984). Despite the differences, the two types of systems owe much to the desire to respond to the requirements of an industrialized, urbanized society. Thus, in fact, the reforms did not have to create a profoundly new social security system, but only make the system inherited from the Soviet era compatible with the needs of the market economy and political democracy.

The new social security system reflected the belief that the transition would be rapid and painless and that the health of the economy would not deteriorate, but would quickly improve. At the time (1990) the economic reforms had not yet been implemented, and the failure of the economy was not yet apparent. The economic position of Lithuania among all socialist countries was rather good.

This helps to explain why the orientation has been toward a rather extensive social security system. The system is extensive in terms of coverage, but, because of the downturn in the economy, it is now far from generous in terms of the level of benefits and the volume of the funding base.

The ratio between the number of beneficiaries and the number of contributors is obviously important in a "pay-as-you-go" scheme of insurance financing. As a result of the principle of universal employment of the Soviet era, the level of entitlement to social benefits is very high in Lithuania. All past and present workers, other employees and farmers are covered by the compulsory social insurance scheme. However, the number of active contributors has dwindled considerably since the onset of reform. There were approximately 1.8 million contributors in 1991, 1.6 million in 1992, 1.4 million in 1993, and 1.3 million in 1994 (Sodra 1994).

There are several obvious reasons why the number of contributors has been falling so rapidly. Women have been giving up their jobs to care for their families. Many of the self-employed, including farmers, are not contributing to the insurance scheme. Likewise, between 1991 and 1994 a large segment of the labour force (27 percent according to Sodra, the newly established public social insurance institution) became involved in the "shadow" economy and, of course, ceased paying into the social insurance scheme (Sodra 1994).

Economic restructuring has been carried out at the expense of the traditional sectors and enterprises which also happened to be major contributors to the social insurance scheme. Through the economic reforms, restrictions have been abolished on wages and salaries.
However, the activities of new enterprises are being monitored with difficulty, and an effective system for charting incomes and assessing insurance contributions has not been developed. Many private firms are able to duck the payment of a portion of insurance contributions or are simply not insuring employees. Thus, while the emerging private sector has taken up some of the slack in production caused by the decline in the state sector, it is only replacing in a very limited way the lost social insurance contributions. Officials of Sodra often say that the drop in social security contributions is directly proportional to the speed of the privatization of state enterprises.

Meanwhile, other enterprises have accumulated large debts with Sodra. These debts represent 15 to 30 percent of the monthly budget of the public social insurance institution. However, in order to keep enterprises out of bankruptcy, the Government and the legal system have taken a relaxed stance on the repayment of these debts.

As national income has diminished, effective redistribution has become more difficult. A rise in social benefits in 1990-1 was eventually offset by inflation. The illusion that there was more money in circulation masked a decay in real incomes. The purchasing power of the average monthly wage slackened appreciably during the reform process. The purchasing power of pensions and benefits was reduced even more because their size relative to the average wage was slashed. Though the indexation of the subsistence minimum and of social insurance benefits helped compensate income losses considerably until mid-1992, between 1992 and 1994 the value of the average retirement pension fell from 50 to 40 percent of the average wage, while between mid-1991 and 1994 the value of the subsistence minimum, upon which a major portion of all social benefits depends, plunged from 50 to only 20 percent of the average wage (Table 7). By the end of 1994 the benefits and pensions being received by people who had no other sources of revenue had become insufficient to maintain a rudimentary standard of living.

In the case of the special social benefit (see earlier), the income cutoff-point for eligibility is not indexed, and the number of beneficiaries has shrunk as the nominal level of wages has risen (Figure 7). Though the means-tested special social benefit was intended as a weapon in the fight against poverty, it has become unavailable to many families with very low incomes and does not fulfil its purpose. The amount of the benefit is insufficient as well.

On the other hand, there is no doubt that some people with large undeclared incomes are not only evading taxes, but are also claiming entitlement to this benefit. By the same token, individuals with no means of support cannot rely only on social transfers because the
Table 7: THE PURCHASING POWER OF THE "SUBSISTENCE MINIMUM"*
(December 1991-December 1994)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Beef, kg</td>
<td>27</td>
<td>8</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Pork, kg</td>
<td>28</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Milk, litres</td>
<td>474</td>
<td>50</td>
<td>78</td>
<td>62</td>
</tr>
<tr>
<td>Butter, kg</td>
<td>27</td>
<td>4</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Eggs, 10 units</td>
<td>52</td>
<td>16</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Rye bread, kg</td>
<td>255</td>
<td>93</td>
<td>64</td>
<td>49</td>
</tr>
<tr>
<td>Sugar, kg</td>
<td>70</td>
<td>14</td>
<td>19</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Lithuanian Department of Statistics.
* The quantity of each item that can be purchased with the real money-equivalent of the subsistence minimum.

transfers are wholly inadequate, and they are therefore forced to accept any job, including one in the shadow economy. This is a vicious circle. Moreover, people are tending to reject social security in principle because the current social security system is so inefficient.

In the struggle against poverty in a context of limited financial resources and a declining economy, more attention should be paid to the distribution of benefits not according to "merit" (insurance for wage-earners), but according to need (means-tested social

Figure 7: COVERAGE OF THE "SPECIAL SOCIAL BENEFIT"
(Quarterly Averages In Thousands Of Monthly Beneficiaries, 1992-5)

Source: Data of the Ministry of Social Insurance and Labour.
assistance). However, this has not been done in Lithuania during the transition. In 1994 the social assistance provided by the Government and local authorities through cash transfers was equivalent to only about 10 percent of the outlays from the social insurance fund.

However, social insurance benefits have been indexed for inflation in such a way that the maximum values of the benefits have grown more slowly than have the minimum values, and pensions and other benefits have therefore flattened out. This has occurred because only enough financial resources have been available to raise the minimum values of benefits.

VI. THE SCOPE FOR POLICY CHANGE

The current Government, in office since the autumn of 1992, is being criticized by the right-wing opposition over political issues such as the permission to transit Lithuania granted to Russian troops on their way to Kaliningrad (a part of European Russia that is cut off from the rest of the country), or the stance taken by the Government toward the military actions of Russia in Chechenia. The issue of corruption is very popular, too.

Meanwhile, there is little public debate on economic issues. Probably the most widely held opinion in economic matters is that the tax rate is too high and that this is leading to the stagnation of the economy and waning Government revenues. The assumption seems to be that people would not evade taxes if the tax rate were lower. Only the Social Democrats do not seem inclined to join the chorus against high taxes. Instead, they support a rationalization of the tax system, pointing out that most taxes are being paid not by businessmen, but by labour. In any case, the Government is severe with tax evaders. Indeed, a decision on the obligatory use of cash registers in shops in order to monitor income even led to a strike among shopowners in December 1994.

Social policy issues generate almost no political debate. In the summer and autumn of 1994 very important laws were passed by Parliament: laws on social insurance, laws on Government pensions and laws on family benefits. These laws included some cardinal changes, but no debate was aroused among the political parties. Given the current welfare problems in society, politicians must be blamed for this lack of debate. Are they unprepared to assess the shortcomings of social policy and propose alternatives?

In 1994 there was an uproar in the press and on television over social insurance. Sodra, the public social insurance institution, was constantly being criticized for the large
contribution payments, the small value of pensions and the costs of administration. In the press, compulsory social insurance was called "a remnant of Communism", and proposals were put forward to privatize it, demonopolize it, or abolish it. Sodra was alone in defending it. Politicians remained entirely aloof from the controversy.

The Government seems capable of responding only to strong pressure, such as that which could be exerted by striking health workers, or students and professors in universities and secondary schools, demanding wage increases or additional Government financing.

Even strong pressure probably would not help pensioners very much. The Government is hobbled in this case because the number of pensioners is large and no funds are available to boost pensions further. A law on private, voluntary pension insurance that is now being drafted may represent an opportunity to open a fruitful debate.

The value of social insurance pensions is currently low. It makes little sense to differentiate pensions now since the vast majority of pensioners today were active in the Soviet-era labour market, which was controlled totally by the state. For the moment, a system of flat-rate pensions is both equitable and less costly to administer. Eventually, the savings due to lower administrative costs could be used to cover the extra costs of some means-testing. For instance, individuals who have significant business income could be excluded from the pension system. To strengthen the incentive to participate in the social insurance scheme, pension rates which are tied to wages could gradually be introduced as the economy recovers and the basic pension has been brought up to a meaningful level.

In the area of unemployment a great deal may depend on informal-sector trade, which is presumably absorbing many workers who have been laid off from the formal sector or who have regular jobs only part time. When prices begin levelling off among the countries of the former Soviet Union and other Central and Eastern European countries, the informal sector will become less important in this respect, and official unemployment may surge. Increasing competitiveness in agricultural markets could aggravate this situation, as greater numbers of rural residents are forced to seek help through the offices of the labour exchange.

The minimum wage ought to be elevated considerably so that it would at least cover basic needs. Moreover, a higher minimum wage would force employers to implement more rational hiring strategies, thereby clarifying the situation on the labour market. The wage differentiation due to the monopolistic position of public enterprises should be brought under control. The wages of people working in education and health care should be increased.
A draft law on the personal income tax is currently under discussion that would allow a minimum untaxed income. The level of this untaxed minimum income would rise quickly for those people with dependents. This would be a great boon for families with children. However, the tax rate being considered is a proportional one, not a progressive one. Thus, the scheme would not involve any additional vertical redistribution of income.

A law on health insurance has been under discussion for four years now. Members of Parliament and high-level health care managers seem to share the conviction that health care which is financed through a separate insurance fund would be more effective. The experience of some Western European countries (Denmark and Great Britain, for example) shows that Government financing is not necessarily a barrier to effective health care. On the other hand, the financial management of a health insurance scheme is usually more costly. Therefore, it is probable that health care administrators would have to obtain more financing to introduce a health insurance system. Private insurance companies support the idea of obligatory health insurance because, of course, their profits would likely rise.

Particularly in health care, but also in education, resources are being squandered because of poor administration. Greater efficiency and competitiveness must be encouraged among workers and managers so that service quality can be enhanced without additional spending. Private or nonprofit institutions offering social services should be included within the overall public network through subcontracting.

Since a tax increase would lead to a political outcry, the financial resources required for the health care system and other social programmes can be expanded only through more efficient tax collection.

Moreover, income transfer schemes must be revised so that social expenditures can be distributed more rationally and become well targeted on those most in need, including children. Family benefits should be means-tested. The "subsistence minimum" ought to be based on the real cost of a reasonable basket of essential goods. Individuals with no other sources of income should be supplied with a benefit which is at least at the level of a true subsistence minimum.

Initiatives should be developed to foster better social integration. A child welfare office ought to be created to offer assistance for children in poor families and children in problem homes. More benefits ought to be provided in kind. School meal programmes represent an especially good example of such an approach.
Economic neo-liberalism is popular in post-Communist societies. People do not support collective action; they are not participating energetically in trade unions. They prefer to take a second job and earn extra money instead of demanding higher wages, or instead of backing a strike for improved worker benefits.

Many observers feel that the switch from one extreme to the other—from collectivism to individualism—has been too sudden. However, it may be that most people are continuing to act in the same way; their behaviour and their habits have not really changed.

During the Soviet era, collectivism was only symbolic in Lithuania. There were actually two spheres in social life, one controlled by the Communist state and the other controlled by the individual (Marody 1992). Because the official path to higher incomes and improved living conditions was very narrow, people usually had a second (unofficial or even illegal) means of income. These second sources of income were well hidden.

It should come as no surprise that people are acting in the same way when all the constraints have been abolished. There has been no shift from collectivism to individualism at the level of practical behaviour. It is only the official view that has shifted.

Public policy can be energetic only when the people play a vigorous role and their true interests are represented. When the people oppose the state and when the system is being erected only by "specialists", the system will not be supported by the voters and will be unstable even if it is technically perfect. It is very important that the people understand the necessity and importance of consensus and actively participate in decisionmaking.
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