

A productive economic system is the main precondition for providing the population with an adequate standard of living, which is an indispensable element of human development. Since the restoration of independence, the transformation of the political system and the drastic turn from central planning to a market economy have resulted in fundamental changes in social stratification in Latvia. The portion of society that has not fully reaped the material benefits of human development deserves special notice.

The Economic Crisis and the Decline in GDP

In Latvia, as in other post-socialist countries in Central and Eastern Europe, the transition to a market economy has been attended by a serious economic crisis. Changes in the traditional markets for raw materials and manufactures, the rise in prices towards world levels, the restructuring of production and changes in the form of ownership have all resulted in a decline in the gross domestic product (GDP).

In the five year period from 1990 to 1994, GDP decreased by more than a half or, in terms of average prices in 1993, GDP per capita fell from 1105.65 lats in 1990 to 558.87 lats in 1994. Annual changes in the GDP are reflected in Table 6.1.

According to many experts, actual GDP might be 10 to 20 percent higher than indicated in the State Statistical Bulletin, as official statistics do not include activity in the "shadow economy."

However, the role of the "shadow economy" in the country should be evaluated critically. Although the "shadow economy" might contribute somewhat to production and income over and above official figures, it has a negative impact on development as a whole. The "shadow economy" hampers the development of the legal economy, compromises the rule of law, and avoids the payment of taxes, thereby considerably impairing the resolution of various social problems in accordance with the imperatives of human development.

Table 6.1

Latvia's Per Capita GDP in 1993 Prices, 1990–1994 (Lats)

Year	GDP per capita	Indices 1990=100%
1990	1105.65	100
1991	993.61	89.9
1992	654.83	59.2
1993	567.83	51.4
1994	558.87	50.5

Monetary Incomes and Inflation

The prolonged economic crisis has caused considerable inflation, rising unemployment and a decline in the general material welfare of the population, as evidenced by the data in Table 6.2 (see also the Chapter on Rising Unemployment). As can be seen in the table, inflation has fallen over the last two years. In comparison to December 1991, average monthly wages in January 1995 had risen 15.4 times. However, consumer prices increased 18.7 times during that period.

Price rises have considerably outpaced increases in incomes. As a result, purchasing power and the level of material welfare have fallen precipitously.

Like any major transformation, that in Latvia has created new social groups which have benefited from change and those that have lost their former positions, privileges, guaranteed social and material security, and customary way of life. With changes in the income and price structures, many social groups have experienced considerable shifts in their material status. According to the data of the State Statistics Committee on household incomes and expenditures, living standards have plummeted among the disabled, large families, elderly (retired) people, people with health problems, the unemployed, people employed in the fields of education, culture, research, medicine and nursing, and workers employed in large state-owned enterprises, many of whom live below the crisis subsistence minimum.

Table 6.2

Average Income in Lats Per Family Member
and the Consumer Price Index, 1991–1994

	1991	1992	1993	1994
Average cash income per family member	2.07	13.88	27.41	40.29
Subsistence budget per capita (goods and services): State Statistical Committee estimate	1.74	18.57	37.59	51.50
Crisis subsistence budget per capita (goods and services): Welfare Ministry estimate	–	–	30.34	38.42
Income per family member as % of:				
– Subsistence budget	–	–	73.0	78.0
– Crisis subsistence budget	118.9	74.74	90.3	104.9
Consumer price (inflation) index	272.2	1051.2	209.2	119.0

An analysis of the data provided by the State Statistical Committee suggests that the rise in inflation slowed and purchasing power increased somewhat in 1994. Monetary income per household member in 1994 increased by 47.0% compared to 1993, and the consumer price index increased by 35.9%. At the same time, the consumption level among the surveyed families has not improved correspondingly. This especially holds true for rural residents.

The income per family member of rural residents was 74.63% of that of urban residents in 1993, whereas a year later the ratio had fallen to only 66.36%. The income figure for rural inhabitants does not include revenue from products grown for home consumption on private agricultural plots. The relatively small growth in rural monetary incomes can be explained with reference to a contraction of public sector agricultural production levels and increasing rural unemployment (see also the Chapter on Rising Unemployment). Wages

in agricultural enterprises and other labour earnings dropped by 67% in 1994, which could not be compensated by the 44% larger monetary income from private agricultural plots. Changes in the structure of household income over the last two years are contained in Table 6.3.

Among those surveyed in 1994, 76% of the increase in incomes derived from wage increases, 11% from social funds and 6% from private agricultural plots.

Income Differentiation and Social Stratification

The increase in monetary incomes has been accompanied by growing income differentiation. Data from a survey of 1300 household budgets and expenditures (the survey did not include the poorest families, such as the homeless and vagrants, or the richest) provide some insight to social stratification. Each of the 1300

Table 6.3

Structure of Household Monthly Monetary Income
Per Family Member, 1993–1994 (in Lats)

	1993	1994	1994 as % of 1993	Income structure	
				1993	1994
Total monetary	17.25	40.29	147	100	100
income, including wages	17.25	26.99	156	63.0	67.0
–income from social funds	5.57	7.00	126	20.3	17.4
such as:					
–pensions	2.76	4.29	155	10.1	10.6
–cash benefits	2.26	2.28	101.0	8.2	5.7
–income from private agricultural plots	1.49	2.19	147	5.4	5.4
–other income	3.10	4.11	132	11.3	10.2

surveyed households was classified in ascending order into deciles, with each decile comprising 10% of the respondents whose income falls between two deciles. The ratio of the average income per family member of families ranked in the tenth decile (the richest) to that of families ranked in the first decile (the poorest) was 5.6 in 1993 and 6.9 a year later. In other words, the distance between the rich and the poor increased substantially in a one year period.

Although considerable stratification of the population according to income had already taken place in earlier years, the process continued in 1994. Data from the survey of household budgets suggest that the income of households ranked in the first decile (the poorest) increased by 1.27 times from 1993 to 1994, while that of households ranked in the 10th decile increased by 1.57 times over the same time period. The other deciles also witnessed a similar trend – the more well-off the household, the greater the increase in income. The material welfare of the population in 1993 and 1994 is reflected by the consumption structure per household member by income decile, which can be seen in Table 6.4.

Large families encounter the greatest difficulties in making ends meet. The average num-

ber of family members in the households ranked in the first decile was 4.0 in 1994, while that in households ranked in the 10th decile was 1.7. Family size is to a large extent determined by the number of children, and a decline in the birth rate has taken place. 24,192 infants were born in 1994 and 41,624 people died, making the total negative balance 17,432 people. This is a record for the last 75 years (see also the Chapters on the Development of a Multi-Ethnic Society and Deteriorating Health).

Another indicator pointing to the gravity of Latvia's social and economic problems is the growing number of children left by parents in child care homes for social and economic reasons. Of 283 infants left in child care homes in 1990, 228 were left for health reasons and 58 for social and economic reasons. The situation has changed drastically in recent years. Of 263 infants left in child care homes in 1993, 75 were left for health reasons and 188 for social and economic reasons (see also the Chapter on the Integration of Marginal/Vulnerable Groups). Economic conditions are especially difficult for the retired, the disabled and the unemployed, because pensions and benefits are considerably lower than the crisis subsistence budget devised by the Ministry of Welfare.

Table 6.4

Structure of Expenditures Per One Family Member by Decile, 1993–1994 (Lats)										
Decile	Year	Total	Food	%	Clothing	%	Lodging	%	Other	%
I	1993	139.0	72.4	52.1	8.4	6.0	17.2	12.3	41.0	29.6
I	1994	177.1	88.4	49.9	11.3	6.3	17.7	10.0	59.7	33.8
II	1993	193.3	96.7	50.0	11.3	5.8	17.2	11.9	62.3	32.3
II	1994	267.9	127.4	47.6	18.2	6.8	30.0	11.2	92.3	34.4
III	1993	231.2	109.9	47.5	14.0	6.0	31.2	13.5	76.1	33.0
III	1994	325.1	152.3	46.9	21.9	6.8	36.4	11.2	114.4	35.1
IV	1993	264.0	124.0	47.0	15.0	5.9	38.0	14.4	86.5	32.7
IV	1994	375.5	174.9	46.7	17.6	4.7	45.9	12.2	136.9	36.4
V	1993	278.3	135.6	45.5	17.1	5.7	40.2	13.5	105.4	35.3
V	1994	431.0	185.6	43.1	25.3	5.9	51.2	11.9	168.9	39.1
VI	1993	334.3	142.3	42.6	23.0	6.9	41.5	12.4	127.5	38.1
VI	1994	488.2	206.2	42.2	27.1	5.6	56.1	11.5	198.9	40.7
VII	1993	383.5	176.0	45.9	23.0	6.9	50.8	13.2	133.7	34.0
VII	1994	557.0	248.8	44.8	32.0	5.7	55.3	9.9	220.8	39.6
VIII	1993	452.0	192.6	42.6	30.3	6.7	51.1	11.3	178.0	39.4
VIII	1994	665.5	262.9	39.6	38.0	5.8	70.2	10.5	293.7	44.1
IX	1993	540.9	214.3	39.6	39.0	7.2	63.5	11.7	224.1	41.5
IX	1994	787.8	318.2	40.4	51.5	6.5	81.7	10.4	336.3	42.7
X	1993	780.2	274.3	35.1	67.3	8.6	71.1	9.1	337.5	47.2
X	1994	1229.1	420.2	34.2	86.6	7.0	106.5	8.7	615.7	50.1

Problems Caused by Low Incomes and Rising Poverty

Changes in the material welfare of the population are reflected and assessed in the Memorandum of the Social Security Mission of the World Bank (1993). This document suggests that poverty rose from 4–5 % of the population in the late 1980s to 35% at the end of 1993. International Monetary Fund experts have reached similar conclusions. The Latvian Free Trade Unions and other sources, however, hold that almost 80% of the population is living in poverty.

Proceeding strictly from the household budget survey and assuming that the officially promulgated subsistence budget equals the poverty threshold, one concludes that about 70% of Latvia's population lived in poverty in 1994. Only households ranked in the eighth decile and higher had at their disposal the subsistence budget of 51.50 lats per month. Thus, 70% of the population had incomes below the subsistence level, 10% had incomes equal to it, and only 20% of the population had incomes exceeding it. Using such calculations, similar figures may be obtained for living standards in 1993 as well.

Without trying to dispute any of the above figures, it should be mentioned that analysts have used different methodologies and sources of data. Furthermore, their analyses are influenced by differing political and economic goals. The term "poverty" has frequently been subject to populist or oversimplified explanations. Some interpret the term in purely economic terms, suggesting that poverty has struck all whose incomes are smaller than 70% of the subsistence minimum (thus comprising the 20% of the population to which social service agencies devote special attention). In the context of human development, it is important to include economic, social and political dimensions in any definition of poverty. In economic terms, poverty is the result of an unequal distribution of resources and unequal utilisation thereof by members of society.

The amount of income available to the population determines the amount and structure of expenditures. Residents ranked in the first decile in 1994 spent a monthly average of 7.36 lats per family member on food, while those in the tenth decile spent 35.02 lats. Thus, the poorest could afford to spend only one-fifth of the amount spent by the relatively well-to-do for food.

Since the majority of the population is needy, food calorie consumption, especially that from products of animal derivation, has decreased. The continuous need to conserve resources by cutting back on food, bad living conditions, and the inability to pay for qualified health care and medicine have greatly contributed to the rise of morbidity and mortality in Latvia (see also the Chapter on Deteriorating Health).

The social dimension of poverty is manifested in limited access to the basic values constituting a life worth living. Participation or exclusion from decision-making defines the political dimension of poverty. A lack of family resources creates not only serious educational, health care and recreational problems, but also prevents people from becoming active members of society and participating in cultural and political life. All three dimensions – the economic, social and political – are interrelated.

Systematic, comprehensive research on the poverty level serves as a valuable reference

point for crafting social policy. Significant research on living conditions in the Baltic region has been conducted by Latvia's State Statistical Committee and the Norwegian Institute for Applied Social Science (FAFO), while the reorientation of the household survey system currently underway will lead to a better indication of the real level of poverty.

The Efforts of the Government and Society in Alleviating Poverty

A basic precondition for the successful resolution of problems related to poverty is overcoming the economic crisis and achieving stable economic growth, goals the government has put at the foundation of economic policy. The successful implementation of social programmes can only take place if society as a whole is sufficiently wealthy.

In order to resolve the enormous problems linked to falling living standards, the government has exempted low-income groups from taxes and, within budgetary constraints, established pensions, unemployment benefits and other social benefits. In conjunction with local governments, the national government is developing a social security system for the most needy residents and subsidising utility payments and transportation fees for the retired, the disabled and large families. Local governments play an ever greater role in the resolution of these issues (see also the Chapter on the Integration of Marginal/Vulnerable Groups).

In addition to state and local governments, many religious and social organisations, such as Save the Children, The Association of Large Families, associations of pensioners and the disabled, the Latvian Orphans' Union, and others play a significant role in providing assistance to the needy (see also the Chapter on the Emergence of Civil Society). These groups offer material and moral support to the impoverished by providing free meals, clothing and medicines and by visiting and lending psychological support to the disabled at home, in boarding houses and in hospitals.

Moreover, the impoverished have begun to help each other and some support from the

more well-to-do has been forthcoming. International organisations and major bilateral donors have evidenced great interest in alleviating the aforementioned problems through various social projects and essential support to Latvia during the transition.

Improving the Current Situation

In order to alleviate the problem of poverty in Latvia more efficiently in the near future, a number of measures are necessary, including:

1) achieving stable job-creating growth and increasing labour productivity, thereby enabling people to overcome financial and economic hardship through their own efforts and to participate actively in the process of human development;

2) improving fiscal policy through more effective taxation and tax collection, which would permit state and local governments to supplement social welfare budgets;

3) educating the population with the aim of increasing self-confidence and self-reliance in facing economic hardship (see also the Chapters on the Emergence of Civil Society and Rising Unemployment);

4) coordinating more effectively various forms of social assistance;

5) facilitating research on issues related to poverty and creating a decentralised data base on overall and regional living standards, which could enable state and local governments to draft and implement social policy aimed at providing support to those who need it the most.