

# **Economic Transition and Social Security Policies in Lithuania**

**Arturas Kazlauskas**

***Baltic Report 93-BR 11***  
May 1993

Lithuanian Ministry of Social Security  
Vilnius, Lithuania

Center for Agricultural and Rural Development  
Iowa State University  
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## **ECONOMIC TRANSITION AND SOCIAL SECURITY POLICIES IN LITHUANIA**

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Lithuania is facing serious difficulties in its political, economic, and social life during the transition to a market economy. The main goal of the government now is to become reintegrated into the European and world communities after more than 50 years of Soviet occupation. Before World War II, independent Lithuania had political, economic, and cultural relations with all European countries, the United States, and Canada. The Soviet system broke down these relations, even with Lithuania's closest neighbor, Poland. The Soviet-run economy was created in such a centralized way that even inside the former Soviet Union the trade balance between Lithuania and Russia was much larger than between Lithuania and its other closest neighbor, Latvia.

Lithuania now manages its own social security system since regaining independence in 1990. The main goal of social security now is to protect the population in this period of growing economic instability and to maintain the current standard of living.

### **Living Standards During the Transition to a Market Economy**

The period between the end of 1990 and the end of 1992 was one of significant changes in social, political, and economic life in Lithuania. Social policy decisions made by the Lithuanian government through the parliamentary and legislative processes had a direct impact on the Lithuanian quality of life. Government activity in the social sphere focused on raising prices, wages, salaries, and social benefits so that price levels of domestic goods would be closer to world market price levels.

The government also tried to create domestic conditions that made it profitable to import goods from Eastern European countries and unprofitable to import Lithuanian products into the former Soviet Union. The government also attempted to protect consumers and domestic markets not only through price policies, but by restricting illegal export of goods to the former Soviet Union market. At the same time, the Lithuanian government tried to fulfill all agreements with Eastern neighboring countries regarding the supply of food and nonfood commodities, in spite of the severe situation in

domestic production. It should be emphasized that in the past Lithuania's agricultural and food production was roughly twice as much as its domestic demand.

From December 1990 to December 1991 the index of wages and salaries increased from 100.0 to 646.3. At the same time, according to the Lithuanian Department of Statistics, the general retail price index increased from 100.0 to 476.2. But for the main food and nonfood commodities price indexes have increased much more (Table 1).

Table 1. Increases in retail prices for main food and nonfood commodities in December 1991

Commodities	December 1990 = 100
	(percent)
Meat and Meat Products	795.6
Fish and Fish Products	901.0
Cream	562.0
Vegetable Oil	1438.3
Milk and Milk Products	520.0
Cheese	743.6
Eggs	529.8
Sugar	918.3
Confectionery	1145.8
Bread and Bread Products	703.8
Potatoes	1030.1
Beverages	397.7
Clothes	500.7
Socks	415.1
Footwear	538.6
Furniture	1000.9
Electrical Appliances	1269.7
Building Materials	634.0

SOURCE: *Lithuanian Annual Statistics 1991*.

There were a number of immediate, recognizable consequences from these policies:

1. Small businesses increased their imports of consumer commodities, mostly produced in Western countries, and raw materials from the former Soviet Union, so small-scale trade activity was developing.
2. Previously illegal exports of commodities from Lithuania significantly decreased as a consequence of both economic and customs policy.
3. Prices for domestic commodities went up and opportunities to sell these commodities in Eastern countries declined.
4. Domestic demand for certain consumer goods went down, such as for furniture.

5. There was a greater shortage of cash money. It is important to note that wages and salaries are paid in cash, usually two times per month, and social benefits are paid in cash once per month.

These measures and resulting consequences partly protected domestic consumption, but on the other hand, they caused new economic and social difficulties.

The situation became critical for old age and disability pension recipients. For example, if a retirement pension in January 1991 was equal to 100 rubles per month, in December 1991 it increased to 470 rubles per month, or, if the pension was 160 rubles (the maximum retirement pension) in January 1991, by December 1991 it had increased to 578 rubles. Thus, looking at Table 1 we find that only prices for beverages and socks increased less than the average retirement pension.

At the beginning and especially during the second half of 1992 the price index increased dramatically (Figure 1). Compared with December 1991, the index was 1.54 in January, 2.19 in February, 2.59 in March, 2.66 in October, and 9.89 in November. The average wage index

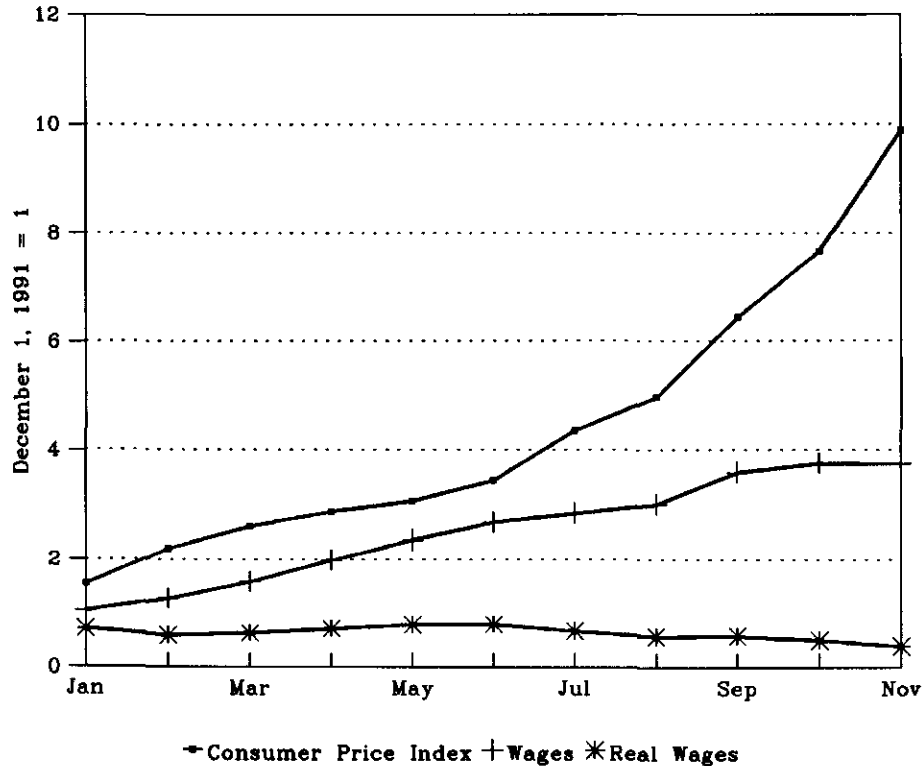


Figure 1. Indexes of consumer prices and wages for Lithuania, 1992

increased to 1.06, 1.26, 1.58, 1.98, and 2.35 for these same months. Real wages dropped from 0.686 in January to 0.378 in November.

Retirement pensions increased to 670 rubles in January, 845 rubles in February, and in May new social indicators were adopted. In September 1992 it was announced that, compared with prices in December 1991, the consumer price index was 6.45 and compared with December 1990 it was 31.12 (see Table 2).

Table 2. Social indicators in May 1992

Indicators	Rubles per month
Minimum Living Standard	1310
Minimum Wage	1370
Minimum Retirement Pension	1547
Maximum Retirement Pension	2100
Child Care Benefits	
For First 1.5 Years	1310
For Next 1.5 Years	655

SOURCE: Lithuanian Ministry of Social Security 1992.

As prices increased every month, domestic consumers changed their behavior accordingly. They tried to spend money as soon as possible and bought up the cheapest commodities. Households thus accumulated and stockpiled significant quantities of goods. Because the interest rate through savings banks was significantly lower than the inflation rate, there was no incentive to save money so savings and the value of saved money decreased. A significant amount of cash was used to buy hard currency by both individuals and private companies.

Between January 1991 and May 1992 increasing wages and salaries, along with indexing of pensions, social benefits, and scholarships protected people from starving and created near-poverty conditions, but there was little if any opportunity to invest in production or real estate. During the first stage of privatization, the government provided vouchers for Lithuanian citizens that were used only for investment, but this approach did not help to protect people from growing inflation. The future of many enterprises is not certain and a lot of them might face bankruptcy. People have to decide either to buy shares of these enterprises or to buy state-owned dwellings with their vouchers.

In May 1992, a survey covering 1,470 households was conducted in order to gather more information on the population's income and expenditures. The Lithuanian Department of Statistics announced that average income per capita in households was 2,300 rubles per month. One household



of ten had only 631 rubles per person per month. Eighteen percent of all households had income that was less than the officially adopted minimum living standard (MLS) of 1,310 rubles. The main reason for low income in these families was that 39 percent of members in this household group had children under 16. One-third of households with per capita income less than the officially adopted MLS were mostly families with four or more children, or young families. Comparing with the end of 1991, household nominal income increased 2.9 times, but real household income has decreased by 38 percent. Decreased living standard indicates changes in the structure of expenditure. By the end of 1991 expenditure for food was 31 percent and in May 1992 it reached 45 percent of the family budget. For nonfood commodities it was 38 percent in December 1992 and 25 percent in May 1992. In households with per capita income less than the official MLS the share for food was 53 percent. The analogous household survey data, collected by the Lithuanian Department of Statistics in November 1992, reveal an even more critical situation:

- The average income per household increased from 2,300 in May to 4,157 in November;
- The number of households with income below the MLS increased from 19 percent to 76 percent;
- The share of expenditure for food increased from 45 percent to 63 percent; and
- The share of expenditure for nonfood commodities decreased from 25 percent to 21.7 percent.

Consequences were different for people employed in the private sector of the economy. In 1990 in the private sector—composed of private companies, joint-stock companies limited, cooperatives, and economic business communities—6.4 percent of the labor force was employed; in 1991, it increased to 10.8 percent of total labor. Many private and cooperative firms were engaged in services and trade. Fewer firms were involved in production of commodities, publishing, and banking. Lack of capital stock forced new firms to get money in an “easy way” through trade and services. Most of these firms were small shareholding companies; thus, all owners are also employees, with rare exceptions. This group of consumers, as well as their family members, had a high level of consumption even with high prices.

Figures 2 and 3 present the significant growth of money income and expenditures of the population in 1991. At the same time salaries and wages also increased (Figure 4). During the first half of 1992 the same tendency could be noticed: the income of the total population for six months exceeded income for all of 1991, about 12.8 billion rubles. At the same time wages increased considerably and were about 4.6 billion rubles more than wages for all of 1991.

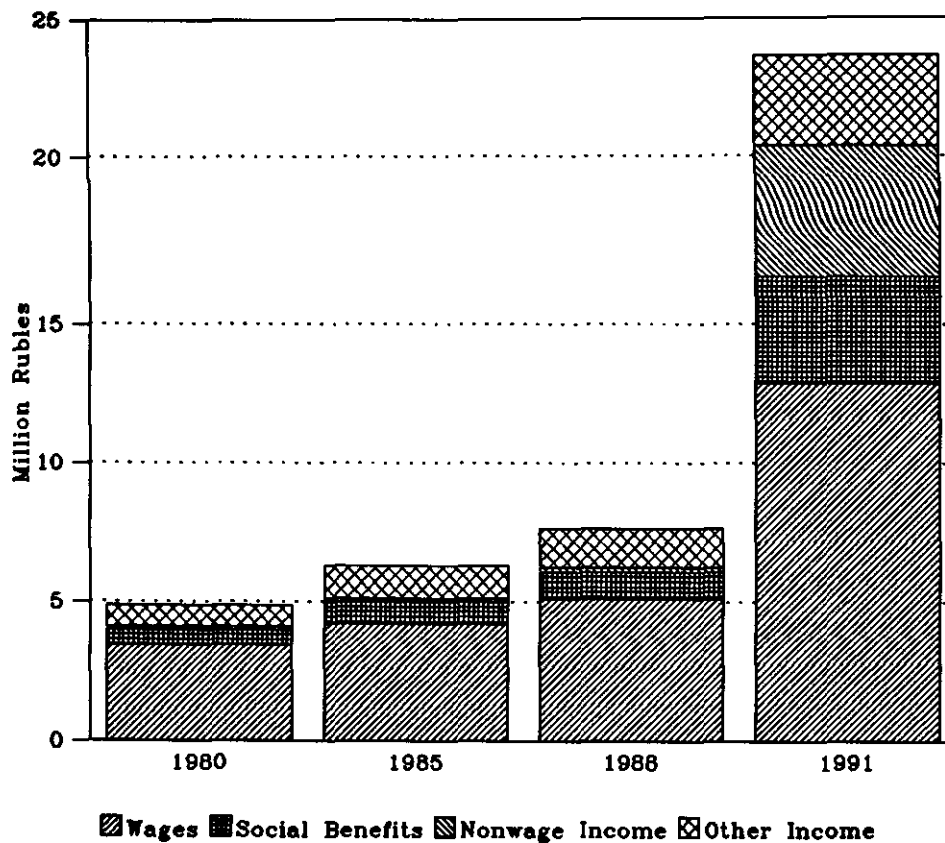


Figure 2. Monetary income of the Lithuanian population, 1980-91

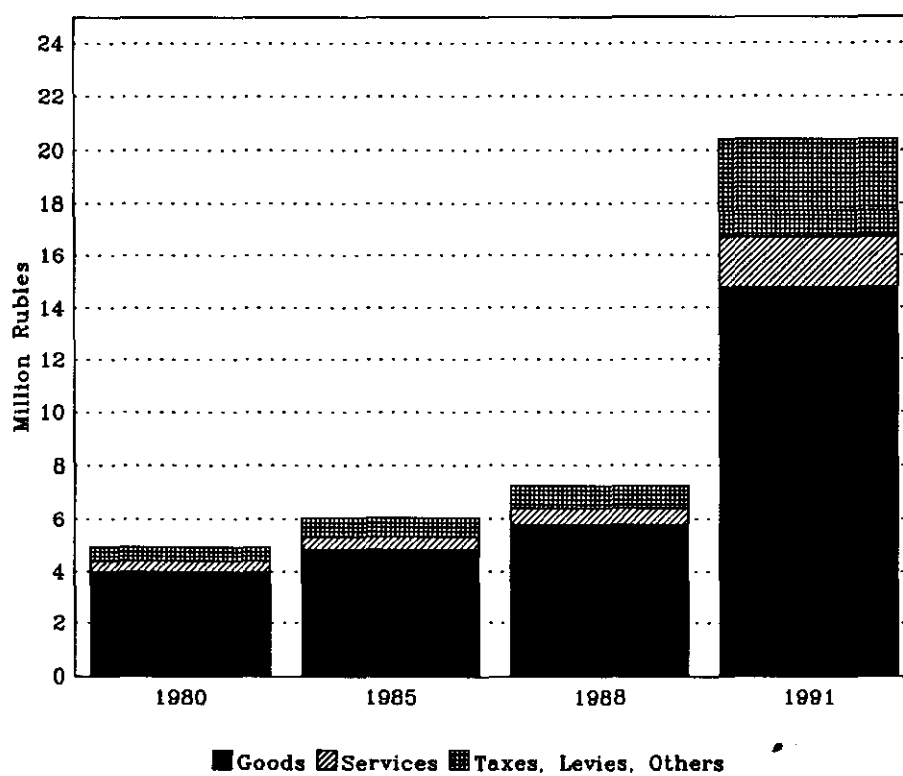


Figure 3. Expenditures of the Lithuanian population, 1980-91

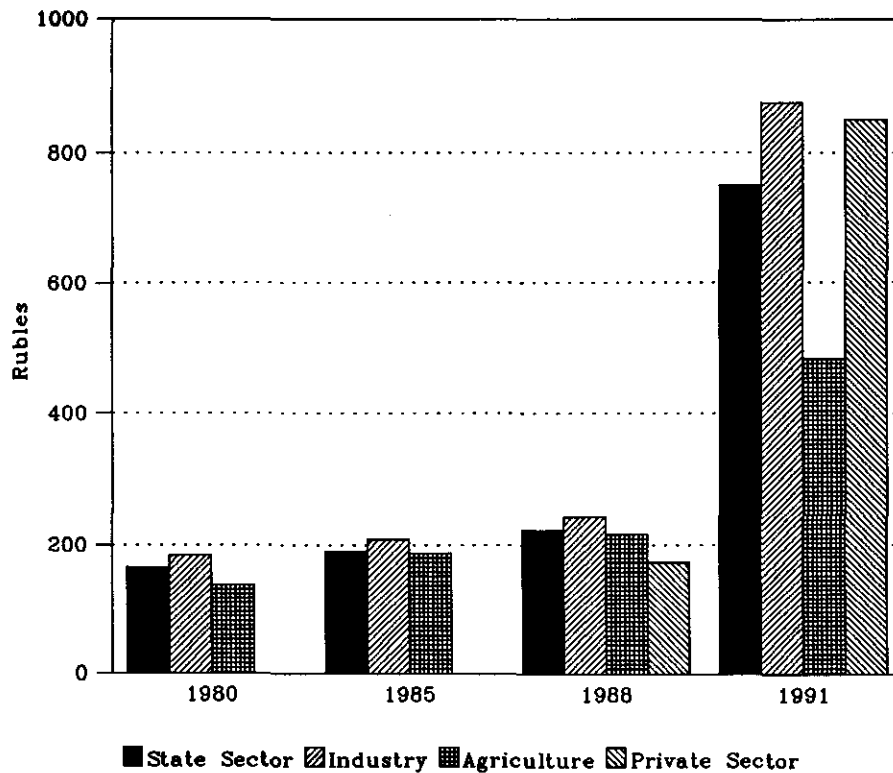


Figure 4. Average monthly salaries and wages in Lithuania, 1980-91

The average wage was increasing, while production and productivity were decreasing. The average wage in February, before taxes, was 2,798 rubles per month; in May it increased to 4,978 rubles per month. At the same time, compared with 1991, production decreased: electricity by 25.4 percent; fabrics, 25.0 percent; paper, 65.3 percent; fertilizers, 35.3 percent; refrigerators, 61.3 percent; sugar, 52.1 percent; cheese, 18.8 percent; and meat, 15.5 percent. The highest salaries were earned by managers of enterprises, up to 14,000 rubles per month. The lowest salaries were those of agriculture workers: milkmaid, 1,153 rubles per month; and tractor driver, 1,331 rubles per month. In the construction industry, average wages in April 1992 were 5,600 rubles per month for electricians and 5,200 rubles per month for concrete workers. Taking into account a high inflation rate and decreasing production, the average level of consumption of primary food products declines substantially. At the same time, we can notice a change in the structure of consumption. Consumption of relatively cheap food such as potatoes, vegetables, fruits, and berries increased (Table 3).

Table 3. Consumption of main food products

	1980	1990	1991
	(kilograms per capita)		
Meat and Meat Products	81	89	79
Milk and Milk Products	415	476	352
Fish and Fish Products	16.7	18.6	10.5
Sugar	41.2	43.2	28.7
Oil	6.3	7.3	3.6
Potatoes	150	146	155
Vegetables	78	79	92
Fruits and Berries	40	33	46
Grain Products (bread and macaroni, flour, groats)	111	108	92
Eggs (units)	253	304	275

SOURCE: *Lithuania in Figures 1991*.

During the first half of 1992 the situation became worse as the supply of food in the retail system declined. Compared with the first half of 1991, the supply of meat and meat products went down by 23.6 percent; milk and milk products, 31.5 percent; fish and fish products, 24 percent; sugar, 4.4 percent. Thus, the consumption of main food products should be declining because of declining production and distortions in the distribution system.

### Housing and Utilities

The next complicated social problem is housing construction. In 1980, total floor space of dwellings was 55.1 million square meters, or on the average 16.0 square meters per capita. In 1991, total floor space of dwellings increased to 71.0 million square meters, but it was only 18.9 square meters per capita (Figures 5 and 6). As usual, the urban population was provided apartments, by the state, with relatively low rent and utility costs. In rural areas most of the dwellings are being built by each separate family. The most critical situation is in urban areas and big cities. Between 1980 and 1991 the average per capita urban stock of dwellings increased from 14.4 square meters to 16.9 square meters. At the same time, the average per capita rural stock of dwellings went up from 24.5 square meters to 27.7 square meters.

There were two main reasons for the housing problems. First, the policy of the central administration specifies that new workers for established new enterprises were to be settled in cities

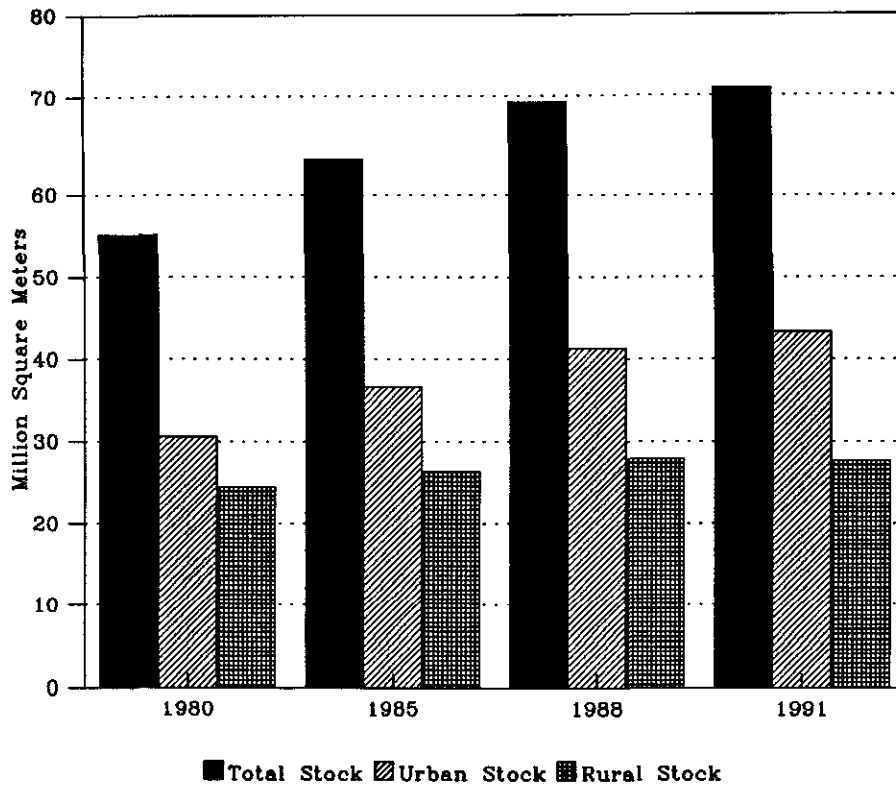


Figure 5. Stock of dwellings in Lithuania, 1980-91

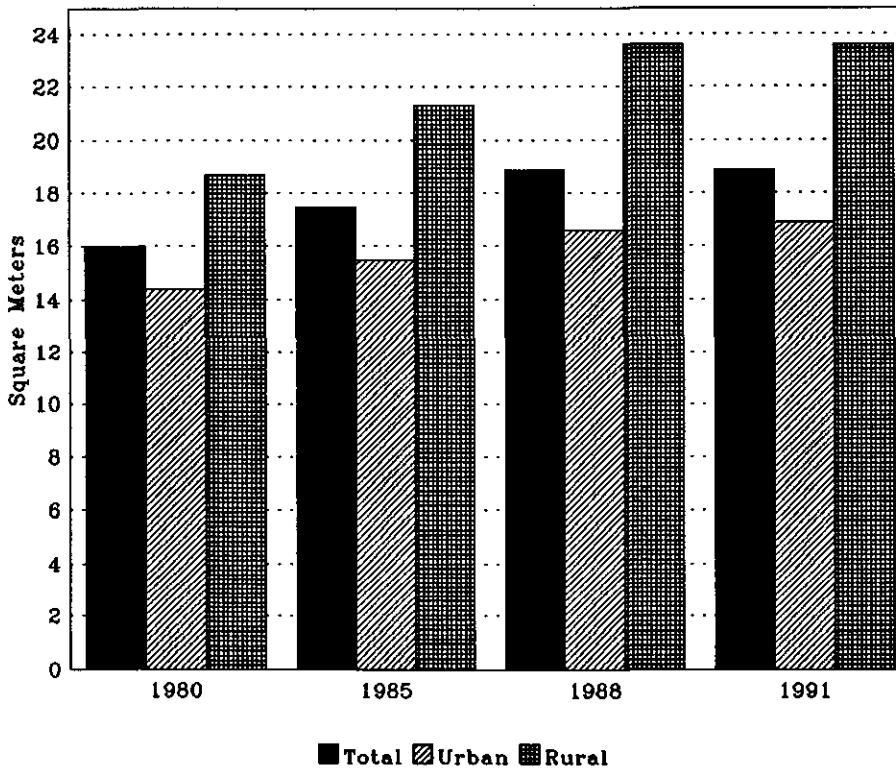


Figure 6. Average dwelling space per capita for Lithuania's urban and rural inhabitants, 1980-91

but the majority of them were not from Lithuania; they came from Russia, and other parts of the former Soviet Union. Soviet troops also used certain parts of dwellings.

The bulk of raw materials for these new enterprises was imported into the country and most of the finished products were exported from Lithuania. The new workers enjoyed a higher standard of living and managers of new enterprises enjoyed better facilities and services in Lithuania compared with other eastern parts of the former Soviet Union. Thus, cities like Vilnius, Kaunas, and Shiauliai have changed completely during the last 15 years. The stock of dwellings was managed by the state, and workers employed at new enterprises and Soviet troops had priority for housing.

The second factor contributing to unequal housing was that large-scale collective farm managers in rural areas protected farm workers and helped them build individual houses. The rural population was declining because young people often moved to cities to study in universities and usually stayed there for jobs. So there was more housing available in rural areas as young people left and as many farm managers helped workers construct homes.

Currently, there are different types of construction enterprises operating in Lithuania: state, state shareholders, shareholding companies, and private companies. The decline in the whole economy has influenced the construction industry. During the first half of 1992, 4,784 apartments were built, 26 percent fewer than during the same period of 1991. The cost of dwellings has increased dramatically: in 1990 the cost per square meter for apartments was 248 rubles, but by 1991 it had increased to an average of 756 rubles per square meter. During the first part of 1992, construction costs for housing increased 9.56 times compared with the same period of 1991, and 26.59 times compared with 1984.

Along with construction prices, utility costs are also increasing for cold and hot water, sewerage, heat, liquid gas, electricity, telephone, and others. As announced by the Ministry of Economics, in August 1992 the monthly payment per person for hot water in Vilnius was 55.97 rubles. It was 32.34 rubles for cold water, 24.66 rubles for elevator service, 2 rubles per square meter for heating, and 1.5 rubles per square meter for rent from the government. In November 1992, heating costs increased to 10.4 rubles per square meter, hot water increased to 150.19 rubles per person, and cold water increased to 63.84 rubles per person. In this case, low income families, pensioners, and disabled people cannot pay their bills because these charges add up to a very large percentage of their total income.

The subsidized housing category does include summer houses, hunting lodges, sports and tourist bases, sanatoriums, hotels, and other lodgings for temporary or seasonal use. Summer houses have always been popular for urban residents to build. Most of these summer houses were built not by the state, but by individual families and now are privately owned, as are the majority of houses in rural areas.

### **Background of Social Security Policy**

In 1989 scientists from universities proposed principles of reform for the Lithuanian social security system. These principles were then developed into the social security program for the country. The principles of reform include wage regulation, retirement pensions, compensation of lost income, and an inverse income tax. The government sets minimum monthly wages and a minimum hourly payment, which are obligatory for all enterprises. The government can control other wages only in the state sector. All private and nonstate shareholding enterprises manage independently all wages other than minimum wages.

The government was attempting to make up the difference between wages and inflated costs for basic services. The difference between fixed income and the MLS was paid in full by the government. Income losses due to inflation for those still earning more than the MLS requires are paid at a decreasing rate; in other words, these citizens receive some compensation from the government but not 100 percent of the actual increase because they have some funds available to offset the balance needed. Some enterprises have contract stipulations requiring them to pay their employees more because of inflation. But they do not have to pay 100 percent of the increases if employees are above the MLS.

Family income was supported by an inverse income tax based on the principle that family income below the MLS is tax free and is supplemented with government payments to offset a portion of income lost to inflation. All the people with income below the MLS are supported, but those with lower incomes receive greater support.

The reform process for retirement pensions is supposed to start and develop individual retirement insurance, to increase retirement age and eliminate the difference between male and female mandatory retirement age, and to create a nationwide registration, insurance accounting, and income declaration system.

The social security program was developed first and then policy was formed later. The state social policy could be described as:

- Equal rights and guarantee of social insurance for all people in the country, including old age pension, survivor's pension, and sick pay;
- Maintaining families, including guaranteeing the minimum level of family income, benefits for children, maternity benefits, maternity vacations, and guaranteeing education;
- Labor protection, including employment, employment contract, training and retraining, unemployment benefits, and labor environment safety; and
- Support for the poor through financial and social assistance.

The basis of Lithuania's social security policy is determined by laws. Actually in force are the

Income Warranty Act, Social Security System Basement Act, Social Insurance Act, Employment Act, Collective Bargaining Act, Family Support Allowances Act, Employment Contract Act, Integration of Disabled People Act, Wage Rate Act, and Improvement of Old Age People Pensions Act.

Presently the laws on labor safety, labor conflicts, state labor inspections, state employees, and old age pensions are being formulated.

The first law of independent Lithuania regulating social life was the Social Security System Basement Act, which provides the basics for general social policy. According to this act, social security is the system of social-economic means established by the government to provide residents who are unable to subsist on their work or their income, or who have insufficient income and services, with minimum income and services as established by law. The law provides equal social security rights for the citizens of the Republic of Lithuania, foreign citizens permanently residing in the country, and stateless persons, if signed bilateral or multilateral international agreements do not specify otherwise. According to the law, social security regulations apply to:

- People of retirement age and those who can no longer work in their profession or job because of their age;
- Disabled and sick people temporarily unable to work;
- Survivors;
- Those who must undergo medical treatment, medical prevention, or rehabilitation;
- Families with children;
- Temporarily unemployed workers; and
- Those for whom state support is indispensable.

The social security system consists of compulsory social insurance and social assistance and support from state and municipality funds. Persons living in the country, who had either partly or completely lost their income from work, shall be provided with state social insurance if they were insured (employed) during the period established by law. Social insurance covers those working under employment contracts and self-employed workers, including farmers and professionals who do not work for the state. The insurers are the employers and insured workers themselves.

Social assistance from state funds shall be available when it is necessary to secure or improve the security of certain population groups. The standard of social security provided by the state may not be lower than the subsistence minimum.

The state social insurance is functioning as an independent part of the system of finance and credit and it has an independent social security budget. This budget is not included in the federal budget nor in local government budgets. The main resources of the social security budget are



compulsory contributions of employers, employees, self-employed, owners, farmers, and other insured workers. At the end of 1992 the following state contribution rates were adopted:

- Employers pay 30 percent of wages into a fund for their employees;
- Self-employed and self-insured people pay 23 percent of their declared income with a minimum contribution of 23 percent of the government-set minimum wage rate; and
- Employees pay 1 percent of wages and salaries.

Thus, the sources for funds in the social insurance system are from wages and self-employed worker and employer contributions and are not simply allocated from other government sources. Social assistance, on the other hand, is not based on contributions and covered families with children, disabled, and single poor people are not entitled to social insurance benefits. Social assistance to these groups is financed from the government budget and from individual municipality resources.

Five percent of the social insurance budget is used for a special unemployment fund that pays for unemployment benefits, for creating new jobs, for setting up and operating the retraining system, for funding various employment programs, and for creating public works.

### **Social Security Administration**

The new social security policy required new administration. The Ministry of Social Security was reorganized and new social security bodies were established: State Social Insurance Board, Labor Offices Institution, and social assistance divisions in municipalities. The State Social Insurance Board and Labor Offices Institution both have a network of local offices that covers all cities and administrative regions in Lithuania. The Ministry is the central, executive body with authority over all the other divisions within it. It is responsible for preparing laws and other legal statements, monitoring the employment and labor market system, developing general wage and salary policy, preparing and adjusting social standards, developing the social security "net" within the country, arranging activity of the Social Insurance Board and Labor Offices Institution, managing care institutions, maintaining contacts with foreign countries and international organizations, and preparing and implementing interstate agreements.

The Social Insurance Board and its local offices are set up and regulated by the Social Insurance Act, and are responsible for administration of all social insurance programs. Local offices register all employers and insured persons, collect social insurance contributions, and pay social insurance pensions. The Social Insurance Board and its local offices are entrusted with financial control of insurers. The Labor Offices Institution and its local divisions are set up according to the Employment Act. Labor offices manage the Employment Fund, which is used for unemployment benefits and employment programs.

### Social Insurance and Social Assistance

At the beginning of 1992 the population of Lithuania was 3.75 million people. It included 730,800 people, or 19.5 percent of the total population, of pension age; 895,400, or 23.9 percent, under 16 years; and 2.12 million, or 56.6 percent, of working age. The share of old people in the total population is increasing: in 1980 the elderly were 17.3 percent of the total, but by 1992 they were 19.5 percent of the total population (Lithuanian Ministry of Social Security 1992).

The official retirement age in Lithuania is 55 for women and 60 for men. Thus, the number of old age pension receivers is significant (Table 4).

Table 4. Number of Lithuanians receiving pensions, 1980–91

Type of Pension	1980	1985	1990	1991
	(thousands)			
Old Age	474	548	656	679
Disability	96	100	111	116
Survivors	75	73	59	56
Personnel	6	7	8	6
Others	31	34	32	52
Total	682	761	876	909

SOURCE: *Lithuanian Annual Statistics 1991*.

According to current laws, pensioners can work and earn salaries in addition to their pensions. So, income for many elderly comes from both pensions and salaries, especially if they have a nonphysical job. This situation is quite favorable for older people now, but later it will cause some serious problems. The biggest problem is related to unemployment. While employed pensioners have two sources of income, those seeking jobs have only unemployment benefits. The biggest gap in social security legislation is the absence of an old age pension act. According to the draft of this law, the retirement age for old age pension will be increased for both women and men and elderly people should choose between retiring and receiving a pension or continuing their present occupation and receiving a salary.

A survivor's pension is paid to the dependent of a deceased insured person. Children of the deceased are always treated as dependent members of his family and pension is paid to them until they finish their education. Other members of the family are entitled to receive a survivor's pension if they have lost the capacity to work or because of old age, disability, or other health- or age-related factors.

In 1991 the social insurance budget was 4.1 million rubles, and 57 percent of the budget was used for retirement pensions (Table 5). The number of invalids receiving pensions increased to 116,000, with the average pension being 236 rubles per person per month. An average survivor's pension was about 189 rubles per person per month in 1991. Other payments from the social insurance budget were designed to cover:

- Sick pay, maternity and child birth benefits, child care benefits and funeral costs;
- Payments to the Employment Fund for unemployment insurance programs;
- Payments for medical treatment and preventive medicine; and
- Expenditures of the State Social Insurance Board.

Table 5. Social payments in Lithuania, 1987-91

Payments	1987	1990	1991
	(million rubles)		
Pensions	702	900	2339
Total Allowances	141	191	818
Sick Pay	95	134	379
Maternity	27	33	107
Child Care	17	22	320
Funeral Expenses	2	2	12
Treatment Expenses	7	16	101

SOURCE: Lithuanian Ministry of Social Security 1992.

Twenty-one percent of the budget was transferred to local budgets for different benefits including temporary sick leaves, maternity benefits, benefits for children, and survivor pensions. Five percent was transferred to the Employment Fund, 3 percent to pay for a portion of health care costs, and 6 percent to the Reserve Fund.

It is necessary to emphasize that now there is not a medical insurance program in Lithuania and almost all medical care expenditures are financed through the state budget. Medical treatment, including hospitals and medicine used for inpatient treatment, is free.

Sick pay is dispersed to insured individuals who lost their ability to work because of illness or injury, or in the case of the illness of a family member requiring nursing care. Sick pay starts from the first day of losing the ability to work and continues until recovering this capacity or until disability is assessed. The size of the benefit is 80 percent of the wage. If temporary disability lasts more than 30 days, from the 31st day the benefit becomes 100 percent of the wage. If a person

becomes sick as a result of disease or injury during an annual paid vacation, allowance is paid for all sick days.

In the case of work-related injury or professional illness, the sick pay benefit is 100 percent of wages. Benefits are paid by the enterprise from the special social fund.

The allowance for nursing sick family members is paid only if the physician decides that the person must be nursed. Allowance is paid for nursing family members for not more than seven days. When nursing sick children under 14, the allowance is paid for two weeks.

Insured people who are temporarily out of work because of epidemics or because they are carrying an infection are paid sickness allowance for the entire time they are absent from their workplace. In 1991, 379 million rubles were spent on sickness allowances (Table 5). The average number of sick days per worker increased from 8.07 in 1987 to 9.29 in 1991 and the average benefit from 7.3 rubles per month in 1987 to 24.6 rubles per month in 1991.

Maternity benefits are paid to insured women after the 28th week of pregnancy or later for 70 days before the delivery and 56 days after. Maternity benefits are paid for working and nonworking women. The size of the benefit is 80 percent of the MLS for nonworking mothers and 100 percent of the average wage for working mothers. A maternity benefit is paid for the whole period of maternity leave, not for the actual number of days the mother does not work before delivery.

Children less than one year old whose parents are insured or those whose parents are unemployed are reimbursed by social insurance for the cost of all necessary medicine and medical services used during outpatient treatment. Eighty percent of the cost of all medicine and medical services used during outpatient treatment is reimbursed through the state social insurance budget to children one to seven, nonworking pensioners over 65 who receive a social insurance pension, and to those who have lost 75 percent or more of their capacity to work. Expenses for recovery and preventive treatment centers, transportation expenses related to medical treatment, and pay for blood donors are all made according to stipulations in the law.

Social pensions are provided to nonworking persons, if they are not eligible for other kinds of pensions, such as disability or survivor's. A social pension for someone disabled from childhood is paid whether they are working or not. The size of a social pension is related to the level of disability and ranges from 30 percent to 100 percent of the minimum retirement pension.

A childbirth grant equal to 3 times the MLS is given to all mothers whose children are born alive. A child care benefit of 0.7 MLS per month is given to nonworking mothers and 1 MLS to working women, until the child is 1.5 years old, and then the stipends drop to .35 MLS and 0.5 MLS per month until the child is 3. These child care benefits are paid for every child. In addition, each family bringing up a child at home is reimbursed for the cost of preschool. The amount of this

benefit is 70 percent of the average cost for daycare and preschool per child of a working mother. A benefit of 1 MLS is disbursed for adopted and foster children until they are 16. A benefit of 12 MLS is paid for all children who are wards of the state and are in homes as well, such as orphans and deserted children, including foster children, who were studying at secondary schools, all kinds of boarding schools, or colleges and universities.

A benefit of 0.4 MLS per month is paid to single mothers for child care. In 1991 more than 400 million rubles were paid to mothers and children. Child care expenditures increased more than 19 times compared with 1990 (Table 5). Besides these payments at the beginning of 1991, the government introduced a social allowance for children, which depended on monthly per capita family income. In 1992, the amount of this social allowance was set at 100 rubles per month for each child.

Social benefits are paid to families with lower per capita income than the state maintenance income (this state maintenance income is per capita income lower than the MLS). Social benefits are granted to children up to 16 years of age, to students older than 18 who do not receive scholarships, to spouses of students, to mothers taking care of three or more children under 16 years of age.

In 1991 maternity leave was provided to 49,800 women amounting to 166.1 million rubles in benefits. Of this amount, 85.4 million rubles were spent on 56,900 birth grants. Child care allowances cost the government 645.8 million rubles. Start-up grants were given to 1,200 children, amounting to 7.2 million rubles. The single parent allowance was extended to 23,600 people totaling 56.6 million rubles (Table 6).

Table 6. Family benefits in Lithuania, 1991

Type of Benefit	Number of Recipients		Expenditure	
	(thousands)	(million rubles)	(thousands)	(million rubles)
Maternity Leave	49.8		166.1	
Birth Grant	56.9		85.4	
Child Care	298.8		645.8	
Start-up	1.2		7.2	
Single Parent	23.6		56.6	
Family Assistance	1014.3		1434.1	
For Child	468.5		766.6	
For Adults	55.8		79.6	
Minimum Payment	490.0		587.9	

SOURCE: Lithuanian Ministry of Social Security 1992.

The Social Insurance Board does not administer all social insurance programs. There are specific groups of employees who are paid pensions and benefits from the government's budget. These

groups include military servicemen, the personnel of Internal Affairs and the State Security Service, disabled soldiers, and disabled military personnel and their families.

### **Population Income Protection**

On September 27, 1991, the MLS was for the first time officially introduced in Lithuania. Based on consumer price levels on January 1, 1990, the MLS per capita was 100 rubles per month. On July 2, 1991 the MLS was 129 rubles per month per capita according to January 1, 1991 prices. As the consumer price index goes up, the MLS has been increased proportionately. In May 1992 the MLS was equal to 1,310 rubles per capita per month and by the end of 1992 it had risen to 1,600 rubles per capita per month. According to the Income Warranty Act the MLS should be evaluated every month, but only the government is entitled to change the level of the MLS, according to the general economic situation.

In order to establish the minimum living standard indicator the government had to evaluate the minimum consumption levels of food, nonfood commodities, and services. Each family has a different pattern of consumption for different products and services, and each family makes independent decisions on their level of consumption. The government's responsibility is to maintain a minimum level of consumption for families and individuals whose income is not sufficient for survival. The statistic-normative method was used to estimate MLS. This method is based on the actual average level of consumption, but this level is adjusted to eliminate several products-like beverages, tobacco, and automobiles-which are not basic for survival.

At the first stage, all estimations were done for a typical four-member family: two adults, engaged in light physical jobs, and two children, 13 and 8 years old. Later, calculations were made for families with different numbers of members. Household budget survey data from 1989 were used. Food consumption included 52 different products; consumption of nonfood commodities, 54 products; and service, 17 types. The average consumer prices for 1989 were used for calculation (Table 7).

The calculated minimum per capita budget was equal to 53.49 percent of actual average consumption. The share of food in the minimum budget per capita was equal to 78.6 percent of the actual average expenditure on food.

Based on the estimated minimum budget (or budget for the poor), per capita consumption of most food items was projected to be: sugar, 1.21 kilograms per month; potatoes, 9 kilograms; bread, 6.36 kilograms; beef and pork, 3.06 kilograms; milk, 9.82 liters; and eggs, 20 units. Consumer prices as

Table 7. Calculated minimum per capita budget in Lithuania as of September 1991

	Per Year	Per Month	Actual Average Expenditure	Part of Total
	(rubles)			(percent)
Food	544.15	45.35	692.24	44.99
Nonfood Commodities	385.41	32.12	756.23	31.86
Service	133.18	11.10	201.47	11.01
Beverages	29.52	2.46	98.43	2.44
Obligated and Voluntary Payments	93.14	7.76	183.99	7.70
Savings	24.19	2.02	329.11	2.00
Total	1209.59	100.80	2261.47	100.0

SOURCE: Lithuanian Ministry of Social Security 1992.

of November 24, 1992 were (per unit): sugar-120; potatoes-22; bread-12; beef and pork (average)-161; milk-34; eggs-84 rubles per 10 units. This small set of products costs 1,414 rubles per capita per month, while a real set of products includes many more food products, nonfood commodities, and services. Thus, the Lithuanian government is actually compensating its citizens for a small part of lost income because of the current economic crisis. The announced MLS is 1,600 rubles per month, but it actually should be about 7,000 rubles per capita per month.

Anyway, the MLS was established to protect income from inflation and, by law, many social payments are based on this minimum living standard, including:

- Minimum monthly wages and pay per hour;
- Minimum and maximum unemployment benefits;
- Child care benefits for working and studying women;
- Birth grants;
- Maternity benefits;
- Start-up benefits to orphans;
- Benefits to single mothers;
- Funeral grants; and
- Scholarships for students.

### Labor Market Policy

In order to understand and evaluate unemployment data, it is first necessary to describe how unemployment data are categorized; not all those not working are actually seeking employment, so Lithuanian aggregate data can be confusing.

At the end of 1991, the working-age population was 2.12 million people, of whom 1.09 million were male and 1.02 million were female (Figure 7). In the same year, the annual average economically active population was 1.84 million, or 86.56 percent of the working age population, and about 49 percent of the total population. More than 77.3 percent of the workers and employees worked for government-run companies and organizations; 12.2 percent in cooperative companies and organizations; and 10.8 percent in private sector companies, joint-stock, and economic business companies. The largest sectors of the economy in 1991, by average number of workers and employees, were industry, 484,300; construction, building, and assembling, 308,500; education, 145,100; trade, public catering, material-technical supply and purveyance, 136,900; health service, sports, and social maintenance, 103,500; and agriculture, 102,400 people.

In 1991, the total number of enterprises was 49,612, but there are only several with 1,000 to 10,000 employees. Most enterprises are rather small. For example, in the construction industry the average number of employees was 401 in 1990 and 266 in 1991.

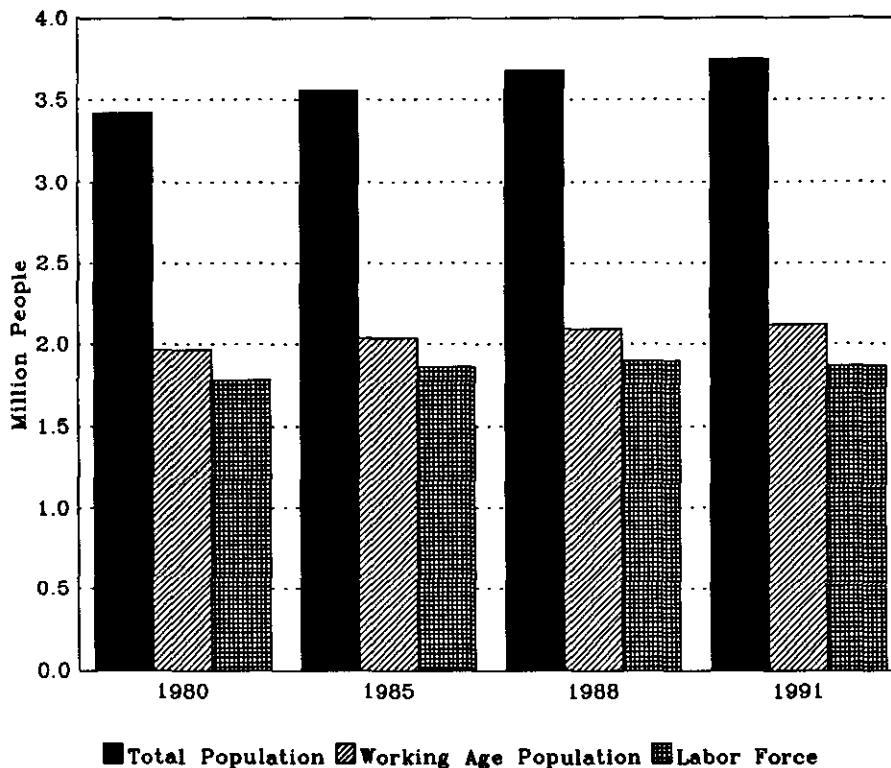


Figure 7. Average annual employment in Lithuania, 1980-91

The smallest employers are private, joint-stock companies, and foreign capital companies or joint



ventures, where the number of employees was 20.45 per company at the beginning of 1992. The current tendency is for an increasing number of enterprises and decreasing number of employees per enterprise. At the same time, the number of private companies is increasing.

Any growth in the number of enterprises depends on the government's privatization policy. In the first stage of privatization mostly small, service providing enterprises, were sold through auctions. The tendency is, though, that enterprises decrease the number of employees after they become private. When large state enterprises are privatized, the number of employees in each firm should decrease significantly. Employees who lose their jobs can seek vacant jobs, or can try to establish their own businesses. Also, one state-owned enterprise can be divided into two or more private enterprises through privatization. The biggest problem is large-scale enterprises that use raw materials from and sell their products to the former Soviet Union. Their activity depends mostly on supply and demand in markets outside of the country, but only a few of these products can compete in Western markets. The majority of large enterprises should modify what they manufacture or else they will go bankrupt. Many of these enterprises found a direct link to suppliers and consumers outside Lithuania, and these are the firms that were successful during 1990 and 1991.

According to data from the Lithuanian Department of Statistics, in 1991 the average number of workers and employees declined by 34,606 people. Some of them have found jobs, but some are still unemployed. The unemployment problem is not so serious as it could be, since unemployment only covers between 0.4 percent and 0.5 percent of the working age population. According to data from the Labor Office, the number of people not working had increased from 15,100 in March to 19,000 in July 1992. But not all those who do not work are considered to be unemployed. The number of unemployed increased from 5,200 to 7,300. At the same time, the number of vacant jobs increased from 4,900 to 6,600. The number of jobless and those seeking employment increases each month. In August 1992 there were 20,000 not working, 9,000 with official unemployed status, and 4,200 vacant jobs.

From a long-term perspective, the prospects for stabilizing unemployment depend on restructuring the national economy. The government has to have a clear program for changing the structure of the Lithuanian economy so that it can function internally and also within the European and world markets. The main task now is not to save old jobs, but to create new ones. A number of small private companies have been successful and have created new jobs. The government now needs to improve economic conditions for private businesses so that they can grow and expand their markets.

Lithuanian labor policy is implemented through the employment service. At the present time, the unemployment service consists of one central and 48 local offices. Besides paying benefits and

registering the unemployed, they are responsible for helping people to find jobs, organizing retraining and public works, and registering job vacancies. On December 13, 1990 the Employment Act was adopted, which explains the term *unemployed*. It means that people of working age who are willing and able to work, who have lost their jobs not by their own fault, can register as job seekers. If there is not another job available for them, they are termed unemployed and they are paid unemployment benefits. Unemployment benefits are paid from the eighth day after registration at the employment office for a maximum of six months during a 12-month period. Those eligible for benefits include employees who have been employed for at least 24 months during the past three years. They are paid 70 percent of their previous average monthly wages for the first two months of unemployment, 60 percent for the next two months, and 50 percent for the last two months. Unemployed workers within five years of official retirement age can get benefits for an additional two months at 50 percent of their previous average wages.

Employees are not eligible for unemployment benefits if they have left their jobs on their own initiative, if they were laid off because of poor job performance, if they do not accept a suitable job offer, or if they do not visit the employment office regularly. In addition, the law also states that job seekers can be offered a retraining program before, during, or after being designated as unemployed.

Certain social groups in society—citizens under 18 years of age, women with children under 14 or men bringing up children on their own, older workers within five years of retirement, and disabled people—have special guarantees. Employers have quotas of up to 5 percent of total employment for these categories. These quotas are based on municipality and labor office requirements. Employers also must declare their vacancies to the labor offices on a regular monthly basis.

The main functions of labor offices are to organize and carry out regional employment programs. In 1991 these offices were provided with a 185.1 million ruble employment fund from the State Social Insurance budget. The fund is used for different purposes (Table 8).

Table 8. Expenditures for regional employment programs, 1991

Category of Benefit	Percent of Total
Unemployment Benefits	66.0
New Jobs Creation	6.6
Retraining	5.3
Loans for Currently Unemployed to Encourage Private Business Development	3.9
Unemployment Programs	3.1
Additional Benefits to Those Engaged in Public Works	1.0

SOURCE: Lithuanian Ministry of Social Security 1992.

Tripartite commissions have been established with representatives of trade unions, employers, and state authorities. Each group has an equal number of representatives and these representatives share equal rights on the commission. The task of this tripartite commission is to make proposals related to labor market policy and to establish priorities for social security. In 1990 Lithuania became a member of the International Labor Organization.

### **Conclusions**

The high inflation rate in Lithuania since 1991 has significantly decreased the living standard. The causes of high inflation were the government's price regulation, input (oil and gas) prices rising, and the lack of a national currency.

Even before reform, living standards in Lithuania were not high, and they have been declining substantially since 1991. Beginning in 1991, the government has been doing a lot to protect private consumption. Their policies slowed the declining standard of living in 1991 and in the beginning of 1992. Minimum wages, pensions, and allowances for families have been increased several times, but have only offset a small part of lost income. Since May and June 1992 the government actually slowed the growth of wages and social payments, but not inflation. Therefore, in December 1992 the minimum wage in Lithuania was about U.S. \$30, and in Estonia it was about U.S.\$58.

On the other hand, businessmen suffered from the government's tax policy, which did not promote development of private firms. The consequences of this policy were the declines in real output, real wages, and consumption. Thus, distrust was shown for the former political leaders and the government during the elections in late fall 1992.

The new Lithuanian government can improve the economic and social well-being of the people if they can establish economic stability and achieve economic growth. On the other hand, economic stability and growth cannot occur without social stability. The previous government was able to adopt new laws regulating social and economic activities. Now it is time to implement these laws.

## DATA SOURCES

*Note: Unless specifically noted, these sources are available only in Lithuanian.*

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