

Policy Response

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Policy response

- Response to what?
- Pressure from the bottom, pressure from the inside or pressure from outside? - both
- Response to globalization -
- Response to europenization -
- Response to the need for change in the new environment of market economy, to the uncertainty -

Factors influencing social policy making:

- Large uncertainty usual for tranzit societies
- Necessity to change the system of social support in the new market economy situation;
- The decline of GDP, inflation
- Impoverishment of population
- Low birth rate and high mortality rate, negative natural increase;
- Globalisation process
- Europeanisation process, accession to the EU since 1995

Changes in pressure

- 1990-1994(5) – very strong from inside and outside; road map is clear (Washington consensus); ad hoc measures in social policy;
- 1995-1999(2001)- social welfare reform initiated from above with active involvement of WB, IMF, influence of EU
- 2000 – 2006 – accession to the EU, making legislation in accordance with acqui, mobilization of political elite and civil servants; Joint Inclusion Memorandum(2003), NAP (2004-2006); access to Social Fund, EU structural funds, distribution of money as resource of power; labor mobility

Economic context of transition in Latvia

- The sharp decline in GDP for 50 % (1993);
- Rapid economic growth since 1996: more than 6% per year;
- GDP per capita in 2003 was 41.5% of EU average;
- Prices 55% of EU average
- Salaries and wages 15 % of EU average
- Level of unemployment 8.8% (2005)

Comparison Estonia/Latvia

- *Demographic indicators are similar or very close*
- *Economic indicators have similarity as well. Rapid growth of economy during last decade. Latvia has highest indicators in EU*
- *Labor productivity is higher in Estonia - 49.5%, Latvia – 43.5%, if EU-25 =100% in 2004*
- *Level of employment is higher in Estonia - 62.9%, Latvia –61.8% in 2003*
- *The level of social protection expenditures (as % of GDP) in 2001 was the same in Latvia and Estonia – 14.3% (EU-25 - 27.3%)*

Political context of social reform

- The dominance of the right wing political parties in the Latvian and Estonian politics since the renewing of independence in August 1991;
- Liberal party Latvia's way held the post of prime minister during 68 months – 5 years and 8 months;
- The left-wing parties have never gained power in the government of the new Latvia and Estonia
- Ethnic cleavage of the party systems in Latvia

Acute need for policy transfer

The necessity to establish a social assistance network from scratch, since the old system was based on support given from the workplace

Urgent necessity to create legislative and institutional base for social security system

Lack of knowledge and lack of experts in this area resulted in the high popularity of policy transfer concept among representatives of ruling elite in Latvia.

Policy transfer as a two-phased process

- PT is a process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place.
- The first phase is **learning about** another country's policies or programmes: collecting information on how a policy or programme works within a certain country and how it came about
- The second - is **learning from** another country's policies or programmes: concerned with deciding whether or not to convert this information into national policy action

Three independent variables of the policy transfer concept

- Cultural variables; (the mood of neo-liberalism in the early 1990s was pervasive and difficult to resist almost in all post-communist countries)
- Regular personal contacts between key officials and the existence of policy networks;
- Policy failure or the need to respond to a crisis.

Policy transfer networks

- Networks: frequent interaction, shared beliefs and common values.
- Important **dimensions** are:
- Patterns of communication between participants of the process: donor and adapter;
- Actors involved: elected officials, political parties, civil servants, pressure groups, policy entrepreneurs, experts, mass media;
- Search for solutions to political problems or remedies for domestic policy failure.

Policy transfer networks in Latvia

- Very wide from geographical point of view: politically active, good educated and numerous Diaspora of Latvians (more than 150 thousands persons) in America, Europe and Australia
- Latvia had opportunity of policy transfer from different countries: USA, Canada, Australia, New Zealand, Germany, United Kingdom, Sweden due to very intensive contacts between Latvians from abroad and the new political elite.
- In the 5th Saeima (parliament) elected in 1993 there were 18 PM (out of 100) so-called Latvians from abroad.

The ruling elite

- The ruling liberal party Latvia's Way had 36 seats in the 5th Saeima. This party was successful project of party building and in the same time it was quite unusual hybrid of former Communist party nomenclature and so called Western Latvians
- The influence of Latvians from abroad was very strong in other ruling coalition party, Farmers' Union, as well. The Minister of Welfare Janis Ritenis (July 1993-August 1994) was eager to transfer the Australian experience to Latvia when introducing a new pension scheme.

The ruling elite

- Many key politicians have carried out their studies in USA and were very much influenced by monetarist ideas:
- Ojars Kehris-Minister of the Economy 1993-1994,
- Uldis Osis -Minister of the Finance, 1993-1994,
- Einars Repše- President of the Bank of Latvia 1991-2001, Prime Minister (2002-2004), Chair of New Era party (since 2002)
- Ilmars Rimshevičs-President of the Bank of Latvia since 2002 and many others.

Interactions between different pressures

- The changes in social policy should be understood in terms of the interaction between adaptive pressures coming from both the EU and international organizations such as WB, IMF, ILO etc;
- and the **capabilities and constraints** created by their interaction with the domestic structure

Policy learning and uncertainty

- The uncertainties of policy-making in transition societies push policy-makers to opt for policy transfer to obtain quick solutions;
- However, prior experience with successful policy reform helps to overcome the uncertainties and to gradually proceed with further policy formulation without a need to transfer a ready-made solution from another system (case of Estonia)
- **(Thesis of Margit Tavits, Policy Studies Journal, 2003, nr.4)**

Pension Reform in Latvia and Estonia

- An urgent need for solutions is considered one of the strongest reasons for policy transfer
- Latvia started its pension reform in 1995 by implementing almost an exact copy of the Swedish model.
- Estonia started its pension reform 2 years later than Latvia

Increase of Retirement age in Latvia and Estonia

Year	Males L/E	Females L/E
1994	60/60.5	55/55.5
1996	60/61.5	56/56.5
2000	60.5/62.5	58/57.5
2001	61/63	58.5/58
2003	62/63	59.5/58.5
2006	62/63	61/ 59.5
2008	62/63	62/60.5
2016	62/63	62/63

The first tiers of pension reform in Estonia and Latvia

- Latvia had implemented a pension scheme based on “notional defined contributions”. Under this scheme the entire state-provided pension is dependent on individual’s contributions to his notional pension account;
- The Estonian state-provided pension scheme operates on a rather different logic. It is a state-provided pension scheme financed from the social security tax consisting of three different layers: a minimum flat pension rate, a contribution-related share and a share dependent on the length of employment

The old age Pension Formula in Latvia

$$P = \frac{C}{Y}$$

P - the annual pension, of which 1/12 is the monthly pension.

C - the pension capital of the insured person

Y - the period (in years) during which the old age pension payments are planned to be made after the old age pension is granted.

The longevity of expected life (Y) has been defined by government as follows:

in age	1996	2005
60	18.25	19.56
62	16.93	18.10

The 2nd tier of pension

- The details of the second stage of the reform in Estonia were not specified in the initial reform concept to avoid controversy in the earlier stages, and also because of lack of knowledge.
- Funded pension schemes started in 2001 in Estonia and Latvia
- Estonian scheme is largely voluntary (compulsory only for those born after 1981) and requires additional individual contributions to the personal funds. If an individual decides to participate in the funded pension scheme by paying 2% of his salary to the fund, only then will the state supplement this amount by an additional 4% from the individual's social security tax.

The 2nd tier of pension in Latvia

- In Latvia the second tier is compulsory for largest group (those born after July 1, 1971);
- It does not require additional payments
- The division of contribution (20% from salary) between 1st and 2nd tier has been prescribed by legislator: 18% and 2% in 2001-2006; 16% & 4% in 2007; 12% & 8% in 2008; 10% & 10% in 2010.
- It has been administrated by commercial banks only since 2007
- So we can identify the privatization of pension policy

Funding social reform

The redistribution of payments between the employer and employee

Time	Employer's payments	Employee's payments	Total
July 1996 – December 1996	33	5	38
Years 1997 1999	28	9	37
Year 2000	27	9	36
Years 2001 – 2002	26	9	35
Since 2003	24	9	33

Nature of reform process

- In the case of Latvia explicit policy transfer occurred
- Whereas in the case of Estonia it did not
- Policy networks and entrepreneurial activities were much more present in Estonia than in Latvia.
- The Estonian reform process was open, driven by collaborative networks and relied on local activism.
- The Latvian reform process was closed and accommodated fewer interests

Does Europe matter for social policy developments in NMS?

Capabilities	Liberal	European
Institutional	model	model
++	Privatization	Catch-up
—	Chaos	Race to the bottom

Guillen A.M., Palier B. *Introduction: does Europe matter? Accession to EU and social policy developments in recent and new member states* – Journal of European Social Policy – Vol.14 Nr.3/ August 2004 – p.208



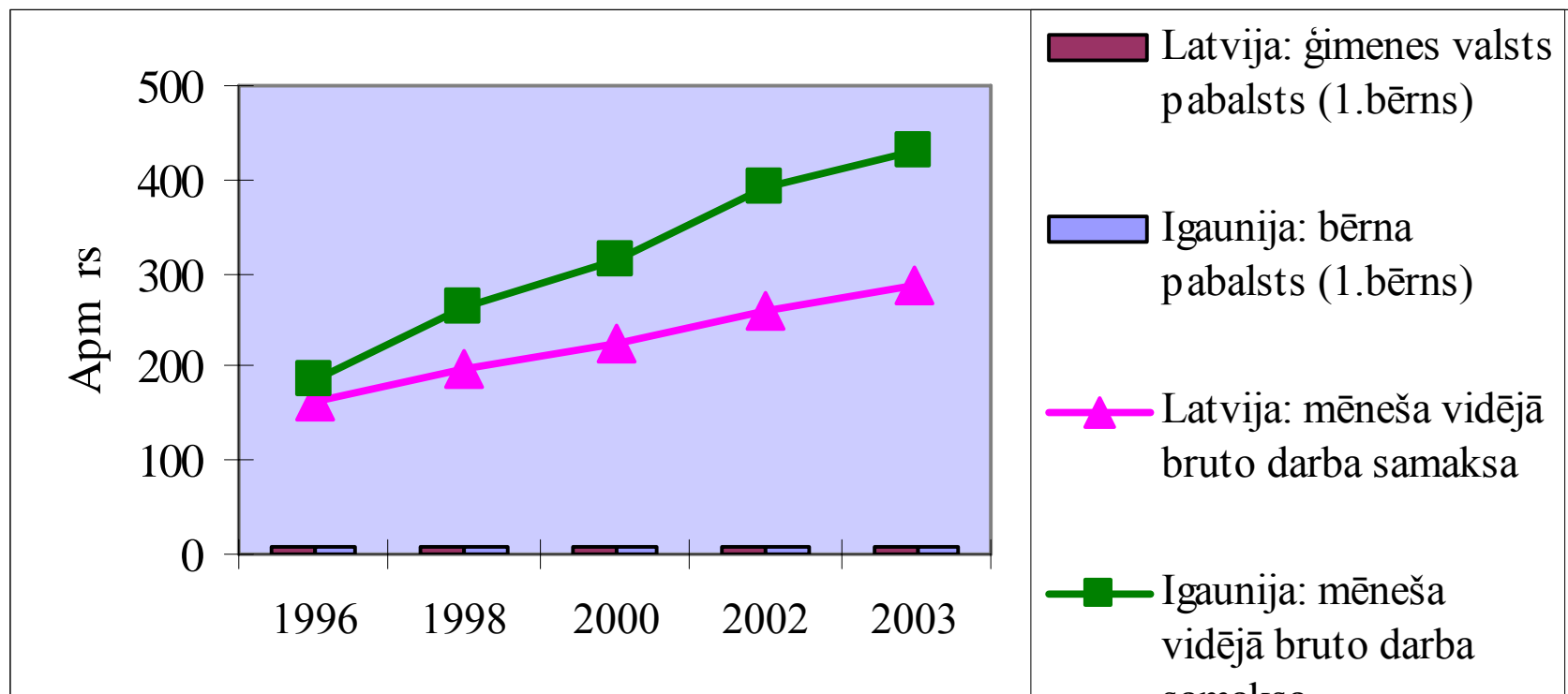
Poverty threshold as 60% of median income in Latvia

	Poverty threshold	Subsistence min.
	EUR	EUR
• 2000	71	119
• 2002 -	84	125
• 2003 -	89	133
• 2004 -	106	139

Income adequacy of households in Latvia (LVL)

Year	Income per household member	subs	1 quintile	2 quintile	average	min
• 2002	31.41	54.26	80.00	87.50		
• 2003	31.87	56.19	86.88	93.54		
• 2004	38.42	65.14	101.23	98.78		

Average wage and salary in Latvia and Estonia (1996 – 2003)



American or European?

- Latvian model is very similar to liberal one with some features of a conservative model with post-communist background becoming more fragmented concerning target groups;
- The influence of the EU has been long-lasting using the Open Method of Coordination with aim to enhance social inclusion.

Average months wages and salaries (net) and Subsistence minimum in EUR

	Wages & Salaries	Subsistence min
• 2000 -	155	119
• 2001 -	164	124
• 2002 -	176	125
• 2003 -	196	133
• 2004 -	213	139
• 2005	251	150

Share of, the so-called, working poor is disproportionately high.
Minimal salary after taxes is 85 Euros.

Evaluation of Social Dialogue

The preconditions for effective social dialogue are:

- 1. independence of the social partners;
- 2. sufficient organizational capacity of the social partners;
- 3. balanced distribution of power and influence;
- 4. propensity to cooperate

(Mailand & Due 2004).

Social expenditures in Latvia as % of GDP

	1999	2000	2001	2002	2003
Social insurance	12.3	10.9	10.5	9.8	9.1
Social assistance	2.0	1.8	1.6	1.5	1.6
Health care	3.8	3.4	3.3	3.4	3.4
Employment	1.2	0.8	0.7	0.6	0.7
Total	19.3	17.6	16.6	15.3	15.1

- Joint Inclusion Memorandum and activities to combat poverty and social exclusion have contributed to better understanding of social policy issues among Latvian politicians as well as the population on the whole.
- The activities of Trade unions and NGO have increased in autumn, 2005. (Manifestations for increasing non-taxable minimum, wage and salary amounts)
- The government announced that the Budget of 2006 should be social budget but it is rather difficult to estimate to what extent such announcement has been influenced by the forthcoming national elections in 2006.

Human development rank

	1995	1997	1999	2001	2005
Estonia	43	71	44	41	38
Latvia	48	92	50	50	48
Lithuania	71	76	47	45	39

Latvia's specific:

- Rapid growth of private share in social sphere:
- Pension administration
- Health funding
- Rapid polarization of society
- Relative poverty is in the same time absolute poverty
- Big share of working poor

Policy transfer concept does work

Due to many factors:

- the need to respond to a crisis
- search for solutions to political problems,
- very active involvement of Latvians from abroad in policy-making process in Latvia,
- very rapid development of policy network
- A weak organizational structure of employees has resulted in very low pressure from the bottom and large autonomy of the political elite and civil servants in social policy design

International actors

- The International Monetary Fund came to Latvia in 1992 and imposed strong requirements for macro-economic stability
- World Bank supported activities of social reforms with loans and consultations. With the help of WB consultants, Latvia established a means-tested scheme and a system in which money should follow the clients for social service institutions
- ILO has been involved in establishing social dialogue
- In 1995 Latvia has declared its orientation to the EU