# Economic Development and Work Opportunities in Rural BSR

# 9

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## Post World War II Development

### The European Union Context

Today working in agriculture is the primary means of surviving for fully 75% of the world's 1.4 billion poor living in rural areas (Collier, 2007). In the European Union of 2004 with only 15 countries, 4.1% of the workforce was employed in agriculture while in the 10 EU accession countries of 2004 up to 13.2% were. Through takeovers, entry of multinationals, and mergers, the agri-food sector had been radically transformed during the 1980s. At the turn of the millennium the agri-food sector contributed about 8% of industrial employment and 2% of total employment in the EU. In the subsequently enlarged EU, 90% of the area was rural, as was more than half its population. Until this enlargement, rural poverty was practically eliminated in the EU and Northern Europe. In 2007 (after Rumania and Bulgaria had also joined the EU), more than 93 million people or one in five Europeans lived under the poverty line, which is five times more people than in the early 1990s. Rural poverty in the EU is still double its earlier rate before 2004 and up to three times higher than in urban areas. For this reason, after 2006 in the EU Common Agricultural Policy (CAP), an extra infusion of just above 10 USD billion for rural development was earmarked for new EU members – among them Estonia, Latvia, Lithuania, Czech Republic and Poland – and the CAP budget was increased for a six-year period to almost 17 USD billion

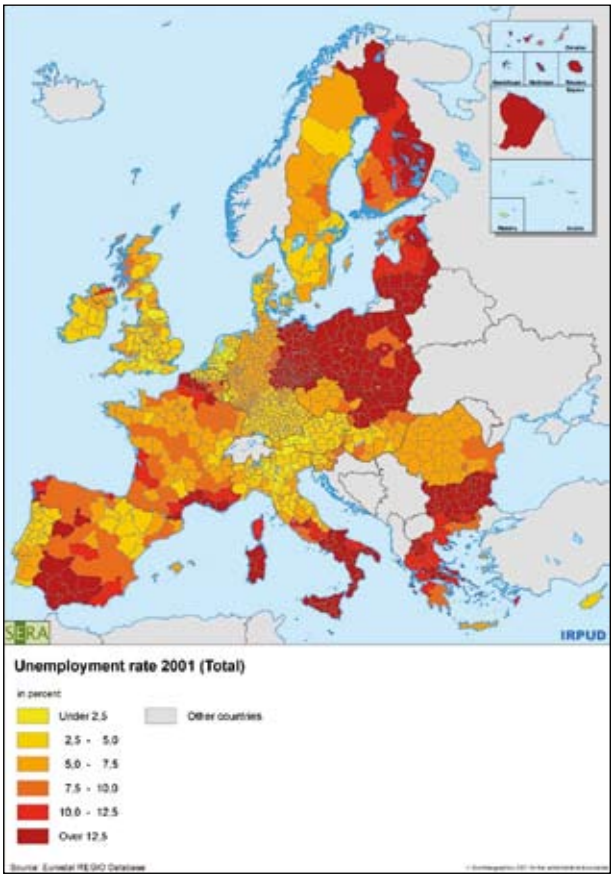


Figure 9.1. Unemployment rate 2001 (total). Source: Copus et al., 2006; Eurostat REGIO Database.

annually in contrast to the period 2000-2006, when funding for rural development was just below 10 USD billion per year. The basic CAP policy has been to support the price to farmers, while keeping market prices for their products low enough to avoid consumer protests through subsidy and export subsidy programmes. In return, farmers have to follow EU directives on quantity and quality of production (IFAD, 2007; Barthelemy, 2009). The EU Lisbon strategy of March 2000 was re-launched in 2006 to further stress the goal of making the EU 'capable of sustained economic growth with more and better jobs and greater social cohesion' (Wibberley, 2007).

This chapter deals with labour development, focusing whenever possible on rural areas and agricultural employment in Eastern and Northern Europe, where all countries are directly or indirectly affected by EU policies.

**Economic Development of Soviet Union and Russia**

Through the Marshall Plan help from the USA, the war-damaged countries of Western Europe were quickly rebuilt after 1949, while Stalin, the Soviet dictator, acted in such a way that this help did not extend to Eastern Europe and the Soviet Union (McKay, 1996). Sweden, mostly through luck, managed to stay out of the war and with its undamaged infrastructure was able to enjoy a high growth rate from the late 1940s while becoming an immigration country (Magnusson, 1996; Porter, 1990).

In countries of the Soviet Bloc, rapid industrialisation and forced collectivisation of agriculture had absorbed the rural excess population as well as demobilised soldiers, the urban unemployed and unskilled labourers after World War II. During the 1950s and 1960s and well into the 1970s, these countries were reasonably successful in combating poverty and promoting equality through improvements in general education and health. Lifelong and full employment was guaranteed by the state. The built-in faults of this system were coming to the fore in the 1980s with low labour productivity in a system of 'soft budget constraints', meaning increasing demand for artificially low-priced goods, particularly housing and energy, leading to shortages in goods, accommodation and services. Some scholars refer to the best periods of Soviet rule as 'welfare colonialism'. However, in this stifling political system with curtailed freedoms, creativity and innovation were sorely lacking. With the dissolution of the Soviet Union in the early 1990s, an abrupt termination of state services and central planning followed (IFAD, 2007; Thorborg, 1993; Bengtsson, 2007; Table 1 and 2).

In the Soviet system people were not allowed to be idle, only resources were allowed to be idle and these learned reflexes continued into the transition era, contributing to a low unemployment level but with wages eroded by inflation and decreasing productivity. From 1990-1998 Russian GDP shrank by 46%, while hyper-inflation raised consumer prices by 385%, leading to annual economic shocks. Although GDP growth resumed in Russia after the Rouble devaluation in August 1998, the GDP per capita in 2003 was lower than in 1973. However, with Russia emerging as a major oil exporter benefitting from booming oil prices, the 1990 level almost doubled by 2008 (Maddison, 2007; UN, 2005; Thorborg 2002a, b, c, 2003a; Tables 1 and 2).

**Box 9.1. Definitions**

*Labour utilisation* generally refers to the number of people working as a proportion of the total number of people of working age, usually meaning from age 18 until official retirement age but in agriculture often from 15 years to retirement.

*Distribution of income* within a society can be described in different ways. Most often statistics give data for the richest 20% versus the poorest 20%. A more comprehensive measure was developed by the italian sociologist Corrado Gini. The *Gini coefficient* is a distribution measure from 0 to 1 where 0 represent a perfectly equal distribution and 1 total inequality where everything is owned by a single person.

*Economic transition* means liberalising economic activity, prices and market operations and reallocating resources to their most efficient use, developing market-orientated instruments for macroeconomic stabilisation, effective enterprise management, imposing hard budget constraints and establishing institutional and legal framework to secure property rights, rule of law and transparent market entry regulations (Kucera, 2007).

*Soft budget constraints* means the state is protecting the economic sector or parts of it by using a variety of mechanisms such as soft credit from state banks, monopoly protection, import restrictions, supply of heavily subsidised energy resources, tax privileges, non-tax settlement schemes, barter trade and cash subsidies from the budget.

*Hard budget constraints* means imposing strict financial discipline, the government ensuring uniform and even-handed enforcement of necessary regulations, promoting transparency, clarity and accountability of public activities and decisions and guaranteeing freedom of entry and exit of business activities.

Table 9.1. World GDP per capita (regional averages 1000-1998) in international dollars. Source: Maddison, 2001, Table B-21

| | Year | | | | | |
|---|---|---|---|---|---|---|
| **Region** | **1000** | **1600** | **1870** | **1950** | **1973** | **1998** |
| Eastern Europe | 400 | 516 | 871 | 2,120 | 4,985 | 5,461 |
| Fmr Soviet Union | 400 | 553 | 943 | 2,834 | 6,058 | 3,893 |
| Western Europe | 400 | 894 | 1,974 | 4,594 | 11,534 | 17,921 |
| Western off-shoots | 400 | 400 | 2,431 | 9,288 | 16,172 | 26,146 |

**Box 9.2. A Short Note on Data**

Information referring to the European national level is generally easier to find than information on rural-urban differences, while comparative national data on rural development are even harder to find. Estimates on the size of the informal sector vary widely and even more so for that sector in the countryside. Definitions of unemployment also diverge greatly, as do estimates of unemployment. According to the Centre for Rural Research at Exeter University working on EU data, 'Different statistical procedures and criteria mean that comparable data are not available systematically. EU and OECD definitions and thus data contrast markedly and there is considerable diversity between reporting countries despite efforts to standardise.' (Wibberley, 2007).

In countries formerly under illegal Soviet occupation, such as the Baltic States, political repression and memories of deportations to Siberia did not contribute to develop trust or enhance Russia's 'soft power', although an extensive industrialisation drive with massive Russian investment – followed by immigration – started from the 1960s onwards (Kuodote and Traceskis, 2005; Thorborg, 1997). When Soviet domination terminated, the states of Eastern Europe turned to the West as trust in the Soviet system and its attractiveness were totally eroded. A rapid decrease in standard of living ensued when social safety nets disappeared and subsidies were removed. However, Estonia and the Czech Republic recovered quicker than the rest of the transition countries (UN, 2005; Thorborg, 2003b; Table 2).

**Agricultural Development in the Nordic Countries**

Although Sweden went from being an agrarian country to an industrial one in the 1940s, productivity was higher in agriculture than in industry all through the 1970s and 1980s because employment in agriculture decreased by 75% from 1950 to 1980 and agriculture's share of GNP went down to 5% by 1980. Although family agriculture was still the model, basic mechanisation was completed by 1970 in combination with the disappearance of about 100,000 small-scale family farms, contributing to increased farm size and less demand for labour. In Northern Sweden small-scale agriculture was highly seasonal and almost always combined with forestry (as was the case in Finland), which was exposed to large-scale rationalisation in the late 1960s. The traditional form of mixed agriculture largely built upon the principles of self sufficiency was supplanted with specialisation either in grain or animal husbandry.

The other Nordic countries experienced similar developments but with a time-lag due to war and occupation. In Finland the family farm continued with its members contributing over 97% of the workforce at the turn of the millennium. The Finnish land reform in 1921 had resettled landless farm workers and tenants and after World War II another 40,000 families were resettled after being displaced from the areas occupied by the Soviet Union and therefore in contrast to most industrialised countries, the number of farms increased.

In 1950 Finland had 260,000 farms and the number was still around 200,000 by 1981. However full-time farmers earned only 70% of the average income of an industrial worker in 1984, so most farmers supplemented this with income from forestry. In the mid-1980s, 65% of farmers' income came from agriculture, 25% from wages and 10% from forestry. As in the other Scandinavian countries, the trend was towards specialisation. Denmark and the UK not only had the highest number of non-family farm workers in the EU, but Denmark also was the largest employer in the agri-food business, which accounted for 3% of all jobs, while in Sweden this was much lower than 2%. In Denmark, the most agricultural country in Scandinavia, the seasonal movement of agricultural workers from Poland stopped when the Iron Curtain blocked migration but was partly resumed after the break-up of the Soviet Bloc in the 1990s (Magnusson, 1996; Porter,

Table 9.2. GDP per capita performance and GDP growth rates in Eastern and Northern Europe, 1970-2010.

| | GDP per capita in 1,000 USD # | | | | | Growth rate | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1973 | 1990 | 2003 | 2008 | 2009 | 1973-90 | 1990-2003 | 2007 | 2008 | 2009 | 2010 |
| Sweden | 13.5 | 23.3 | 28.3 | 38.5 | 36.8 | 2.6* | 1.4** | 2.7 | 0.5 | -4.4 | 1.2 |
| Finland | 10.8 | 20.1 | 24.5 | 37.7 | 34.9 | 3.7* | 1.7** | 4.4 | 1.2 | -7.6 | 1.2 |
| Denmark | 13.4 | 24.1 | 30.3 | 37.8 | 36.0 | 2.0* | 2.3** | 1.7 | -0.9 | -4.3 | 1.2 |
| Germany | 13.2 | 19.4 | 23.2 | 34.8 | 34.1 | 2.5* | 3.0** | 2.5 | 1.3 | -5.3 | 1.4 |
| Czech Rep | 7.4 | 8.9 | 9.8 | 26.1 | 25.1 | 0.83*** | 0.83 | 6.1 | 2.5 | -4.1 | 1.7 |
| Poland | 5.3 | 5.1 | 7.7 | 17.3 | 17.9 | -0.26 | 3.17 | 6.8 | 5.0 | 1.7 | 2.7 |
| Lithuania | 7.6 | 8.7 | 8.0 | 17.7 | 15.4 | 0.78 | -0.62 | 9.8 | 2.8 | -15 | -1.6 |
| Estonia | 8.7 | 10.8 | 14.3 | 21.2 | 18.7 | 1.32 | 2.19 | 7.2 | -3.6 | -14.1 | 0.8 |
| Latvia | 7.8 | 9.9 | 9.7 | 17.7 | 14.5 | 1.39 | -0.15 | 10.0 | -4.8 | -17.8 | -4.0 |
| Belarus | 5.2 | 7.2 | 7.4 | 11.8 | 11.6 | 1.88 | 0.21 | 6.9 | 9.2 | -0.2 | 2.4 |
| Russia | 6.7 | 7.8 | 6.3 | 15.0 | 15.1 | 0.99 | -1.58 | 8.1 | 6.0 | -7.9 | 4.3 |
| Ukraine | 4.9 | 6.0 | 3.5 | 6.9 | 6.4 | 1.20 | -4.00 | 6.9 | 2.1 | -14.1 | 3.7 |

# In 1990 PPP (Purchasing Power Parity) in USD for 1990 and in for 2003 and 2008 in constant 2,000 USD.
* = 1970-90, ** = 1990-2000, *** = Czechoslovakia in 1973. Sources: The years 1973-2003; Maddison, 2007. For GDP per capita the year 2008 est. and for growth rate 2008 est.; CIA. 2009. Except for growth rates for Baltics the year 2008; Baltic Rim Economies, BRE 2009. The year 2009; Estimated growth; The Baltic states from Grundberg, S. 2009a. Sweden the 1st quarter of 2009 compared with the same quarter preceding year, from Grundberg, S 2009b. CIA 2010. Estimates. For 2010. WEO 2010. July. Estimates.

1990; Barthelemy, 2009). Sweden and with a certain time-lag Denmark and Finland experienced profound structural transformations of agriculture from the 1970s onwards, with sharply falling employment in agriculture (up to 90% during a brief period) and ensuing depopulation of the countryside. Similar developments occurred in Eastern Europe after the break-up of the Soviet Union.

A trend visible in Sweden and the other Scandinavian countries was towards higher part-time employment in agriculture, with up to 60% of the main income coming from other types of work (Official Statistics of Sweden, 2009). Labour market modernisation in the Soviet Bloc basically followed the Western pattern until the mid-1990s, with a time-lag of around one generation. This is clearly demonstrated by the fact that in Scandinavia, the relationship between the share of labour force in agriculture and its contribution to GDP was around 1:1, while in the Czech Republic and Latvia it was 1:2 and in Poland the relationship was 4:1. Denmark was the exception, with the contribution of agriculture to GDP being higher than its share of the agricultural labour force 1990-2001, showing its advanced degree of mechanisation and rationalisation (Prokopijevic, 2002; Barthelemy 2009; Tables 3 and 4).

**Polish Agriculture**

In Poland in 1921, less than 50% of farmers owned their own homesteads, a few rich landowners had large estates, while most cultivated small plots and more than 20% were landless. Because Poland was an important agricultural exporter, the world depression with decreasing demand hit Polish farmers particularly hard, resulting in a semi-starvation situation in the countryside for several millions of surplus farm workers who could not be absorbed by an industry expanding at a snail's pace.

After World War II, in 1945 almost two-thirds of the population in Poland were peasants. The death toll in the war hit harder in urban areas, although half a million farms were destroyed. With the social pre-war structure still roughly intact, the post-war communist state confiscated estates above 50 hectares and distributed this land to private farms. Simultaneously, in contrast to the pre-war situation, an expanding industry managed to absorb rural surplus labour or to supplement farmers' income. Until 1956, when collectivisation was attempted by the state, up to 1 million farmers left the land and production dropped sharply. Therefore in the late 1950s as a survival measure de-collectivisation ensued, with only 6%

of farms remaining collectivised. Because of this farmers remained suspicious of the state, even when essential infrastructure was developed. As the state favoured the few remaining collectives with modern equipment, credit and loans, many private small-scale farms continued to use horses for cultivation. The medium-sized farms (5-15 hectares) that initially dominated in the private sector after 1956 were divided so many times that by 1986 up to 60% of the farmsteads had less than 5 hectares to survive on.

When at that point the state for reasons of efficiency tried to re-concentrate land holdings, peasant resistance blocked this move. Then most peasants were not solely dependent on income from agriculture. Half the rural population commuted to urban jobs, while 15% had most of their income in the countryside from non-agricultural pursuits, another 15% had most of their earnings from agriculture and finally only 15% depended solely on the land for survival. Because private peasants had been marginalised in regard to physical and social infrastructure, the young and educated left the countryside. Only during the hard trough of the transformation years in the early 1990s did this trend reverse for a couple of years, when just as in the Baltic states people moved to the countryside for food security (SOEC, 2009).


Figure 9.2. Journalist from up the newspaper, "Collective Farmer" at work in the fields of a cooperative farm outside Kiev, Ukraine. Source: Library of Congress.

## Collectivisation and De-collectivisation of Farms

### Soviet Agriculture

In contrast to this, the Soviet Union had already in 1928 at the start of their First Five-Year Plan chosen the Preobrazhensky model for development, built on massive resource extraction from agriculture geared towards a rapid build-up of heavy industry. By some accounts the collectivisation of Soviet agriculture lowered its production capacity by 25%, and cost the lives of 5-6 million people, where Ukraine alone (with the most fertile land) lost over 3 million people due to terror, anti-kulak campaigns and deportations to Siberia (Applebaum, 2003; Conquest, 1971 p. 39 ff; Courtois and Werth, 1997; Yang, 2008).

This mode of production came at a very high cost to the environment, with farming based on heavy mechanisation and intensive use of pesticides and chemical fertilisers. In this system the institution of the Sovkhozes (state farms) and the Kolkhozes (cooperative farms) was combined with a small plot for private production. These plots were typically about 1/3 of a hectare in size (Fainsod, Chap. 16; Thorborg, 1996a and b). The production from the private plots accounted for 25% of the total value of the agricultural output in the late 1980s, 33% in 1992, almost 50% in 1995, approaching 60% in 1998 and returning to 50% in 2004. According to Russian statistics, in the year 2000, for example, the value of the average return from 1 hectare of Russian agricultural land was 3.931 Roubles (131 USD) from former *Kolkhozes*, from large commercial enterprises it was 2,131 Roubles (71 USD), and from private households it was 37,719 Roubles (1,257 USD) (O´Brien et al., 2007).

### Belarus

When states were reforming former state or collective land in the 1990s, three institutional problems had to be decided upon: how to transform rural wage workers, how to decide the size of farms and how to maintain productivity. These problems were solved differently over time

in different countries. Initially in Russia and Belarus the state kept ownership of land, while as a rule in most other transition countries the aim of land reform was to create privately owned family farms. Although most of the land in Russia underwent some reorganisation, most opted for the safe shield of state subsidies rather than being dependent on the vagaries of the market. By the mid-1990s 280,000 private farms cultivated 5% of the arable land, while some had already returned to the old forms.

Although Belarus did not privatise land holdings, state farms and collectives decreased from cultivating 94% of all agricultural land to 83% in 2004. However, the share of agricultural output from family farms increased from under 25% of all output in 1990 to almost 50% after 2000, showing that 17% of all farmland produced almost 50% of all output. This is similar to the Russian situation. However, the agricultural labour force shrank from 1990 to 2007. Agriculture accounted for 20% of all employment in 1993, 14% in 2000 and 10% in 2007 (O'Brien, 2007).

**Poland and the Baltic States**

A major concern during this period was to hand back land to former owners and their heirs, some of them urban and many of them already at an advanced age. In Poland and Latvia de-collectivisation was complete. Therefore in Latvia agriculture and agricultural employment accounted for roughly 1:2 in 1990, almost 1:4 in 2001, and 1:3 in 2007-2009, showing increasing inefficiency. In Lithuania, Estonia and many Eastern European countries, actual land distribution occurred slowly at an uneven pace and rather unequally. Although Lithuanian farm workers were 50% more productive than their Soviet counterparts – partly because the communist leaders in Vilnius were allowed greater independence from Moscow in the late 1950s – they were not yet up to the level of Western farmers. With regained independence small-scale holdings multiplied and production and efficiency dropped, only basically being changed during the EU application period. In Ukraine, Lithuania and Belarus especially, the decline in real wages was around 60% between 1989 and 1998. In Ukraine a loss of output of about 60% was recorded by 1998, while during the same period employment only contracted by 12% (UN/ECE, 2000).

**Privatising Russian Agriculture**

In the first post-Soviet period the main institutional changes to develop private agriculture in Russia were the following:

1 December 1991: The right to leave the former state and collective farms and to receive land shares when leaving.
2 October 1993: Legalisation of private ownership of land and the right to sell and buy agricultural land.
3 July 2002: A law regulating procedures to be employed in rural land transactions.
4 2003. Separate laws for private farms and private plots (O´Brien, 2007).

One estimate reported in Russian agriculture 'a staggering unused potential, perhaps involving as much as 80% of arable land' (Leijonhielm, 2008). This can be explained by the fact that just as in Poland earlier under communist rule, small private and new farmers had great difficulty in getting sufficient credit for investment in fertilisers and mechanisation, because large farms continued to be favoured by the state in regard to credit, information, technology and extension services. (Griffin, 2002).

The area of Russian cultivated land almost halved from 1992 to 2006, which can be the explanation behind the increasing price of Russian food. Until the prices of most common foods were frozen in 2007, they had increased by 25-30%. After 12 years in the pulp business, it is not surprising that the new Russian president Medvedev also wanted to exploit the great untapped potential of Russian forests (Leijonhielm, 2008). Russia has a great potential for growth in its abundance of unused agricultural land and its mature forests.

However, a major problem is the depressed agricultural wages, with relatively very low remuneration for farm labour averaging 40% of the wages for the whole country. Because of low wages and pensions, more than a quarter of the income of the rural population is in kind, mainly produce from their own private plot. Poor families get almost two-thirds of their food in this way (UNDP, 2003). However, in Russia the more well-equipped and mechanised large-scale collective units continued into the new era. For this reason the discrepancy between labour input and productivity was smaller in agriculture. Overall, the

Table 9.3. Contribution of industry and agriculture to GDP (%) in countries of the Baltic Region in 1994, 2001 and 2007

| | Share of GDP* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Industry | | | | Agriculture | | | |
| | 1994 | 2001 | 2007 | 2009 | 1991 | 2001 | 2007 | 2009 |
| Sweden | 32e | 31e | 29 | 27 | 5e | 3e | 1 | 2 |
| Denmark | 29e | 28e | 26 | 24 | 5e | 4e | 2 | 1 |
| Finland | 34e | 33e | 32 | 30 | 5e | 3e | 3 | 4 |
| Germany | 33e | 32e | 30 | 27 | 3e | 2e | 1 | 1 |
| Czech rep | 34 | 37 | 40 | 37 | 5 | 4 | 2 | 2 |
| Poland | 32 | 29 | 32 | 28 | 6 | 5 | 4 | 5 |
| Lithuania | 26 | 10 | 32 | 27 | 23 | 7* | 5 | 4 |
| Estonia | 32 | 16 | 29 | 26 | 10 | 4 | 3 | 3 |
| Latvia | 23 | 17 | 21 | 22 | 8 | 4 | 4 | 4 |
| Belarus | 27 | 34 | 41 | 42 | 15 | 7 | 9 | 9 |
| Russia | 33 | 34 | 40 | 35 | 7 | 7/14 | 5/9.9 | 5 |
| Ukraine | 30 | 40 | 32 | 31 | 16 | 12 | 9 | 10 |

*= 2000. Source for the rest : EBRD. 2002. Except for the year 2007 from CIA, 2008, and 2009 from CIA, 2010. e= estimates.

Table 9.4. Employment in agriculture in countries of the Baltic Region as % of total employment, 1990-2007

| | 1990 | 2001 | 2003 | 2005 | 2007 | 2009 |
|---|---|---|---|---|---|---|
| Sweden | 3 | 2/3* | 2 | 2 | 2 | 1 |
| Finland | 4 | 3* | 3 | 4** | 5*** | 5*** |
| Denmark | 4 | 3* | 3 | 3 | 3 | 3 |
| Germany | 3 | 3 | 2 | 2 | 3 | 3 |
| Czech Rep. | 10 | 5 | 5 | 4 | 4 | 4 |
| Poland | 26 | 19 | 18 | 17 | | 17e |
| Lithuania | 19 | 16 | 16/18 | 14 | | 14e |
| Estonia | 12 | 7 | 6 | 5 | 5 | 3 |
| Latvia | 16 | 15 | 14 | 12/13 | 12 | 12e |
| Belarus | 19 | 16 | 14 | - | - | - |
| Russia | 13 | 12/14 | 11 | 11 | 10/11 | 10e |
| Ukraine | 20 | 22 | 19 | 19 | 16 | 16e |

*= End of 1990s. e= estimates. Source : Barthelemy, 2009. **=2004 Source: USAID. 2007. Except for the years 2007 and 2004 Denmark, and 2003 for Latvia from CIA, 2008. *** 2008 for Finland agriculture and forestry from CIA, 2009. In digits 2001 for Russia, For 2009. CIA, 2010 except estimates.

difference between labour input in industry and industrial output was still greatest in Ukraine, followed by Russia, a legacy of the Preobrazhensky model (Casula, 2008; USAID, 2007). In recent years through a revival of agriculture Russia has changed into being a net exporter of grain from a net importer (CIA, 2010).

In Belarus state banks had to provide loans – basically without any chance of ever getting repaid – making up for example 25% of all loans, equivalent to 3% of GDP, in 2001. These subsidies from the government were not conditional on any reforms of an inefficient and overstaffed agricultural sector, which was performing badly and a drain on state coffers. Most of the farms were loss-making and not paying their energy bills (Smee, 2001). This was also visible in slower growth in per capita income and first in a quick shrinking of the agricultural sector – then even increasing between 2001 and 2007 – and in a slower decrease in agricultural employment (Tables 7.2, 7.3 and 7.4).

### The Baltic States and Central Europe

In the Baltic States, Estonia in particular, a rapid decline has occurred in the number of people working in agriculture, almost reaching Western levels since 1991.

Table 9.5. Employment in agriculture in countries of the Baltic Region by sex in 2001 as % of total employment.

| | Men | Women |
|---|---|---|
| Sweden | 4 | 1 |
| Denmark | 5 | 2 |
| Finland | 8 | 4 |
| Germany | 3 | 2 |
| Czech Rep. | 6 | 4 |
| Poland | 19 | 19 |
| Estonia | 11 | 7 |
| Lithuania | 24 | 16 |
| Latvia | 17 | 14 |
| Russia | 15 | 8 |

Source: ILO 2002

Estonia had already carried out rapid and successful modernisation of its agriculture during its Independence in the 1920s and 1930s. In Poland, Lithuania and Latvia the proportion of agriculture in the economy has diminished to just above West European levels, while the workforce in agriculture has not shrunk accordingly, implying lower labour productivity, and also expressed as lower per capita income. However in Poland greater problems are that

Table 9.6. All-seasonal, part-time, seasonal and migrant workers in agriculture in selected countries in the Baltic region, latest data.

| | Work type | | | Whereof migrants from: | | % from |
|---|---|---|---|---|---|---|
| | All-seasonal | Part-time | Seasonal; | EU | Non-EU | sending countries |
| Sweden | 24,000 | 19,000 | 8.000 | | 3,000 | |
| Finland | 5,000 | 10,000 | 1,000 | | 1,200 | 78 Russia, Baltics |
| Denmark | 35,000 | | 12,000 | 8,000+ | 2,000 | 90+ Poland, Ukraine |
| Germany | 530,000 | 270,000 | 216,000 Poland | | | 80 Poland |
| Czech Rep. | 176,200 | 6,500 | | | | 80 Ukraine, Belarus, Russia |
| Poland | 153,200 | 20,000 | | | 16,000 | 75 Ukraine |
| Poland | | | | | 4,000 | 25 other Eastern countries |
| Lithuania | 3,000 | 16,000 | 3,000 | | small share | |
| Estonia | 15,000 | 2,500 | | | | |
| Latvia | 28,000 | 22,400 | large grey sector | | | |
| Russia | | | | | 1,500,000+ | Ukraine |

Source: EU countries: www.agri-in fo. 2009. Russia: Matthews, O. 2008.

almost a quarter of the 4 million working in agriculture are of pension age and that agricultural employment is very uneven between Polish regions, ranging from 9% in Silesia to 39.5% in Podlaskie, i.e. less developed agriculture in the East. The greying of the Polish agricultural workforce is also seen in the fact that the same number of women as men work the land – more than in any other country of the Baltic Sea region – and, as women survive men by 11 years, these women are widows (www.agri-info. 2009; Wibberley 2007). See also Chapter 8 in this book, Table 8.2 and 8.5.

In Estonia and Czech Republic, both the agricultural sector and its workforce shrank rapidly to Western levels – diminishing by 73% from 1989 to 2005 – which, combined with higher efficiency, contributed to a higher per capita income (Wibberley, 2007. Table 2, 3 and 4). Ukraine, Poland and Lithuania stand out as the most agricultural countries, but with the lowest agricultural productivity. Compared with the mid-1990s, in Estonia, Latvia and Poland industry and agriculture have either stagnated or decreased at the expense of services as a proportion of total GDP in conformity with general trends in the EU. This has not been the case in Czech Republic, Lithuania, Belarus and Russia, where industry was still on the increase until 2008.

However, in both Belarus and Ukraine, the agricultural share of GDP has almost halved. (Table 9.3 and 9.4). A new feature of the dissolution of the Soviet Union was the massive flow of migrating labour across Europe, usually from the East towards the more developed West with its higher wages (Table 9.6).

## Unemployment, Poverty and Migration in Rural Areas

**From Hopes of Westernization to Subsistence Farming**

After 1945 and up to the mid-1970s, most planned economies of the Soviet Bloc were succeeding in improving general health and education, while simultaneously reducing income poverty through rapid industrialisation. In this process jobs were created not only for the urban unemployed and unskilled workers, but also for the rural poor. From 1950 until the mid-1970s, average life expectancy increased by up to 10 years, while infant mortality halved because of solid investment in social infrastructure and a broad distribution of benefits. The ideological framework was committed to an equal society, which included a system of entitlements for all such as guarantees of employment, social services and security.

Although the political system was not open, it provided the basic necessities of life. However, after the mid-1970s many of these positive developments stopped and even

reversed. After the break-up of the Soviet system in 1991, high hopes for an easy and rapid transition to a functioning Western type of society soon evaporated when the economic system more or less collapsed. In much of the countryside former state and collective farms were dissolved and privatised, leaving part of the rural workforce without work and with few possibilities for alternative activities. In this situation with no alternatives, many jobless turned to subsistence or semi-subsistence agriculture or different types of self-employment on a small scale in order just to survive (UN, 2005).

**Poverty**

Since the collapse of the Soviet Union, poverty has increased rapidly in Eastern Europe at a pace almost unparalleled elsewhere and in some cases has contributed to increased ruralisation as urban dwellers have moved out of towns in order to have some food security. A particular feature of Estonia was the high level of subsistence economy for its urban inhabitants, with up to 75% of them getting their basic supplies of potatoes and cabbage for the winter straight from the countryside through family and connections. Latvia was the Baltic country with the most difficult transition both politically and economically. In the worst period, the third quarter of 1992, up to 80% of its population, could not afford a 'complete minimum food basket', while half the population had an income below the value of a 'crisis minimum food basket', on which people cannot live for long without permanent damage to their health. Similar hard times befell Lithuania, but it was helped by being the most agricultural and least developed of the Baltic states and therefore closest to a subsistence economy. The ironic twist is that this was hitting a country after 50 years with a planned economy and Communism, which earlier during Independence had a market economy and in the 1930s ranked third in the world in per capita meat consumption and second in the world in consumption of milk and dairy products! (Thorborg, 1993, 2000, 2002c, g).

For this reason, although agricultural production went down the agricultural labour force went up, with the number of people partly working in subsistence agriculture increasing, Ukraine being an example of this. This meant that agricultural productivity was falling, with more people engaged in agriculture and simultaneously less output, also leading to decreasing income from agricultural work. Here a kind of agricultural involution occurred – in the sense Geertz (1963) first described it in Java – with more people working part-time and informally producing less with more work-intensive methods. This occurred because some of the machinery owned by the state and collective agricultural sector was not used in new small-scale agriculture and, in addition, two-thirds of it was worn out (Wegren, 2007). Therefore agricultural income decreased and underemployment rose. According to some estimates the proportion of the population living in poverty increased fourfold due to rising income inequality combined with decreasing average incomes during the first half decade of transition (Table 9.7).

Table 9.7. Income inequality in selected countries in the Baltic region 1989/91-2003/2004 and latest data, all in GINI-coefficients

| | 1989/91 | 1999/2000 | 2003/2004 | 2007 |
|---|---|---|---|---|
| USA | 0.40e | 0.41 | 0.43e | 0.45 |
| Canada. | 0.33e | 0.33 | 0.32** | 0.32e |
| Argentina | 0.53e | 0.53e | 0.53 | 0.49 |
| Sweden | 0.25e | 0.25 | 0.23 | 0.23e |
| Czech Rep. | 0.19 | 0.23 | 0.24 | 0.27 |
| Poland | 0.27 | 0.34 | 0.26 | 0.31 |
| Lithuania | 0.26 | 0.35 | 0.31 | 0.39 |
| Estonia | 0.28 | 0.38 | 0.40 | 0.39 |
| Latvia | 0.26 | 0.33 | 0.39 | 0.33 |
| Belarus | 0.23 | 0.24 | 0.25 | 0.34 |
| Russia | 0.47* | 0.43 | 0.42*** | 0.49 |
| Ukraine | 0.23 | 0.34 | 0.35*** | 0.41 |

*= 1995/96, and **= 2005 ***=2001/2002 Source: USAID, 2005, Table 17. NB The higher the number, the greater the inequality. CIA, 2010 for 2007. e=estimate.

In the late 1980s, about 8% of the population in the transition countries of the former Soviet Union and Central and Eastern Europe were estimated to be living in poverty while during the trough in 1993-94, well over 30% of the population could be classified as poor. In Russia, for example, resurging economic growth reduced poverty from officially 42% in 1999 to just 20% in 2002 and 16% in 2007. Depending on different evaluation methods, poverty in Russia was 40% in 2000 according to household surveys, but 29% according to official data. In most years

## Box 9.3. Work Opportunities in the Baltic Sea Region

Work and employment in the rural society is commonly divided into primary, secondary and tertiary sectors. The primary includes work in agriculture, forestry and fisheries as well as hunting; the secondary manufacturing sector includes industries, while the services sector is dominated by public jobs, such as schools and healthcare. The description below relies on an extensive study made for the European Commission and reported in 2007, Study on Employment in Rural Areas, SERA. Regrettably it does not cover Russia, Belarus and Ukraine, although some references to the situation in these countries are made.

**Division between sectors**

Jobs in the primary sector have declined dramatically since ever since some 100 years. In the west, where most agriculture today is industrialized, a few individuals may manage a farm of hundreds of acres or hundreds of animals relying on machinery. There are only 10 regions in the EU25 – one is eastern Poland – in which primary sector activities employ a majority of the workforce. Secondary and tertiary employment is overwhelmingly the most important sectors for employment. Even in the more peripheral rural regions the primary sector only reaches an average share of 19%, compared with 11% in the more accessible regions. Also in forestry job opportunities have been dramatically reduced with the introduction of new efficient machinery.

In 2001 the percentage employment in secondary sector industries in rural EU27 regions was at 28%, compared to the urban average of 25%. Tertiary employment rates across the EU27 in predominately rural areas were 57 %, (and much lower in the new member states in the east), compared to 74 % in urban regions. Tertiary sector growth has tended to be associated with metropolitan functions, in particular the growth of financial markets, knowledge-based industries, and public services such as education and healthcare. Generally speaking, the service sector employment is increasing, while that of manufacturing is stable or decreasing. Still changing policies and practices regarding public services including transport, telecommunications, housing, health and education, often impact particularly severely on rural areas and especially the less well off and less mobile people.

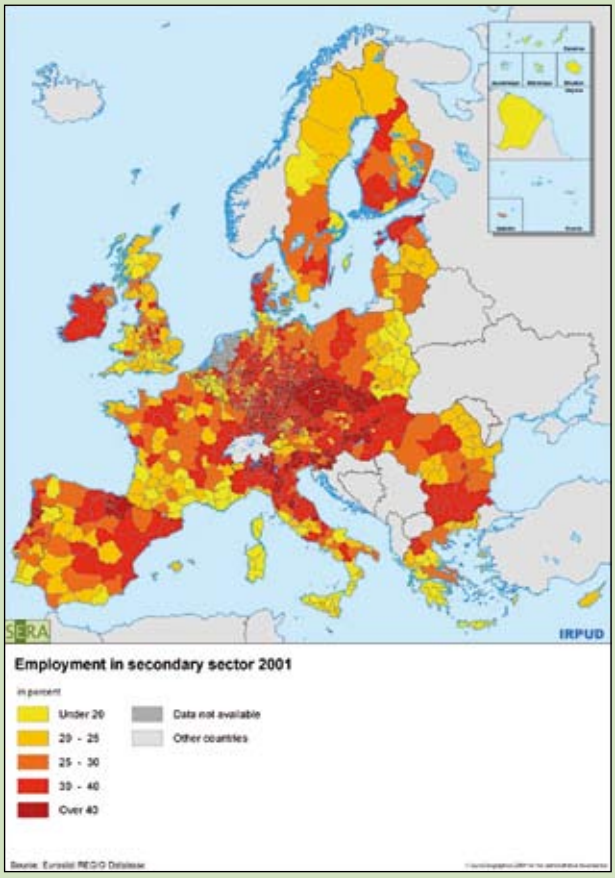


Figure 9.3. Percentage employed in the secondary sector 2001 . Source: Copus et al., 2006; Eurostat REGIO Database.

**Rural labour market and the role of agriculture**

Rural labour markets tend to be segmented along sectoral/occupational lines and typically operate within geographically extensive areas. However self-employment, or working for a locally based SME, are more compatible with farming than employment by a larger company. Those who are essentially "life-style" or "hobby farmers", together with non-farming members of farm households, probably have the option (skills and qualifications permitting) to look further afield, and across a broader range of occupations.

The range of enterprises within a rural economy exhibits a surprising amount of diversity and individuality, as shown in the general statistics. Many rural enterprises are location-specific, for example, the growth of certain crops depends on particular agro-climatic conditions. Location also drives the type of services that are on offer. For example, location by a major road or near to a thriving city will provide opportunities not open to more remote rural areas. Tourism depends on the proximity of the coast or a particular kind of landscape or climate.

Although agriculture is not directly involved in the employment growth it is indirectly linked to many secondary or tertiary jobs. This occurs in three principal ways: Firstly the "upstream" units supply the agricultural sector with inputs, such as seeds, fertilizers, machinery etc., while "downstream" is processing and marketing agricultural products. Secondly agriculture provides complementary jobs, as full-time working within agriculture is now relatively uncommon – many, if not most, farmers and farm households, are also active in secondary or tertiary labour markets. Finally through spin-offs, as the attractiveness of the

# Work Opportunities in the Baltic Sea Region

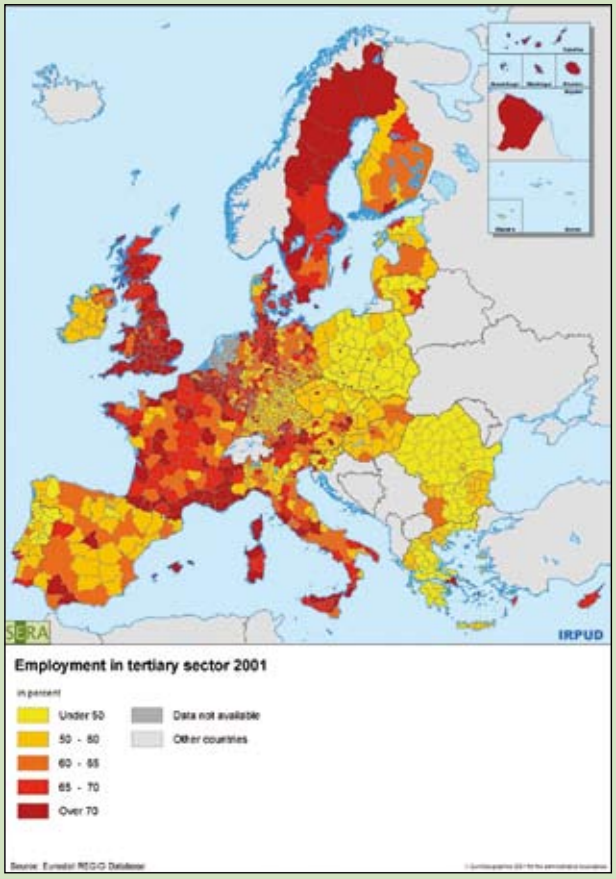


Figure 9.4. Percentage employed in the tertiary sector 2001. Source: Copus et al., 2006; Eurostat REGIO Database..

countryside depends on working farms, mills etc. which may increase tourism and make the area more attractive for the in-migration of people and businesses.

**Agro-tourism**

Agro-tourism is a common name for housing and feeding visitors on the countryside, mostly during summer and vacation periods. In addition to just offering a place to stay and eat, many also arrange activities such a canoeing, horseback riding, biking, and hiking especially in mountain areas. Also over day activities, such as cafés and kiosk services or selling homemade produce may be important in the season. The growth of spending on leisure and recreation activities has significantly boosted the size and importance of the rural tourist industry. Tourism directly employs over 9 million people across the European Union - 6% of total employment - and a much higher percentage in some regions. 13,000 farm units offering visitor facilities to tourists, providing an annual income of 850 million Euros. It also indirectly supports millions of jobs in connected services such as the hotels, restaurants and cafes, rising faster than any other sector during 2001-2003.

**New and expanding areas - Nature conservation, Organic farming and Renewable Energy**

Nature conservation supports employment and plays an important role in the development of rural economies. Within the European Union system farmers have new responsibilities for providing ecosystem services and goods, which is paid from the state budget in order to maintain a good environment and attractive landscape. This includes e.g. coastal management, grazing on meadows and management of wetlands. Many of the jobs associated with conservation-related activities are located in remote rural areas where there were few alternative employment opportunities. Tourism arising from conservation and land management activities often provided more employment opportunities than land management itself.

It has been claimed that organic farms employ between 10%-30% more people than non-organic farms, however few figures are available. The area under organic farming is increasing. In the EU-15 2002 covered 4.8 million ha or 3.7% of total farmland, an increase of 112% compared to 1998, an increase which has continued since.

The present EU and national policies for climate mitigation and introduction of renewable energies will be important for the rural labour market and a significant potential for employment growth. A doubling of renewable capacity in the EU by 2020 has been estimated to lead to approximately 30% of gross employment creation in the sector. In Poland the realisation of the renewable energy strategy objectives has been estimated to create 30,000-40,000 new jobs annually; in Denmark it has been projected to lead to the creation of 73,000 new jobs.

**Other expanding sectors – Telework**

While telework increases rural employment opportunities, it may also help employees improve the balance between work and home life, and offer new business opportunities. For ten EU countries studied the proportion of home-based respectively supplementary teleworkers was highest in Finland (10.8 and 6.0 per cent), while some large economies such as Germany and France were well below the average. In general telework is increasing. In the UK from 1997 to 2003 it doubled up to 7.5 % of the total workforce. It is not clear what proportion of teleworkers were rural-based.

*Lars Rydén*

the poverty rate of the rural population was 30-40% higher than that of their urban counterparts.

More women than men were poor, despite women having a higher educational level on average than men (Thorborg, 2002d). Women aged 31-54, meaning the age period when they have dependent children, were the poorest of all in the late 1990s, with a poverty rate 25% higher than that of men in the same age group. Up to 62-85% of families with many children and only one parent were considered to be in deep poverty in Russia (UNDP, 2003; Thorborg, 1999, 2002b; Burawoy, 1996).

**Rural Unemployment**

While in 2003 the poverty rate was estimated at 4-5% in Estonia and Lithuania, it was 17% in Poland and encompassed more than 27% of the population of Belarus. By some estimates 35% of the population was poor in Ukraine in 2009 (CIA, 2010). However, in most transition countries GDP declined more than agriculture and when economic growth restarted GDP rose more slowly than agricultural growth, meaning that agriculture softened the impact of transition (Griffin et al., 2002). For example, in Lithuania rural unemployment is 4-5 times higher than in the capital Vilnius, while on the national level unemployment only affects 3% of all. However, social inequality is increasing in some parts of the Lithuanian countryside, with agricultural productivity being stagnant or sliding backwards. In Lithuania every third person in the countryside is counted as poor.

In 2005 poverty was still increasing in Lithuania. Up to 100,000 people from the country have migrated to the rest of EU. Poorest is Eastern Latvia, with the highest unemployment in Latgale.

In 2006 Latvia was the poorest country in the EU, with only 46% of the EU average in per capita income. Even Estonia has experienced a widening gap between rich and poor, with the wealthiest 20% of the population accounting for 40% of GNP while one child in three still lives under the official minimum level of existence.

So far the recent economic recession has hit the Baltic countries hard (Svenska Dagbladet, 19/3, 25/3, 27/3 2009). In Poland a high level of unemployment peaked at 20% but fell back in 2007 helped by migration. The level of labour utilisation was the lowest of EU-15 and also lower than in neighbouring states. From the late 1990s labour utilisation decreased by 5%, going down to 54% during the past decade.

Withdrawal from the labour force usually began at age 40, particularly in the countryside, which is earlier than in the rest of EU, and accelerated after age 55, which during the Soviet period was the official retirement age for women (Allard and Annett, 2008; Thorborg, chapter on population in this book). As a rule, inequality increased rapidly during the early transition period and slowed down in the new millennium. Lack of employment possibilities and distance to markets in rural areas are considered key factors in explaining this rural-urban gap (IFAD, 2007. Table 7).

Internally, the wealth gap between rich and poor in all transition countries has been widening, going from a more equal Scandinavian level to a level closer to the Americas with both Russia and Ukraine, which among others have surpassed the USA and India in inequality (CIA, 2008; Table 7). The EU Agenda 2000 tried to break the link between leaving the countryside and leaving the country, with rules stressing enhanced national autonomy for 'diversification of activities in or close to agriculture' and for 'basic services required by the rural economy and rural population', focusing on job-creating areas such as green tourism, supply of community services, management of heritage resources and organic farming.

Experiences from Denmark show that organic farming leads to job creation but also increases labour costs significantly (by up to 38%), implying that this is only a solution for more resource-rich states (Barthelemy, 2009). For most transition states, having rural migrants in 'circular migration' to the West sending money home seems to be the temporary solution to problems of un- or underemployment in rural areas. Large numbers of migrants from non-EU countries – Belarus, Ukraine and Russia – work illegally in the EU and they are impossible to count, while migrants from EU transition countries often work in a 'grey' sector with employers not paying taxes or social benefits for them or sometimes just paying them in kind (www.agri-info 2009; Table 6).

**Migration from Rural to Urban and Back**

Agricultural employment has changed extensively during the post-war period, from often being the largest area of

employment to almost the smallest one and with some countries losing up to 90% of their workers in less than a dozen years. During chaotic transformation years after the break-up of the Soviet Union, agricultural employment was able to act as a cushion. Sometimes a kind of agricultural involution occurred when more people produced less with less machinery but with food security as their main goal, also temporarily contributing to a reversed flow from urban to rural areas. In the increasingly affluent Scandinavian countries this return flow to rural areas began a generation earlier, when better infrastructure made it possible as a lifestyle choice while either still keeping urban full-time employment or beginning to work part-time in the countryside. Simultaneously, for tax reasons more and more people became part-time farmers. This of course revised the ageing and depopulation trends in rural areas, particularly those close to urban centres.

With the EU came more open borders, contributing to rural areas being used more extensively for recreation in other countries and thereby creating more seasonal employment in the countryside. Proximity to urban areas and developed infrastructure proved to be a crucial condition for continuous development of the countryside through attracting more people, slow outmigration and creating more rural non-agricultural employment, a sector still in its infancy compared with Southern Europe.

A great potential for employment in rural areas resides with tourism, which today is creating more employment than agriculture in the more developed countries of the Baltic region. It particularly contributes to part-time employment in rural regions where earnings from agriculture need to be supplemented. However, what is needed is often a more consistent policy, not only from local and national authorities but also from the EU so that small- and medium-scale undertakings and new activities such as tourism receive the attention they deserve. A large unused potential is waiting to be tapped. Promoting ecotourism could be a viable way towards both contributing to economic development by creating more employment in rural areas and simultaneously furthering sustainability in agriculture by being particularly suitable for family and small-scale agriculture."

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