

Feliciana Rajevska

Social policy in Latvia

Welfare state under double pressure

Project «Poverty, social assistance and social inclusion – Developments in Estonia and Latvia in a comparative perspective»

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ISBN 82-7422-503-1

ISSN 0801-6143

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Fafo's preface

This publication is one of a series of reports, working papers and student contributions from the project «Poverty, social assistance and social inclusion – developments in Estonia and Latvia».

The project is carried through in cooperation between Tartu University in Estonia, University of Latvia and Fafo in Norway. The Research Council of Norway has funded the project.

The cooperation between Fafo and Baltic research institutions dates back to the late 1980s and Tartu University has been a main partner since the early 1990s. The University of Latvia joined the cooperation in 2003. This cooperation has contained living conditions studies in 1994 and 1999 as well as studies of social policy developments. The current project started in 2003. Reports and papers from previous cooperation projects can be found on www.fafo.no.

The project contains 4 main issues:

- Poverty trends and structures of social exclusion
- Policy responses – understandings of poverty alleviation and social inclusion
- Social practice – the implementation and impact of policies
- Policy learning and possibilities for policy transfer

These four questions demand a multifaceted approach to methods and reporting, and are examined by a group of researchers in three countries. Consequently the reporting will be diverse and we try to let the reporting present the diversity of the project.

The project will be concluded in a seminar in Latvia in spring 2006. During the three years of research we have produced reports on poverty and social policy in Estonia and Latvia as well as comparative analyses containing also Norwegian perspectives. This report is one of several contributions on the way.

I want to thank the whole team of researchers and student from the three countries that have been engaged in the work. The main contributors have been Dagmar Kutsar, Avo Trumm, Riina Kiik and Jüri Kõre from Estonia; Feliciana

Rajevska, Linda Ziverte, Ilze Trapenciere and Zana Loza from Latvia; Tone Fløtten, Aadne Aasland and Liv Tørres from Norway.

We also want to thank the Research Council of Norway for funding the project.

Arne Grønningsæter (project leader)

Introduction

Post communist transition at the beginning of the new millennium coincides with the global modernisation/post-modernisation process, with a crisis of the European welfare state model, and with a growing impact of liberal ideas. The Latvian welfare state faced a double pressure both from inside and from outside.

The content of welfare reforms is the result of a process involving national political institutions, political parties, media, organized interests, existing welfare institutions, i.e. the whole national decision-making process.

However, in the case of the Central and East European (CEE) countries these reforms occurred in a context where these countries were preparing their accession to the EU and were borrowing money from international financial organizations.

Authors writing about the countries in transition share the view that “the reforms, launched on a wave of optimism in the early 1990s in Central and East European countries, have two central purposes: to raise standards of living, mainly by moving to a Western-style market economy, and to increase individual freedom and protect individual rights.”¹

Therefore we will take a short look at the economic context and socio-demographic changes in Latvia during the period from 1989 to 2004. The policy changes were *ad hoc* just as a reaction to an extremely turbulent environment in the early 1990s. Social reform in the field of social insurance and social assistance, starting in the mid 1990s, will be in the focus of our article, followed by the theory of policy learning and policy transfer as a theoretical tool for understanding the behaviour of decision-makers.

¹ Nicholas Barr (ed.) Labour Markets and Social Policy in Central and Eastern Europe, 1994. – p.5

Economic context in Latvia during transition

Latvia's Popular Front, the most popular and mass democratic movement during perestrojka, declared as goals at its First (1988) and Second (1989) Congresses: «to ensure to everybody a minimum living standard which does not humiliate human dignity, and to establish a state which guarantees and realizes human social protection. The satisfaction of human needs should be the main policy priority.»² The famous liberal scientist Ralf Dahrendorf warned all politicians in Eastern Europe in 1989 that after assuming power they should start to confront extremely difficult and painful economic problems. Therefore the “Valley of sorrow” on their way to the market economy is inevitable. The longevity of it depends on many internal and external factors.³ The transition to a market economy in Latvia was accompanied by a serious economic crisis: gross domestic product per capita decreased by almost a half (51,1 per cent) from 1989 to 1993. Among the European countries only Yugoslavia (40.6 per cent from 1989) and Moldova (33.2 per cent from 1989) had a more profound decrease in their per capita GDP.⁴

The initial stage of the economic reform in Latvia in 1991–1993 was characterised by an enormous drop in manufacturing, instability in the financial system and rapid price rises. The sharp decline in GDP was accompanied by a rapid decline in living standards. The 1995 bank crisis contributed to this decline as well. In 1996 Latvia for the first time experienced a real increase in GDP of 2.8 per cent, and between 1996 and 2003 the GDP in Latvia increased by an average of 6.1 per cent per year. This rapid economic development is still in progress. The Latvian GDP per capita in purchasing power standards was 25 per cent of the EU-15 average in 1995. By 2000 it had increased to 33.9 per cent. It was 41.5 per cent in 2003, but was still the lowest among the EU member states (compared to 43.8 per cent in Lithuania and 46.9 per cent in Estonia).⁵ The real income of employees from 1996 till 2003 had grown by 25 per cent. According to data from the Ministry of Finance, in 2002 the shadow economy accounted for 14 – 20 per cent of the total economy.

² Latvijas Tautas Fronte. Programma. Statuti. Rīga, 1988; Latvijas Tautas Frontes 2. kongress. Rīga, 1990.

³ Ralph Darendorf «Doroga k svobode: demokratizacija ji ejo problemy v Vostochnoj Evrope» - Voprosy Filosofiji, 1990, Nr.9, s.69 -75

⁴ Developments in Central and East European Politics 3, edited by Stephen White, Judy Batt and Paul G.Lewis, Palgrave, Macmillan, 2003, p. 219

The employment level increased by almost 5 per cent; from 57 per cent in 1996 up to 61.8 in 2003. Latvia in the 1990s had two different measures of unemployment level: 1) people who have been officially registered in employment agencies; 2) jobseekers estimated through the survey made twice per year. There was a big gap between these two figures: the number of job seekers was much bigger than the officially registered level of unemployment. Now there are some features of a positive trend. Despite the fact that since 1996 the officially registered level of unemployment has even increased, the difference between these two indicators is becoming smaller: from 13.5 per cent in 1996 to 5 per cent in 1998 and 2 per cent in 2003. It means that almost all jobseekers have been registered by the employment service. Not all of them are receiving unemployment benefits, because unemployed persons have been entitled to this benefit only for nine months. However without a registration in the employment service an unemployed person has no rights to receive social assistance and the guaranteed minimum income from the local government; such requirement serves as an additional stimulus for visiting the employment service.

Yet, the income growth is very uneven, the polarization of society in terms of income is increasing, and the number of poor people in the country is relatively high.⁶ During 1996–2003 there was a rapid increase in inequality: The Gini coefficient in Latvia has kept growing from 0.30 in 1996 to 0.33 in 1999 and 0.36 in 2003.

Table 1 Employment situation in Latvia

Year	1991	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of employed (thous)	1405.5	945.2	985.5	982.0	965.1	939.0	960.0	989.0	1006.9	1017.7
Rate of jobseekers	0.5	20.7	15.2	14.2	14.3	14.4	13.1	12.0	10.6	10.4
Rate of registered unemployment		7.2	7.0	9.2	9.1	7.8	7.7	8.5	8.6	8.5

Source: www.csb.lv; *Sociālie procesi Latvijā*, Rīga, 1998, 99.lpp.

⁵ Economic Development of Latvia – Report by Ministry of Economics, Republic of Latvia – Riga, June 2004 – p.17 (Eurostat Structural Indicators).

⁶ Economic Development of Latvia – Report by Ministry of Economics, Republic of Latvia – Riga, June 2004 – p.11

Socio-demographic trend

The demographic process taking place in Latvia has a common definition – depopulation. The number of inhabitants due to the migration process and negative natural increase during 15 years has decreased by 335.1 thousand or almost 13 per cent. An especially rapid decrease has been observed in the youngest generation group: the number of children decreased almost by 200 thousand or by above 30

Table 2 The changes in the population of Latvia

	1989 Population in thousands	2003 Population in thousands	1989 %	2003 %
All population	2666.6	2331.5	100	100
In age group				
0–14	570.9	372.6	21.4	15.9
15–59	1632.6	1444.5	61.2	62.0
60+	463.1	514.2	17.4	22.1

Source: Data of the Central Statistic Bureau

Table 3 Births, deaths and natural increase rates per 1000 inhabitants in Latvia

Year	Births	Deaths	Natural increase	Infant mortality	Suicides per 100 thsd	Life expectancy	
						Male	Female
1990	14.2	13.1	1.1	13.7	26.1	64.2	74.6
1991	13.1	13.1	0.0	15.7	28.6	63.8	74.8
1992	12.1	13.5	-1.4	17.6	35.2	63.3	74.8
1993	10.4	15.3	-4.9	16.2	42.9	61.6	73.8
1994	9.6	16.6	-7.0	15.7	41.0	60.7	72.9
1995	8.7	15.7	-7.0	18.8	41.2	60.8	73.1
1996	8.1	14.0	-5.9	15.9	37.4	63.9	75.6
1997	7.7	13.8	-6.1	15.3	36.4	64.2	75.9
1998	7.6	14.2	-6.6	15.0	34.8	64.1	75.5
1999	8.1	13.7	-5.6	11.3	32.0	64.9	76.2
2000	8.5	13.6	-5.1	10.4	32.4	64.9	76.0
2001	8.3	14.0	-5.7	11.0	30.1	65.2	76.6
2002	8.6	13.9	-5.3	9.8	28.7	65.4	76.8

Source: Demographic Statistics in the Baltic countries. 1996. Tallinn, Riga, Vilnius., p.9; Statistical yearbook of Latvia, 1996, p.61; Economic Development of Latvia. Report. 1997, p.52; Statistical yearbook of Latvia, 1997, p.63 –65; Statistical Yearbook of Latvia 2003, pp.47, 48

per cent. The number of persons over 60 increased by 51 thousand only, but the share of them increased almost by 5 per cent and made up 22 per cent. The ageing process is a common feature for EU member states, but the ageing rates in Latvia are much higher than the average in Europe. Here we have to take into account that official statistics do not include persons who have temporary work outside Latvia. However, their number is growing rapidly, especially since Latvia became an EU member.

The demographic trends in Latvia, since the country regained its independence, show quite clearly how high the *social costs of transition have been*. The natural increase has been negative for more than 12 years since 1992 due to the low birth rate. There are positive trends since 1995 in infant mortality and in the number of suicides per hundred thousand. However Latvia, together with Russia and Lithuania, is among the world leaders on suicide rates. Life expectancy for males is low and much lower (over 11 years) than that for females (see Table 3).

Health status

A study on the health condition of the population conducted by the World Health Organization (WHO) in 1999 put Latvia on the 105th place among 191 participating countries.⁷ Lithuania and Estonia took up the 73rd and 77th place respectively. A survey carried out by the Agency on Health Statistics and Medical Technologies in the late 1990s shows that many people do not undergo treatment because they are poor. Thus, 48.2 per cent of the survey respondents did not consult a doctor when ill, as they had no money for treatment. 32.9 per cent of the respondents would find money with great difficulty in case of a serious illness. Only 18.9 per cent could afford treatment without being concerned about their primary needs. In rural areas people do not have much choice in selecting their family doctors. The accessibility (the distance and resources) of health care is also restricted. There are 1700 – 2100 patients per family doctor in Latvia. This indicator is among

⁷ Five criteria have been taken into account – the general health condition of the population, taking into account the median life expectancy; the degree of equality in providing medical services to various groups of the population; general operational indicators of the health care system, taking into consideration the opinion of patients and expediency in providing services; the degree of qualified services to various strata of the population; medical expenditures per capita. - World Health Organisation Regional Office for Europe “Health Status Overview for Countries of Central and Eastern Europe that are Candidates for Accession to the European Union” www.euro.who.int.

the highest in Europe, and the corresponding figure for Estonia is 1500, it is 1205 in Norway, while it is 679 in Germany.⁸

The inability to pay for medicine and the low level of information among the population about the minimum level of state guaranteed medical services frequently cause delays in visiting the doctor. In 1999, 42 per cent of the inhabitants of villages and rural areas had not visited a doctor even once. It should be noted that 67 per cent of the fatal outcomes take place among people of working age. Nevertheless the financial allocation to the health sector in Latvia has not exceeded 3.4 per cent of the GDP for many years.

The low level of health care and inadequate access to required medicine, insufficient state financing and low control of money spending contributed substantially to the increase in the numbers of deprived and socially excluded persons. The ineffectiveness and inefficiency of the health care system is an issue, which causes problems for a majority of Latvia's population. The cost of health services and inability to pay it perceived as the biggest threats by almost all groups of the population in 2002.

The UNDP Latvia Survey on Human Security 2002 asked respondents to rank the main threats to their security at the personal level. The results are striking, as the first three positions for both men and women are connected with a fear of becoming ill and an inability to pay for medical care.

Table 4 Perception of threats to security at the personal level (% expressing concern)

Potential threats	Men	Women	All
Inability to pay for medical care in the case of illness	78	87	83
Not receiving an adequate standard of medical care in the case of illness	80	86	83
Becoming seriously ill	78	88	83
Not receiving a retirement pension large enough to live on	72	78	75
Being unable to support oneself	67	78	73
Being involved in an accident	72	82	77
Inability to pay one's rent or other household bills	65	79	72

Source: Latvia Human Development Report. Human Security. UNDP, Riga, 2003, p.30

⁸ *Latvia Single Program Document* 2003: 91.

Social reform

The transformation to a market economy, price liberalization and curtailment of subsidies on basic goods and services required changes in the social security system. This system, inherited from the socialist past, was in need of reform to secure its financial sustainability and to meet the demographic challenges. The reforms carried out in the first half of the 1990s were mainly *ad hoc* emergency measures.

A more systemic approach to reform occurred in the autumn of 1995. This was the year when all political parties elected to the 6th Saeima (Parliament) unanimously expressed their will to join the European Union and signed the Declaration supporting Latvia's joining the EU, when President Guntis Ulmanis and Prime Minister Maris Gailis signed an official application for membership, and Latvia signed an association agreement with the EU.

The purpose of the social security reform was to establish a stable and sustainable social insurance system that would be based on the two following principles:

- first, the scope of the social security service is proportionate to social insurance contributions,
- Second, there is solidarity between social insurance contributors and recipients of social insurance services.

Social insurance contributions were made as compulsory payments to the social insurance special budget, concurrently allowing a specific category of the population to make voluntary contributions for state pension insurance. The common trend was to reduce the payment from 38 per cent to 33 per cent, what already had been fulfilled in 2003. There was an initial norm in law according to which the employer and the employee should pay equal parts, each 16.5 per cent already in 2002. But in 2002 national elections took place and the government could not implement such an unpopular policy. Therefore the share of the employer's payment was diminished by 2 per cent, but the employee's share remained unchanged.

One of the social reform objectives was to establish a direct dependency of social insurance benefits on the social insurance contributions, to strengthen the people's motivation to make these contributions, and to secure their fair distribution.

In 2001 several essential problems related to the funding of social insurance were resolved: According to the ruling passed by the Constitutional Court on 13 March 2001 the principle that a person is to be recognized as socially insured and is eligible to social insurance as soon as the employer has declared the amount of compulsory contributions to be paid, and not just after they have actually been

Table 5 The redistribution of social tax payments between the employer and employee in Latvia (in %)

Time	Employer's payments	Employee's payments	Total
1991– June 1996	37	1	38
July 1996 -December 1996	33	5	38
Year 1997 - 1999	28	9	37
Year 2000	27	9	36
Year 2001 - 2002	26	9	35
Since January 1, 2003	24	9	33

paid as it had been before. These amendments have resulted in the eligibility to receive pensions, unemployment and sickness benefit for many employees.

Pension reform

Pension reform was the most important part of social reform. The purpose of the pension reform was to establish a financially stable, safe pension scheme based on contributions from the insured person.

In 1996 Latvia transformed the state pension scheme (the first tier) based on the classical principles of the solidarity of generations to a system based on insurance principles. The similar pension model was introduced in Sweden and in Poland.

The increase of the retirement age for women (from 55) started in 1996 and for men (from 60) in 2000, raising it by six months each year. The retirement age for both genders should be the same – 62 years. Men already reached this mark in 2003; the retirement age for women was 60 in 2004 and will be 62 in 2008. There is also a possibility of early retirement if the length of the insurance period is not less than 30 years; for women it is 2 years before the retirement age, for men - starting with the age of 60.

As of 1 January 2000 the amount of pension granted to early retirement is 80 per cent of the calculated pension till the time when the retirement age is reached. Since 1st July of 2005 the possibility of early retirement should be abolished according to the national commitments to the International Monetary Fund - the Economic Policy Memorandum of the International Monetary Fund and commitments to the World Bank – the Program of Structural Changes. However the possibility of early retirement is still in force till 2008, because Parliament was forced to make amendments due to strong pressure from below during spring 2005. There are some other examples of the pressure from below. The Federation of

Pensioners (more than 20 per cent of Latvia's population) compelled the Ministry of Welfare to initiate a serious indexation of small pensions in 2004. The Federation of Pensioners has organizational resources and support of the public opinion. The Federation of Pensioners was the first non-government organization, the opinion of which the government had to take into account already in October 1993, when making changes in the pension law. Its opinion has been taken into account when debating other issues too. When the government initiated radical changes in the pension law in 1999 public opinion was strongly against such changes and initiated a referendum in October 1999.

The new pension scheme costs much less than the previous one, that was based on redistribution principles. As the pension amount in the first-tier scheme is fully dependent on contributions and the retirement age, such a scheme is self-financing and stable in the long term.

The success of pension schemes in Latvia depends on the development of pension schemes *of the second* and third tiers: the funded pension schemes. The second-tier pension scheme started to operate on 1 July 2001. It is compulsory for those under 30 (born on or after 1 July 1971) and voluntary for those between 30–49 years of age. Persons over 49 (born before 1 July 1951) are not eligible to join to this scheme. The second tier is a fully funded scheme, where a part of social insurance contributions for old age pensions is transferred to managers of state funded pension schemes.

Participation in the second tier of the pension system does not increase the total amount of social insurance contributions. A part of the contributions made to the pension account at present (20 per cent of the gross wages) are transferred to the second tier. At the beginning 2 per cent was transferred to the second tier, the amount of contributions to this tier increasing up to 4 per cent in 2007, 6 per cent in 2008, 8 per cent in 2009 and 10 per cent or half of the total contribution by 2010.

The third tier, which is a private voluntary scheme, has been in force since 1998. However, it covers only a small part of the economically active population (less than 1 per cent).

Pensions granted under the new law only reflect individual earning received since 1996. The new rules were only applied to persons getting retired from 1 January 1996, which led to the coexistence of the old and new pension schemes and a rather long transitional period. The majority of current old-age pensioners, thus, receive their benefits according to the old rules.

The World Bank took a very active part in managing, monitoring and building up the administrative capacity of social reforms in Latvia, and especially in the field of pension reform. Mr. Andrejs Poornovs, Minister of Welfare of the Republic of Latvia in 2001 concluded his speech "Latvian Social Security System Reform"

at the Conference “Latvian Welfare Reform – Present and Future” organized in 2001 by the Ministry of Welfare and the United Nations Development Programme in Latvia in the following way: “I would like to point out the fact that the social security system’s reform implemented in Latvia would not be possible without the support of the World Bank. Within a common project of Latvia and the World Bank the best experts of Latvia and foreign countries have worked hand in hand, and that is the reason why today we can together assess the positive and negative experiences and development of the implemented project.”⁹

Social assistance reform

On 6 February 1992 one of the first decisions in the area of social assistance was Decision No.44 of the Council of Ministers of the Republic of Latvia “On Recommendations to Local Governments in Organizing Social Care” which recommended establishing social assistance services at the local level. The first attempt to establish a link between eligibility to a municipal social assistance benefit and the income level of the population without affiliation to a social group was undertaken by Regulations of the Cabinet of Ministers No.19 “On a Procedure of Recognizing Families to be Poor” and Recommendation No.1 “On Allocation of Housing Benefits to Poor Families” approved on 18 November 1993.

The Law “On Social Assistance” enacted on 26 October 1995 attempted to structure the social assistance system. The law distinguished between the functions

Table 6 Amount of social security benefits in Latvia and their correlation with amount of subsistence minimum

	GMI (in LVL)	State social security benefit (in LVL)	Average old-age pension (in LVL)	Subsistence minimum (SM) (in LVL)
1998	Did not exist	30 (36% of SM)	51.26 (62.2% of SM)	82.43
2002	Did not exist	30 (34% of SM)	62.14 (70% of SM)	88.76
2003	15 (16% of SM)	35* (37% of SM)	64.34 (68.7% of SM)	93.54
2004	18 (18.2% of SM)	35 (35.4% of SM)	70 (70.8% of SM)	98.78

* since December 2003

⁹ Mr.Andrejs Poornovs, “Latvia Social Security System Reform” in “Latvia Welfare Reform – Present and Future” Riga, Latvia, 2002, p.13 (the Ministry of Welfare and the United Nations Development Programme in Latvia).

of the state and the local governments in providing social assistance. During the reform the state social benefit system has been simplified. There are two basic forms of social assistance in Latvia: the first is based on medico-demographic criteria (categorical) with the aim of reaching the people that cannot be reached through contribution-based benefits¹⁰. The second is a classic means-tested social assistance scheme run by the municipalities¹¹.

Two new detailed laws regulating social assistance were adopted in 2002 and came into force in 2003: Law on Social Services and Social Assistance and State Benefit Law. In March 2003 a new benefit, guaranteed minimum income (GMI), was introduced as a necessary precondition for joining the EU. The local governments are responsible for providing guaranteed income per household member in return for individually agreed activities for every person of working age. The GMI is supposed to be the highest priority.

The present level of GMI (21 LVL or 30 EUR in 2005) in Latvia does not cover basic living costs. Due to its very low level GMI is available only for people out of the labour market and without any income, but not for working parents with minimum wages. Latvia already has elaborated its legislation and institutions for the social protection system. This has been done in accordance with modern requirements. A positive trend can be observed in the increasing of childbirth grant, child-care benefits and indexation pensions. However, the amounts of many other benefits are inadequate to the needs. For example, in 2004 the amount of GMI was 18 per cent of the subsistence minimum, the amount of state social security benefit 35% of subsistence minimum and the amount of average old-age pension 71% of subsistence minimum.

¹⁰ *The state social security benefit* is granted to residents of the Republic of Latvia, who are registered in the Country Register of Latvia and have been living in Latvia for at least 60 months in total, including the last 12 months permanently, if they belong to one of the following categories: persons at least five years over the retirement age; disabled persons above the age of 16; children under the age of 18, who have lost one or both of their parents and are not married. In 2005 there are the following state social benefits in Latvia: state social security benefit, child-birth grant; child-care benefit, paternity benefit; family benefit; special benefit for families with disabled children; guardian's allowance for child's maintenance; compensation for the fulfilment of guardian's duties; funeral grant.

¹¹ There are such municipal social assistance benefits as guaranteed minimum income benefit, poor family social assistance benefit, housing benefit, benefit for care, and funeral allowance. The law gives local government the right to pay benefits also for other purposes in addition to the above benefits.

The growth of regional inequality

Means-tested local government assistance is fully dependent on local resources. Therefore the extent of assistance, even the amount of GMI can be and is different in different municipalities. Some of them are not capable of providing GMI for everyone who needs it. This problem is growing, because in Latvia there are large and increasing differences in household income among different regions. If in 1996 the difference between the poorest and richest regions in monthly disposable household income per household member was 1.26 LVL, then in 2002 it was 1.75. In all regions, except the region of the capital city Riga, the monthly disposable household income per household member was smaller than the amount of subsistence minimum estimated by the Statistical Bureau of Latvia.

The material inequality between cities and rural areas remains. In 2002 the average income at the disposal of household members in Riga was 104.53 Ls (179.30 EUR), while in the countryside it was only 63.93 Ls (109.66 EUR). Although the expenditure on social protection in absolute numbers continues to increase, as a percentage of GDP it has decreased. In 2000 it was 15.2 per cent of GDP, while in 2001 it amounted to 15 per cent of GDP (in EU-15 correspondent figures were 27.3 per cent in 2000 and 27.5 per cent in 2001).

Table 7 Monthly disposable household income per household member by region, in LVL

	1996	2000	2002
All households	51.50	69.19	80.00
Kurzeme region	49.49	59.85	68.30
Zemgale region	51.03	62.78	71.07
Latgale region	44.09	48.94	58.44
Vidzeme region	47.82	62.29	67.52
Riga region	55.81	82.76	102.43
Proportion Riga/Latgale	1.26	1.69	1.75

Source: CSB, Household Budget Survey

Funding of social security system

Latvia has the lowest funding for health care and sickness benefits among the EU countries. The funding allocated for health care in Latvia was less than 4 per cent of GDP in 2000–2001 (see table), compared to the EU countries where it varies between 7–10 per cent.

There are important differences between EU-15 and Latvia in the division of social protection expenditure by functions (as percentage of total expenditure). In Latvia the provision of social benefits in cash, material benefits and social services in case of old age risk make up the largest percentage of social protection expenditure. Latvia is spending an approximately 10 point bigger share on old age and survivors and an approximately 10 point lower share on sickness and health care¹².

The main conclusion from table 8 is that the social sphere in general and social protection system in particular does not benefit from economic growth and that the economic growth is not socially orientated. There was even a decrease in absolute figures in health care for one year and in the employment area absolute

Table 8 Social expenditures in Latvia*

		1998	1999	2000	2001	2002	2003
Gross domestic product (GDP)	mIn LVL	3592	3890	4348	4813	5195	5872
Social insurance	MIn LVL	429.5	472.6	472.0	498.8	508.4	516.3
Social insurance	% of GDP	11.9	12.3	10.9	10.5	9.8	9.1
Social assistance	MIn LVL	65.8	75.2	76.4	76.9	78.7	88.6
Social assistance	% of GDP	1.9	2.0	1.8	1.6	1.5	1.6
Health care	MIn LVL	148.5	146.3	147.6	156.5	178.6	-
Health care	% of DP	4.1	3.8	3.4	3.3	3.4	...
Employment	MIn LVL	29.9	47.5	36.3	34.1	32.9	40.2
Employment	% of GDP	0.8	1.2	0.8	0.7	0.6	0.7
Total	MIn LVL	673.7	741.6	764.6	790.2	798.6	...
Total	% of GDP	18.7	19.3	17.6	16.6	15.3	...

Source: Joint Inclusion Memorandum, Latvia; LR Labklajibas Ministrijas Socialais Zinojums par 2002.-2003. gadu; Riga, 2004, 9.lpp.; there are some differences in figures mentioned in JIM published in 2003 and in Social Report, published by the Ministry of Welfare in 2004. The author gives the data published in 2004

¹² Latvian National Action Plan for Reduction of Poverty and Social Exclusion (2004–2006), p.11 <http://www.lm.gov.lv>

figures have decreased despite of fact that Latvia has a higher level of unemployment than the EU average.

Minimal wage and remuneration system

Salaries and wages are the main sources of income in Latvia. The minimum monthly wages were established to regulate remuneration for work in the country. On 4 May 1990 Latvian Parliament, alongside with proclaiming the Declaration of the Restoration of Independence, joined the 1970 Convention of the International Labour Organisation (ILO) No. 131 “On Establishment of Minimum Wages”. It was ratified in 1993. This convention stipulated that the following factors were to be taken into account as far as possible, and to the extent that they comply with the national conditions:

1. Needs of workers and their families, taking into account the overall wage level in the country, living costs, social benefits and the relative living standards of other social groups;
2. Economic factors, among them demands of the economic development, the productivity rate and the desirability to achieve and maintain a high employment rate.

During the 1990s the Latvian Labour Code (article 84) regulated the minimum monthly salary in Latvia. Under the Labour Code the minimum monthly wages was the lowest monthly salary for work within the frame of the normal working time and *was not to be below the subsistence minimum* established in the country. There was no contradiction between the norms of the ILO convention and Latvia’s legislation about the relationship between the minimal salary and the subsistence minimum.

According to the established monitoring procedure the ILO Committee of Experts during the 1996/67th session evaluated the information supplied in the first report of the Latvian Government and the observations made by the Free Trade Union Federation of Latvia (LBAS). The Committee noted that according to the observations made by the LBAS and trade union experts, the state-determined minimum wage is 1.7 times smaller as the state-determined crisis subsistence minimum and three times smaller as the subsistence minimum for one working person. The Committee pointed out that the Government had not communicated its comments regarding these observations, and requested the Government to react.

Table 9 illustrates the changing relationship between the minimum wage and subsistence minimum during 1996–2003. The presented figures indicate a positive trend in the correlation between the minimum wage and the subsistence minimum: the sum of minimum wages in gross increased from 48 per cent of the subsistence minimum in 1996 up to 76 per cent in 2003. Nevertheless it was (and is still) below the subsistence minimum.

According to the Labour Law adopted by Parliament in June 2001 (in force since 1 June 2002) the minimum monthly wage should not be lower than the officially established minimum. The new Labour Law in connection with minimum wage does not use the term ‘subsistence minimum’.

The ILO Committee noted to the Observation of ILO 2002/2003 73rd session that the Government report from Latvia had not been received. The Government reported that in 2001 the national minimum wage amounted to 63.3 per cent of the subsistence level calculated by the Central Statistical Bureau and that 93,800 workers, or 16 per cent of the total working population, were estimated to receive a gross monthly salary at the level of the minimum wage. After the acknowledgement of these facts ILO warned the government of Latvia: “In this connection, the Committee is obliged to recall that the principal objective of a minimum wage system is to contribute to the eradication of poverty by ensuring a decent standard of living for all working people and their families, and that consequently a minimum wage which manifestly fails to cover such basic needs as housing, food, education, health or social security, scarcely serves as an adequate tool of social protection”. The recommendations and requests to the authorities

Table 9 Remuneration, minimum monthly wages and subsistence minimum (1996 - 2003)

Year	Minimum monthly wages on the average per year LVL	Subsistence minimum on the average per year LVL	Minimum monthly wages (brutto) % of the subsistence minimum	Average monthly wages of employees working in national economy	Minimum monthly wages % of average monthly wages of employees working in national economy
1996	35.50	73.78	48.1%	98.73	36.0
1997	38.00	78.78	48.2%	120.03	31.7
1998	42.00	82.43	50.9%	133.30	31.5
1999	50.00	83.18	60.1%	140.99	35.5
2000	50.00	84.47	59.2%	149.53	33.4
2001	55.00	86.93	63.3%	159.30	34.5
2002	60.00	88.76	67.6%	173	34.7
2003	70.00	91.75	76.3%	192	36.6

Source: CSP; <http://www.csb.lv>; LR Labklājības ministrija. Informatīvais pārskats par galvenajām sociālās politikas pamainām 2002. gada. Rīga, 2004, 38.lpp. – <http://www.lm.gov.lv>

of Latvia from the 2002 ILO session were expressed in a diplomatic but clear language: “The Committee trusts that the Government, in consultation with its social partners, will make every effort to ensure that the minimum wage increases adequately reflect the needs of workers and their families, for instance by maintaining their purchasing power in relation to a basic basket of essential consumer goods, and requests the Government to continue to provide up-to-date information on the evolution of minimum wage rates as compared to the evolution of other indicators such as the average subsistence level or the inflation rate”.

The basic principles for determining any increase in the minimum wage were defined by “The Concept Paper on the Minimum Wage” adopted by the Latvian Government in 2003.¹³ According to this concept, the minimum wage should increase gradually during seven years till it reaches 50 per cent of the average salary. In such a way Latvia will become closer to the standards established by the European Social Charter. According to the OECD recommendations, the minimal income of employees should be equal to 68 per cent of the average level of salaries and wages in the country.¹⁴

A specially established and very complicated procedure has been introduced, a time-table set and the participants defined: the Ministry of Welfare, the Ministry of Finance, the Ministry of Economy, the Ministry of Regional Development, the State Chancellor’s Department of Policy Coordination, Latvian Association of Local Governments, Latvian Free Trade Union Association and Latvian Confederation of Employers, the National Trilateral Cooperation Council and the Cabinet of Ministers.

The minimum wage defined by the state had been regularly increased during 2002-2004. Inflation hit the economy of Latvia very seriously in 2004 (7.5%). Nevertheless the growth of the minimal wage in 2005 has not been defined and

Table 10 Planned increases of minimum wages as % of average salary

Year	2004	2005	2006	2007	2008	2009	2010
Minimum wages as % of previous year average wages	43	44	46	47	48	49	50

Source: Ministru kabineta noteikumi Nr.413, Rīga 2003. gada 22.julija. Kartība, kada nosakama un parskatama minimala mēneša darba alga. Izdoti saskana ar Darba likuma 61.panata trešo dalu

¹³ Ministru kabineta noteikumi Nr.413, Rīga 2003. gada 22.julija. Kartība, kada nosakama un parskatama minimala mēneša darba alga. Izdoti saskana ar Darba likuma 61.panata trešo dalu – <http://www.likumi.lv/doc.php?id=77636>, 04.11.21.

¹⁴ LR Labklājības ministrija. Informatīvais pārskats par galvenajām sociālās politikas pārraudzinām 2002. gada. Rīga, 2004, 40.lpp. – <http://www.lm.gov.lv>

the budget for 2005 does not include this kind of expenditures. It means that in 2005 there was a *defacto* decrease in minimum wages as per cent of average monthly wages instead of the planned increase. This can be seen as the social cost of inconsistencies in the governmental policy concerning minimum wages.

Latvia is the poorest country among the new EU member-states with the lowest minimum wage. In October 2002 the number of employees whose wage was less than minimum and equal to minimum was 89.700 (79.700 in the private and 10.000 in the public sector). According to the data from the Ministry of Finance, the shadow economy accounts for 14–20 per cent of the economy as a whole¹⁵. Even if we take into account the data from “Working Life Barometer” (2002) that around 20 per cent of employees have received additional (illegal) payments in envelopes without paying taxes, the group of people with low salary is still very large. According to survey data from October 2003, 62.6 per cent of all employees in the private sector in Latvia had received gross 150 LVL and less (the average salary in 2003 was 192 LVL)¹⁶. It means that at least 63 per cent of the employees in private sector received less than the average salary¹⁷. Such a proportion is an indication of a high level of polarization, as there is no reasonable explanation why some persons in the public sector should receive a daily salary equal to other persons’ monthly salary.

Latvian Association of Free Trade Unions has not enough power in social dialogue to require the fulfilment of the established complicated procedure of the definition of the minimal salary. The non-taxable income minimum has stayed unchanged for eight years since 1997¹⁸. The non-taxable income minimum was 21 LVL per month or 252 LVL per year. For each dependant (including every child) tax relief was applied to half the non-taxable income minimum, i.e. 10.50 LVL per month or 126 LVL per year. Since 2005 the amount of tax-exempted income became higher by 5 LVL, or every employee receives 1.25 LVL (1.86 EUR) more. It is definitely a small increase in conditions of high inflation. It is an indicator of the weakness of trade unions in Latvia and of the level of the social dialogue. The membership in trade unions in Latvia decreased from 274,000 to 206,000 members in the period from 1996 to 2000, and was as low as 180,000 in 2003. However during 2003–2004 trade unions became more active in trilateral consultations putting the issue of minimal wage and the non-taxable minimum on the

¹⁵ Joint Assessment Paper, p.6.

¹⁶ Central Statistical Bureau of Latvia

¹⁷ Central Statistical Bureau of Latvia, Reports of enterprises and institutions

¹⁸ In Latvia income tax of inhabitants is applicable to income that is gained on the basis of work relationship according to the general tax rate of 25 per cent

government agenda. As a result 36.4 per cent of the respondents in the Survey (October 2004) confirmed their trust in the trade unions. This indicator was much lower for the government (25 per cent) and parliament (22 per cent)¹⁹.

During the time of social reform the net average salary keeps growing faster than the value of goods and services basket of complete subsistence minimum. Nevertheless, the level of salaries is still very low. If in 1998 the average net salary was equal to 1.18 of subsistence minimum, in 2000 it was 1.29, and in 2003 1.47 of subsistence minimum. It means that in 1998 a working person on the average salary could provide for himself/herself little more than just subsistence minimum. Only in 2003 two working persons with average salaries could provide almost full subsistence minimum for a third person. In general we can conclude that working poor is a common and widespread situation for Latvia. Latvia is the EU country with the lowest minimum and average salaries and wages. The share of GDP spent for wages and salaries was 39 per cent in 1998 and 34.3 per cent in 2002. Such a situation is dangerous for the new EU member state with new opportunities for free movement of labour, capital, goods, because it stimulates brain drain and simply out-migration of employees. High mobility of the labour force concerns young persons and persons with high qualifications. Migration to Ireland and the UK has grown rapidly since May 1, 2004. Keeping the level of salaries low, Latvian social security system is losing its taxpayers.

We can conclude that all these figures and facts are clearly showing that the pressure from below for a welfare state is weak.

Social dialogue is underdeveloped. Mikkel Mailand and Jesper Due of the University of Copenhagen, Denmark, having examined the social dialogue in Poland, the Czech Republic, Hungary and the three Baltic states: Estonia, Latvia and Lithuania, argue that the social dialogue in these countries does not measure up to the minimum criteria for effectiveness and has failed to counteract serious reductions in real wages and employment opportunities.²⁰ The authors conclude that it is unlikely that these countries will be capable of substantially improving the social dialogue using their own resources; this would require a more forceful intervention by the European Union.

Therefore we would like to explain the social policy-making process in Latvia using the policy transfer concept.

¹⁹ How Democratic is Latvia. Audit of Democracy. Riga, University of Latvia, 2005, p.225-227

²⁰ "Social Dialogue in Central and Eastern Europe: Present State and Future Development" published in European Journal of Industrial Relations, vol.10, No.2 179-197 (2004)

Policy transfer as a concept: Does it work in the social policy-making process in Latvia?

“Policy transfer” is defined by D. Dolowitz²¹ (1998) as “the occurrence, and processes involved in the development of programmes, policies, institutions, etc., within one political and social system, which are based upon the ideas, institutions, programmes and policies emanating from other political and/or social systems”. Policy transfer refers to the 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. Richard Rose refers to policy transfer as learning across time and space. Policy transfer can be described as a two-phased process. The first phase focuses upon learning *about* another country’s policies or programmes. The second phase focuses upon learning *from* another country’s policies or programmes. The first phase is mainly about collecting information on how a policy or programme was developed and how it works within a particular country. The second phase is mainly about assessing the accumulated information and deciding whether or not to use that information in order to construct and enact national policy.

Policy transfer does not occur in a vacuum but is part of the broader policy-making process. Lessons can be learned from others whenever one identifies and analyses problems, or whenever one discusses specific policy instruments or solutions to problems. Policy transfer can occur at almost every stage in the planning and implementation of national policy. This realisation has important practical implications for any prudent guidance on this topic. D. Dolowitz²² takes it as axiomatic that good policy formulation requires an optimum balance between innovation and learning, whether that learning is from the review and evaluation of one’s own past or from observation of what others do. If the lesson-learning element of this equation is to be strengthened, policy officials will require at least three things:

- The right disposition – an inclination to look abroad as a natural and automatic part of the policy-making process;
- The right knowledge – where to find relevant and reliable information about policy initiatives abroad and links to the appropriate contacts;

²¹ Dolowitz D.P., Marsh D. *Who learns from Whom: a Review of the Policy Transfer Literature* – Political Studies 22 (2), 1996 – pp.343-357

²² Policy Hub -Beyond the Horizon: International Comparisons in Policy Making. Background to the Development of the Toolkit 11 The policy transfer process.

- The right method – a systemic approach that will help policy officials to interpret experience abroad and to understand what factors have made a policy or programme successful in its original home, and how variations in social, economic, political or institutional conditions might stand in the way of a successful transfer.

Policy transfer analysis takes varied forms, and includes the ability to learn from the experiences of others, to know what a policy is and what its implications are, and to be able to recognise policy convergence. A framework has been established to investigate policy-transfer processes: Who is transferring the policy? Why is the policy being transferred? From where is the policy being transferred?

The concept of policy transfer includes three independent variables. These variables are differences in cultures, differences in the scope, depth and number of personal contacts between key officials and the existence of policy networks and differences in the extent of policy failures or in the need to respond to a crisis. Important distinctions can be drawn between “voluntary” and “coercive” policy transfer and various intermediate points on the continuum that runs between these extremes. Coercive policy transfer occurs when one or more political systems or international organizations impose a policy, programme or institutional reform upon another political system.

Policy transfer can be voluntary, as it is in the Open Method of Coordination (OMC) in the EU, or coercive, as it is when the World Bank (WB) and the International Monetary Fund (IMF) impose coercive policy transfer on a government that wants to gain access to loans.

Policy transfer networks have important roles to play. Policy-makers are often linked to policy networks that have frequent interaction, shared beliefs and common values. As a consequence, it is fruitful to study the following dimensions of policy transfer networks: 1) the patterns of communication between participants of the process, i.e. donors and adapters; 2) the actors involved in the policy transfer process, i.e. elected officials, political parties, civil servants, pressure groups, policy entrepreneurs, experts, the mass media; 3) the search for solutions to political problems or remedies for domestic policy failure.

After the demise of communism in a large number of European nations, the new regimes declared that their goal was to promote human welfare by building market economies and democracies. Beginning in the early 1990s, these countries had to respond to many different and serious internal and external challenges. Western experts elaborated a road map for the transformation from a planned to a market economy. This road map became known as “The Washington Consensus”. The Washington Consensus, to a considerable degree, did set the stage for economic policies in Central and Eastern Europe (CEE), until the late 1990s. It

consisted of four main elements: stabilisation, liberalisation, privatisation and restructuring. Prices had to be free from state controls. This decision would trigger difficult, and for many, rather harsh inflationary pressures. But the decision had to be made because without deregulated prices the market mechanism would never function. Wages, on the other hand, had to be tightly controlled, in order to slow down the inflationary spiral. Economic activity, in general, had to be liberalized, in order to permit the emergence of new small businesses. A speedy move from the previously closed economy to an internationally open economy fostering free trade was also recommended. While many aspects of liberalisation were seen as being essential (freeing prices, permitting economic initiative), others were more controversial (tight wage restraints, the complete transformation of command economy to market economy). The controversy expressed concern for the human suffering that would be imposed upon large groups in society and for the sectors of the economy that would be harshly exploited by foreign capital.

Privatisation was a central element of the Washington Consensus. It was justified as being an essential ingredient of the market economy. Privatisation was important for shaping the “correct” economic incentives and it was a crucial step that would confirm the state’s withdrawal from economic life. In due course it became the most controversial component of the Washington Consensus.

The structural defects of a “command economy” are well known. They include wasteful and unsound environmental processes, the production of goods that aren’t really wanted (even though they are purchased, because the desired alternatives are unavailable), overdeveloped industrial sectors and grossly underdeveloped services, a miniscule, if any, small- and medium-sized (SME) business sector, and so on. The need for structural change was clear, but the changes would take time and resources. A strong case could be made for softening the dour consequences of change by securing state involvement. However, the great weakness of the Washington Consensus (a weakness that was only recognized in the late 1990s) was that it excluded the state from playing any substantial role in either promoting economic recovery or in market building.

Deliberately downplaying the role of the state was understandable considering the dominating role of the state in the economy during the communist era. As an element of public policy, downplaying the role of the state was immediately popular in most post-communist economies. The mood of neo-liberal ascendance, in the early 1990s, was pervasive and difficult to resist in almost every post-communist country.

Financial support generated by the World Bank (WB) and the International Monetary Fund (IMF) aims at influencing the content of national policies to a much greater degree than financial support derived from the EU. The countries receiving WB and IMF support feel obliged to pass legislation that is based upon

WB and IMF recommendations, because of the conditions that are placed upon the loans that these institutions provide.

By the mid 1990s many of the CEE countries had declared their intention to join the European Union (EU). Changes in social policy in post-communist countries should be understood in terms of the interaction between adaptive pressures (i.e. the influence of the EU and of international organisations, like the World Bank, the International Monetary Fund, and the International Labour Organization, etc.) and the capabilities and constraints generated by that interaction with the domestic structure. A.Guillen and B.Palier defined “adaptive pressure” as prescriptions of the models imposed or offered at the international level on the national structures (societal, economic and political). The outcomes (substantive changes in social policy, and their results in terms of the social situation) are dependent upon the fit/misfit of national structures and political will with incentives stemming from the EU and/or international organizations.²³ Guillen and Palier point out that the influence of the EU contributes not only to normative harmonization but also to cognitive harmonization.

The EU impact upon CEE countries has been both direct and indirect. Actions that have a direct impact upon the CEE countries are: the Copenhagen criteria and procedures; the construction of a single market; the EMU; and “acquis”. Actions that have an indirect impact are: the proliferation of “soft” legislation, recommendations, White Books, the Open Method of Coordination (OMC) and National Action Plans.

The Lisbon Summit, held in March 2000, coined the term “the Open Method of Coordination” and defined its key elements. These are the establishment of guidelines for the European Union; translating the EU guidelines into national and regional policy by setting specific targets and adopting measures to meet them; establishing quantitative and qualitative indicators and benchmarks as a means of comparing best practice; periodic monitoring, evaluation and peer review. Soft policy coordination has already made an impact upon employment policy (the European Employment Strategy).

The Lisbon Summit also decided to use the OMC to enhance social inclusion. Particular regulatory mechanisms affect the use of language and the generation of knowledge. These regulatory mechanisms include: joint language use; the building of a common knowledge base (including the collection and standardization of statistics); the strategic use of comparisons and evaluations; the systemic editing and diffusion of knowledge, and they are combined with social pressures to conform

²³ 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 – pp.203-210.

to common standards and goals, and with time pressures in meeting specific deadlines. These measures taken together constitute a systemic system of governance with the potential to transform the practices of member states and to enhance the integration process, albeit by a somewhat different kind of dynamics than is generated by regulation and integration via hard law²⁴.

A.M.Guillen and B.Palier believe that the influence of the EU on CEE countries has been long lasting and successful and this author agrees. The EU social policy model, in itself, has undergone rapid change and seems to be increasingly affected by neo-liberal ideas. The EU has influenced institutional capabilities in CEE countries, especially through the provision of structural funds and by the implementation of the various open methods of coordination. Europeanisation, as a concept, has been understood as the shaping and reshaping of perceptions and attitudes towards social problems and the ways in which they are to be tackled. The cognitive aspect is important in analysing the changes in public debates, i.e. the ways in which issues are framed and argued in the public discourses within CEE countries.

Social policy-making in Latvia

The policy transfer concept is applicable for understanding social policy-making in Latvia. There was a real need for restructuring social policy in Latvia. A new model had to be found that was adaptive to the conditions of a market economy. Social policy had to be reconstructed from an entirely new foundation, since the old system was based upon supports provided by the workplace. There was an urgency to effectively act due to the increasing impoverishment of large sections of the population after the downfall of communism. A new legislation and the relevant know-how were to be created to form a new institutional basis for a social security system. There were no local experts to consult. The lack of knowledge and expertise in this particular area induced Latvian representatives of the ruling elite to look for a suitable foreign model. Policy transfer was a highly popular solution to the problem.

Policy transfer networks were already well developed and actively engaged in the new political groupings in post-communist Latvia. From a geographical point, the networks were wide-ranging and impressive. There were (and still are) a large number of well-educated and politically active people within the Latvian Diaspora.

²⁴ Kerstin Jacobsson “Soft regulation and the subtle transformation of states: the case of EU employment policy” - *Journal of European Social Policy*, vol.14 (4), 2004, p.356

More than 150,000 people of Latvian descent live in North America, in other countries across Europe, in Australia and in South America. They were instrumental in contributing to the international recognition of Latvia when Latvians regained their independence. Latvia had the opportunity to benefit from policy transfer from a wide range of different countries, including the USA, Canada, Australia, New Zealand, Germany, the United Kingdom and Sweden. This opportunity was due to the very intensive contacts between Latvians living abroad and the new political elite.

In the 5th Saeima (parliament), elected in 1993, 18 MPs (out of 100) were newly returned Latvians who had been living abroad. The ruling liberal party, Latvia's Way, had 36 seats in the 5th Saeima. This party was successfully built by merging people from the former Communist party hierarchy and membership with Latvians who had returned from the Diaspora in Western countries. The influence of Latvians who had returned from the Diaspora was very strong in the other ruling coalition party, the Farmers' Union, as well. The Minister of Welfare at that time was Janis Ritenis, (from the Farmers' Union) who had recently returned from Australia, where there is a strong liberal welfare state model, with pensions that are means-tested, and where more than 30 per cent of the total pensions paid-out to pensioners are provided by private funds.

As Minister of Welfare (July 1993–August 1994), Janis Ritenis was eager to transfer the Australian pension scheme to Latvia; he introduced a new pension plan for debate in the parliament. His approach was seen as being too radical and was rejected. Civil servants in the Ministry of Welfare had long debates with their minister and they strongly opposed his new plan. Minister Ritenis became very unpopular as a participant in the social policy field and former Prime Minister Valdis Birkavs, (who later became the Minister of Foreign Affairs) invited him to work in the area of foreign policy. Nevertheless nobody doubts that J.Ritenis has contributed to the introduction of radical pension reform in its early stage.

The political elite of Latvia had a very clear liberal orientation. The legislative package of social reforms was prepared under the new Minister of Welfare Andris Berzins (Latvia's Way) and was accepted by the 5th Saeima in the autumn of 1995. A liberal approach to social reforms and especially to pension reform became the dominant one. The socialist approach to social reforms and pensions was seen as being somewhat paternalistic and had been rejected. Establishing a mechanism that would help to shift responsibility for social security from the state to the individual was considered to be a high priority undertaking.

The severe banking crisis, known as the crisis of Bank Baltija, in 1995, contributed to the radical nature of social welfare reform. For example, the first version of the pension reform bill (discussed in the Saeima in the early spring of 1995) included four tiers for pensions. The aim of the 4th tier was to attract financial

resources to the pension scheme through privatisation. The idea was to increase the level of pensions for those who were to retire in the 1996–2005 period. In other words, funds from privatization sources were to be used in a complicated mechanism for amortisation of the transit to the new pension formula. The increase in the level of pensions was meant to sooth the painful process of transformation that was expected and elaborated by experts and accepted by the Saeima. The banking crisis in the late spring and summer of 1995 resulted in removing the 4th tier from the pension scheme. No explanations were given to the general public or to the legislators who had enacted the pension reform bill. The 4th tier simply disappeared.

Voters, in general, and most of Latvia's politicians, in particular, were so ignorant in their understanding of the new model that they were unable to evaluate the consequences of such a removal for the future of the social security system. What, then, were the consequences? The approach resulted in a radical stratification among new pensioners. A very large percentage of new pensioners received very small pensions. This, in turn, resulted in an increase in the amount of social assistance provided to new pensioners.

The key policy-makers who were involved in social policy reform participated in different policy networks. Many of Latvia's key politicians studied in the USA and were very much influenced by monetarist ideas. This was the case for such prominent political figures as Ojars Kehris (Minister of Economy 1993–1994), Uldis Osis (Minister of Finance 1993–1994), Einars Repshe (President of the Bank of Latvia 1991–2001), Ilmars Rimshevcis (President of the Bank of Latvia since 2002) and many others.

The ruling coalitions in Latvia have had a right or centre-right political orientation since the early 1990s. The mood in the varying ruling coalitions has been and remains strongly liberal. Left or centre-left political forces have failed to win voter approval and have been unable to form a government. Other CEE countries and even some of the other Baltic countries have had left or centre-left ruling coalitions. Leftist political forces have not even had the opportunity to influence the decisions of the ruling coalition in Latvia. Until 2002, Latvia's Way had dominated in Latvian governments (the government led by Valdis Birkavs lasted 14 months, the government led by Maris Gailis lasted 16 months, Andris Berzins led the government for two and half years, and Vilis Kristopans led the government for 8 months). All in all, Latvia's Way held the post of Prime Minister for 68 months – 5 years and 8 months. Other Prime Ministers, Andris Shkele (The People's Party, 29 months) and Guntars Krasts (For Fatherland and Freedom, 17 months) represented conservative political parties. Newcomers to Latvian political arena surfaced in 2002. The party named New Era has 26 seats in the 8th Saeima and represents right-wing forces. The main slogan of the New Era party was *fight*

against corruption. All of the parties that have participated in the ruling coalitions are opposed to any state supported redistribution activities. Latvia has had a flat or proportional (25 per cent) income tax since the early 1990s, which, of course, favours the well-to-do. The introduction of a progressive income tax has never been on the policy agenda of any ruling coalition in post-communist Latvia.

There has been a great deal of autonomy by the political elite in the design and implementation of social policy in Latvia. This is probably due to the weak position of employees in contemporary Latvian society. There is very little pressure from an organised force of workers to influence social policy.

The strong international actors influencing social policy-making in Latvia are the IMF, the WB and the EU. The IMF arrived in Latvia in 1992 and imposed its stringent economic requirements in order to achieve macro-economic stability. The WB supported initiatives that promoted social reforms by providing loans and expert consultation. With the help of WB consultants, Latvia established a means-tested social welfare scheme and a system of welfare provision that channelled state money to social service institutions on the basis of the numbers of clients these institutions served.

Throughout the accession process that would lead to EU membership, Latvia adopted each and every requirement imposed by the EU, enacting national legislation that met EU standards and goals. Annual EC Progress reports followed the development of the social dialogue in Latvia. The institutions required by the EU have all been established and Latvia has elaborated a National Employment Plan that has been implemented since 2000. The transposition of EU legislation actively took place in the years 2000 – 2002. Latvia ratified the European Social Charter in 2002.

A Joint Inclusion Memorandum with comprehensive analysis of social risk groups, poverty and exclusion and definition of social policy priorities has been prepared by the government using the OMC and signed in Brussels (December 2003) accompanied by the National Activity Plan combating poverty and social exclusion in 2004.

Social policy model in Latvia

It is impossible to identify one specific social policy model in Latvia. According to N. Manning, in addition to the economic pressures of global economic forces, there are various other factors that must be considered if we are to make sense of

the complex mix that characterises social policy in the accession countries²⁵. Latvia has a mixture of features from different welfare state models and it is not easy to identify the policy learning and policy transfer process in each area.

The Anglo-Saxon model is well represented in Latvia's social policy due to the influence of Latvians from abroad and World Bank experts. The best example of this influence is found in the Law On State Pensions. This provision has a very low level of generational solidarity. The basic or minimum pension has no connection to a minimum wage or to the minimum necessary for subsistence. The philosophy of individualism, which posits that every person bears primary responsibility for their own welfare, has become prominent and no exceptions are being made for the elderly. A second example of this influence is found in Latvian health policy. We cannot say that the Latvian plan is based upon the model in the USA. However, in 2004, Latvia placed second, behind the USA, in the share patients must pay for health care expenditures. The influence of the British welfare state model can also be detected. The introduction of the principle of universalism and the wide use of workfare are aspects of social policy that have been transferred from the British model.

Features of the Scandinavian (Danish, Norwegian, Swedish) welfare state model have also appeared in Latvian social policy. This is due to the intensive contacts between Latvian policy-makers and civil servants and their Scandinavian counterparts. Geographical closeness has enabled those contacts. The attractiveness of the Scandinavian welfare model for the Latvian electorate is also an important factor that has prompted contact. Many of the consultants from the World Bank who have provided Latvia with expert help are Scandinavian professionals. Sweden was involved in implementing the social assistance pilot project in the district of Kandava. Social assistance programmes in Nordic countries have been keenly studied by the Latvian officials who proposed the Law Governing Social Assistance that was enacted in 2002. Community work and social work were integrated into Latvian social services as a consequence. Norbalt (Norwegian-Baltic) living condition surveys, in 1994 and 1999, and joint seminars and conferences contributed to a better understanding of the Scandinavian approach to social welfare. Universalism is the main feature of the Scandinavian model that has been adopted by Latvian social policy-makers.

Identifying the influence of the continental European social policy model in Latvia is easy and difficult at the same time. Historically, Latvia had a health insurance plan introduced in 1912, during the era of the Russian empire. It was further developed and successfully implemented during the two decades of Latvian

²⁵ Manning N. "Diversity and change in pre-accession Central and Eastern Europe since 1989" - Journal of European Social Policy – Vol.14 Nr.3/ August 2004 – pp.211-232, p.229

state independence (1918 –1940). No one can doubt the influence of Bismark's health insurance plan on the Latvian plan of that period. The question one must ask is why Latvia did not return to this health plan after the renewal of its independence? Physicians in Latvia, in the early 1990s, supported the idea of a health insurance plan. But their position had no impact on policy-makers.

A. Guillen and B. Palier²⁶ try to assess the role of Europe, particularly the role of the EU, in the development of social policy in the era of rapid globalisation. They ask the following question: “Does Europe Matter?” They are concerned about the development of social policies in recent and new member states of the EU. They envision future scenarios that particularly depend upon the institutional capabilities of the new member states. One scenario begins with new member states that have low institutional capabilities and they predict that such states will choose between one of two following options: chaos (the consequence for those states that choose the liberal model) or the race to the bottom (the consequence for those states that choose the European social policy model).

Does Latvia have the institutional capabilities to successfully cope with the new global economic challenges? The answer is complicated. Institutional capabilities are different in the different sectors of the social security system. The scale measuring these differences finds areas where Latvian institutional capabilities are strong, areas where institutional capabilities are middling, and areas where they are very weak.

The Latvian pension system has high quality institutional capabilities, because the goal of strengthening administrative capacity was among the priorities during the period in which pension reform was enacted.

The employment system has developed some institutional capabilities with the creation of the State Employment Agency. The EU expert on industrial relations, C.Woolfson defined the working environment in the Baltic States as *deteriorating*

Table 11 The future scenarios for social policy in the new EU member states

	Liberal model	European social model
Institutional capabilities +	Privatisation of social policy	Catch-up (increase of social funds needed)
Institutional capabilities -	Chaos	Race to the bottom

²⁶ 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 – pp.203-210.

and has warned, that the introduction of “soft law” and OMC may open the door to further neo-liberal de-regulation in safety and health at work²⁷. There are still many problems in the remuneration system in Latvia,²⁸ because it is very fragmented and produces many working poor.

The social assistance system has developed very intensively during the last decade, but it still needs a rapid increase in its institutional capabilities, especially an increase in the number and quality of social services and social workers, in the development of professional education for social workers, and in the prestige that social workers have in Latvian society.

For a long time, health care provision in Latvia has had extremely low institutional capabilities. The involvement of the World Bank, in 1998, in the reform of the Latvian health care system was unsuccessful and inefficient. Increasing chaos became evident not only for insiders of the system, but for outsiders as well. There has been a crisis in the political and administrative management of health care, frequent changes at the political level, and ministers have often been replaced. There have been a series of scandals associated with the Health Insurance Agency, including allegations of corruption. Physicians and nurses have been very frustrated. They have made ultimatums and engaged in strikes. There is still a high mortality rate for people of working age, etc.

Some crucial changes have been suggested and accepted by the Government in late 2004. The health system has had a new financing mechanism from April, 2005. Some new rules have been adopted: These include an increase in the payments for visiting doctors, discretion of family doctors for determining the charges for home visits, an increase in payments for hospital treatment, very strict regulations for using emergency services and heavy fines for those who call for emergency services in cases where there is no danger of the loss of life. At the same time special categories of population eligible to free medical services were defined. However all of these new rules and regulations are clear indicators that Latvia intends to join the path of privatisation in its health care system.

In general, the presence of institutional capabilities does create some preconditions for stability. However, these capabilities, by themselves, do not help us to determine what direction social policy is taking. In accordance with Guillen and Palier’s categories, Latvia’s social policy-makers will aim for privatisation (but

²⁷ Charles Woolfson “European Enlargement and Strategies for Enhancing the Working Environment in the Baltic States” in “Negotiating Futures – States, Societies and the World”, Proceedings of the International Conference, Riga, November 11-14, 2004, LU, SPPI, 2005, p.163-172; p. 164

²⁸ Feliciana Rajevska “Disorder in the Remuneration System – Challenge for Latvia’s Europeanization Policy” - “Negotiating Futures – States, Societies and the World”, Proceedings of the International Conference, Riga, November 11– 14, 2004, LU, SPPI, 2005, p.288 – 296

without adequate institutional capabilities this will only lead to chaos) or catch-up by increasing social funding. Latvia's experience as a new EU member state is limited. It is too early to make any conclusions.

The answer lies in the popular spread of neo-liberal ideas among Latvian political elite. The elite opposed to constructing anything that reflected Bismark's statism. Bismark's model was seen as being paternalistic. Bismark's state assumes too much responsibility, particularly financial responsibility, and these qualities are anathema for those who share the neo-liberal perspective. In the early and mid 1990s, events were unfolding in a completely different direction. The Ministry of Health was abolished. Some of its functions were transformed and placed within various offices in the Ministry of Welfare. Ten years later, in 2002, the mistake was recognised and acknowledged. In 2003, the Ministry of Health was recreated, but no one could deny that the mistake had dealt the population a severe blow. Human resources were squandered.

Conclusions

The development of social policy in Latvia has been influenced by many kinds of pressures, both internal and external. The most important factors of internal pressure were:

- The necessity to change the system of social support in the new market economy situation and establish a social assistance network from scratch since the old system was based on support given from the workplace.
- The decline of GDP and impoverishment, which require active state involvement to be overcome.
- The liberal orientation of the political elite.
- A weak organizational structure of employees has resulted in very low pressure from the bottom and large autonomy of the political elite in social policy design and implementation.
- The increased mobility of qualified labour after Latvia joined the EU has become a new challenge to compete with salaries and wages in the other EU countries.
- The extremely low birth rate and high mortality rates which require changes in family and health policy.

Policy transfer and the policy learning process contributed a lot to the social policy-making in Latvia. Politicians and civil servants were ready to learn and capable of adapting world experience sometimes without evaluation of its compatibility with the home situation. The main external pressure came from globalisation and Europeanisation processes, from the influence of IMF, World Bank, ILO experts and the negotiation process with the European Union. The effectiveness of European Structural Funds and European Social Funds, and efforts made to follow the guidelines of OMC and to fulfil them or to ignore them will answer the question about the vector of social policy development in Latvia. The share of money spent from the state budget for social purposes makes us very reserved to predict that Latvia will adapt the European social model.

Being the product of external and internal pressures, the social policy model in Latvia is a result of policy transfer and policy-learning process and combines features from different models of welfare state.

Social policy in Latvia



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Fafo-report 498

ISBN 82-7422-503-1

ISSN 0801-6143