

LATVIA
Human Development
Report
2012/2013



**SUSTAINABLE
NATION**

2012/2013

LATVIA Human Development Report



Sustainable Nation

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Latvia. Human Development Report 2012/2013. Sustainable Nation.

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Foreword

Dear Readers

You are holding in your hands the Human Development Report on Latvia, which is dedicated to the problems of developing a sustainable nation, paying particular attention to the issues of poverty, salaries, pension system, territorial and regional differences, demography, integration, democracy and political participation.

Already for several decades the focus, internationally and domestically, has been on issues of sustainable development and rational use of available resources. Yet in the course of these same decades, mistakes and absurdities have been committed with some regularity.

The answer may have to be found in human nature: the desire to live well already today and to reach a higher level of comfort immediately, leaving education, patience and hard work aside as an inconvenience of secondary importance because it does not produce immediate results. Productive work, self-confidence, respect for those that are different, freedom and understanding, compliance and wise actions are not always our first choices.

Let us remember that countries with fast growing economies are recipients of substantial migration from poorer countries. Migration, cultural exchanges and economic democracy in this case are the combined engine of growth. Thus we face the question whether or not we will be self-confident and wise enough; open to the world and ready to use the benefits it provides. As Zygmunt Bauman, who has been quoted in the Report, has said: «New ideas and opportunities do not arise by sitting at home or in one's village; they come to active and enterprising people when they meet and cooperate. Even relatively small nations can have great ideas.»

How great can inequality be before it becomes an impediment to growth or increases dissatisfaction and injustice? There have always been and will continue to be differences. We are not all the same and our opportunities are

different. The question is: do we respect and recognize these differences; do we put in enough effort to look for solutions when hardship strikes? Or do we rely only on the state to take care of our future well-being? The residents of Latvia have shown time and again that they can be united, supportive and understanding if someone comes into difficulty. We provide selfless help if someone's house has burnt down and everything has been lost. But are we capable of helping each other's business, so that someone else could get better results and be more successful? The time has come for our attitudes to change. We have to develop a participatory response not only when crisis strikes but also help others to generate new ideas, become more successful and happier.

The greatest deficit encountered in Latvia is not money or goods but an open mind. Whatever we undertake we sometimes need encouragement. We have to learn to trust each other more, to understand the interconnections among things and our responsibilities.

The main task for a sustainable nation is to experience and accept the world as it is – with all its advantages and disadvantages – and be ready to undertake it today. There is no right time or age to begin to change. The only obstacle may be our own lack of decisiveness.

Let each and every one of us show initiative and healthy self-confidence!



Andris Bērziņš
President of the Republic of Latvia

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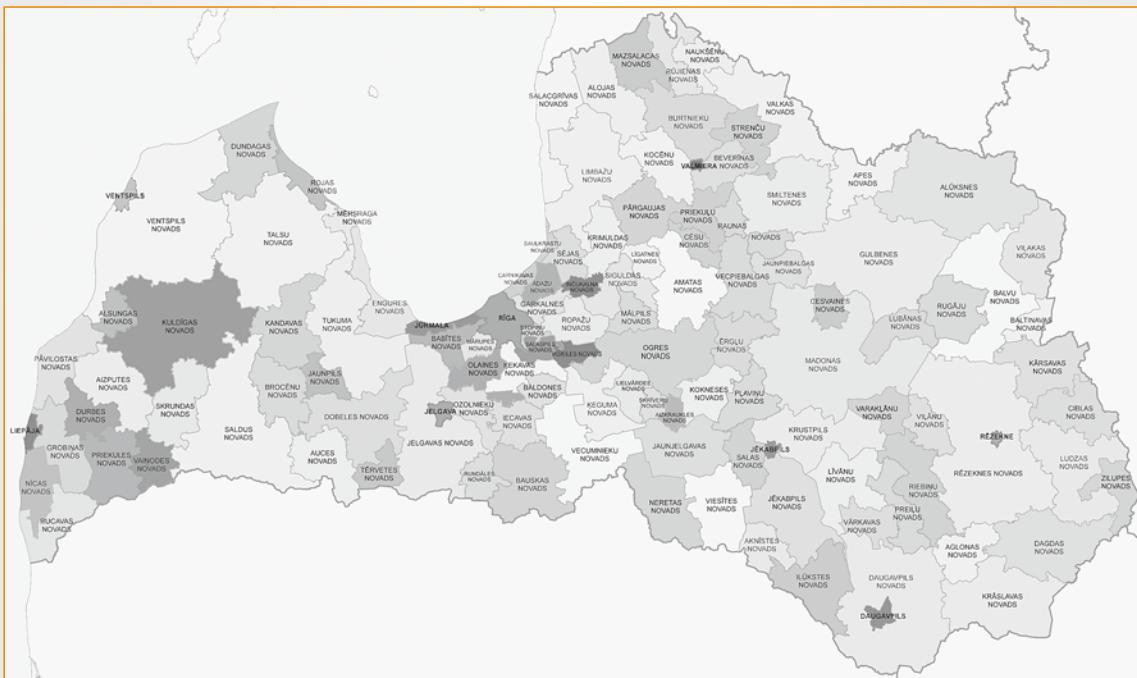
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Basic facts about Latvia, 2012



Population

Population, millions	2.0 million
Annual population growth, %	-0.45
Population density, persons per km ²	32

Population distribution, %

Rural	32.4
Urban	67.6

Gender distribution, %

Males	45.7
Females	54.3

Age structure, % (beginning of year)

0–14	14.3
Working age (males 15–62, females 15–61.5)	63.6
Above working age	22.1

Ethnic structure, % (beginning of year)

Latvians	60.9
Russians	26.5
Belarusians	3.5
Ukrainians	2.3
Poles	2.2
Lithuanians	1.3
Others	3.3

Human Development Index rank

Human Development Index	44
Adult literacy rate, %	0.814

Health

Average life expectancy, years	74.2
Males	69.1
Females	78.9
Infant mortality (per 1,000 births)	6.3
Number of physicians (per 10,000 inhabitants)	39.1

Economy

GDP, million LVL	15520.5
GDP per capita, average prices in the year 2000, LVL	3,681
GDP per capita, purchasing power	14,700
GDP growth, %	5.6
Unemployment rate, %	10.5

Employment by sector, %

Agriculture	8
Industry	24
Services	68

Government expenditures, % of GDP (2011)

TOTAL	38.4
Of which:	
Defence	0.9
Education	5.7
Health	4.1
Social Security	12.1

Exchange rate of LVL per USD 1 (end of year)

0.5310
Territory, km²

64,569

Introduction

We live in a world with seven billion people who want a dignified life in a safe environment and whose wishes have to be balanced against the possibilities of the Earth. Never before, have the standard of living and consumption opportunities been so high and global biodiversity so endangered as at this point in time. Moreover, the costs of and gains from globalization and development of technologies are hardly distributed among countries and among the population of a particular country. Whereas a part of global population lives ever better, the gap between the most well-to-do inhabitants and the poorest ones remains and sometimes, as in the case of Latvia, even tends to widen. In the last ten or twenty years, ever greater international attention has therefore been paid to the issues of sustainable development, with the two most important ones among them doing away with poverty and to care for the sustainability of the environment that have been emphasized both in the formulation of the UN Millennium Development Goals (UN, 2000) and in various international strategic documents (e.g., European Commission, 2010).

In the declaration adopted at the UN-organized World Summit on Sustainable Development in Johannesburg in 2002, it was emphasized that it is our collective responsibility to promote and reinforce the cornerstones of sustainable development – economic development, social development and environmental protection – at the local, state, regional and global level (UN, 2002). However, only in 2011, the concept of sustainability was included in the UN Human Development Report: «Sustainability and Equity: A Better Future for All» (United Nations Development Programme, 2011). The Report reviewed the ways in which sustainability is indissolubly connected with equity and access to higher standard of living. Its developers emphasized that sustainability is not something that is primarily or exclusively related to environmental issues. This approach continued what was

underscored in the Human Development Report: «Human development is the expansion of people's freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet.» (United Nations Development Programme, 2010, 2).

The renewed sustainable development strategy of the European Union also started with the words that sustainable development stands for retaining the ability of the Earth to ensure life in all its diversity and basing it on following the principles of democracy, gender equality, solidarity, rule of law and fundamental rights, including the right to freedom and equal opportunities to all (EU Council, 2006). Sustainable development means that the needs of the current generation are to be met without endangering the chances for the next generations to meet their needs. Moreover the goal of sustainable development is to strive to reach a «continuous improvement of the quality of life and well-being on Earth for present and future generations. To that end it promotes a dynamic economy with full employment and a high level of education, health protection, social and territorial cohesion and environmental protection in a peaceful and secure world, respecting cultural diversity» (EU Council, 2006, 2).

For Latvia as a UN and EU member is bound by the developmental goals these organizations have set for themselves and the vision of Latvia's development is likewise based on the idea of Latvia as a safe and prosperous, green and orderly country where each of its inhabitants can realize his or her life goals. The National Development Plan 2014-2020 provides the guidelines for carrying out this development scenario (Cross-Sectoral Coordination Centre, 2012). To see the vision for the future to come to pass, however, it is important to evaluate the current situation and development trends. For instance, the Report on the Millennium Development

Box
0.1

Reports on Human Development in Latvia: themes

- 1995** General Human Development Report Latvia
- 1996** Poverty, Social Integration and Regional Gaps
- 1997** Living Standards, Education Reform and Participation
- 1998** State, Individuals and Private Sector
- 1999** Globalization
- 2000/2001** Public Policy Process and Human Development
- 2002/2003** Human Security and Human Development
- 2004/2005** Human Capability in the Regions
- 2006/2007** Human Capital
- 2008/2009** Accountability and Responsibility
- 2010/2011** National Identity, Mobility and Capability

Goals in Latvia states that «Human development cannot be considered successful if poverty and social exclusion continue to grow» (Simane (ed.), 2007). In 2011, 40.1% of Latvia's population faced the risk of poverty or social exclusion, 19.3% faced the risk of poverty and 30.9% were subject to fundamental material deprivation (Eurostat, 2012). On average, 24.2% of the population of the European Union are subject to poverty or the risk of social exclusion and since 2008, this indicator has increased by 0.7 percentage points, whereas in Latvia, over the same period, by 6.3 percentage points (Eurostat, 2012). Poverty, faced by about 119.6 million inhabitants in the EU, is considered a great problem and governments are not doing enough, because poverty and social inequality are on the rise instead of diminishing despite all the declared goals of decreasing poverty.

Thus the question arises whether Latvia's development really is based on sustainable foundation and whether the current development processes will give positive and lasting results in the long term. Is the current situation in Latvia such that, over time, we can hope to ensure better opportunities in life to each and every inhabitant and the next generations?

Sustainability concept and the significance of the social dimension of sustainability

First, we should take a closer look at what the concept of «sustainable development» means in the context of human development research and why in the Report we shall present an in-depth examination of the social dimension of sustainability. At the forum of the United Nations (UN) «From Rio to 2015 and Beyond: Charting a Course for a Fairer World» that took place in June 2012, sustainable human development was taken to mean sustainable development of the social, economic and environmental development (United Nations, 2012). Currently, a human development index is being developed at the United Nations, whose conceptual framework is based on an evaluation of sustainability (United Nations Development Programme, 2011). At its centre is the human development issue of intergenerational equity, which is based on the principles of global equity and the premise that the choices made today must not limit the choices that will be available to people in the future. For instance, rapid economic growth may bring immediate benefits but may have consequences unfavourable to the environment in the long term, therefore economic growth should be balanced with management procedures that are friendly to the environment. Moreover, it is emphasized that in human development research attention mostly should be paid to a people-centred approach and this research should motivate policy makers to focus on what is most important: how people can make life better for themselves and for future generations. It can therefore be said that people-centred development and sustainable development are not only important issues on Latvia's agenda but also in the global context.

The classical definition of sustainability is «development that meets current needs without endangering the ability of future generations to meet their needs» (WCED, 1987). For some time now, three dimensions of sustainable development have been emphasized in various international

declarations on sustainable development – environmental, economic and social (United Nations, 2002; United Nations Development Programme, 2010; United Nations Development Programme 2011). In research, it is environmental and, in part, also economic sustainability that have been examined more often and more thoroughly. Graphic representations of sustainability initially tended to place economic or environmental sustainability at the centre, thus symbolically reducing the importance of social sustainability. The concept of social sustainability has received more attention from researchers only at the turn of the 21st century, when all three dimensions of sustainability were regarded as having equal value. In each dimension of sustainability (environmental, economic, social), at least a minimally adequate level should be attained so that it would not have a negative impact on the other sustainability dimensions. That means that without a sustainable economy (i.e. without at least some branches and enterprises that function sustainably) and without environmental sustainability (i.e. confidence that the natural environment will be inhabitable for future generations) no society capable of living today and continuing in future generations can exist (Sutton, 2000). In the latest trends examining sustainable development, emphasis has been on the social dimension, particularly social equity.

Up to now, the issues related to economic and particularly environmental sustainability have been analyzed in Latvia, whereas the problems of social sustainability have come into focus primarily with regard to demographics and provision of pensions. In view of the high inequality indicators in Latvia and international discussions on the negative impact of inequality on overall growth, in Latvia's Report on Human Development, the social dimension of sustainable development has been put into the foreground. Several leading contemporary scientists clearly show that growing inequality impedes economic growth and endangers sustainable development, promotes an increasing sense of injustice as well as diminishes faith in democracy (Wilkinson & Pickett 2009; Stiglitz, 2012). It may not be just awareness that in Latvia we have the third worst economy in the EU but even more so the great and growing gap between the most well-to-do and the most poor inhabitants that encourages feelings of injustice, which, in turn, lessens both confidence in the government (this was evident, for instance, in the lowest turnout since the regaining of independence in the local government elections of 2013) and among the people themselves. According to a 2012 European Quality of Life Survey, on a scale 1-10, the trust in people in Latvia stands at 4.1. On average, this indicator in the EU27 countries is 5.1, with the highest values in Denmark (7.0) and Finland (7.1) and lower than Latvia only in the Czech Republic (4.0) and Cyprus (1.9) (Eurofound, 2012, 134). Taking into account the high prosperity and low inequality indicators in Denmark and Finland, there is reason to think that a feeling of social injustice or a lack of it has a serious impact on the ability to trust others. What follows from the inequality, distrust and feeling of social injustice is people's inability to see any point to collective action and positive development of the country in the future. Therefore the issue regarding social justice and reducing inequality and poverty is essential for sustainable, democratic development.

The aim and main themes of the Report

The aim of the Human Development Report «Sustainable Nation» is to evaluate the current development processes in Latvia, paying particular attention to the social dimension of sustainability: inequality, the social security system, demographic tendencies, integration, civic participation and population awareness as well as a balanced territorial development. We would like to initiate a serious discussion about a sustainable development of the nation in Latvia, taking into account the rapid decline in the population because of the low birth-rates and high emigration, emptying of the countryside, high poverty and inequality indicators, a

fundamental lack of consensus about the basic values of social integration and other issues essential for social sustainability. The concept of nation evoked in the title is ambiguous: are we talking about the body that makes up the nation of Latvia or ethnic Latvians and then the serious question arises how we should regard the part of the population that belong to other ethnicities, particularly those who are Latvian citizens. Even though an in-depth analysis of the concept of nation was included in the previous Human Development Report (Zepa & Kjave (ed.), 2011), its political and social interpretation in Latvia has not only not been resolved but has been complicated even more. By including the concept of nation in the title of the Report, we would like to stimulate critical thinking with regard to at least three questions: Is a rapidly

Box
0.2

Human-centred development

The United Nations has been publishing Human Development Reports as an independent, empirically supported analysis of the most important development issues and trends as of 1990. The development of countries is determined not only by gross domestic product but, in calculating the development index, health, education and income indicators are also taken into account. As of 2012, the inclusion of other important indicators into the calculations has been discussed, recognizing that equality, self-respect, happiness and sustainability are also essential for our lives and development (United Nations, 2012). At the moment, the UN Development Programme team is working on including the environmental and social indicators in the calculations of the human development index; at international forums discussions are taking place on the necessity to take into account the feeling of happiness or the subjective evaluation of quality of life. While these indicators are not included in the calculation of the human development index, we can look at this human dimension of development separately. Therefore, before we turn to other Latvian development indicators, we would first like to take a look at how the Latvian population evaluates their lives and ability to run their own lives. The measurements of subjective satisfaction provide the basis for conclusions regarding the extent to which the needs and wishes of the population have been met and the subjective feeling regarding ability to run their own lives, indicate the views of the population regarding their capacity and belief in the sense of their actions.

In a survey organized within the framework of the Human Development Report, answering the question «How satisfied or dissatisfied are you with your life overall?» on a scale from one to ten, the average evaluation was «six» (6.2), and most often the evaluation of satisfaction hovers between «four» and «eight» (LU SZF, 2013). The European average, by contrast, is 7.1 (Eurofound, 2012, 31). The indicator «six», of course, could be compared to the annual average temperature, and there are important differences between evaluations in different socio-demographic groups of the population. Latvians tend to be more satisfied with their lives than other nationalities. Young people are more satisfied with life than older people and in Latvia, unfortunately, satisfaction with one's life tends to go down with every subsequent age group. It is one's employment status and income that mostly determines one's satisfaction with life: the employed are on average more satisfied with their lives than the unemployed and the greater one's personal and family's income, the more satisfied people are, on average, with their lives (LU SZF, 2013) (Box 0.3). It is interesting to note, that in a European Quality of Life Survey, trying to find an explanation for differences between countries, the researchers see a weak correlation between the average satisfaction index in the country and its GDP or inequality indicators (Eurofound, 2012, 18), but the impact of means at a household's disposal on subjective satisfaction with life is clearly visible (Eurofound, 2012, 21).

Development is not possible without enterprising people who believe in their ability to run their own lives. Overall, Latvia's inhabitants have placed their answers at 6.9 in the ten point scale to the question «Please evaluate to what extent you are able to run your own life.» Those who are more satisfied with their lives also feel more capable of running them, therefore the differences among different socio-demographic groups in the evaluation of one's ability to control one's own life are quite similar to what was seen in the previous question (LU SZF, 2013) (Box 0.3).

In the education system, a «6» expressed in words means «almost good» and «7» means «good». The «almost good» evaluation of their satisfaction with their life overall by respondents indicates that something is missing for them to say that their needs and wishes have been met. The «good» with which they evaluate their ability to run their own lives points to an adequate belief in oneself and a good potential for capability. The individual belief in the ability to run own life should be guided into the conviction that there is also a point to working together: only together we can make Latvia a better place for ourselves and our children.

declining nation sustainable? What can we do so that it could be sustainable? and: Which part of Latvia's population do we as a society have in mind when we refer to «nation»?

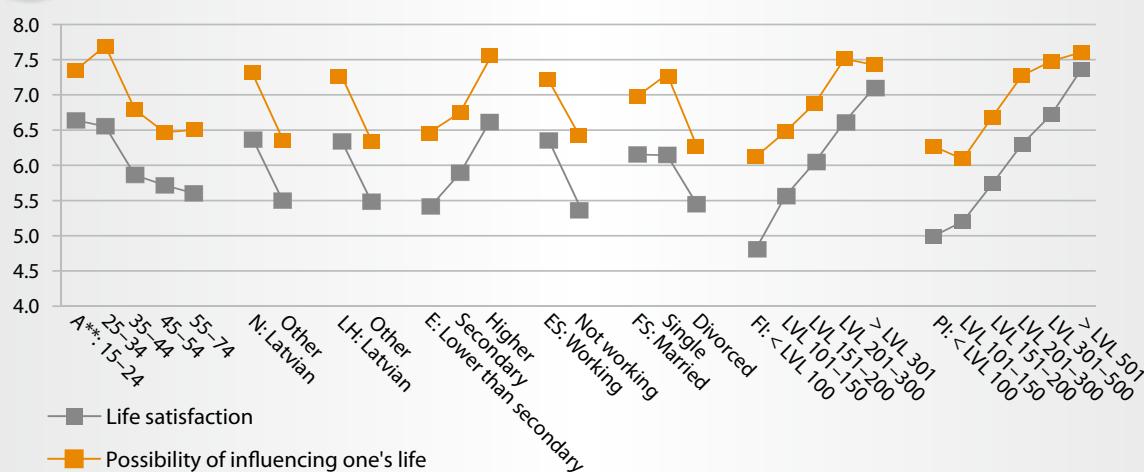
In the analysis of social dimension of sustainability in the first chapters of the Report, the keywords are inequality, justice and social security. An in-depth analysis of the understanding of social sustainability is given and the social consequences of inequality as they appear in international research are outlined, thus presenting a broader context for the problem. Then the social security system in Latvia is reviewed, first briefly discussing its basic principles and then turning to questions whose successful resolution is decisive for the sustainability of the system as it is related to employment and taxation, the existing inequality in terms of income and poverty, as well as inequality and problematic aspects in the pension system. Particular attention is paid to demographic issues and a comparative analysis of demographic policies, evaluating the state measures for promoting higher birth-rates and support for families with children, discussing the question of poverty in large families and reviewing the demographic trends in the long term. Given the current birth-rates and with immigration rates not increasing, Latvia will soon have less population than Estonia and by 2100 the population in Latvia will have dropped to its level of 1800-1850 (around one million).

In the subsequent chapters, the keywords are democracy, integration, participation and access to information. An aspect of social sustainability is analyzed, which is closely related to the issues of democracy and social cohesion or integrated society: Latvia has the highest proportion of ethnic minorities in the EU and its ability to ensure unity of

society while respecting diversity is a vitally important task for Latvia's socio-political sustainability. It is this issue where the problems with defining the nation become apparent as does its crucial importance for the success or lack thereof of integration. Further, the complicated relationship between democracy and sustainability is discussed, particularly focusing on various forms of participation, collective activity and individual involvement in decision making, which would be aimed at fostering sustainable democracy. The view Latvian population take on the role of their participation in the development of the country and the sustainability of Latvian non-governmental organizations are analyzed. Attention is paid also to the accessibility of information, which is an important factor in ensuring social sustainability. Only informed people can make well-founded decisions as information provides broader knowledge, thus broadening the range of possible actions.

The concluding chapter of the Report is devoted to a balanced development of territories and social capital. First, the focus is on the discussion on the possibilities of evaluating territorial sustainability, taking a look at the internationally accepted indicators in the measurements of economic and environmental sustainability, introducing the reader to the lack of consensus regarding social sustainability indicators and initiating a discussion on the problems regarding analysis of territorial sustainability in Latvia. A review of the relationship between a location and an individual follows. The red thread here is the role of people or social capital in the development of a place: no matter what the resources of a particular place are, only active, educated people capable of cooperation can make full use of them.

The average* satisfaction and ability to influence one's own life by socio-demographic group

Box
0.3

* Average satisfaction on the scale from 1 to 10.

** Socio-demographic groups whose evaluations contain statistically important differences: A: age; N: nationality; LH: language spoken at home; E: education; ES: employment status (working – full/part time/helps other family members); FS: family status; FI: family income; PI: personal income.

Basis: all respondents, n = 1001.

Source: NI: Report on Human Development in Latvia (LU SZF, 2013).



Social sustainability: are unequal societies sustainable?

1

Chapter

People enter life as children, and then they get ready for work life, work for pay and, in old age, receive support from society. We would like to live long, happy lives. We would like our children to do better than ourselves. We wish a dignified old age for our parents. A society that manages to agree on these issues we consider socially sustainable. A society in which jobseekers can find work for decent wages, which allows one to raise children and accrue savings for a rainy day can be called socially sustainable. It is important for a society to ask itself if the solutions for an economic, social and environmental sustainability provide for a good quality of life today and in the future as well. If there is no certainty regarding future development, then people can become socially irresponsible vis-à-vis what is happening in their lives right now and where their children will live. In this Report, we will try to find out if social practices existing in Latvia in the area of social security can be called sustainable and if people

believe that they have been developed as just and conducive to equity. Social sustainability embraces the kind of practices that the people involved perceive as fair vis-à-vis themselves, their offspring and the rest of the society (Walker, 2005, 5-7). Particular attention is therefore paid to an understanding of the concept of social justice, examining both the public perception of social inequality as fair (right) or unfair (wrong). The view of different actors regarding the characteristic indicators of social sustainability, which provides for a more balanced understanding of the social situation from the viewpoints of different social groups and the possibility of finding socially acceptable solutions. The authors of the Report will analyze the perception of social equality, paying attention to statistically significant differences between viewpoints in different social groups; views may differ, for instance between the more prosperous and less so, employed and unemployed, in the capital and in the provinces.

Understanding of social sustainability

Social sustainability can be ensured if the formal and informal processes, systems, structures and relationships actively support the ability of this generation and the coming ones to create a healthy and livable community. Social sustainability actually applies to each and every community, society and nation. Sustainable communities (organizations, societies, nations) are equitable, diverse, connected and democratic, thus ensuring a good quality of life (McKenzie, 2004, 1-18). The capacity of each social community is characterized by the possibilities of practical action in a particular situation. In characterizing the principles of social sustainability, the authors of the Report took into account the approach of Australian social scientist Stephen McKenzie, emphasizing equity, diversity, connectedness, quality of life and democratic administration in their analysis of social sustainability (McKenzie, 2004, 1-18).

Social sustainability is analyzed also in terms of objective indicators of the structure of the society, ideological support for maintaining inequality and demands for social reform. An objective structure of society is understood as objective, internationally comparable indicators that characterize the level of equity or lack thereof in a society (e.g., the prevalence of poverty, employment opportunities, poverty among the employed, differences in the quintiles of highest and lowest incomes etc.). As for ideological support to the existing inequality, the social security legislative and regulatory basis can be considered as such, for it reproduces social inequality, which forms in unregulated market relations and does not promote a more equitable distribution outside the market system. The demands for carrying out social reform should also be considered: which group will gain and which will lose because of particular changes (Kelso & Adler, 1961/1975).

In researching social sustainability, much attention is always paid to social inequality, for it is considered a serious obstacle to social sustainability, depriving people of confidence in the justice of the structure of society and meaningfulness of one's actions. Social inequality can be considered one of the crucial keywords for social sustainability research and it can be measured both as an objective comparison at the level of salary and income and as a subjective belief that the existing inequality is evil or, on the contrary, necessary, and attitudes can be different in different societies. It is precisely the dominating collective representations that determine, to a large degree, the perception of existing social inequality. Here the approach by the British researcher Daniel Dorling is useful: he characterizes social inequality by means of widespread prejudice. For instance: «the elites are effective», «marginalization is necessary», «prejudices are natural», «greed is good». Prejudice may foster bias in making political decisions. If a good part of the society considers that marginalization is necessary and therefore not everyone should be given equal opportunity, then such views serve to justify the existing inequality and do not stimulate the competent institutions to adopt effective solutions in reducing inequality. People's view of which group faces more difficulty in the labor market may also promote rigidity of the current situation, because sometimes it is easier to change the situation than the way it is seen. The way the undesirable situation is viewed tends to reinforce it, particularly if it has not been changed

for a long time with the help of political instruments. One of the causes of the existing inequality and its viability is the view that greed or lack of moderation in raising one's income level is a laudable phenomenon to be promoted as it stimulates growth. It is acceptable if the person profiting shares his profits with others. Greed can express itself through an excessive inequality in remuneration for work, which exaggerates the merits, input and education level of the recipient of the higher salary. Most often, people accept the necessity for a certain inequality in salary system (e.g., a doctor should earn more than a blue-collar worker). The question, however, is about the scale of differences: if the differences are too big, then there may be doubt as to how justified they are (Dorling, 2011). Problems become particularly serious when, instead of smoothing out the differences, the social security system maintains and increases the differences (e.g., calculating pensions not on the basis of redistribution of income and solidarity but according to the size of social payments for a short span of time period before reaching retirement age as in Latvia today).

In the analysis of social sustainability the concept of social justice is examined as is the way it is understood in different societies: for it is people's ideas of what is fair and what is not on which the inequality existing in a particular society will be perceived. Moreover, the way in which the competent institutions will choose to regulate the labor market and decide on how distribution of income should take place will largely depend on the society's views on justice. Justice is therefore the other essential key word when analyzing the social sustainability of any society. Albeit the concept of social sustainability appears only at the turn of the 21st century, the issues regarding a fair and just society have been on people's minds at all times – from Ancient Greece to the formation of modern capital. After the Great Depression in the US, Louis Kelso, a political economy analyst following the traditions of Adam Smith, Karl Marx and John Maynard Keynes, together with philosopher Mortimer J. Adler looked for a middle road between the ruthless competitiveness of capitalism and general regulation by the state (Kelso & Adler, 1961/1975). According to them, the principle of justice can be realized as a dynamic process through the interaction between the principles of participation, distribution and harmony. Economic justice also includes social justice, for it can be realized only within the framework of a certain social order. The principle of participation emphasizes that public institutions must guarantee the human rights for every person to participate in the economic processes, by inputting work or capital. The principle of participation does not guarantee an equal result but requires equal opportunities for gaining income from both using property and contributing labor. It also means preventing or reducing and limiting monopoly, special privileges and political and administrative regulation that promotes special privileges and an exceptional position as well as social barriers (e.g., prejudices, stereotypes). The principle of distribution demonstrates the output of the economic system, which must match the input of each person's labor and capital, implying acceptance of the principles of free market. An excessive interference from the state hinders the necessary distribution in the free market, similar to recognition of the exceptional status of any particular group. Yet the principle

of distribution loses its meaning if not all persons have equal opportunities to contribute to creation of prosperity and to give their input. Therefore a third principle is needed, that of harmony. The harmony principle offers control over monopolies and greed and lifting of unfair barriers (e.g., restrictions to gender rights).

For a society to function trust is needed among people and their readiness to rely on each other or, in other words, society must possess certain social cohesion. Research indicates that inequality reduces social cohesion. For instance, the British researchers Richard Wilkinson and Kate Pickett conclude in their book *The Spirit Level* that the increasing income gap in many countries of the world is often related to deteriorating of people's health and quality of life and increased crime levels (Wilkinson & Pickett, 2010). Canadian researcher Frank Elgar has examined survey data of 33 different countries and the publicly accessible statistics characterizing health and healthcare. His conclusion is that disparity among incomes can have a negative effect on longevity and mortality. Societies with a low degree of trust may experience a shortage of social support and links that would prevent conditions conducive to improved health and successful aging (Elgar & Aitken, 2011). Several American researchers examined Gallup survey data pertaining to United States residents from 1972 to 2008 (Oishi, Kesebir, & Diener, 2011, 1095). Americans were most satisfied with their life in the period when income inequality was the least in the US. Then they also believed, to a greater degree, that the US is a just society and that others can be generally trusted. In a different study, analyzing the survey data of 20 different European countries, it was concluded that residents of countries with a substantial income inequality have a more negative attitude toward public institutions and less trust in them (Anderson & Singer, 2008, 564). American Nobel laureate, economist Joseph E. Stiglitz shows that growing inequality leads to slower economic growth, a lower gross domestic product (hereinafter, GDP) and greater instability as well as an increasing dissatisfaction, which, in turn, reduces belief in democracy and in fact weakens democracy as a political system (Stiglitz, 2012). It can be said with some confidence that societies that are more equitable are also more sustainable.

Social security systems: general principles and the situation in Latvia

Social security is a system that is designed for people to replace their income if, because of some social risk setting in, they cannot gain income in the labor market. The basic task of the social security system is to ensure security of income so that individuals would not have to fear for the survival of their non-working family members, particularly children. At the core of the social security system are social insurance, social assistance and social services, which are granted at the state and local government level. The formation of the social security system requires regular reviewing of social policy in the name of the future. Social security policy is only one part of the overall social progress policies. Social security can be achieved only through cooperation between the state and an individual. The state must ensure security of services (benefits) and payments and grant every resident a

socially acceptable minimum, whereas the chance of gaining more for oneself and one's family is one's private business. In order to be able to speak of a socially sustainable society, we must evaluate people's chances of living in a «socially acceptable» way themselves and preserving the same for next generations. The concept «socially acceptable» characterizes the agreement on such social standard of everyday life, which possesses individual variations but also includes a certain social minimum granted to anyone who faces a situation of social risk. Even though different countries have different assumptions regarding the limits of minimal socially acceptable security, it is regulated by international principles of social security. Latvia too has taken upon itself to observe the principles of social security set forth by the International Labor Organization (a UN agency), the European Union Fundamental Rights and Revised Social Charter, which provide for certain protection in cases of social risk (old age, disability, unemployment, providing for the family etc.). The Revised Social Charter also provides for certain mechanisms to ensure fair compensation for labor and to prevent too great an inequality of income (e.g., setting the limit for minimum salary at 60% of the average salary in the country), yet this paragraph remains to be ratified by Latvia.

Social policy in forming social security systems has its own traditions, principles and biases, which may become the basis for stigmatization. Since the beginnings of implementing state social policies, which are thought to be the Poor Laws of 17th century England, the division of people into «deserving of support» and «undeserving of support» has been worked into the state social security systems (Walker, 2005, 4-9). The former deserve support from the society whereas the latter do not. The former, «deserving» category usually include the infirm, those unable to work because of old age, the disabled, widows and children. The latter usually include vagabonds, alcoholics, those who have committed crimes or simply the «lazy» – those of working age who have no dependents; in other words, all those who should be able to take care of themselves. In social security policy, two approaches to regulating inequality are distinguished: material and cultural. The former emphasizes the distribution of resources and the latter, how it is ensured (Oakley, 1994). If the opportunities for using (distributing) material resources are rather determined by the objective possibilities, then the approach to the distribution of resources is formed by each society according to its own ideas.

The question of support in situations of social risk is closely related to the attitude of the society to people in situations of social risk. Scholar of Indian origin Avishai Margalit considers the necessity of creating a «decent society» and such a system of social security where the social groups receiving support would not be stigmatized and morally condemned by the wider public. Humiliation can express itself already in the very designations «indigent», «unemployed», «petitioner» if they are accompanied with generalized characterizations (e.g., «lives on the dole», «uses the situation» etc.). In a decent society, its institutions do not humiliate people, reducing the need to ask for help (Margalit, 1996, 1). Humiliation can be realized as a stigma attached to the potential recipients of social security. The stigma can express itself in three ways 1) the perceived stigma when people, after

they have voiced their need for social security feel powerless or simply bad; 2) the active stigma that characterizes the attitude of the rest of the society to recipients of the support; and 3) purposeful stigma, created by the very institutions to which people turn for social support (Walker, 2005). Every society, including Latvia, must choose to form such a system of social security because of which the support receiving social groups would not be stigmatized and morally condemned by the society at large.

To Latvia, the example of Great Britain in forming a social security system might be of interest. In 1942, when Great Britain participated in the Second World War against Nazi Germany, suffering loss of life and property, William Beveridge, British economist, journalist and government consultant wrote a report to the Parliament, in which he gave an exhaustive analysis of the existing social security system and proposed measures for its further improvement. For simplicity's sake, the paper is called *Social Report*, but its full title is *Social Insurance and Allied Services*. Seventy years have passed since the Report, and, in our day, the social problems and their contexts are different, yet some of Beveridge's conclusions may still be relevant when thinking about the sustainability of Latvia's social security system. At the time of Beveridge's research, the British situation in the area of social security was comparable to current Latvian situation in the sense that the social security system was ripe for change that would create long-term stability and preconditions for the reproduction of society. Even though the social system functioning in Latvia is well-organized, based on law and rather comprehensive, the priorities of this system are not entirely clear: is every resident to be granted at least the minimum or to have a way for everyone to recover benefits proportional to his or her input? Beveridge's analysis leads to the conclusion, however, that the first priority should be to ensure the minimum set in the country for as large scope of the population as possible while a higher standard of living should be left up to the individual initiative. Beveridge emphasizes that there are groups of society whose provision requires particularly many resources. Among such groups are families with children, particularly single parents and parents of large families as well as those whose remuneration for work falls below the average salary (Beveridge, 1942/2000, 7-8). In these cases, a simple redistribution of resources (replacement of income in the event of social risk, tax exemptions) is not sufficient but double redistribution, should be applied which in addition to tax relief and tax credit includes directly paid benefits. Nowadays, many European Union member states use the double redistribution principle worked out by Beveridge, caring for the least protected members of the society.

Yet general principles are behind only one aspect of the social security system. Any social security system should also be based on financial sustainability, which includes the regular payment of taxes. After taxes have been paid, the distribution of income is more equitable than before. If it is the opposite and, after the settlement of taxes, the income disparity increases, there is something wrong with the taxation and social security system. Danish-born sociologist Gösta Esping-Andersen emphasizes that a great part of re-distribution means re-distribution within a life cycle. For instance, there are periods in every person's life when he or she has to

depend on the tax payments made by others (e.g., childcare in kindergartens; healthcare for the elderly) and also periods when that same person is a taxpayer. The lion's share of expenditure is usually spent for the sake of the older generation, yet a larger piece of the social security pie is received by those whose prosperity level is already high. That applies to both receiving higher education and more expensive healthcare services. The primary goal of a welfare state is not a redistribution of income in favor of the well-to-do but social insurance and protection for all. The welfare state has never aimed to achieve perfect equality in the sense of equivalence but in the sense of equal opportunities for all (Esping-Andersen, 2007, 1-2).

Latvia has established its own social security system consisting of social insurance, social assistance, and social services. After Latvia regained independence, the universal pension system, indispensable in an industrial society and a service economy, was retained and the existing range of social insurance and state benefits was supplemented. The shrinking of the labor market and unfavorable demographic situation caused a shortage of resources, for which a solution was sought by introducing a personalized accounting for the social insurance payments as of 1996 and periodically raising the retirement age. In forming the social security system (social insurance, social assistance, and social services), the social division into those «deserving» and «undeserving» of support was worked into the laws and normative documentation regulating the granting of social support to people in cases of lack or insufficiency of income (the Law «On Social Assistance» is not in force, yet it continues to influence the assumptions regarding social groups deserving and undeserving of social support (LR Saeima, 1995a)). In the newly created social security system, one could receive support if one belonged to a particularly category mentioned in the laws and regulations. Usually there were no provisions for persons of working age without dependents.

As Latvia was preparing to join the EU in 2003, it was trying to harmonize its legislation with the EU social security principles, which include the agreement registered in the Philadelphia Declaration that one of the principles of social security is «to provide a basic income to all in need of such protection» (International Labour Organization, 2008). The principles of receiving social assistance were therefore changed and the role of category principle was reduced. Up to then, social assistance was granted to particular categories (e.g. «family with many children», «lone pensioner»), instead of evaluating the minimum income per family member.

The breakdown of social contributions in 2012 points to social insurance priorities and limited possibilities (Box 1.1). In 2012 overall, the social budget revenues were 1.35 billion lats and expenditure 1.4 billion lats, including 1.08 billion lats for pensions. Of the contributions made by working employees, 20% are intended for the pension calculation, yet already now, 6.7% more are being used for pensions. That means that quite a bit more than 20% from the social contributions are used for the disbursement of existing pensions and, in fact, borrowing from the currently employed contributors and limiting of other kinds of social insurance are taking place (e.g., shortening the term for paying sickness-leave benefits; reducing the maternity benefits from 100% of the average

salary to 80% etc.). Taxpayers have a good reason to consider such distribution as unfair, because of the discrepancy between the distribution of the social insurance contributions as provided for by law, according to which accruals in the pension fund are made, i.e. 20% of social contributions (LR Saeima, 1995b), whereas the factual distribution currently allots about 26% for existing pensions, with no more than 9% remaining for all other benefits. The resulting situations is such that should the current taxpayers lose their subsistence in case of sickness, unemployment or childcare, they are socially less protected and receive lower benefits for a shorter period of time while receiving accruals only from 20% of social contributions in their pension fund. Despite the proportionally large sum allotted for pensions, the recipients of small pensions do not benefit from a socially acceptable standard of living. Lack of social security is also one of the most important factors leading to emigration among the population of working age. The emigration and low birth-rates in their turn lead to a shrinking number of taxpayers, ever greater challenges faced by the social security system and hard dilemmas regarding the distribution of contribution rate to provide for subsistence where social risks have set in.

Already now, the burden any taxpayer has to bear is disproportionately large for the purpose of simply maintaining the existing social security system at its current level: 1.4 social payment contributors provide for disbursements to a single participant in the social security system (receiving a pension or benefits). In 2010, the number of employed exceeded the number of recipients of age or disability pensions by only about 200,000 people. Disbursements from the social security system are received also by the recipients of sick leave, maternity, parental, unemployment and other benefits. The ratio between those who pay into the social security system and those who receive support from it is a threat to the

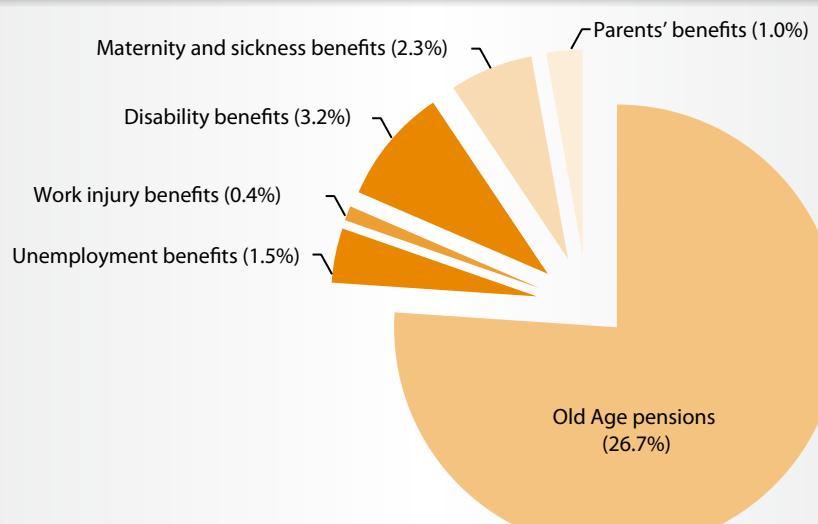
sustainability of this system. In order to maintain a system with such a great number of beneficiaries and such a small number of contributors, the ratio between the average salary and average pension should be different (either salaries should be raised or pensions and benefits reduced). Of course, no rationally thinking politician or researcher will advise reducing the average pension rate and that means that salaries will have to be raised.

A significant drawback in the system is that in situations of social risk different groups are provided for in different amounts and for different terms. In the functioning of the social security system, differences in minimum entitlement for a brief crisis period as opposed to long-term survival are acceptable, yet the size and justification of these differences are issues open to discussion. A minimum monthly wage for a 40-hour work week and minimum hourly rate have been set in Latvia as have the minimum pension and guaranteed minimum level of income (GMI), but not the minimum unemployment benefits or sick-pay. This situation creates substantial problems for the recipients of minimum wage who, in case of social risk, receive small benefits or pensions (even less than LVL 100 per month). Since no minimum social contribution rate has been provided for, some groups of the employed face a particularly grave situation. For instance, employees of microenterprises for whom the monthly social contribution rate often does not exceed a few lats, the amount of benefits may not just be under LVL 100 but even under LVL 10. It is plain to see that in situations of social risk, the state does not guarantee the subsistence minimum necessary to survive in equal measure for all.

Latvia should choose whether its long-term orientation should be to a liberal welfare state where the state guarantees only the bare minimum that is the same across the board (e.g., minimum state pensions; unemployment

Breakdown of social insurance payment rate by kind of social insurance in 2012

Box
1.1



Source: LR Saeima. (2011).

benefits), or an equal opportunity welfare state after the Nordic pattern, where subsistence above the minimum is guaranteed and much attention is paid to guarantee equal opportunities for the sexes, childcare, education etc., providing, for instance low-cost kindergartens but withhold greater taxes from the more well-to-do segment of the society.

Security and inequality in the labor market

Social security begins with security in the labor market and promotion of legal employment, for the redistributable product of the welfare state, taxes, are generated only in the labor market. Unemployment reduces the product to be redistributed and requires additional expenses, but stigmatization of the unemployed, not providing them with sufficient support and blaming them for their situation may cause a feeling of injustice. It can express itself as an active stigma if the employed condemn the unemployed or as a purposeful stigma, if the amount of the benefits is not adequate and they are not received by all the unemployed. The fact that only every third registered unemployed person [State Employment Agency (SEA) and State Social Security Agency (SSSA) statistics] receives benefits and that benefits are reduced every three months is clear evidence that the unemployed are purposefully stigmatized by the state and thus there is reason to think the unemployed in Latvia face both active and purposeful stigma. Latvian mass media depict the unemployed as people who do not want to work and are living on social benefits. Possibly because of the widespread prejudice against the «shameless people on the dole», the guaranteed subsistence minimum in 2013 was reduced from LVL 40 to LVL 35 (LR Saeima, 2012) (1 LVL = 1.42287 EUR, Central Bank of Latvia), at the same time refusing state participation in ensuring social assistance (Ministry of Welfare, 2012). The 2013 World Bank study of poverty and unemployment in Latvia demonstrated conclusively, however, that such an assumption regarding the unemployed has no basis in reality, for most of the recipients of benefits have received them only once and for a short time (Ministry of Welfare, 2013b). Unemployment benefits are likewise received by less than 30% of registered unemployed; the duration of the payment of benefits is only nine months and there are several conditions for receiving them.

To establish the unemployment and employment situation in Latvia two types of measurement can be used. One measurement of unemployment is the registered unemployment rate, which indicates how many persons of the

economically active population have registered as unemployed with State Employment Agency (Box 1.2). The other measurements is the actual unemployment, which is measured by the European Union Bureau of Statistics (Eurostat) and according to which the unemployment rate is determined according to the results of labor force surveys following the methodology of the International Labor Organization (ILO). Labor force is constituted with all of the employed and jobseekers between the ages of 15 and 74. Jobseekers are considered unemployed if they are out of work at the time of the survey; they have been actively looking for work for the past four weeks and are ready to start working within two weeks or have found it and will start working within three months (Eurostat, 2012) (Box 1.3).

The different measurement methodologies explain why only the registered unemployment rate is mentioned in the domestic media, whereas in international comparisons, the Latvian situation looks less favorable because the actual unemployment level, measured by Eurostat, exceeds registered unemployment. The unregistered unemployed also are not entitled to the services received by the registered unemployed. True, in recent years, the possibilities of receiving SEA services have expanded for a wider circle of people (e.g., potential unemployed have the chance to use some of the active employment services even before they have been let go). The long-term unemployed, unemployed young people, and unemployed just below retirement age are the risk groups whose situation in the labor market is critical.

The unemployed is a social group that has not yet formed a non-governmental organization for the protection of its interests. Trade unions likewise have expressed no wish to protect the interests of the unemployed, as regards, for example, availability of benefits, transport allowance and other issues. No supplements to unemployment benefits are provided for even if the unemployed person has dependents (usually underage children). At the end of January 2013, 45,232 people, i.e. 42.1 % of the total number of registered unemployed were out of work for a long time. The long-time unemployed are those among the unemployed who cannot collect unemployment benefits, which can be received no longer than for nine months; the long-term unemployed are out of work for at least a year.

Employment is characterized by statistical data on the number of occupied job vacancies. Dependent upon employment, social contributions make disbursing social security benefits possible. In the first quarter of 2013, the number of employed (15-74 age group), grew by 5.3% year-on-year and reached 880.2 thousand. The number of economically

Box
1.2

Registered unemployment indicators in Latvia, 2007-2013

2007	2008	2009	2010	2011	2012*	2013*
4.6	7.6	16.0	14.3	11.5	10.5	9.3

*Data of the State Unemployment Agency, August 2013.

Source: State Unemployment Agency (2013b).

active population (the employed and jobseekers) dropped by 0.2% in the respective period and was 1011.7 thousand. During the crisis in 2010, the number of legally employed was 776.7 thousand and, starting 2011, their number is increasing, albeit the pre-crisis level is yet to be achieved (In 2007, there were 1016.5 thousand employees) (LR Central Statistical Bureau, 2013f).

Next to the substantial reduction in jobs during the crisis and the attendant high unemployment indicators, another serious problem in the Latvian labor market has been the significant inequality of income and sense of injustice regarding the mechanism of distribution of income. For more than ten years, income inequality in Latvia has been surpassing the EU average, which is usually characterized by Gini coefficient (perfect equality – 0, greatest inequality – 1). In 2011 in the EU, the annual average of Gini coefficient was 0.31, whereas in Latvia it was 0.35 and, in 2006, even 0.39 (Eurostat, 2013a). If people consider the distribution of income and other benefits in the labor market as too unequal and unjust, then it is harmful, first of all, to the labor market, by discouraging legal employment (choosing a segment of the gray economy or even the labor market of some other country). People may even lose any wish or hope to join the labor market, which is viewed as unjust, and thus exclusion from labor market promotes marginalization. Second, excessive inequality and injustice in the labor market may lead to abandoning participation in it, which causes social security problems for those whose subsistence depends on the social security system (in case of unemployment, illness, disability, old age or some other social risk) as well as for those who have abandoned it and may now face the above risks. Moreover, the social consequences of inequality may boomerang back to the very people who at present seem to be partaking of the fruits of inequality. The social consequences of inequality may become apparent after a longer period of time or even during the lifetimes of the coming generations,

for example, in a total lack of social (medical, caretaking) services. In such a case, the far-reaching consequences of social inequality are the loss of social sustainability.

The feeling of an unjust situation in the Latvian labor market is to a large degree related to great disparities of income and therefore the question whether all these disparities are well founded and what would be the acceptable level of income disparities is crucial. In 2009, 20% of the most prosperous Latvian residents earned 7.3 times more than 20% of the least well-to-do. In Finland in the same period, this ratio was 3.7. (Fig. 1.5). In 2011, this indicator dropped slightly in Latvia – to 6.6 (Eurostat, 2013b), whereas in Finland and other EU countries it did not change substantially. Latvia's inequality indicators are still among the highest in the European Union.

The issues of inequality were brought to the foreground by the impact of the economic crisis on people's well-being. In 2008 and 2009, inflation remained high. At the same time, the income of many people had dropped to the salary level of 2005. With the crisis deepening, their purchasing power had weakened substantially. The drop in wages was felt also by the group of so far more protected residents, the state administration employees. According to the Ministry of Finance calculations, expenditure for state administration salaries was reduced from 894 million lats in 2008 to 478 million lats in 2011. The average drop in state administration salaries was 25%, with many employees taking on more work for less pay. 27% of the employees lost their jobs in this period (Kursiša, 2013).

On 14 February 2013, following lengthy discussions, the Latvian parliament ratified the revised EU Social Charter, which includes the most important principles of social rights, but refrained from ratifying Paragraph 4 of the Charter, which provides for the right to just wages. No important measures have thus been taken to close the unsubstantiated disparity gap between incomes. The situation where even the wages

Box 1.3

Actual unemployment indicators, Latvia, 2007-2013

2007	2008	2009	2010	2011	2012
6.5	8.0	18.2	19.8	16.2	15.1

Source: Eurostat (2013f).

Box 1.4

Unemployed of some risk groups in Latvia, 2007-2012

(% of total number of unemployed)

	2007	2008	2009	2010	2011	2012	2013* (April)
Long-term unemployed	18.0	11.1	13.5	37.8	43.7	44.2	41.1
Unemployed youth (aged 15-24)	12.9	13.6	14.5	14.3	11.8	10.0	9.9
Unemployed, aged 50 and older	28.2	29.5	28.0	30.2	33.3	36.3	36.2

Source: State Employment Agency data (as quoted in Kalvāne, 2013, 9).

of the officials of state and local government capital ventures exceed the minimum wage 9.5 to 112 times cannot be considered conducive to equality. Prime Minister's salary exceeds the minimum wage 9.5 times, yet that salary is lower than those received by the Project Manager of the Higher Educational Council, Chairman of the Supreme Court, let alone the salaries of the Mayor of Riga, Governor of the Bank of Latvia, and Chairman of Ventspils City Council (Sprance, 2013). We cannot consider equitable a situation where the minimum and maximum wages even in the public sector differ not just 10 but up to 112 times and where Prime Minister, who is charged with responsibility over the development and well-being of the entire country, fetches a salary, which is up to 10 times lower than the head of a single state enterprise or a town whose scope of responsibilities and tasks is much narrower. It is no wonder that 94.9% of the population consider income disparities in Latvia as too great (Box 1.15) and 68% think that their wages are unfairly small (Box 1.22).

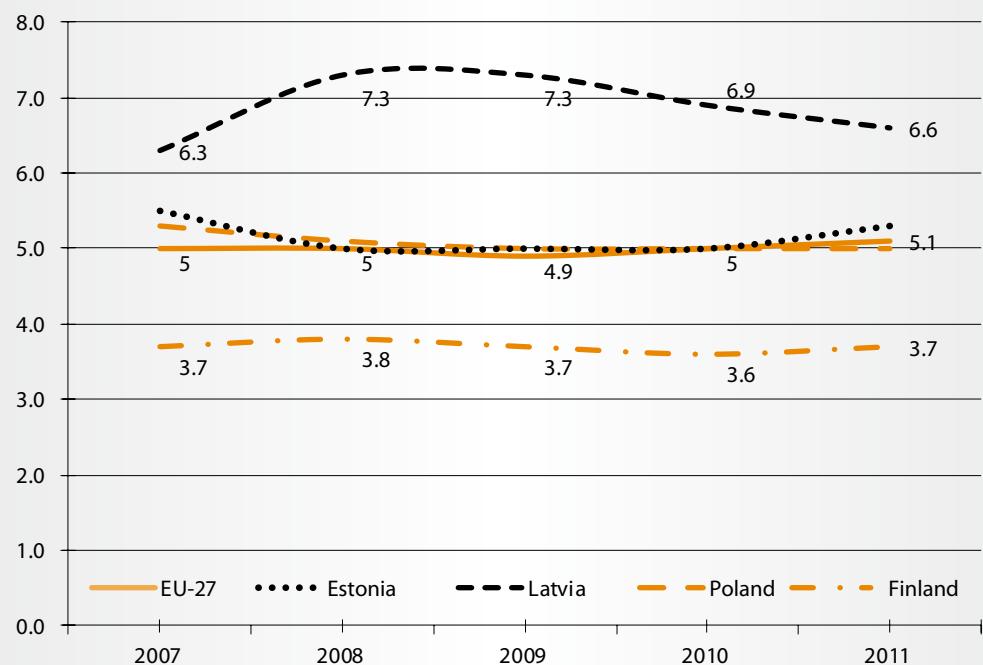
In order to deal with the income disparity issue, the minimum wage situation must be resolved first. The minimum wage rate and social risk insurance is different in different countries of the European Union, ranging from 30% to 40% of average salary, but in the new post-socialist EU member states the minimum wage rate is usually lower (Marx, Marchal, & Nolan, 2012, 7-8). Converted to euro, there is a difference of 11.5 times between the minimum wages in Romania and Luxembourg. In six countries (Luxembourg, Belgium, Ireland, the Netherlands, France and the United Kingdom), the minimum wage exceeds EUR 1,000, whereas in ten countries (including Latvia) it is under EUR 400. The minimum wage

is even lower than in Latvia only in Bulgaria and Romania. In some EU countries, the minimum wage is set not by the government but by an agreement within a particular industry or region (Germany, Sweden, Italy, Finland, Austria). The differences in the minimum wage rate is discussed as inequitable also outside of Latvia, and some politicians (e.g., former Prime Minister of Luxembourg Jean-Claude Juncker) have even argued for the need of a unified minimum wage throughout the EU, because otherwise it loses its common social characteristics (Torrent, 2013). Yet in the near future, no unification of EU minimum wages is expected, and the Latvian society will have to make its own decisions regarding the minimum wage and acceptable differences in income.

In Latvia, a disproportionately large number of workers receive minimum wage. Although it has increased from LVL 160 in 2008 to LVL 200 in 2011 (Vienotie Internet Dat, 2013), the minimum wage cannot even ensure the subsistence level basket of commodities per resident, which CSB calculated at LVL 161.52 in June 2008 and at LVL 180.43 in June 2013 (LR Central Statistical Bureau, 2013b). Regarding the statistics on the income of residents, we must advise caution, however. Unregistered unemployment, the so-called «envelope salaries», and concealing one's income are all characteristic of Latvia. Thus, researchers associated with the Riga School of Economics, Arnis Sauka and Tālis Putniņš, have concluded that the size of gray economy in Latvia in 2012 was 21.1 % of GDP. They believe that it is precisely the «envelope salaries» that make up a substantial part of the gray economy (SEB finanšu centrs, 2013). The great number of minimum wage recipients in the private sector may possibly be explained

Box
1.5

The income quintile share ratio (S80/S20) in the European Union



Source: Eurostat (2013b).

by the aforementioned «envelope salaries», yet many public sector workers also receive minimum wage, which is a very negative development (Box 1.6). For those residents of Latvia who receive minimum wage, work does not guarantee an acceptable living standard and often even the possibility of taking care of their basic needs. Compared to the other EU countries, Latvia has a great percentage of workers who live in poverty (Box 1.7). Statistics indicate that during the crisis, the number of such workers went up.

The situation of the minimum wage recipients was further exacerbated by some ill-considered decisions of the Government, for example, to reduce the minimum exempt from the individual income tax (IIN) and to raise the rate of this tax. The IIN rate for workers in 2008 and 2009 was 23%. In 2010, it reached as much as 26%. Currently, the IIN rate is at 24% (LR Saeima, 1993). These decisions had a negative effect on the living standard of residents and particularly those who received small salaries: for many, salaries were not only cut during the crisis period but also more heavily taxed.

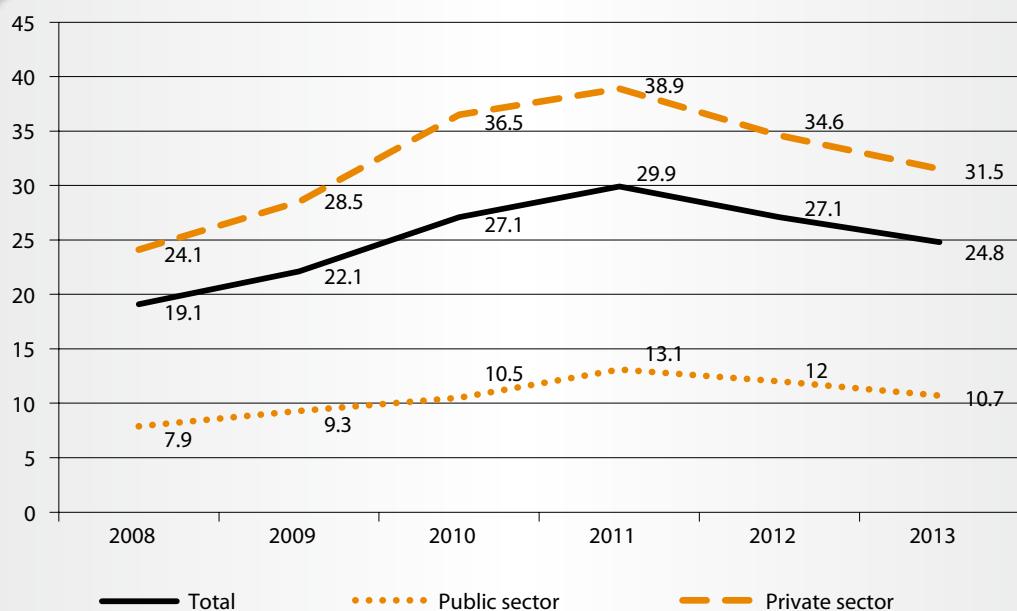
Compared to other EU countries, the tax burden on the hired labor force is very high, particularly if a person's income is low (Box 1.8). Finance minister Andris Vilks admits this, and his ministry is currently looking for solutions to «most effectively relieve the tax burden for residents with the lowest income and families with children» (Delfi.lv, 2013). The Ministry of Finance seems to favor the kind of solution that would gradually reduce both the rate of the mandatory contribution to state social security and the IIN rate by one or two percentage points and would also raise and differentiate the nontaxable minimum (in the range of LVL 45 to LVL 98), simultaneously increasing the exemptions for people with dependents to LVL 98. It is difficult to predict if these

proposals will receive support from Saeima majority. It is likewise difficult to predict if and how these changes might affect the standard of living for those who live in poverty and whose income is low. Discussions currently revolve around small percentage point changes in the tax rates. So far, the tax burden on this segment of the population has only increased.

In a publication of July 1, 2013 on the Latvijas Vēstnesis webpage, a Ministry of Welfare specialist explains the necessity to retain the minimum wage at a low level with the protection of unskilled workers from unemployment and possible reduction in workplaces, as well as with the great number of minimum wage recipients (Putniņa, 2013). The ministry representative does not explain, however, how those receiving the minimum wage are supposed to survive and has no comment regarding the social consequences faced by them (e.g., the small pension they can expect). It must be noted that it is usually those who have more time, money and other resources who can better defend their interests in protecting their income level. A situation should not arise where employed people are subject to the risk of poverty only because the minimum wage threshold does not match a socially acceptable standard of living and, after the payment of taxes, is not even at subsistence level. In another publication, adviser to the Minister of Welfare, Maija Poršņova, calls on people to think about their future and begin forming accruals today (Rozenberga, 2013). Yet accruals from the minimum wage are impossible. It is unacceptable that the issue of minimum wage and the related poverty risk are viewed at the ministry level as an issue of individual responsibility and competence, thus purposefully stigmatizing the workers facing poverty.

Box
1.6

Percentage of employers (%) receiving minimum wage in January of the relevant year



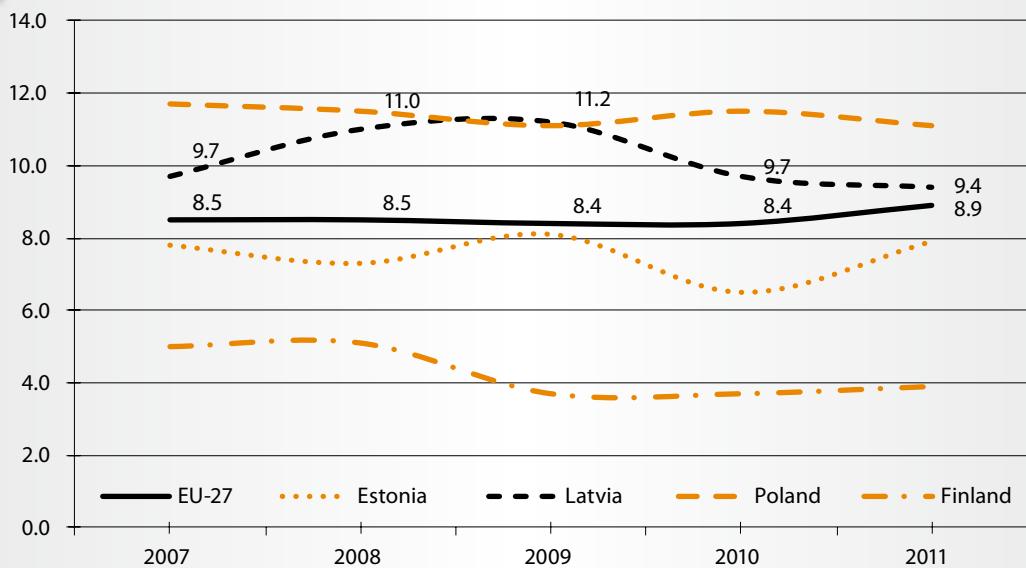
Source: LR Central Statistical Bureau (2013d).

The wages of Latvian workers are also characterized by notable regional inequality. The 2012 statistics point to the net wage differences in Latvian towns and countryside. There is more than a twofold difference between municipalities with the highest and lowest average net wages (Box 1.9).

The inequality of income is reproduced also in the social security system. The most striking example here is the disproportional, and moreover increasing, inequality in pension disbursements. The largest state pensions in Latvia exceed the minimum old age pensions 100 times

Box
1.7

Poverty risk index for the employed*

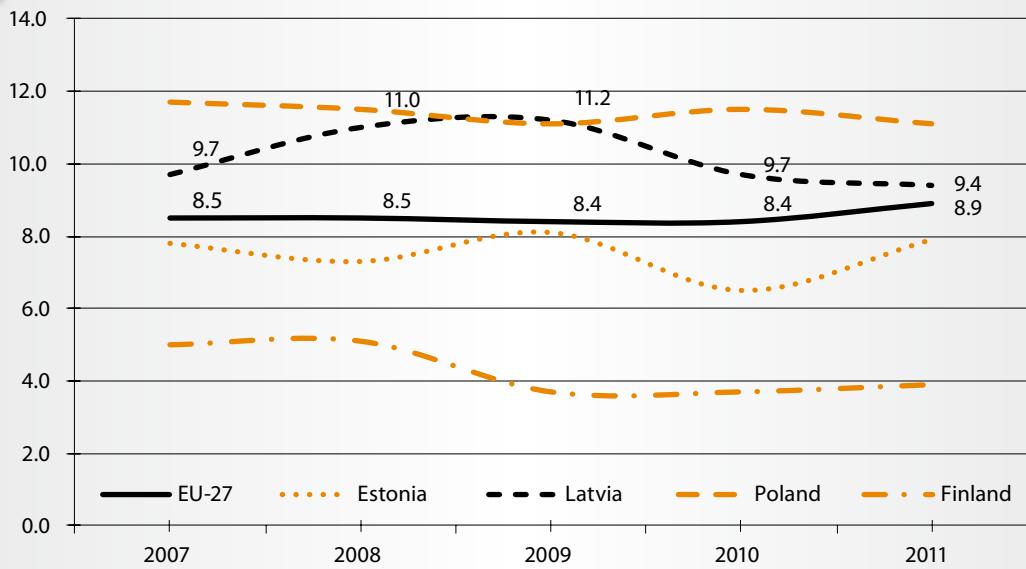


* The poverty risk index is the proportion of the population (in percent) whose equivalent disposable income is under 60% of the median national equivalent disposable income (LR CSB, 08.02.2012.)

Source: Eurostat (2013c).

Box
1.8

Tax rate (%) for an unmarried person without children, receiving 50% of the country's average salary



Source: Eurostat (2013e).

(49.50 and < LVL 4000). If a person's length of service is 10 to 20 years, then the minimum state pension is LVL 49.50, but if the length of insurance is 41 years and above, then the minimum pension has been set at LVL 76.50. It is not clear why in 19 years it is possible to earn LVL 2.6 per year, but in 41 years, only LVL 1.86 per year worked. The recipients of the largest pensions get even as much as LVL 100 per year worked. Since there is no accounting done for any of the recipients for the period before 1996, such differences seem exaggerated. Moreover, as of the beginning of 2009, a pronounced trend of increasing pension inequality has been observed. Detailed data indicate that the «middle class» among the pensioners is shrinking while the numbers of those who get very small pensions (up to 100 lats) and very large pensions are on the rise. At the beginning of 2009, the number of those who received pensions above LVL 1000 was slightly above 200; in December 2012, it was 1098, and in March 2013, 1126. To compare: in 2012, 4923 people received old age pensions of up to LVL 50 and pensions in the LVL 50-90 range (poverty level for receiving social assistance from the local government) 14,689 people (SSSA, 2013). The sum of money spent on the smallest pensions is very similar to that spent on the largest ones. For instance, according to the SSSA data of December 2012, about 1.5 million lats per month is being expended from the state social insurance budget for pensions up to LVL 90 and a similar sum for those over LVL 1000. The difference is that in the former case it is old age security for 19,612 pensioners, but in the latter slightly more than 1000 (1159) pensioners (SSSA, 2013). It follows that 18 recipients of the small pensions altogether receive as much as one recipient of the large pension (Box 1.10).

Poverty: the result of a system supporting inequality or «they brought it on themselves»?

The EU strategy «Europe 2020» is a 10-year growth strategy that involves initiatives for smart, sustainable, and integrating growth (European Commission, 2013). It is not only aimed at overcoming the crisis that many countries are currently facing, but involves several other spheres. At the EU level, one of the most important goals is to bring 20 million people out of poverty. In Latvia, both the level of relative

poverty and that of absolute poverty are very high, with the situation worse only in Bulgaria and Romania. Poverty level in the EU is determined taking into account three social inclusion indicators: poverty risk level, number of people living in deep social deprivation, and number of people in households where there is no gainfully employed person. In Latvia, 40% of the population falls into at least one of the three groups, and that is a very high indicator.

The first poverty level indicator is the poverty risk index that characterizes relative poverty. All those whose income falls below 60% of the median income at the disposal of households recalculated per the equivalent consumer are subject to relative poverty. This kind of poverty is not considered to depend on the level of economic development of the country at hand but instead to show how resources are distributed in that country. In Latvia, it is people whose monthly income is less than 147 lats (according to 2011 data), so in 2010, the percentage of people facing poverty risk was 19.1%, which was among the highest in Europe. In 2013, people whose gross salary is 200 lats, receive LVL 146.08 net, which is below the abovementioned poverty risk level of 2011; furthermore, in 2013, the risk is higher, since the average salary and income are rising (LR Central Statistical Bureau, 2013e). The relative poverty level in Latvia was particularly high in the pre-crisis period, and in 2011 the number of people facing poverty risk was once again going up (19.4%). Because the proportion of people facing poverty risk is growing while the average salaries are rising (this trend emerged during the so-called «years of plenty» and has once again reappeared during the past two years), it indicates that policies of social security and income distribution are inadequate and that harmonization principle is not being observed.

The second indicator is standards of living and material deprivation that measures the possibility to satisfy people's basic needs. This indicator is of course applied to all EU countries, even though people's needs in different societies are affected by cultural factors. However, if we wish to have lifestyles similar to those of other EU countries, we have to apply similar criteria. This indicator is measured by surveying people and asking them the following nine questions: can you afford to eat meat or fish every other day; pay rent and heating bills; cover unexpected expenses (e.g., refrigerator

Box
1.9

Municipalities with the highest and lowest average wage

Municipalities with the highest average wage	Average net wage (LVL)	Average net wage (LVL)	Municipalities with the lowest average wage
Rīga	420	214	Varakļāni
Ventspils	401	206	Ilūkste
Stopiņi	422	202	Dundaga
Mārupe	445	215	Zilupe
Garkalne	392	209	Roja
Latvija	369		

Source: LR Central Statistical Bureau (2013c) (1 LVL = 1.42287 EUR, Bank of Latvia).

stops functioning or surgery is needed); take a vacation away from home at least once a year; purchase a telephone; a TV; a washer; a car. Questions are designed to find out whether the respondents would like to have these things, whether these things are necessary and whether they can afford them. If the person cannot afford four out of the nine things, s/he can be considered materially deprived. Material deprivation is related to the country's economic development level. In the EU on average, there are 8.8% materially deprived people as opposed to Latvia's 31% (Eurostat, 2013). The EU-SILC data (statistics on income and living conditions) for 2011 indicated that 81.7% of all households could not afford to cover unexpected expenses in the amount of LVL 195; 63.7% could not afford a one-week vacation away from home; 23.9 % had difficulty paying for the utilities and 24.3% had problems keeping the home comfortably warm. It is worrisome that even in the suburbs of Riga, supposedly

populated by successful people, 26.4% of local households had been late on their utility payments at least once a year and the number of households that cannot keep the home sufficiently warm was on the rise (13.8% in 2010 and 19.7% in 2011). The greatest number of households that cannot afford to keep warm enough are found in Vidzeme, however (31.1% in 2010 and 37% in 2011) (LR Central Statistical Bureau, 2012).

The third indicator measuring poverty and social exclusion risk includes people who live in households where none of the residents of active age is gainfully employed. Even if a person can afford to buy the necessities and has enough resources to survive, s/he can be socially excluded because no one in the household works. In Latvia, there are 12% people in this group.

The EU Commission has put forth its recommendations to Latvia for carrying out the «Europe 2020» strategy, but these hardly find any reflection in Latvia's National Development

Box
1.10

Ratio between the recipients of large (>LVL 1000) and small (<LVL 90) pensions: 1:18

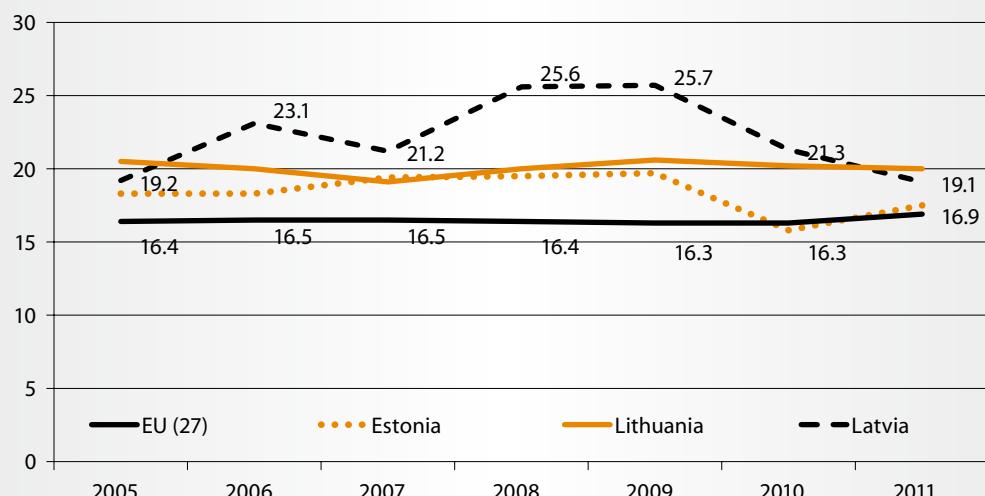


Source: based on SSSA statistics (SSSA, 2013) (1 LVL = 1.42287 EUR, Bank of Latvia).

Box
1.11

Population (%) under the poverty threshold

(60% of the median income at the disposal of households recalculated per the equivalent consumer)



Source: Eurostat (2013d).

Plan, which provides for an improvement in subjective satisfaction measurements but in which less attention is devoted to reducing poverty. The recommendations of the EU Commission draw attention to the fact that a high proportion of the Latvian population is at risk of poverty or social exclusion (40 %) and for children it is even higher (43.6 %).

Overall, the at-risk-of-poverty rate increased slightly in 2012, suggesting that growth does not automatically translate into less poverty, and targeted policies are necessary. Latvia has taken some steps to address poverty of unemployed and children. However, there has been less direct action» (European Commission, 2013, 4) to reduce poverty faced by the employed who are receiving minimum wage (according to the data of the Central Statistical Bureau for February 2013, 21.8% of the total number of workers received job income up to the minimum wage (Putniņa, 2013)) and to reduce problems in the social assistance system, «in particular in relation to transparency, benefit adequacy and coverage and insufficient activation measures for benefit recipients. <..> Latvia decreased the guaranteed minimum income (GMI) and abolished the state budget financing of the GMI benefit» (European Commission, 2013, 4). Usually this minimum falls under the responsibility not only of particular local governments but also of the state and it is doubtful if there is a sound basis for determining the GMI according to the amount of resources at the local government's disposal. Such decisions are likely to increase severe poverty and aggravate the existing inequality regarding the availability of social assistance from local government, at the same time undermining any stimulus for the central government to invest in the development and management of social assistance policies.

The views of Latvian residents on inequality, justice, and poverty

The rest of this chapter will be devoted to the analysis of how Latvian residents themselves view the inequality of income and redistribution of resources in the Latvian economy and society. Since Latvia is among the EU countries with the highest poverty and income inequality indicators, the authors of this Report felt it crucially important to explore at depth the ideas Latvian residents hold regarding inequality, justice, and poverty, and to find out how the situation is viewed and evaluated subjectively. We will first take a look at some examples of international studies and then turn to analyzing the situation in Latvia.

Most researchers are of the opinion that people's perceptions of various inequalities determine, to a large extent, their attitudes and behavior (Han, Janmaat, Hoskins, & Green, 2012, 9). Perceptions of inequalities are important because they may affect, among others, civic and political activity. If people regard inequality as unjust, they may join civic and political activities to change this situation (Han et al., 2012, 9). The Occupy Wall Street movement is a good illustration for this argument. Other authors believe that the civic activism subsides in unequal societies because the residents lose faith in democratic values and the significance of their own actions (Stiglitz, 2012).

A sign of inequality is an unequal distribution of resources among the members of society. The taxation system and

social security system are state mechanisms for the redistribution of resources, which, in turn, are largely based on the justice norms of a particular society. Several studies are devoted to finding out residents' opinions on a more equal redistribution of resources and exploring the relationship between inequality and residents' support for policies that would be directed at redistribution of income in favor of the poorer members of society. German researcher Malte Lübker emphasizes that support for redistribution does not depend on actual inequality but on the social justice norms in a particular society (Lübker, 2006, 1). Of similar opinion are the Hungarian researcher István György Tóth and Dutch researcher Tamás Keller, who analyzed the survey data in 27 European countries and came to the conclusion that one of the most significant factors that is behind people's demand for redistribution, is their opinion of the causes of poverty, justice, and inequality. If most of the individuals in a society believe that the causes of poverty are rather explained by individual factors, for instance, laziness or bad luck, then it is unlikely that they will demand the government to tax people with large incomes more heavily or to help poor members of society. If, on the other hand, most members of society believe that the development of the society is based on unfair or otherwise unacceptable principles, then they can demand of politicians to act accordingly, for instance, to redistribute income to favor the poor (Tóth & Keller, 2011, 45).

German sociologist Ursula Dallinger thinks that the attitudes of the residents of different countries can be explained both by economic and social factors (Dallinger, 2010). She has analyzed ISSP survey data in different countries and come to the conclusion that in the developed countries there is less of a demand for redistribution because they believe that in a flourishing economy, sufficient income can be guaranteed by the market (Dallinger, 2010, 346). Yet, to a large extent, it depends on the context of each individual society: for instance, on how the social responsibilities of the state are defined. Dallinger talks about «conditional egalitarianism» – in cases of large inequality of income, citizens want the welfare state to reduce these differences. If the economy is also stagnating, citizens would like the state to interfere and alleviate the negative impact of the economic processes. If, on the other hand, the economy is doing well, citizens are more likely to believe that everyone has an opportunity to provide for his or her own livelihood and the state does not have to get involved (Dallinger, 2010, 346).

American economists Alberto F. Alesina and Paola Giuliano have studied if and to what extent the residents of different countries prefer redistribution (Alesina & Giuliano, 2009). They concluded that these preferences are largely determined by both individual and social factors (history, culture, political ideology, understanding of what is fair). In East European countries, people are much more likely to want the government to reduce the disparity of income. Support for such involvement is also in Latin American and Nordic countries. The least support for redistribution of income is found in the United States, Australia, and New Zealand (Alesina & Giuliano, 2009, 25).

The impact of various social factors on public support for redistribution of income is also identified by the Canadian researcher Nazim Habibov who analyzes the results of

social surveys in 14 post-Soviet countries (including Latvian survey results) (Habibov, 2013, 262). He indicates that, despite an increase in income disparity, erosion of social provisions, and the dominant market economy ideology, support for redistribution of income and the attempts of the welfare state to alleviate the impact of income inequality is very high in all the post-Soviet countries surveyed. Yet this support varies in different segments of society. Young people, better-educated people, the rich, and men express less support for income redistribution (Habibov, 2013, 262).

Latvian society's attitudes toward inequality and its manifestations have primarily been researched in various international studies, for example, the ISSP and Eurobarometer studies. In 2009, in 39 countries simultaneously a survey was conducted on issues of social inequality within the framework of the ISSP (ISSP Research Group, 2012). The set of instruments of and data obtained during the above study were used also by the authors of this Report, preparing and analyzing the survey conducted in 2013. That helped us to get both an international comparison and data that characterize the change in Latvian society's attitudes regarding issues of social inequality in the period from 2009 to 2013.

To find out if and how the residents of Latvia have perceived and evaluated differences in income, the authors of this Report included two questions in the survey: one, how much, in their opinion, certain professionals (e.g., doctors, shop assistants, unskilled workers, ministers and chairmen of large national corporations) make; and, two, how much these professionals *should* make. The answers to these questions give us an idea of what in scientific literature is termed «perceived income inequality» and «desired income inequality» (Andersen & Yaish, 2012). The results of the surveys conducted in 2009 and 2013 do not reveal the actual wage level in the professions at hand but they do characterize the subjective evaluation by the respondents, which could have been influenced by various factors: personal observations, conversations with family and friends as well as discussions in the media etc. Information on the compensation in various

professions is probably not available to respondents or it is incomplete. Compared to the data of the 2009 survey, in 2013, respondents had much more pronounced differences in opinion regarding salaries fetched by a minister and the chairman of a large private Latvian company, as evidenced by the standard deviation (Box 1.12).

Calculations regarding desired income inequality in 2009 and 2013 indicate that a substantial part of the Latvian population believe that Cabinet ministers and chairmen of large private corporations should be making much less than they are in fact making. Shop assistants and unskilled workers, in their opinion, should be making more. Even though in 2013 Latvian residents were more willing to accept a higher salary to the chairmen of large corporations than in 2009, the shared trend is that people would like to see less of a disparity in the salaries of chairmen as opposed to less qualified workers (Box 1.13).

To make it possible to compare the answers of respondents of different countries in different time periods, it is not absolute compensation evaluations that are used but their ratios, for example, relating the average salary in a large company to the average pay of a unskilled worker (see Osberg & Smeeding, 2003). The authors of this survey prepared such calculations using the 2009 and 2013 Latvian resident data (Box 1.4). Making such calculations with the data of the 2009 ISSP study in other countries, we have to conclude that the evaluations by Latvian residents are similar to, for instance, evaluations by residents of Estonia and Poland, whereas the evaluations of residents of Finland are different, particularly in the evaluation of the perceived and desired income inequality between the average compensation for a Cabinet minister and an unskilled worker (Box 1.15). These differences among the evaluations by residents of Latvia, Estonia, Poland, and Finland can be explained by a variety of factors: a different attitude to inequality, different cultures, different taxation systems and economic development levels. Finland, by a variety of traits, can be considered a relatively egalitarian and open society. Finnish society is less

Box
1.12

Perceived income inequality. Evaluation of wages in five professions in 2009 and 2013

Profession	2009*		2013**	
	Average	Standard deviation	Average	Standard deviation
Doctor in general practice	600.5	281.5	532.2	333.4
Chairman of a large private Latvian company	2957.2	3196.4	3198.1	4300.9
Shop assistant	229.4	66.9	205.6	49.8
Unskilled worker in a factory	266.6	102	215.1	65
Cabinet minister in the Latvian government	2816.5	1643.2	2251.7	1967.5

* Base: respondents whose evaluation of wages does not exceed +/- three standard deviations and who could indicate compensations in all five professions at hand, n = 649 (ISSP Social Inequality 2009 survey data).

** Base: whose evaluation of wages does not exceed +/- three standard deviations and who could indicate compensations in all five professions at hand, n = 726 (LU SZF, 2013).

Source: ISSP Social Inequality 2009 survey data (ISSP Research Group, 2012) and NI: Report on Human Development in Latvia (LU SZF, 2013).

willing to tolerate large income differences and social inequality as such.

To be able to compare the evaluations of perceived and desired income inequality in different groups of Latvian society, the authors of this Report calculated the Gini index of desired and perceived income inequality, on the basis of the above answers of the respondents and a formula for calculations provided by Canadian and Israeli researchers Robert Andersen and Meir Yaish (Andersen & Yaish, 2012). These calculations indicate that the average perceived income inequality Gini index in 2009 and 2013 was 0.45 and 0.44,

respectively. The Gini index of desired income inequality was 0.27 and 0.33 in the abovementioned years. The results of these calculations confirm that Latvian residents see large income differences and would like them to be smaller. The calculations also confirm that in 2013, the Latvian residents would accept income differences above average differences in the EU (Gini 0.31).

A more detailed analysis of the Gini coefficient reveals that different groups of the population perceive and evaluate the inequality in income differently. For instance, women and men have perceived the income differences in different

Desired income inequality. Evaluation of wages in five professions in 2009 and 2013

Box 1.13

Profession	2009*		2013**	
	Average	Standard deviation	Average	Standard deviation
Doctor in general practice	699.2	296.1	661.2	293
Chairman of a large national corporation	1514.2	1264.9	1958.3	2087
Shop assistant	364.6	109.7	378.3	111.4
Unskilled worker in a factory	383.9	151.9	346.6	120.9
Cabinet minister in the Latvian government	1112.1	819.7	1293.2	1135.4

* Base: whose evaluation of wages does not exceed +/- three standard deviations and who could indicate compensations in all five professions at hand, n = 649 (ISSP Social Inequality 2009 survey data).

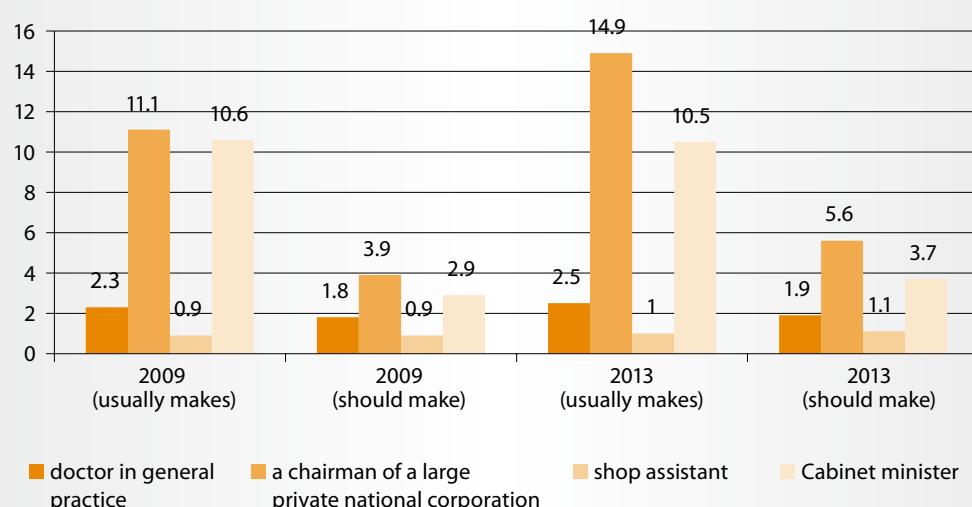
** Base: whose evaluation of wages does not exceed +/- three standard deviations and who could indicate compensations in all five professions at hand, n = 726 (LU SZF, 2013).

Source: ISSP Social Inequality 2009 survey data (ISSP Research Group, 2012) and NI: Report on Human Development in Latvia (LU SZF, 2013).

Box 1.14

Perceived and desired income ratios in 2009 and 2013 in Latvia

Ratio of average wage for a doctor in general practice, a chairman of a large private national corporation, shop assistant and a Cabinet minister against the average compensation for an unskilled worker



Source: ISSP Social Inequality 2009 survey data (ISSP Research Group, 2012) and NI: Report on Human Development in Latvia (LU SZF, 2013).

groups very similarly, but women would like smaller differences than men. Statistically important differences can also be identified in the answers of respondents of different age groups. Young people, compared to their elders, have perceived smaller income differences. Statistically significant differences have been discovered also in the evaluations by respondents living in different regions of Latvia. Those living on the outskirts of Riga have indicated greater income differences than those residing in other regions, whereas Latgale residents would like to see income differences become substantially smaller. Gini index in the Latgale group is 0.30, whereas for Rigans this index is relatively higher at 0.35, indicating that, to a greater extent than the residents of other regions, they consider greater compensation disparities to be acceptable. These calculation results can be explained by the above-mentioned compensation differences in Latgale and Riga. Riga has a relatively higher living standard, better paid jobs and greater opportunities overall for finding and obtaining work. As Dallinger points out, people in such circumstances tend to believe that everyone has the opportunity to earn their living. They are less concerned about the inequality of income and they wish for the state to involve itself in market processes to a lesser extent (Dallinger, 2010). Opinions on how much different professions should earn differ also among respondents with different levels of education. Respondents with primary education or unfinished high-school education would like for the income differences to be smaller. Their desired inequality Gini index is 0.30. Respondents with an unfinished or finished higher education are more ready to accept greater income differences. Gini index in this group is 0.35.

In the 2009 surveys conducted as part of the ISSP study respondents answered questions regarding their opinion on income differences and whether government should reduce them. The majority of respondents indicated that income differences in their countries are too big. The opinions of the residents of Latvia are very similar to those held in Estonia and Poland. In Finland, on the other hand, many residents do not agree with the statement that income differences in Finland are too big (Box 1.16).

The answers are as unequivocal to the question whether it is the duty of the government to reduce the income differences. Most of the respondents think that these should be reduced. Here too the opinions of Latvian residents largely coincide with those of residents of Estonia and Poland (Box 1.17).

The Eurostat data on income inequality included in this Report indicate that in Latvia, Estonia, and Poland there is a great income disparity. In Finland, on the other hand, there are smaller income differences among different social groups. That could explain why many residents of Eastern Europe would like to reduce income differences.

The 2009 survey data from different countries also reveal that most respondents do not support cutting government expenditure for social needs. At least in this respect, the opinions of residents of Latvia are very similar to opinions of residents of other countries (Box 1.18).

The authors of this Report compared the data of the 2009 and 2013 surveys and found some changes in the evaluations by residents of Latvia. The proportion of respondents who believe that income differences are too great and the government should reduce them has not changed substantially, but the respondents show more confidence in their evaluations. The percentage of respondents who completely agree with the statement that income differences in Latvia are too great, is 71.4% in 2013, whereas in 2009 the percentage was 58.1%. Even though most of the society do not agree with the statement that the government should spend less on benefits for the poor, the percentage of those respondents who agree with this statement has increased. To a large extent, this change in opinion can be explained by the extensive debate in the mass media on various issues relating to social inequality over the last three or four years.

The residents of Latvia are convinced that income differences in their society are too large. Yet different social groups hold different opinions regarding the question whether government should interfere to reduce these differences. Young people in the age group 18–24 are less inclined to support the statement that government should reduce income differences. Statistically significant differences can also

Box
1.15

Perceived and desired income ratios in Estonia, Poland and Finland*, 2009

Ratio between the average wage for a doctor in general practice, a chairman of a large private national corporation, shop assistant and a Cabinet minister against the average compensation for an unskilled worker

Profession	Estonia		Poland		Finland	
	perceived	desired	perceived	desired	perceived	desired
Doctor in general practice	2.8	2.5	3.8	2.6	2.5	2.3
Chairman of a large private national corporation	9.5	5.0	18.6	6.5	11.2	5.1
Shop assistant	0.9	1.0	0.9	1.0	0.8	1.0
Unskilled worker in a factory	8.0	4.1	14.1	4.8	5.8	3.3

* Base: respondents in Estonia, n = 838; respondents in Poland, n = 771; respondents in Finland, n = 722.

Source: ISSP Social Inequality 2009 survey data (ISSP Research Group, 2012).

be identified in the answers of respondents living in different regions. The percentage of Rigans who believe that government should reduce the differences between income 78%, whereas in the group of respondents from Latgale the proportion is 89%. People with a low level of education (without secondary or professional education) are more likely to believe that the government is responsible for reducing income disparity. The percentage of such respondents in this group is 88.1%. In the group with unfinished or finished higher education, the number of those who would support such government actions is smaller, i.e., 79.9%.

The respondents' attitudes also diverge on whether the government should spend more or less on benefits for the poor. A substantial number of Rigans and Vidzeme residents believe that government should not spend money on such benefits, i.e. 21.2% and 30.3%, respectively. In Latgale, on the other hand, there is little support for cutting such expenditure: only 10.3%. Statistically significant differences can

be identified in the answers of Latvians and people of other ethnicities. Latvians are much more likely to support government cutting benefits for the poor: 24.1%. In the group of people of other ethnic backgrounds, the relevant percentage is only 15.9%.

These and other abovementioned survey results confirm Canadian researcher Habibov's thesis that there is much support in post-Soviet countries to government policies that are directed to reducing income inequality and its consequences (Habibov, 2013). The results of this study likewise indicate that men, young people, and those with better education and greater incomes show less support for government interference to redistribute income to favor the poor.

Income inequality often has certain side effects, poverty among them. The authors of this Report included questions in the 2013 survey on reasons for poverty and necessary government actions. These questions had already been used in the 2010 Eurobarometer survey and thus they allowed us to

Attitudes of residents of Latvia, Estonia, Poland, and Finland* to the statement that income differences are too large

Box
1.16

Answers to the question: «To what extent do you agree or disagree with the following statement:
«Differences in income are too large.»» (%)

	Agree completely	Agree	Do not agree or disagree	Do not agree	Disagree completely
Latvia	58.1	36.8	4.2	0.8	0.1
Estonia	64.9	27.7	3.6	2.7	1.1
Poland	53.0	35.0	6.8	4.2	1.0
Finland	29.8	39.5	16.5	12.4	1.8

* Base: respondents in Latvia, n = 1061; respondents in Estonia, n = 1004; respondents in Poland, n = 1251; respondents in Finland, n = 850.

Source: International Social Survey Program: Social Inequality IV (ISSP Research Group, 2012).

Attitudes of residents of Latvia, Estonia, Poland, and Finland* to the statement that it is the duty of the government to reduce income differences between people with high and low incomes

Box
1.17

Answers to the question: «To what extent do you agree or disagree with the following statement: «It is the responsibility of the government to reduce differences in income between people with high incomes and those with low incomes.»» (%)

	Agree completely	Agree	Do not agree or disagree	Disagree	Disagree completely
Latvia	45.1	40.8	9.9	3.8	0.4
Estonia	41.7	35.0	11.8	8.7	2.8
Poland	38.7	40.0	10.4	8.9	2.0
Finland	32.0	41.7	12.4	10.8	3.2

* Base: respondents in Latvia, n = 1047; respondents in Estonia, n = 991; respondents in Poland, n = 1232; respondents in Finland, n = 842.

Source: International Social Survey Programme: Social Inequality IV (ISSP Research Group, 2012).

obtain an international comparison and to identify changes in public opinion. In 2010, residents of Latvia, similar to Finns, believed that people are poor because of the great injustice that exists in the society. This opinion was shared by a substantial number of residents of Estonia and Poland (Box 1.20).

The results of this survey do not identify the real causes of poverty. Rather, they reveal the ideas and possibly even prejudices regarding the causes of poverty. Here it may be relevant to recall the study of Tóth and Keller who believe that in order to explain the society's attitude to income redistribution, we must first understand how people explain poverty (Tóth & Keller, 2011). If a substantial part of the population is of the opinion that the poor are lazy, it is unlikely that they will want the government to reduce income differences and help the poor. It may also be important to remember the thesis of British social geographer Danny Dorling that social inequality is a concept whose meaning changes depending on society's understanding of what is at the bottom of this inequality (Dorling, 2011).

The data of the 2013 survey indicate some changes in the society's views regarding causes of poverty (Box 1.21). The number of the respondents who have difficulty answering

this question has grown. In the 2010 Eurobarometer study, the proportion of such respondents was only 0.6%, whereas in 2013 it has increased to 7%. We must point out that the percentage of respondents who believe that people live in poverty because they are lazy and have no willpower has also grown – from 20% in 2010 to 27% in 2013. Despite these changes, a substantial part of the respondents still believe that poverty is a problem that the government should urgently solve. In 2013, 96.6% respondents would support such actions by the government.

Statistically significant differences can be identified in two cross-sections. Latvians are less likely to believe that people live in poverty because great injustice exists in the society. In this group, 33.8% expressed such an opinion. In the group of other ethnicities, 44.3% of the respondents support this opinion. More pronounced differences in opinions can be observed between people with a low level of education and those with higher education. 52.9% of the respondents without a high school or professional education think that the existing injustice is the cause of poverty. Respondents with an unfinished or finished higher education express such an opinion only in 27.5% cases.

The attitudes of residents of Latvia, Estonia, Poland and Finland* to the statement that government should spend less on benefits for the poor

Box
1.18

Answers to the question: «To what extent do you agree or disagree with the following statement:
«The government should spend less on benefits for the poor.»»

	Agree completely	Agree	Do not agree or disagree	Disagree	Disagree completely
Latvia	3.0	4.1	19.2	38.6	35.0
Estonia	1.6	4.5	12.9	32.1	48.9
Poland	6.1	11.9	15.0	42.7	24.3
Finland	1.9	6.0	17.2	42.5	32.4

* Base: respondents in Latvia, n = 1051; respondents in Estonia, n = 984; respondents in Poland, n = 1212; respondents in Finland, n = 841.

Source: International Social Survey Program: Social Inequality IV (ISSP Research Group, 2012).

The attitude of residents of Latvia to income differences and actions of government

Box
1.19

	Agree completely	Agree	Do not agree or disagree	Disagree	Disagree completely
Differences in income are too large	71.4	23.5	2.6	1.7	0.8
It is the responsibility of the government to reduce differences in income between people with high income and those with low income.	55.6	30	7.4	5.6	1.4
Government should spend less on benefits for the poor	6.1	14.4	17.7	39.4	22.3

Base: respondents, definite answers (excluding answers of those respondents who answered «do not know» to these questions), n = 1001.

Source: NI: Report on Human Development in Latvia (LU SZF, 2013).

Many residents of Latvia not only admit that the existing injustice is the reason for poverty, but have experienced it themselves when receiving their wages. In the survey questionnaire, the authors included the question whether respondents' wages are just used in the 2009 ISPP study. In 2009, 72.9% of the residents of Latvia surveyed believed that their salary is much smaller than would be just or that they are receiving slightly less than would be just. This opinion was shared by an approximately the same percentage of respondents in Poland, i.e. 73.6%. In Finland, injustice regarding their compensation is felt by fewer people, only 53.7% of respondents. In 2013 in Latvia, the percentage of those respondents (taking into account sample error) who believed that they are not being fairly compensated has not changed substantially, i.e. it is at 68%. Yet the number of those respondents who believe that their compensation is much smaller than would be fair has grown (Box 1.22).

Analysis of the replies of different groups of respondents indicates diverse opinions. Women are more likely than men to believe that they receive much less than would

be equitable, 49.6% and 36.3%, respectively. Similar pronounced differences are observed in the replies of respondents belonging to different age groups. Only 29.3% of young people up to the age of 24 think that they are receiving much less than they actually deserve. In the 55–64 age group, the percentage of such respondents reaches 53.7%. Latvians and people of other ethnicities seem to differ in their perceptions as to what degree their wage is just. The percentage of Latvian respondents who believe that they receive much too little is 35.4%. In the group of other ethnicities, a comparatively larger percentage feel that they are unfairly payed, i.e. 51.2%. Finally, we should point out that there are statistically significant differences among those with different levels of education. 52.3% of respondents without high school or professional education indicate that their wages are much smaller than would be just. The percentage of people with an unfinished or finished higher education who express such an opinion is much lower, at 33.9%.

The above data can be explained by the trends identified in statistical surveys. CSB data indicate that in 2010, the

Opinions of residents of Latvia, Estonia, Poland, and Finland* on reasons for poverty in 2010

Box
1.20

Answers to the question: «Why, in your opinion, there are people who live in poverty? Which of the following four views best matches your own?» (%)

	Latvia	Estonia	Poland	Finland
They have had bad luck	8.4	14.2	13.7	10.6
Because they are lazy and have no willpower	20.3	19.0	25.6	12.3
Great injustice exists in our society	53.3	37.5	44.0	58.0
It is a part of progress	13.1	24.9	13.5	16.8
None of the above	4.9	4.4	3.2	2.3

* Base: respondents in Latvia definite answers (excluding answers of those respondents who answered «do not know» to these questions), $n = 1003$; respondents in Estonia, definite answers, $n = 979$; respondents in Poland, definite answers $n = 970$; respondents in Finland, definite answers, $n = 995$.

Source: data of the 2010 August–September Eurobarometer study.

Opinions of residents of Latvia on the reasons for poverty in 2013 (%)

Box
1.21

Answers to the question: «Why, in your opinion, there are people who live in poverty?»

	Number	Percent
They have had bad luck	70	7.0
Because they are lazy and have no willpower	269	26.9
Great injustice exists in our society	382	38.2
It is a part of progress	126	12.6
None of the above	80	8.0
Hard to say	74	7.4

Base: all respondents, $n = 1001$.

Source: NI: Report on Human Development in Latvia (LU SZF, 2013).

average gross salary for a person with a bachelor's degree was LVL 591. Those who had received only elementary education had the average gross salary of LVL 296 (LR Central Statistical Bureau, 2010). People with a lower level of education usually have to reckon with a lower remuneration at work and lower income, which dropped rapidly during the economic crisis. Moreover, during the crisis, it was the lower paid segment of society whose tax burden increased substantially. It is not hard to imagine that in such circumstances many could perceive this as great injustice. Individuals with higher levels of education on the other hand usually have greater income. They tend to believe that everyone can earn their living with their work, ideas, and initiative.

The differences between the evaluations of men and women can be explained by income differences for the sexes. Just like in many other EU member states, women earn 15% less on average than men (EU Representation in Latvia, 2013). That does not mean that employers pay women and men differently for the same work but rather that many women work in lower paid professions (EU Representation in Latvia, 2013). For instance, CSB data for 2010 indicate that engineers make LVL 570 (gross) per month, programmers LVL 832, finish carpenters LVL 329, primary education and elementary school teachers LVL 414, secretaries LVL 359, salespeople – LVL 260 (LR Central Statistical Bureau, 2010). Engineers, programmers and construction workers tend to be men. The professions of secretary, teacher and salesperson are disproportionately the realm of women. Information of the Ministry of Welfare indicates that the average salary from which social insurance payments are made is LVL 383 for a woman and LVL 457 for a man. We must add that for women this salary is smaller in all age groups (Ministry of Welfare, 2013a). It is difficult to determine other causes for above-mentioned differences because no reliable data are available for income in various age and ethnic groups.

Conclusion

The objective structure of society in Latvia (the percentage of the employed against the non-working groups) is not conducive to social sustainability now or in the future. Therefore the labor market and social security policies have to be particularly well thought out. In Latvia, the inequality indicators are still high and the percentage of people at risk of poverty is large, therefore reduction of social inequality both in reducing differences in earnings and social security system regulation would help to restore faith in one's own and one's children's future in Latvia, promoting social sustainability.

Raising the level of minimum wage is necessary not only to its recipients but also for the sustainability of social security system. With the principle of harmony and participation unobserved in the social security coverage (a small percentage of recipients of benefits of those at risk) and problems in the realization of the participation principle (too many limitations in place for receiving support) can foster the purposeful stigma, particularly toward families with children and the unemployed. Redistribution principles, coverage and chances of participation do not favor families with a single parent, multiple children or the unemployed. Children are a group that often ends up among the poor, therefore double redistribution should be performed, supporting families with children not just by alleviating the tax burden but also by allocating greater benefits; if we want to see reduction of inequality also in the more distant future, we have to think about granting equal opportunities to children independently of the income level of their parents.

During the crisis, many people lost their jobs and livelihood. Many of those who retained their jobs had to reckon with a greater workload at lower pay. The consequences of the crisis were most severe for people with low income who received smaller salaries on which greater taxes were

Attitudes of residents of Latvia, Estonia, Poland, and Finland* regarding the fairness of the wages they receive

Box
1.22

Answers to the question: «Is your pay just? We are not asking how much you would like to earn but what you feel is just given your skills and effort. (If you are not working now, please tell about your last job.)» (%)

	Much less than would be fair	Slightly less than would be fair	Just about fair	Slightly larger than fair	Much larger than fair
Latvia – 2009	28.4	44.4	26.7	0.2	0.2
Latvia – 2013**	41.6	26.4	31.2	0.7	0.2
Estonia - 2009	21.5	38.6	36.9	2.6	0.4
Poland – 2009	30.7	42.9	23.1	2.7	0.5
Finland – 2009	13.1	40.6	42.0	3.7	0.6

*Base for the 2009 ISSP Social Inequality survey data: respondents in Latvia who have had work experience $n = 943$; respondents in Estonia who have had work experience $n = 949$; respondents in Poland who have had work experience $n = 1025$; respondents in Finland who have had work experience $n = 815$.

Base for the LU SZF 2013 survey data: respondents who have had work experience, $n = 914$.

Source: ISSP Social Inequality 2009 survey data (ISSP Research Group, 2012) and NI: Report on the Human Development in Latvia (LU SZF, 2013).

imposed. Even though the government tried to assuage the impact of the crisis by putting into action various active market policies and extending financial support to local governments for providing social assistance, some of the government decisions were misguided. Raising the taxes and cutting the benefits was most keenly felt by workers with low income whose percentage in Latvia is still disproportionately high. Paid employment still does not guarantee adequate income to many. Compared to other EU member states, many workers are at a substantial poverty risk.

It is not just the Gini coefficient that points to a large inequality of income – most residents believe that they live in a very unequal society with great inequalities because many people have to live in poverty. Within the past four years, the percentage of respondents who think that their salary is smaller than would be just has grown. The majority of the Latvian population thinks that the government should urgently solve the problem of poverty. It must be emphasized, however, that not all segments of society have the same attitude toward government interference and need for redistribution. Young people, Rigans, men and people with higher education are less worried about inequality and are likely to believe that everyone has an opportunity to earn enough with their work.

Currently, the government has initiated legislative amendments aimed at alleviating the tax burden on the employed and families with children, yet it is difficult to predict if that will have a substantial effect on employees with low income. Discussions are taking place only about 1-2 percentage point changes in the tax rates and comparatively greater tax breaks for breadwinners. It seems that winners from this could be families of working parents with children, but not young people and the older generation. These changes would have a lesser effect on people who are currently receiving and probably will continue to receive minimum wage. The net effect of changes in the tax rates will be negligible. This government initiative will definitely not have any effect on the economically inactive part of the society, i.e. people who have lost hope of finding a job or are no longer actively looking for one. The government initiatives will also have no effect on people who are employed without a work contract. Finally, we must also admit that the proposed changes in the tax laws in fact do not affect and cannot affect people who receive income from dividends and from selling capital shares and properties that are exempt from income tax and to which lower tax rates are usually applied. Therefore, the authors of this Report have their doubts if in the next few years income inequality will be substantially reduced in Latvia.

Box
1.23

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

A relatively stable social security system based on laws and normative acts is functioning in Latvia. During the crisis and in the post-crisis conditions, the government has taken some measures to prevent the situation for the unemployed and the working poor from becoming dramatically worse.

Most serious problems

A high inequality of income exists in Latvia, which is being reproduced both in the labor market and in the social security system. The disproportionate difference in compensation between the higher and lower earning employers is a big problem and so is poverty among the workers, because minimum wage recipients are forced to live below the threshold of poverty risk. The harmony principle between compensating one's contribution and taking care of one's needs is not being realized because the minimum amounts of pensions and benefits have either not been set or are so low that they act to increase the number of residents at risk of poverty. The sustainability of the social security system is threatened also by the ratio between taxpayers and recipients of benefits as well as the proportion between the average salary and average pension.

Most important tasks

One of the main tasks in Latvia would be to reduce the actions reproducing the inequality of social security system and direct them instead at compensating inequality, for instance, setting a ceiling (and not just limitations) and a base, i.e. minimums that would not increase the number of the social assistance clients of local governments. To reduce income inequality, the tax burden should be substantially reduced for recipients of low wages or the paragraph of the European Social charter on equitable pay for work has to be ratified. Commensurability of remuneration should be provided for at least in the sector where such regulation is possible: the enterprises and institutions managed by the state.



Challenges for the sustainability of Latvian pension system

2

Chapter

In his classic *The Three Worlds of Welfare Capitalism*, the author of welfare state models Gøsta Esping-Andersen has a very suggestive description of the place of the pension system in contemporary society: «If an analysis of pensions appears somewhat narrow and pedestrian, keep in mind two circumstances: first, pensions account for more than 10 percent of GDP in many contemporary nations; second, pensions constitute a central link between work and leisure, between earned income and redistribution, between individualism and solidarity, between the cash nexus and social rights. Pensions, therefore, help elucidate a set of perennially conflictual principles of capitalism» (Esping-Andersen, 1990).

Financial and economic crisis and great losses in the pension funds have left a fundamentally negative impact on the residents' trust in pension schemes in all countries. In Latvia too, low trust of the population in pension schemes is the case as is great insecurity about their future

and poor understanding of the principles by which the pension schemes function. In May 2013, SKDS conducted a survey within the framework of the «National Identity and Social Human Security» project and the number one answer to the question, «What worries you most in your personal life?» was still that «if I get sick, I won't be able to pay for treatment.» That was the answer of 75.1% or three quarters of Latvian residents. A group of respondents making up 65.5% or two thirds mentioned fear that they will not receive pension big enough for survival. In Latgale and Vidzeme, this indicator was even quite a bit above the country average – 76.1% and 73.6%, respectively (LU SZF SPPI, 2013).

International experts recognize that Latvia and Estonia have achieved a very high level of pension sustainability. For instance, Allianz Global Investors praise it highly not only compared to Central and Eastern Europe, but also against the background of OECD countries (*Pension Sustainability*

Index). But what is the price of high sustainability? In the international context, the pension levels in Latvia and Estonia are among the lowest, surpassing only Singapore (Box 2.1). The authors of this Report will discuss not only various ways of evaluating the pension system and its sustainability, but also give an in-depth analysis of the situation in Latvia: the impact of the crisis on the pension system, its equity and the risks inherent in the second (funded) pillar of the pension scheme.

Pension system evaluation criteria

Let us first take a look at what factors are considered by experts in evaluating the sustainability of the pension system. In the description of methodology there are mentioned such indicators as the old-age dependency ratio, national debt, expenditure for pensions, the retirement age set by law, replacement rate as well as the comparison of assets and liabilities generated by the system. The World Bank experts provide the following definition of sustainability of the pension system: «A sustainable [pension] system is one that is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions» (Holzmann, Hinz, & Dorfman, 2008).

Over time, the conceptual framework of assessment of the existing pension systems and the need for their reform was developing and upgrading. In 2005, a group of experts of the World Bank (WB) led by Robert Holzmann and Richard Hinz prepared a report titled «Old-Age Income Support in the 21st Century: An International Perspective on Pension

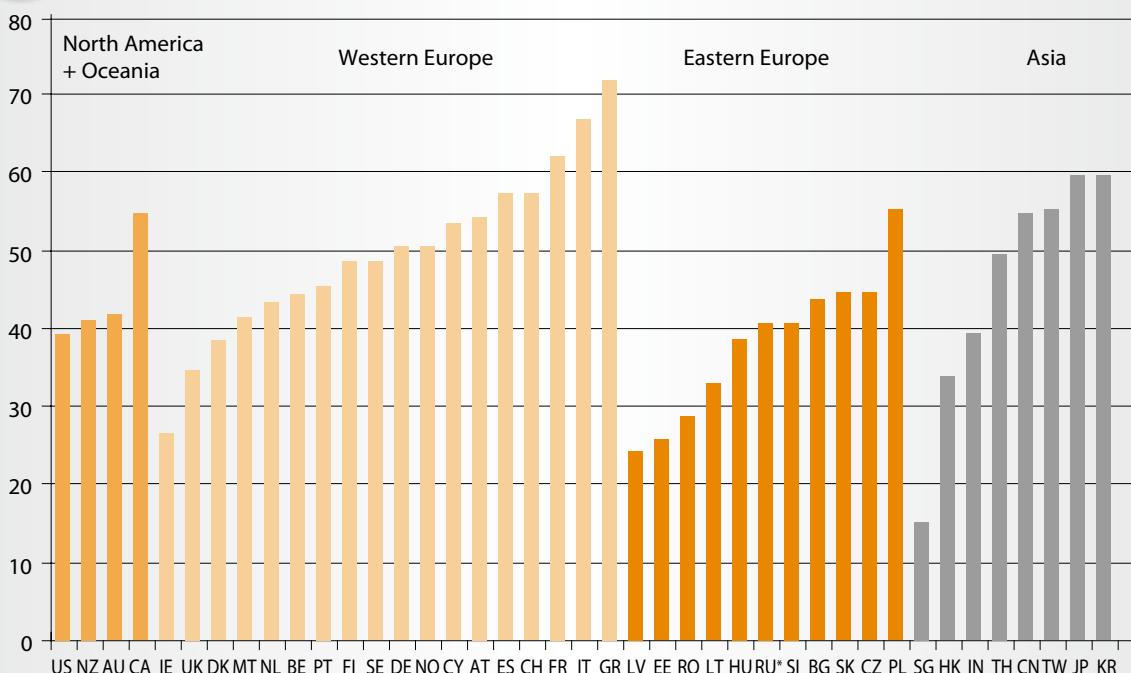
Systems and Reform.» The report represented a summary of the experience of the WB's participation in the reforms of pension systems and at the same time explained the position of the WB. In the first part of the Report, dedicated to the conceptual basis of the WB position, experts formulated four main goals of any pension system (at the same time, these are the main criteria for judging the system successfulness): the system must be adequate, affordable, [financially] sustainable, and robust.

According to the experts, an adequate system is one that provides benefits sufficient to prevent old-age poverty at a country-specific absolute level to the full breadth of population in addition to providing a reliable means to smooth lifetime consumption for the vast majority of the population. An affordable system is one that is within the financing capacity of individuals and the society and does not unduly displace other social or economic imperatives or have untenable fiscal consequences. A sustainable system is one that is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions. A robust system is one that has the capacity to withstand major shocks, including those coming from economic, demographic and political volatility (Holzmann & Hinz, 2005).

In 2008, Robert Holzmann and Richard Hinz together with Mark Dorfman prepared a discussion paper «Pension Systems and Reform Conceptual Framework». This time, two new fundamental criteria were added to the parameters for assessment of any pension system: namely, equity and predictability. Moreover, instead of being relegated to the bottom of the list, they were given priority before robustness.

Box
2.1

Public pension (gross) % of average income



Source: Allianz Global Investors AG (2011, 21).

They are defined as follows: «an *equitable* system is one that provides the income redistribution from the lifetime rich to the lifetime poor consistent with the societal preferences in a way that does not tax the rest of society external to the system and provides the same benefit for the same contribution; (v) a *predictable* benefit is provided by a system where the benefit formula is specified by law and not subject to discretion, the defined benefit formula is designed to insulate the individual from inflation and wage adjustments prior to retirement or the defined contribution investment policy can insulate the beneficiary from material effects on benefits from asset price adjustments prior to retirement; and the benefit is automatically indexed during retirement so as to shield the worker from effects of price adjustments» (Holzmann, Hinz, & Dorfman, 2008).

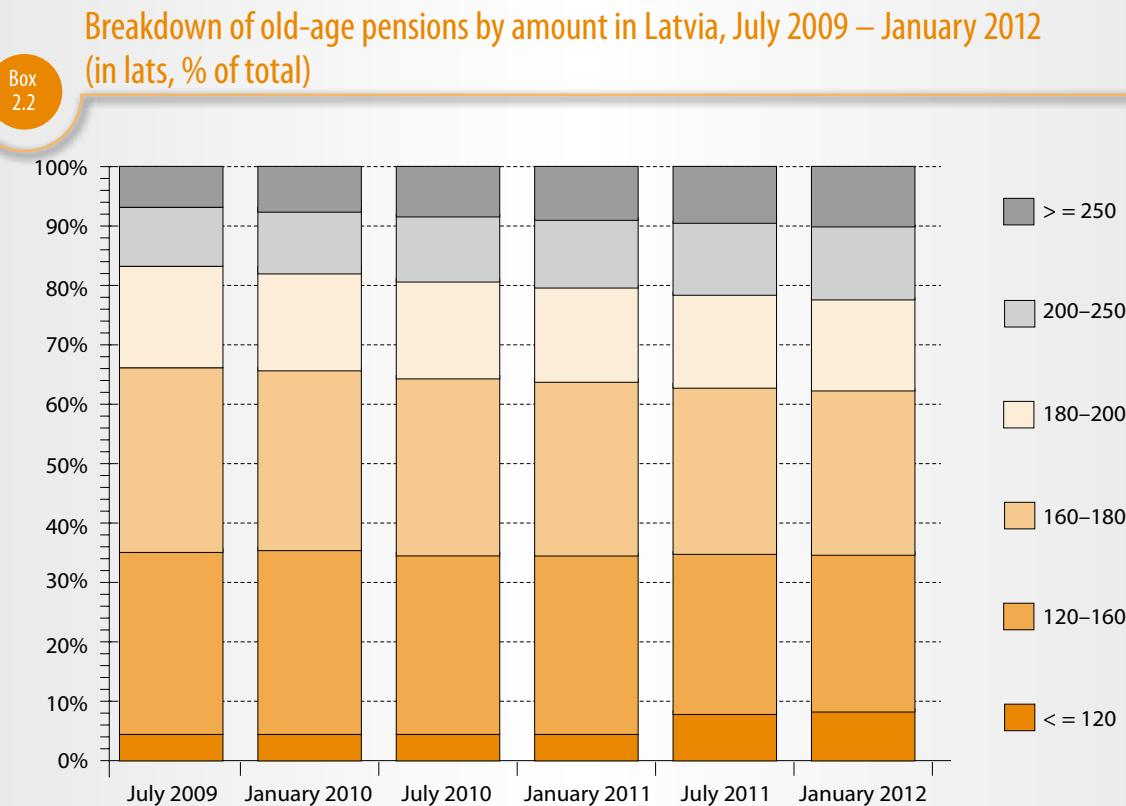
Sustainability, even fiscal sustainability, has more than one dimension, however. According to OECD definition, «fiscal sustainability implies four main characteristics: solvency, or governments' ability to finance existing and probable future liabilities / obligations; growth, or the capacity of government to sustain economic growth over an extended period; fairness, or government's ability to provide net financial benefits to future generations that are not less than the net benefits provided to current generations; and stable taxes, or the capacity of governments to finance future obligations without increasing the tax burden» (OECD, 2009). A similar multifaceted approach to pension sustainability is found also in EU documents: «Member States are committed to providing [...] the financial sustainability of public and

private pension schemes, bearing in mind pressures on public finances and the ageing of populations, and in the context of the three-pronged strategy for tackling the budgetary implications of ageing, notably by: supporting longer working lives and active ageing; by balancing contributions and benefits in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes [...]» (European Commission, 2010).

The basic idea behind the pension has been and remains the prevention of old-age poverty. During the crisis, it was particularly topical. In his 2012 article «Global Pension Systems and Their Reform: Worldwide Drivers, Trends, and Challenges,» Holzmann explains that reassessment of the understanding of the pension reform goals and review of the «conceptual framework» was caused (*inter alia*) by a refocus on basic income provision to the elderly (Holzmann, 2012). In many countries with defined-benefit pension systems reforms had taken place, replacing them with systems where the amount of the pension is much more tied to the amount of insurance contributions, and that narrowed down the possibilities of income redistribution to favor population groups with low income.

Evaluation of the Latvian pension system

In the design of the Latvian pension system, the narrow interpretation of sustainability is strongly evident: i.e. pure balance is maintained between assets and liabilities. The



Source: the illustration was made based on the data available on the SSIA webpage on May 15, 2012 (SSIA, 2013).

pension system lacks the aspect of equity. There are striking differences between the first pillar pension legislation in Latvia and Estonia. In the Estonian pensions, there is a flat basic component that does not depend on recipient's salary and length of service: the indexation regulation in Estonia provides for small pensions growing faster. The Latvian pension formula has no redistribution mechanism whatsoever: if one's salary is twice the average, his or her pension will also be twice as large; a ten times larger salary means a ten times larger pension without any ceiling. According to Latvian law, the indexation regulation does not depend on the size of pension. Nevertheless, the government reacted to a petition signed by 106 thousand pensioners by indexing only pensions in the amount of up to LVL 200 in 2013.

In the first pillar of the Latvian pension system, the so-called NDC scheme (notional defined contribution) is used instead of the traditional defined-benefit redistribution scheme. Essentially NDC is an imitation of funded defined contribution (FDC) principle. The social insurance contributions are supposedly transferred to individual virtual individual accounts (actually, they are paid out to the current pensioners) and that capital supposedly generates interest. When an insured person reaches retirement age, his/her accumulated notional capital is converted into an annuity, i.e. divided by the foreseeable period of the pay-out phase determined by the Cabinet of Ministers. The NDC scheme was elaborated by Swedish experts in the 1990s and Latvia was the first country in the world to implement this system. Currently, it is used in seven countries only: Latvia, Poland, Sweden, Italy, Kyrgyzstan, Russia, and Mongolia. In Sweden and Italy it actually functions parallel to the previous schemes: young workers are accumulating their notional pension capital according to the new scheme but the pensions of current pensioners and older generation workers who are retiring nowadays are still calculated according to the old formulae. Russia is planning to soon abandon the NDC scheme and adopt the point system. Point systems are used also in our neighboring countries, Estonia and Lithuania. They differ in detail, but are based on the same logic: during one's working life, one accumulates points instead of capital. The number of points depends on how much the wage of the particular worker differs from the average: the larger the wage, the more points. When the time to retire comes, the accumulated points are converted into money according to the rate current at the moment of retiring, and this money is added to the basic pension, which does not depend on the wage. In Estonia this basic part of the pension is the same across the board; in Lithuania, it depends on the length of service – the greater the latter, the greater the former. The Latvian legislators have shifted the burden of granting the basic minimum income to pensioners from the national pension system to the budgets of local governments whose capabilities differ in different regions and towns of Latvia. With the pension amount tied to the actual contributions, the employee is not protected against the arbitrariness of the employer. State institutions have thus transformed their inability to achieve honest paying of taxes into social vulnerability of the employee. The advantage, however, can be found in motivating the employees to pay more attention as to whether their employers have duly paid all the social contributions.

Latvia's pension system is a striking illustration to the imperfections of the NDC scheme. It contains practically no mechanism for redistributing income from highly paid employees to the less well-to-do. The Latvian formula does not guarantee that the pensioner's income will correspond to reality: minimum pension (LVL 49.50) is linked to the state social security benefit whose amount has not changed since 2006 and does not reach even 30% of the subsistence minimum calculated by the LR Central Statistical Bureau. There is also no regulation for indexing the minimum pension. Latvia is in the black list of those European countries that have not ratified the Social Security Convention of 1952 (No. 102) of the International Labor Organization (ILO), which stipulates the lowest level of the old-age pension at 40% of the wages of a skilled worker (or 50% of the average wage of all covered by state social insurance system) (International Labor Organization, 1952). In March 2013, the minimum pension in Latvia was at 10% of the gross average salary: i.e. the gross average salary of the employed in March 2013 was LVL 493, but minimum pension LVL 49.5 (LR Central Statistical Bureau, 2013a).

On this black list, Latvia and its neighbors Lithuania and Estonia, are accompanied only by Hungary and Malta. Our Nordic neighbors Finland, Sweden, and Norway (as well as Germany, Austria, Switzerland, the Netherlands, Czech Republic, Slovakia, and Cyprus) have ratified an even stronger ILO Convention No. 128, adopted in 1967, «Invalidity, Old-Age and Survivors' Benefits Convention», which stipulates the minimum level of the old-age pension at 45% of the salary of a skilled worker (or at 56.25% of the average salary of all insured by state social insurance scheme) (International Labor Organization, 1967). Polish experts point out that linking the pension amount to the insurance contributions paid brings along smaller pensions for women who, in contrast to men, have lower average salaries; and women's situation is further complicated by traditionally shorter length of service (career breaks for childbirth and childcare, earlier retirement age) (Chlon-Dominczak & Strzelecki, 2013, 326-350). The strict proportionality between the paid social contributions and the pension amount leads to conservation of income inequality acquired during the working life without any mitigation. During the crisis, the stratification of Latvian pensioners by their material well-being only deepened (Box 2.2).

In January 2012, only 10% of pensioners received more than 250 lats per month; 5% more than 300 lats, and a mere 1% more than 550 lats. Almost one third of the pensioners received less than 160 lats per month. With the average level remaining practically constant, the percentage of the poorest and the percentage of the richest are growing. Men's pension level is notably higher, but among them, the degree of material stratification is also higher.

In the June 2013 survey (LU SZF, 2013), residents considered a pension in the LVL 400-500 range to be «adequate». For 44% of the respondents, a smaller pension would suffice, but 37% would require a benefit above LVL 500. There were pronounced differences in the opinions of different groups: women are more modest in their requirements than men. Residents of Latgale and Zemgale are ready to live with a pension whose amount is less than the country average, whereas the demands of Rigans are substantially above the

average. There are no differences between the answers of Latvians, Russians, and other ethничal groups. The requirements of persons with higher education (including those with an unfinished higher education) regarding pension amount exceed LVL 500, but the demands of people with high school or basic education fall below this rate. The survey indicates that the population does not understand the methodology used for calculating pensions and are unaware of how much they would have to make in order for the desired pension amount to become reality. This is obvious from a simple calculation, which is also called the expected substitution rate. The methodology is as follows: take the number from each respondent's answer to the question, «How big should your pension be to suffice for living?» and divide it with the number given as the same respondent's answer to the question, «How big should your salary be in order for you to get a pension sufficient for living?». Then the average is calculated. According to this methodology, most of the respondents suppose that their pension will be equal to 60-65% of their salary, i.e. they believe that in order to receive a pension in the amount of LVL 400, a monthly salary of LVL 650 would be enough. Such a view is unsound, because the Latvian pension formula generates a much lower replacement rate. Moreover, the actual income of the respondents constitute, on average, less than one third of the salary, which, in their opinion, could ensure an adequate pension.

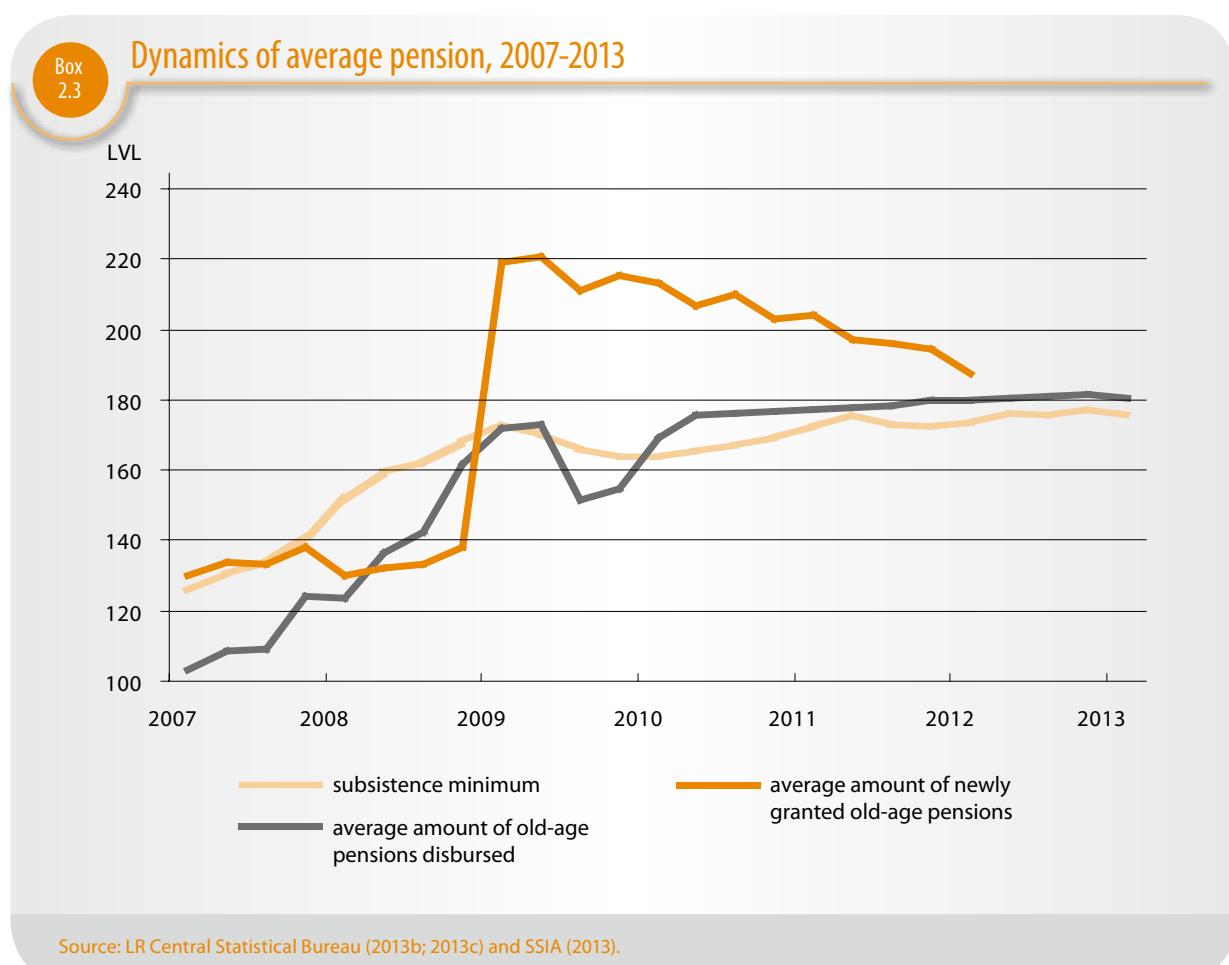
Persons with consistently high income during his or her working life have more means to ensure sufficient income

in their old age: they have more disposable income to invest in the third pillar private pension funds, life insurance, real estate (which can be sold if necessary), securities, gold, art objects, collectors' items etc.; they are able to provide better education to their children and grandchildren and therefore have more reasons to count on material help from their offsprings in old age. State pension is not the only means of subsistence in old age for this group of residents. Yet those who all their lives have worked in low-paying jobs usually live paycheck to paycheck; they do not have disposable income to invest in the voluntary pension funds, real estate purchases etc., and in old age they are much more dependent on state pensions.

Short-term and long-term effects of the crisis on pension amount

The financial and economic crisis put pension systems to test around the world. It was more than a test of just the social and national budgets. It is interesting to look at this issue from another angle: what the crisis years have cost and continue to cost not just to the pension system but to particular population groups, the participants of the very system. We can distinguish three such groups:

- 1) those retired before the beginning of crisis;
- 2) those went on pension during the crisis years;
- 3) persons of working age with retirement still ahead.



First group

Before the crisis, during the so-called «years of plenty», both prices and salaries rose, while the purchasing power of pensions dropped accordingly. In the first half of 2008, in preparation for the pension referendum, a number of amendments to the pension law were adopted. They improved the situation: the indexation rules became more generous; supplements for each year of service before the reform (LVL 0.70) were now applied to everyone. In 2008, the pensions were indexed twice: the small ones (up to LVL 150) were increased by 10.68% in April and by 17.31% in October, and pensions in the LVL 150 – LVL 225 range were raised in October by 15.74%. The average pension grew rapidly as a result, in the second quarter of 2009 surpassing the subsistence minimum for the first time since the restoration of independence (Box 2.3). At that very moment, the government decided to cut all pensions by 10% and the pensions of the employed by 70%. The Constitutional Court, however, rescinded this decision and the unpaid part of the pension was quickly disbursed before the parliamentary election of 2010. Between 2009 and 2012, no pension indexation took place. The average salary returned to its pre-crisis level only in 2012, so pensions could not rise even if indexation had not been halted.

A number of changes were made in pension policy, which in other countries are most difficult to change: in 2012, the parliament adopted legislation to gradually raise the retirement age from 62 to 65, starting 2014 (LR Saeima, 2012). The social insurance contributions were redistributed between the first and second pillars (from the ratio 10+10 to 14+6 (to be reached in 2016)). In 2013, the ratio is 16+4 (LR Saeima, 2010). In case of early retirement, the amount of the pension has been reduced from 80% to 50% from the granted amount (LR Saeima, 2009). As of January 1, 2012, supplements for years of service to the old-age and disability pensions that were abolished for all newly-awarded pensions, which had a substantial impact on the recipients of small pensions (LR Saeima, 2012). Only those can receive pensions whose employers have been making social contributions: as of 2011, both notional (first pillar) and monetary (second pillar) pension capital is increasing only on the base of actually paid social insurance contributions (Rajevska, 2013).

Second group

How are the people who retired during the crisis years doing? Here the trend «the later, the worse» becomes obvious. Those who retired in the first half of 2009 did best: despite the crisis, the law on supplementary payments for each pre-reform year came into effect. In Box 2.3, we can follow how the amount of newly granted pensions drops starting the third quarter of 2009 (in May 2012, SSIA changed the methodology of calculating this indicator and that is why the curve ends with the first quarter of 2012).

The valorization coefficient included in the Latvian pension formula increased rapidly during the pre-crisis years, overtaking inflation to a substantial extent, but during the crisis it dropped drastically. As a result, with the social

insurance contributions constant, the pensioners of 2009 received a pension that was 25% larger than those who retired in 2012, not to mention the supplements for the pre-reform length of service.

Third group

Yet most seriously the crisis impacted the future pension benefits of those employees who will retire in 15-20 years. That relates to the abovementioned legislative norms as well as to the effectiveness of the second pillar, which can be evaluated only starting July 2013 when those born in 1951 (who had the right to participate in the second pillar) started to retire.

The monetary value of the notional pension capital is also affected by emigration, which started even before the crisis. During the first five years of joining the EU, 6.7% of the economically active population left only for the United Kingdom and Ireland (Hazans & Philips, 2009, 261). Altogether, Latvia lost more than 200,000 residents (Hazans, 2011, 91). It is most disconcerting that the majority of the émigrés are young people between the ages of 20 and 40. Their leaving exacerbates the demographic burden. The formula for the first pillar benefits includes the so-called valorization coefficient, which is calculated as the annual increase (or decrease) in nationwide wage-bill. This coefficient is used annually to multiply social insurance contributions of each employee accrued in the individual virtual pension accounts (LR Saeima, 2005). When the nationwide wage-bill drops, the «yield» is lower than 1, the capital is not growing but actually melting for all the prospective Latvian pensioners. In the crisis years, the decrease in the nationwide wage-bill was affected by several factors, wage-cuts, emigration, and unemployment. At the beginning of 2013, the salaries exceeded the pre-crisis level, unemployment dropped and, for the first time in the last four years, it gave a positive indexation rate in the first pillar. Yet emigration exceeded the demographic predictions that were already dire. In the next 10-20 years, if emigration policy does not change radically, both the absolute and relative number of the population of working age will inevitably diminish. It means that annual valorization coefficients will likely be lower than inflation and pension capital in the virtual accounts will in fact lose its value.

From the point of view of potential pension recipients, the trend for the pension capital index to drop below 1 (to compare: in 2008 – 1.3106, in 2009 – 0.9622, in 2010 – 0.7978, in 2011 – 0.9945) is negative: it notably reduced the amount of accrued pension capital for the new pensioners in 2009-2012.

The pension formula itself includes automatic balancing: as soon as the economic and/or demographic situation worsens, the newly granted pensions react by dropping. That is why the Latvian government did not even have to make any amendments to the essence of the pension system. The policy of tightening the screws generated the greatest protests among the current pensioners, but they have suffered least from it. It is the future pensioners that will have to deal with the brunt of the crisis.

Functioning of the second pension pillar in Latvia and associated risks

In Latvia, state funded pensions were introduced on July 1, 2001. The essence of state funded pension pillar is the principle «money makes money», i.e. successful, well-considered investments may result in a substantially enlarged pension capital (Voļskis, 2011, 33-38; Ramaswamy, 2012, 2). Such a pension scheme has several advantages: it encourages people not to hide their income and make the mandatory social insurance payments because the amount of pension in old age is traditionally determined in accordance with the amount of the payments made (principle of defined investment); it reduces the state's responsibility for the amount of pension in old age, reducing the pressure on social budget in societies with negative demographic indicators; and, in the presence of wise and well-considered pension capital investment policies, it is possible to accumulate a substantially larger pension capital (Voļskis, 2011, 45-46; Piñera, 1995).

We will be able to thoroughly assess the effectiveness of this pension pillar only after some years have passed. Certain tendencies can be identified already now, however. Operational information aggregated by May 31, 2013 indicates that the total number of participants in the state funded pension scheme is 1,204,428, and the total value of net assets of the pension plans has reached about 1.1 billion lats. Since as of August 2007, the state is no longer involved in the management of state funded pension funds, this entire sum is controlled by private investment management companies. Every participant in the scheme can choose any of the 24 pension

plans with active, balanced or conservative investment strategy offered by eight investment management companies (Latvian Central Depository, 2013a). Likewise, any participant in the pension scheme has the right once a year to change the manager of his or her funded pension capital, as well as twice a year change the pension plan within his or her investment management company (LR Saeima, 2000).

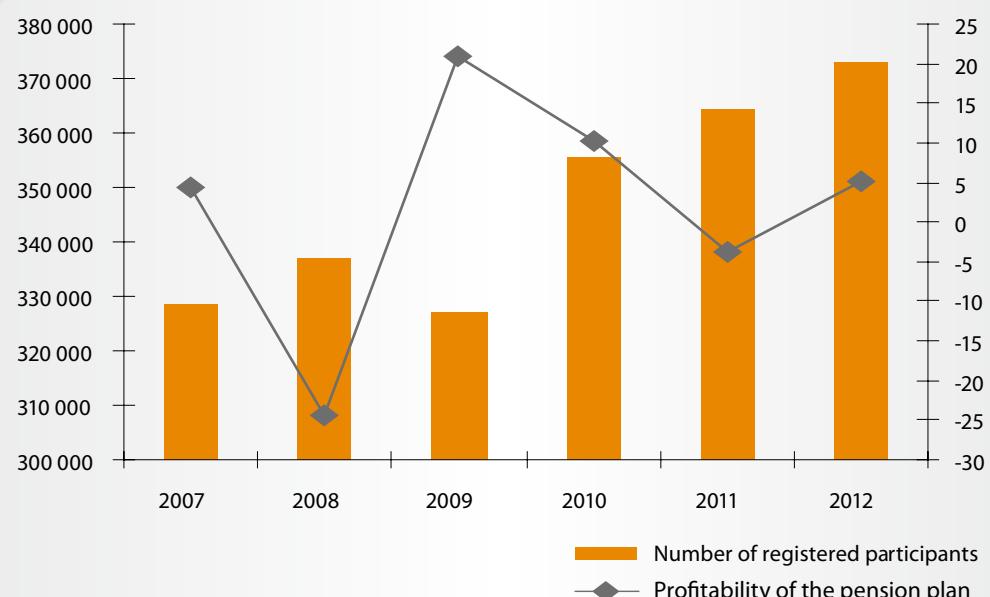
Risk factors that can have a substantial impact on the sustainability of the state funded pension system can be divided into four categories:

- 1) management risks dependent on the actions of the individual in the state funded pension scheme;
- 2) risks related to disreputable or risky management of pension funds in the investment management companies;
- 3) risks related to state policies;
- 4) global turbulences.

Let us begin with considering risks that depend on the actions of an individual. Successful functioning of the state funded pension scheme is possible only if the public is well educated in financial matters and are intelligent participants in the pension system. The population has to understand the pension system well and be able to have a grasp on financial issues (Barr, 2000, 5-6; Lusardi & Mitchell 2006, 1). In Latvia, the participants of the state funded pension scheme are not guaranteed a particular amount of income. That means that as of the very moment when the participant comes in contact with the state funded pillar, he or she must be able to make well considered and weighted decisions. Residents have to understand the difference among the various

Changes in the number of participants and profitability of the plan in Swedbank's active pension plan «Dinamika»

Box
2.4



Source: Data available at www.manapensija.lv on the profitability of pension plans in different periods (Latvian Central Depository, 2013b).

investment policies and in what economic circumstances (recession, growth) and age one should give preference, for example, to the conservative pension plans. The participants should follow the profitability of their pension plan and be informed about their rights and opportunities, so that, given the vast choice of offers, they do not get confused, lose interest, and be able to make informed decisions.

In 2008, when the global economic crisis reached its culmination, the funded pension schemes throughout the world suffered substantial losses and left a negative impact on the accrued pension capital. Latvia was no exception. At the time when the value of shares dropped substantially, bringing great losses to the active pension plans, the share of the population that chose to invest their funds with plans with active investment strategies continued to grow, despite the fact that the conservative pension plans, with a few exceptions, managed to retain a positive profitability indicator. It is even more worrisome that at the time, the greatest number of funded pension scheme participants was registered with the active pension plan «Dinamika» offered by Swedbank, which, by the end of the year had generated loss of almost 25% (Box 2.4). Loss of that proportion gave rise not only about the possibility for Latvian residents to make use of the positive stimuli worked into the funded pension scheme, but also damaged trust to the pension system as such (Stāvausis, 2013).

The issue of the financial education level of the population gained urgency: were they financially literate enough to navigate the broad spectrum of financial services and take well-weighed decisions when choosing or using any of these services? In 2010, the WB study «Diagnostic Report of Consumer Protection and Financial Potential» was presented in Latvia, concluding that inadequate financial education is one of the problem issues and recommending that it be expanded, especially for school-age children (World Bank, 2010). Subsequent research confirmed that people have a poor grasp on financial services. It was concluded that residents do not choose an investment management company by its performance indicators but place their trust with the company whose services they use in their everyday life. Research showed that most did not know who manages their pension capital, were not following the changes in accrual in the state funded pension pillar or showing interest in the profitability of investment plans (Banka Citadele, 2012; Swedbank, 2012). A June 2013 population survey (LU SZF, 2013) confirms that the service available at the state and local government website www.latvija.lv, which provides one with the opportunity to examine the situation with their pillar 2 account balance, had not been used even once by 63.6%, and is regularly used by only 13.4% of the residents who are informed about this service. Worrisome is also the fact that of those who have never used the relevant service of www.latvija.lv 85.5% respondents have indicated that they had no need of such information. No substantial differences by gender or ethnicity have been observed. Statistically significant differences appear in the breakdown by personal income, employment status, education, and the number of the children in the family, as well as residence. We will take a closer look at differences related to education and income as well as place of residence. A larger number of users of regular services have

higher or unfinished higher education, i.e. 16.6%, but 54.8% of this group of respondents had not used it. In the group of respondents with basic or secondary education, only 12.9% use this service regularly, whereas 68.2% have never used it. Only 9.6% of the population whose monthly income does not exceed 100 lats use the www.latvija.lv service with any regularity, and 71.1% had never used it. Of those residents who receive 400 lats per month and more, 19.1% had used this service regularly, but 53% had never done so. Considering the population breakdown by the type of place of residence, it becomes obvious that the possibilities offered by the website are most actively used by Rigans of whom 16.3% do so regularly, whereas 54.1% have never done it. Respondents in other towns, villages and the countryside had used their opportunity to regularly follow the situation in their pillar 2 accrual more rarely, 11.7% and 11.6%, respectively, but 67.7% of town residents and 69% of country dwellers had never used the service.

Although the number of service users is unacceptably low in all groups of the population, the reason for worry is the fact that respondents at a greater risk of poverty (those with a low level of education and low income) are the least active in using the opportunity to follow the situation with their pillar 2 accruals. That is an indication that the availability and advantages of this service should be popularized more intensively and explanations should be provided for the population to become aware how important active participation in forming pension accruals is. It is important to follow the developments in one's pillar 2 pension account and the performance indicators of its manager, because it may help one choose the pension manager more successfully and perhaps receive a bigger pension.

The state funded pension scheme has been operational in Latvia for already twelve years, but investment management companies have only relatively recently become involved in promoting public financial education. One of the first banks that began educating the population in financial matters was Swedbank, which opened its «Serious Pension School» in February 2012 (Swedbank, 2012). Soon thereafter a Nordea Bank initiative followed opening a «Money School» where anyone can find out their financial IQ as well as receive valuable recommendations in regard to financial services. DnB and Citadele have also turned to raising the financial acumen of the population. On May 31, 2013, the Association of Commercial Banks of Latvia submitted a proposal to the Ministry of Education and Science to include in the Guidelines for Education Development for 2014-2020 a recommendation to devote more attention to reinforce students' skills in finance and economics as well as provide further education to teachers. It is not clear, however, how honestly and openly investment management companies inform clients of the real situation in their pension plans and if they provide information as to where one can follow the profitability dynamic of their pension plans (LKA, 2013).

No action policies have been developed that would stimulate investment management companies to make profit. In cases where pension plans post negative profit, they continue to calculate and collect fees for administering the funds (Vojskis, 2012). The experience of Poland and Slovakia could serve as an example: there, a part of pension fund

administration costs is calculated based on the profitability of pension funds while retaining also a relatively small fixed fee for the administration of funds (OECD, 2011).

The long-term effectiveness of the state funded pension scheme can be affected by the distribution of contributions in pension pillars 1 and 2. When too little of the funds is invested in the state funded pension scheme, the amount of replacement income accrued may not be sufficient. Another risk factor is diverting too much of the funds to pillar 2 if the public is not well enough educated in financial matters. It has been calculated that in Latvia's case, continuing to divert 20% of social insurance contributions for pension accruals, the optimal distribution between pillars 1 and 2 would be 14% and 6%. It would ensure a sufficient amount of money in the state funded pension scheme for the accrual of an adequate amount of replacement income, if successful investment policies are implemented. Yet the amount of contributions would not be so significant as to create losses for the pension system in case of financial turbulence that the pension system could not absorb in the longer term (Voljskis, 2011, 42).

Since 2007, the management of funds in the state funded pension scheme has been fully in the hands of the private sector. From a practical participant, the state has thus become the chief overseer of the system. This state function is performed by the Financial and Capital Market Commission (FCMC), which has the right to do check-ups and give instructions for the improvement of the situation. According to the law on the state funded pensions, the manager of the funds must act solely in the interests of the participants of the investment plan, exercising due caution in order to reduce potential risks and to ensure such investment policies that are aimed at increasing the funds in the funded pension scheme. The law clearly defines those financial instruments in which funds can be invested and sets out restrictions: sum total of investment in the securities or money market instruments of a single country or a single international financial institution may not exceed 35 percent of the funds in the scheme (investment in the securities emitted by the Latvian state is an exception) (LR Saeima, 2000). FCMC cannot influence, however, how the funds of the various pension plans at the disposal of the investment management companies are to be placed.

According to the senior oversight expert Inga Spūle of the Pension and Investment Fund Section of the FCMC's Oversight Department, in 2008, FCMC recommended reviewing investment policies diversifying investments and reducing the amount of investment in high risk capital. She confirms that the investment management companies have complied with FCMC's suggestion. Despite the financial drop that was observed in 2011, the amount of loss did not reach the 2008 level in any of the pension plans (Stāvausis, 2012).

After the painful drop in the fund market, the hitherto prevalent trend toward privatization of state pensions and fostering the funded level at the expense of supportive schemes was seriously reviewed on the global scale. In its World Social Security Report for 2010-2011, The International Labor Organization (ILO) remarked that the shock to which, as a result of the financial crisis, the pension funds have been subjected gives rise to the question about the acceptable degree of risk, to which natural persons, the workers

themselves, are subjected in the private pension schemes (i.e. those managed not by the state, but by private funds): «[...] corrections are needed. The degree of vulnerability of future pension levels to the performance of capital markets and other economic fluctuations, introduced in so many pension systems during the last three decades, was clearly a mistake that stands to be corrected» (International Labor Organization, 2010, 117). The WB, which used to actively support an across-the-board changeover to the funded model, has also become much more cautious in its recommendations (Holzmann, 2012).

It is therefore only natural that the issue of possibilities of reducing the risks included in the state funded pension scheme should become a part of the agenda of policy makers and researchers. Often, the correlation between the degree of risk and profits is ignored, i.e. investing in higher risk financial products, e.g., shares, there is both a higher risk of loss and a possibility for greater profits if investment has been successful. Any decision that reduces the degree of risk in the funded pension scheme in the long term will have an impact on the average profitability indicator of pension funds (Oxera Consulting Ltd, 2008, 8). Reducing the risk of loss in the pension plans means reducing residents' interest in working on their long-term prosperity level. Since the state funded pensions are aimed at encouraging individuals to take more responsibility for their well-being in old age, any measures on the part of the state to reduce risks also reduce residents' motivation to actively participate in the scheme (Oxera Consulting Ltd, 2008, 34). This seems a good place to return to the question of what the state expects of the funded pension scheme and its participants.

One of the solutions whereby to reduce the risk to those residents who do not know how or do not want to actively participate in the accrual of the pension capital would be to develop a standard investment plan wherein all the funded pension scheme participants would be included automatically. On his or her own initiative, each participant can leave the standard pension plan, choosing an investment policy better suited to their wishes and contributions. Such a system is successfully functioning in Sweden (Oxera Consulting Ltd, 2008, 9, 55). In Latvia, such a standard pension plan with balanced risks could be offered by the State Treasury as was the case when the state funded pension scheme was introduced. At the same time, a possibility of changing one's investment plan by choosing one of the private investment management companies would be readily granted. Here, the greatest challenge would be developing a pension plan that would satisfy the interests of all participants.

In Latvia, no possibility for risk diversification, which would involve distributing the funds allotted to the state funded pension scheme among several investment management companies and/or investment plans, has been provided for. Residents of Sweden, on the other hand, can place their funds with up to five investment management companies (Oxera Consulting Ltd, 2008, 55). Diversification of risk would help in avoiding situations where one pension plan brings large loss, thus having a significant impact on the entire individual accrual.

The risks related to global financial turbulence are hardest to predict and manage. Given that less than 50% of state

funded pension funds are invested in Latvia (49.1% in the first quarter of 2013), financial turbulence can have a substantially negative effect on the overall indicators of pension fund performance. Fluctuations in the financial market are most keenly felt in the share markets. The active pension plans where up to 50% of the funds are invested in various shares may bring a greater economic return, but they are more subject to financial fluctuations and thus can also bring substantial losses (in 2008, they reached up to 25%). In Latvia, most of the state funded pension scheme participants, 742,379 or more than 61%, have invested their pension capital in the active pension plans (Latvian Central Depository, 2013a). The reaction of Latvian residents to financial turbulence is reactive instead of proactive. That means that people would switch to pension plans with conservative policies only if the active plans brought losses for a long period of time. The situation in 2008 is a case in point: the number of participants in the active pension plan «Dinamika» offered by Swedbank continued to grow until the end of the year, even though the losses had already reached almost 25%. In 2009, when this very pension plan posted the largest income, the number of participants started to go down. It is again necessary to revisit the question of how actively the residents are following the formation of their pension accruals (Stāvausis, 2013).

Conclusion

The approach taken in Latvian pension legislation can be considered a solution to financial sustainability in the narrow sense. However, a system cannot be sustainable if people do not believe in it. In Latvia, a low level of trust in the pension schemes is clearly evident, as is great uncertainty about the future and poor understanding about the principles behind pension schemes. This uncertainty was augmented by the transition from the declared social insurance contribution to actual contribution as of January 1, 2012.

Overall, the Latvian pension system survived the challenges of the crisis because its fundamental principles and main pension formula were never doubted. Changes applied only to some, albeit sensitive parameters (e.g., raising of retirement age). In the Latvian pension scheme, all of the risks of contemporary globalized economy to the maximum extent have been transferred to the taxpayers. The robustness and stability of the system is based on minimized responsibility of the government toward the population. The Latvian public's awareness of this is still very poor and the education of every individual and his or her enlightened participation in the formation of their social security system is the only way to a knowledge-based welfare state.

The system has no in-built mechanism for mitigating the differences between the more well-to-do and poorer

residents. The NDC system, which exists also in Latvia, has hardly any redistribution mechanism (Barr, 2006) and that is why it is not suited for countries with a relatively large gap between the prosperous and the poor, material stratification is not smoothed out in old age and, in combination with the low replacement rate, it leads to mass poverty. Close to 60% of Latvian pensioners receive less than the subsistence minimum calculated by the CSB, whereas 0.5% of pensioners receive over LVL 1000 per month. In March 2013, the minimum pension in Latvia was 10% of gross average salary, whereas in almost all EU countries, the lowest level of old-age pension is at 40% of a skilled worker's salary (or 50% of the average salary or all those insured by the social insurance system). In Latvia, income inequality is preserved also in the pension system, without taking into account that people with stable high income during their working lives have more instruments to ensure an income in their old age. Persons that have spent their entire working lives in low-paying jobs do not have disposable funds to invest in the voluntary pension funds, purchases of real estate etc. and in their old age, they depend much more on the state pension. The issue of the adequacy of minimum pension has not been put on the political agenda. Legislators in Latvia have put the burden of providing minimum base income to pensioners from the state pension system to the local government budgets whose possibilities differ radically in different Latvian regions and towns.

The state funded pension scheme is fundamentally aimed at the opportunity for the population to accrue an adequate level of replacement income for their old age. Its effective use to the greatest extent depends on the individual decision, choosing or changing pension manager or investment policy (on the condition, that there is an effective control system overseeing the investment management companies and there are no large scale turbulences of the financial world). The financial skills of Latvian residents are low. Their compromised ability to use the instruments of the state funded pension scheme successfully can be considered a substantial reason for the uncertainty regarding long-term stability of the pension scheme. That can mean that despite adequate contributions to pillar 2 pensions, the actual pension amount in old age may not be as large as predicted. The first long term results will become evident only in 10-15 years, with the retirement of the generation that has participated in the state funded pension scheme for 20 years. In case the accruals in the state funded pension scheme are not adequate, faith in the social insurance system as such may fall dramatically. Fundamental risk factors are present also in the performance of the state and investment management companies. The issue regarding management liability in cases where pension plans have been functioning at a loss for long periods of time has not been resolved.

Box
2.5

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

A modern three-pillar pension system has been established in Latvia, dividing the burden of social liabilities among several participants. The approach that is being taken by Latvian legislation ensures the stability and financial sustainability of the pension system in its narrow sense.

Most serious problems

Confidence in the pension schemes is low and there is uncertainty regarding their future as well as poor understanding of the principles underlying the functioning of pension schemes.

In the existing pension scheme, all the risks of the contemporary globalized economy have been maximally transferred onto the taxpayers, minimizing the responsibilities of the state and pension fund managers. The system lacks a redistribution mechanism, it promotes polarization among the pensioners and, in combination with the low rate of replacement, leads to mass poverty in old age. In March 2013, minimum pension in Latvia was at 10% of gross average salary. The burden of supplying the minimum base income to the pensioners from the state pension system has been shifted onto the shoulders of local governments whose capabilities differ radically between regions, towns and districts.

Regarding the second pillar, the question of the liability of investment managers in cases where pension plans have been functioning with losses for prolonged periods has yet to be solved.

Most important tasks

To ensure retirement-age people who have had a sufficient length of service with an adequate amount of pension suitable for survival, relating determining the minimum pension based on objective indicators (e.g., average salary).

Review the principles of updating the pension capital in order to reduce expressions of inequity when calculating the pensions.

For the legislators to develop active measures that would urge the investment management companies to operate with profits, introducing a mechanism whereby some of the pension fund administration costs are calculated on the basis of profitability of pension funds while retaining a relatively small fixed payment for the administration of funds.

The state has to promote raising the level of financial acumen among the population, so that people could make use of the stimuli worked into the state funded pension scheme and would take a more active part in building their social security system.



Demographics and poverty in families with children

3

Chapter

There has been low birthrate in Latvia for at least a century, but, starting with the 1990s, it has dropped almost by half. Now Latvia is regularly placed among the stragglers in terms of birthrates and natural increase indicators both in Europe and the world. In addition to other problems related to demographics, immigration and ageing, countries where the population is as small as in Latvia, have to reckon not only with the diminishing of the country's geopolitical and economic significance but also with the risk to lose, after several generations, the content and *raison d'être* of their statehood. Drawing attention to the seriousness and urgency of the problem, financier Girts Rungainis put it rather harshly: «If the current demographic trends continue, Latvia has no future as a nation state as it was established and restored. And this is not a question that will be settled in a hundred years, it is being settled now» (Rungainis, 2012). Whether or not this assertion is exaggerated and whether or not we have

reason to be seriously worried about the sustainability of the Latvian nation is what we will try to address in this chapter.

With the change in social economic circumstances in 1990-1991, birthrates plummeted in all of Eastern Europe. The process was particularly pronounced in Latvia where the number of newborns dropped by half between 1987 and 1997. From 2005 to 2008, there was a rise in birthrate, but in subsequent years it once again dropped to the lowest indicators. In 2011, the number of newborns was the second lowest in a hundred years: 18.8 thousand. In 2012, there was a 7% year-on-year increase and the number of new births reached 19.9 thousand, still trailing deaths by more than 9 thousand (LR Central Statistical Bureau, 2013b) (Box 3.1). The data for the first six months of 2013 (LR Central Statistical Bureau, 2013a) indicate that the number of live births this year could be greater still and exceed 20 thousand. Yet the number of deaths in the first half of 2013 has grown more rapidly than

births, therefore the overall natural change (decrease) could exceed minus 10 thousand. Live births per 1000 residents in Latvia have dropped under 10, in spite of the greatest percentage of young women between the ages of 25 and 29 (LR Central Statistical Bureau, 2013f). The number of women who are now between the ages 15-19 and younger and who in a few years may become mothers, will drop dramatically by almost half. If the demographic support policies are not improved rapidly in the next few years, the number of children born in Latvia could drop in the near future by another half, reaching only about 1/3 of the number of deaths. At that point, the dying out process of the Latvian population is likely to have become irreversible. A whole generation (ages 0-19) has already been born whose numbers are about half of the total of their probable parental generation (ages 20-40). If this trend is to continue, with each subsequent generation half of the number of the previous one, in just a few generations, the descendants of present-day Latvian citizens will be a small minority in their homeland. The Latvian government and parliament have hitherto been doing too little in terms of demographic support policy to turn the situation in favor of sustainability of Latvia as a nation state.

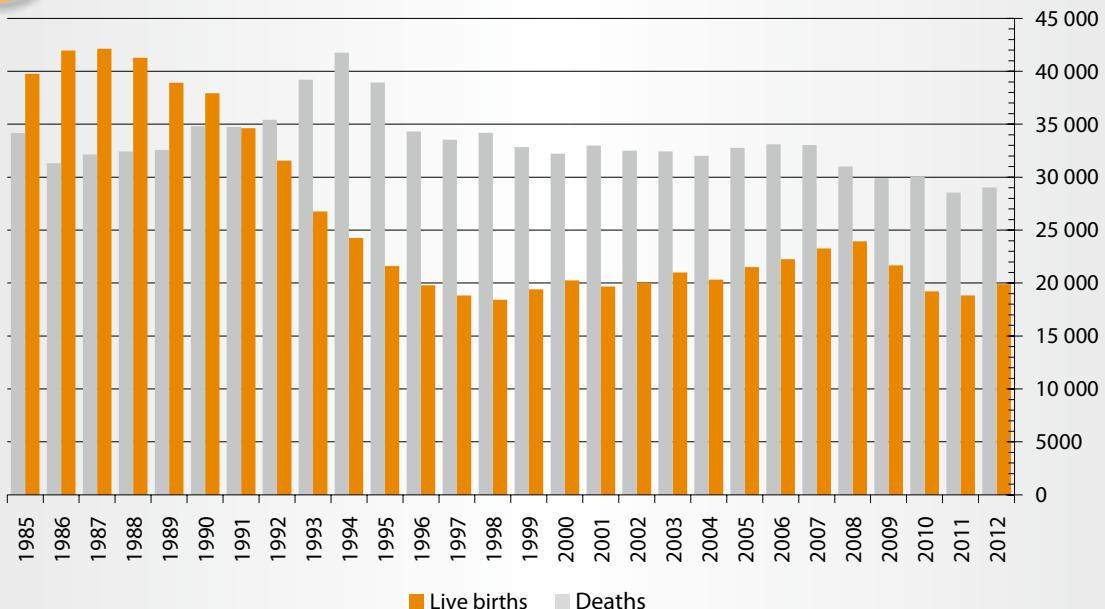
Although Europe has the lowest birthrates in the world, birthrates do differ substantially among the European countries: it ranges from 1.3-1.4 children per woman in Latvia, Hungary, Romania, and Portugal to more than 2.0 children per woman in France, Ireland, and Iceland. In Scandinavia, the United Kingdom, Belgium, and the Netherlands, birthrates approach two children per woman, and even in Estonia and Lithuania, the birthrate is noticeably higher than in Latvia (Box 3.2). In countries where the birthrate exceeds or at least comes close to two children per woman, demographic

problems will be easier to overcome, their populations will age slower and the necessary work force will be ensured with a relatively small immigration rate. In those European countries where the birthrates are particularly low (1.3-1.4 children per woman), by contrast, demographic problems will be overwhelming and insoluble without massive immigration. Among these countries, there are the new EU member states, countries of Southern Europe, and Germany. The Latvian Ministry of Economy estimates (PavJuts, 2012) that already by 2017, the number of jobs in the country will exceed the number of working-age people, so economic growth will become dependent on immigration.

Why are there such disparities between birthrates in Europe? What has stimulated birthrates in countries where they are higher and what is acting to bring them down elsewhere? First, the geographic location comes to mind: one would think that the closer a country is to Africa and Asia where birthrates are much higher, the greater the number of live births. However, birthrates are substantially higher in Northern Europe than they are in Southern Europe and Eastern Europe. Is the reason perhaps the historical and religious traditions? Wrong again: in EU countries with pronouncedly religious society birthrates are overall lower than in more liberal countries. It is a widely held opinion that a higher standard of living and a higher average wage automatically lead to higher birthrates. The overall trend in the world is that as the living standard rises, birthrates drop, but there is no such correlation among the developed countries. Even though in Europe, the wage and GDP level correlate somewhat with birthrates, the correlation is not close, because within the EU there are countries with low incomes and higher birthrates (Lithuania) and countries with medium high income and low

Box
3.1

Number of live births and deaths in Latvia, 1985-2012



Source: LR Central Statistical Bureau (2013mc).

birthrates (Italy, Spain, Germany). Yet analyzing the differences between demographic policies, a pronounced correlation emerges: the more favorable and better financed family policies are, the higher the birthrate and vice versa. There is a significant correlation between the birthrate indicators and the amount of budget funds invested in policies of demographic support. If countries of the European Union invest on average about 2.5% of their GDP in policy measures to support children and families and for countries with higher birthrates the figure is even 3-4%, then Latvia's investment from our small GDP is among the smallest, ranging from 1.2 to 1.4%. Calculations by Ieva Use-Cimmermane (with a Master's Degree from the Faculty of Economics and Management), indicate that the total amount of Latvia's expenditure for families with children has dropped from LVL 227 million in 2009 to LVL 157 million in 2011 when it dropped to 1.1% of GDP (Use-Cimmermane, 2013). Other countries with low investment in support of children and families (Poland, Bulgaria, Italy, Portugal, Romania, etc.) have long been posting low birthrate indicators as well (Box 3.3).

What are the main reasons for the prolonged low birthrate in Latvia? In surveys, Latvians indicate that they would like 2.1-2.5 children (SKDS, 2008; DNB Bank, 2010), in other words, almost twice as many as they have actually afforded. In addition to the aspects of instability and relatively low income, the inadequacy of the demographic support of the Latvian state is a very important obstacle, for it cannot accomplish even minimum goals. Compared to other European countries, in Latvia, it is the families with multiple children that face poverty risk most of all, whereas other countries can compensate it much better. In 2008, poverty risk for families with at least three children grew from 23% to 52% compared to the rest of the population. In many countries with higher birthrates, this poverty risk for families with multiple

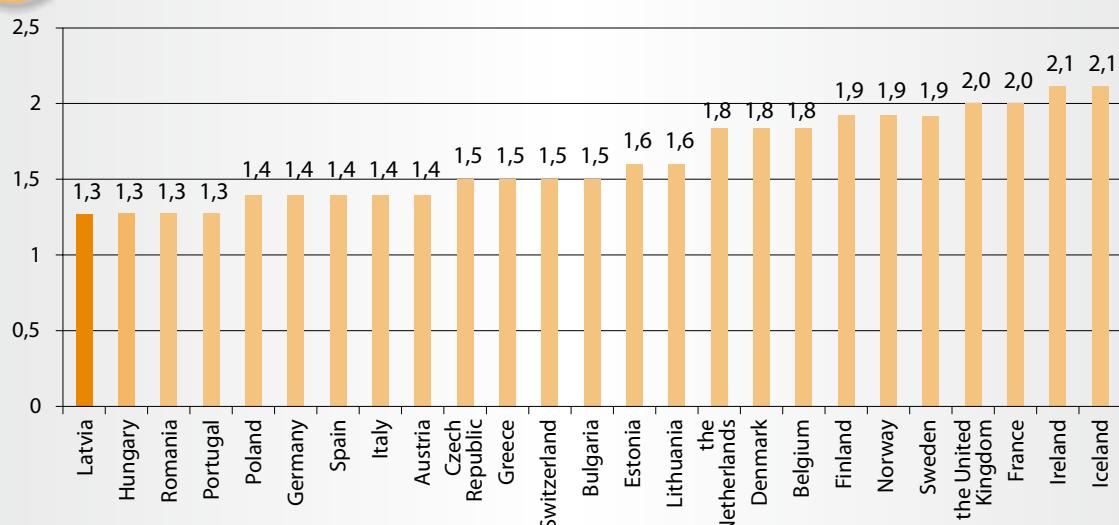
children does not increase or it increases relatively less. In the above year in Estonia, the poverty risk for families with several children increased from 18% to 24% compared to the rest of the population. In all countries where the above poverty risk for families with multiple children grows relative to the rest of the population, birthrates are also low (Box 3.4). Consequently, these countries – and Latvia above all – must prevent the high increase in poverty rate to families that are raising several children.

In addition to poverty risk, gender equality and equal rights for a family with children should also be considered. It is not fair to discriminate against young women who have yet to accrue social contributions by depriving them of an adequate financial support at the birth of their child. These women must currently do with LVL 100 (LVL 50, up to 2013) per month, which is below the subsistence minimum. They have the right to give birth to children just like the socially insured women and the state should compensate the loss of their capacity for work for the first 18 months after giving birth. It is also a gender equality issue, for such a loss does not arise for men.

Above, we pointed out the negative demographic trends in Latvia, the meager budget allotted to support of demography and the high risk of poverty for families with three and more children. It must be noted, however, that along with the gradual rise in economic and welfare indicators, demographic policy have also improved. As of January 2013, the amount of minimum childcare support has increased from 50 to 100 lats per month and will continue to grow next year. The mandatory tax exemption for dependent children has also been raised: in July 2012 it was increased from 70 to 80 lats, but at the beginning of 2014 it will already reach 116 lats per child. At the beginning of 2012, a working parent could keep in his or her wallet 17.50 lats a month for

Average number of children per woman in Latvia and other European countries, 2009-2011

Box
3.2



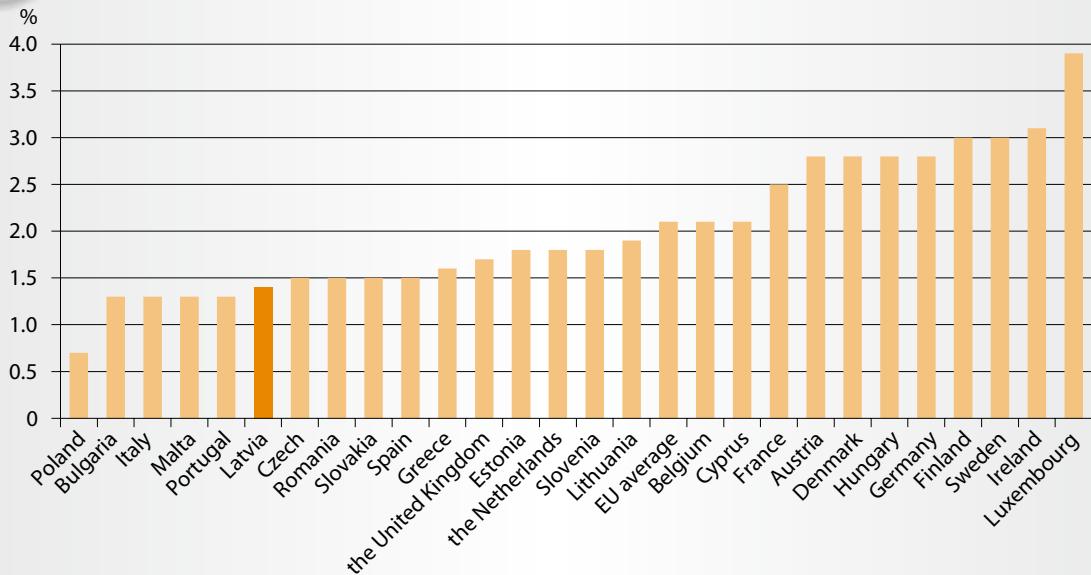
Source: Eurostat (2013b).

each dependent child, but in 2014, that amount will have reached 27.84 lats, thus a rise of 10 lats. A particularly important improvement is the reduction of kindergarten lines, about which the government reached an agreement at the end of 2012 and which will become effective in the fall of 2013. Now every family whose child, starting at the age of 1.5, is not granted a place in the kindergarten run by the

local government will receive special purpose funds (combined from the state and local government's budgets) in the amount of 130-160 lats to use for child-care services. An additional benefit will be free lunches for the second grade as of the beginning of 2013 and the agreement that parents will no longer have to purchase textbooks, which used to require substantial funds from families' budgets. Several local

Box 3.3

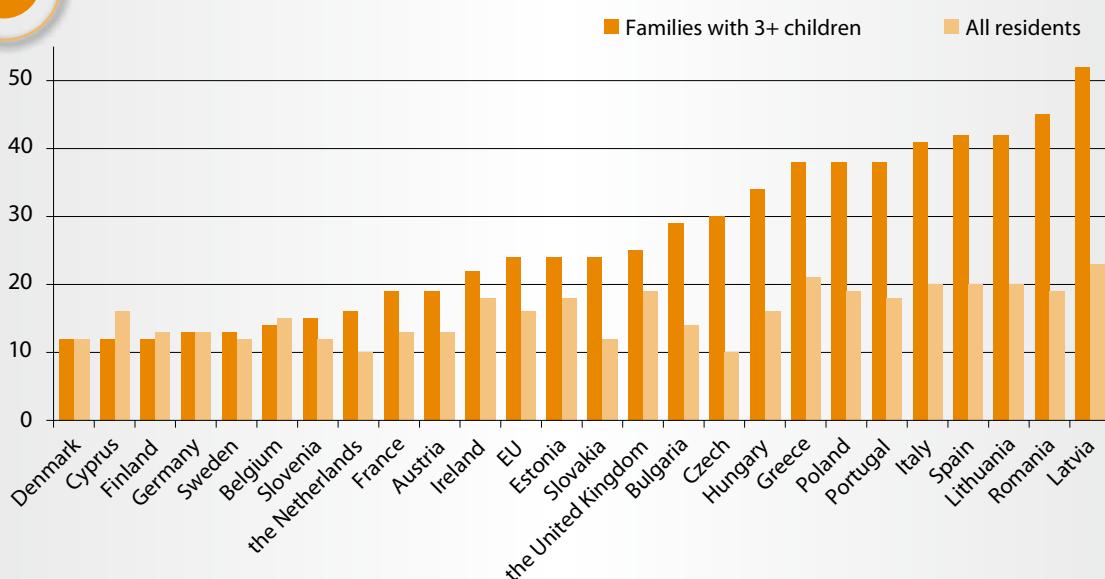
Sum total invested for support of children and families (%) of GDP, 2008



Source: Eurostat (2013a, 4).

Box 3.4

Poverty rates compared: total population and families with 3 and more children, 2008 (%)



Source: Eurostat data, Hansen (2010).

governments, particularly Riga, have also introduced free public transportation tickets for all schoolchildren. Last but not least, at the end of 2012, the first couples who previously could not save the necessary sum that exceeded 1000 lats, received state support to cure infertility. They have already become the happy parents of their long-expected offspring.

Comparison between Latvian and Estonian demographic support policies

Over the past year, there has been much public discussion about the low birthrate and its causes. Clearly, the birth of a child is affected by many different factors, but the state can extend substantial support to families that want to raise several children – or not. Over the past century, Latvia and Estonia have posted birthrate and mortality indicators that are very much alike. In the past ten years, however, Estonia has shown enviable results in reducing negative natural change to a minimum, whereas Latvia still retains one of the fastest rates of population decrease: almost five more deaths per 1,000 new-born every year. What are the reasons Estonia has managed to solve its demographic problems successfully (Box 3.5)? This may have been the result of purposeful demographic support policy, which were introduced a decade ago and for which Estonia allots about twice as much in state funds as Latvia.

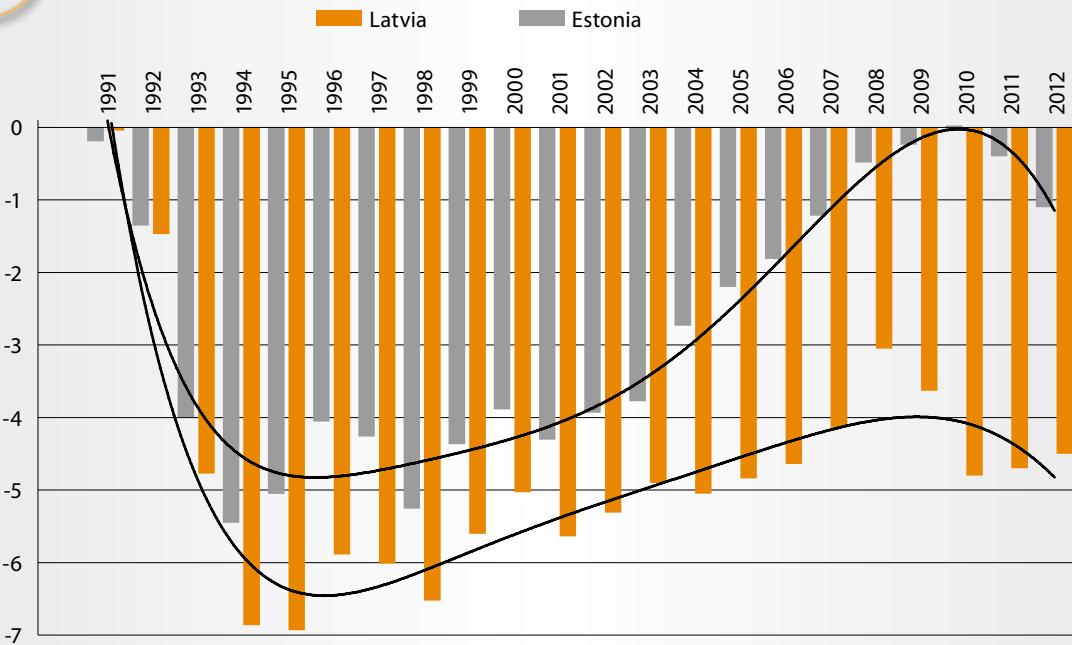
Let us compare two similar families: one in Valka, Latvia, and the other in Valga, Estonia. Both have similarly low income. Let us assume that both mothers are not working

and fathers work irregularly, for minimum wages. Minimum child support benefits for uninsured persons received by the mothers differ radically: in Estonia, they amount to EUR 290 (or LVL 204) (Sotsiaal ministeerium, 2013a), whereas in Latvia they were only LVL 50 until December 2012, reaching LVL 100 as of the beginning of 2013 (SSIA, 2013a). To a great number of young mothers, these minimum benefits are the only means of subsistence: about 36% of the mothers in 2012 did not receive more than the aforementioned LVL 50 per month because they did not have accrued social tax contributions, usually because of studies or unemployment. It is also of essence, that until the end of 2012 the minimum child support benefits were paid only for 12 months and this period was extended to 18 months, as was the case in Estonia for many years, only at the beginning of 2013.

Another important form of support is the state family allowance (SSIA, 2013b), which is being disbursed until the child reaches adulthood or continues his or her education in high school. This allowance amounts to LVL 8 per month, whereas in Estonia it is EUR 19.18 a month (LVL 13.48) for the first and second child, but as of July 2013, it was raised to EUR 28.77 (LVL 20.22) (Sotsiaal ministeerium, 2013b) for poor families. Starting with the third child, the Estonian allowance climbed to EUR 57.54 (LVL 40.44) per child per month; in mid-2013, it was raised to EUR 76.72 (LVL 53.92), and in 2015 it will be further increased to EUR 95.90 (LVL 67.40). A mother with three children in Latvia thus receives state family allowance in the amount of LVL 24 a month, whereas in Estonia she receives LVL 162, and this amount will be raised to LVL 202 in 2015.

Natural change in population (balance between natality and mortality) in Latvia and Estonia, 1991-2012 per 1000 residents

Box
3.5



Source: LR Central Statistical Bureau (2013d) and Estonian statistics (Statistics Estonia, 2013).

Free lunch for all grades of elementary school is another essential form of support: in Estonia, children eat for free from first to ninth grade (inclusive) (Vseviov, 2012, 19), whereas in Latvia, free lunch was granted only to first-graders and, starting January 2013, also to second-graders (LR Ministry of Education and Science, 2012). Parents of Latvian children in grades 3-9 on average pay about 20 lats a month for the communal lunch, for which Estonian parents have no need to reserve money.

The monthly payment of EUR 168.74 (LVL 118.60) to those Estonian mothers who have seven and more children (Sotsiaal ministeerium, 2013b) deserves a special mention: it is meant as compensation for the fact that, raising so many children, these mothers cannot work. There is less than 1% of such families, thus this special support is not fiscally sizeable. As a result of all these support policies, poverty risk for families with three and more children rises relatively little: from 18% to 24%, whereas in Latvia it leaps to 53%. In one of the 2013 meetings of the LR Saeima Council for Demographic Matters, a similar proposal was put forth, so that Latvian mothers with six and more dependent children could receive a payment from the state in the amount of 100 of at least 50 lats, but it was rejected. Given the small number of such families, this kind of benefits would require a national budget allotment of 3.2 million (or, in the case of 50 lats benefits, 1.6 million) lats per year.

A particularly important support for the parents is an available kindergarten, so that the new parents, particularly mothers, can sooner re-enter the labor market. In Latvia unfortunately, there are often long lines: in Riga and nearby municipalities these tend to stretch for several – sometimes even four or five – years. In Estonia, lines to local government kindergartens do not exceed one year and, starting the age of three, the line is negligible. For all these years, while the child is waiting for a spot in a kindergarten accessible for the parents, the mother cannot work and is often compelled to ask for assistance from the local government, even though during this time, she could have not only supported herself – she could have paid taxes to the local government. The total line to a spot in local government kindergartens in September 2012 consisted of 8,050 children (LETA, 2013). Several municipalities, which cannot grant kindergarten to all children, partially subsidize the services of private kindergartens. The amounts at hand range from LVL 50 in the Ogre and Jaunpils novads (municipalities) to LVL 93 in Riga and even LVL 180 in Babīte novads. There is reason to hope that a state co-payment of LVL 100, expected to begin in September 2013, to those families whose children are not granted spots in local government kindergartens may be a solution to this problem.

In the long term, those features in the Estonian pension system that appreciate the raising of several children are also important. In Latvia, only those mothers who have raised five and more children and accumulated length of service of 25 years (previously 30), can retire five years early (LR Saeima, 1995). Unfortunately, there are very few women who, parallel to raising five or more children, have managed to accumulate a long length of service, thus the Latvian pension system overall does not stimulate raising several children. In the Estonian pension law, on the other hand, there is an essential

feature of demographic support and the minimum length of service is only 15 years. For raising three children, mother and father can retire one year ahead of time, for raising four, three years, and for raising five children or a disabled child, mother or father can take their retirement five years early (Sotsiaalkindlustusamet, n.d.). It would be important to include in the Latvian pension system these and other stimuli for parents with several children, particularly those who raise three or more children, for there are relatively few of them (about 6%) (LR CSB, 2013).

Many countries offer parents a tax return for expenditures for their children's education and medical expenses up to a certain amount. In Latvia, this sum is one of the lowest: up to 300 lats for each child within one year (LR Saeima, 2001). Unfortunately, the services of educational establishments often are much more costly, therefore it would be reasonable to increase this amount, just like it has been done in our neighboring countries. In Estonia, the tax return for a child's educational expenses is limited only by the amount of total taxable income (Estonian Tax and Customs Board, 2009), and in Lithuania the maximum amount simply may not exceed 25% of the person's income (LR Seimas, 2008).

There has been much public discussion regarding real estate tax rebates, introduced over the past few years, for families with multiple children. Each local government can set its own real estate tax rebate principles and amounts, but a state set limit exists. It has to be recognized that most families with multiple children do not receive these tax rebates because they do not own their housing, but ownership is the condition for tax rebates. In Lithuania, by comparison, such a tax on housing does not exist (Butkevičius: General real estate tax would be an unreasonable decision, 2013), whereas in Estonian towns it does not have to be paid for properties whose land area does not reach 1500 square meters or, in the country, two hectares (Tammik, 2011). Thus in this area as well Latvian families with children find themselves in a less favorable situation.

For those 10-15% of parents who cannot conceive for health reasons, state support for covering infertility treatments is of great significance. After a lengthy debate at the end of 2012, such assistance has finally been launched (LR Ministry of Health, 2013), yet currently the state funds allotted are much smaller than the great number of applications would require, therefore a line spanning several years has formed to receive this support. It would be important to allot adequate funding to shrink the line and to extend the maximum age limit of recipients (currently, it is 37 years of age). Also, women should be allowed to apply for this assistance repeatedly, for a positive result is not always the case the first time around. In Estonia, this assistance program is widely available and, from 2009 to 2011, 1,153 babies were born with such support from the state (Vseviov, 2012, 15).

Last but not least, state allowance is available in Estonia for the purchase or renovation of housing for families with four and more children (Vseviov, 2012, 19). Its maximum amount is EUR 6,500, (LVL 4,568), with children with eight and more children eligible for double that at EUR 13,000 (LVL 9,136). All new families also have a chance to receive state guaranteed loans for the purchase of housing. In Latvia, there are only proposals voiced by some politicians.

All of the above leads to the conclusion that the Estonian national budget provides substantially more support for the new families in Estonia than does the Latvian national budget for those in Latvia. This has ensured both much better natality and natural change indicators and much lower emigration by Estonian youths. The example set by Estonia is best suited for Latvia because the benefits paid by many more prosperous EU countries are even larger and a goal that practically is beyond the capabilities of the Latvian national budget. In many European countries, the analogous amount of state family allowance exceeds EUR 100 (LVL 70) per month per child (Finland, Sweden, Austria, Norway, Denmark, Iceland, Germany, Switzerland, etc.) (OECD, 2012). It is the case also in Ireland and the United Kingdom, which have been the destinations of most émigrés of recent years. In Ireland under the impact of the crisis, the amount of this allowance has been cut and now it is only EUR 130 (LVL 91) for each child in families with one to three children and EUR 140 (LVL 98) per child in the larger families (Citizens Information, 2013). In the United Kingdom, this allowance is EUR 105 (LVL 74) per month for the first child but only EUR 70 (50 LVL) for each subsequent child, yet there is a substantial tax refund 2,235 GBP per year (LVL 1,819), for families with lower income (below GBP 41,000 per year or under LVL 2,781 per month) (GOV.UK., 2013). As of 2013, the UK has limited payment of these benefits to the prosperous families where the parents' individual incomes exceed GBP 50,000 per year (LVL 40,698 per year or LVL 3,391 per month) (Bradshaw, n.d.).

According to the Latvian government declaration (LR Cabinet of Ministers, 2011) and plan of action: «We will set as priority improving the demographic situation, when adopting inter-branch political decisions. We will create forms of support to families for the birth of the second, third and each subsequent child, including fiscal stimuli and realization of the progressivity principle.» These promises have yet to be fulfilled, and special forms of support after the birth of subsequent children have not been provided for. In Estonia, on the other hand, demographic support policy has not been set out as a particular priority of the government but the amounts of effective support mechanisms speak for themselves.

Residents' view of Latvian demographic support policy

The Latvian public also thinks that the state should lend more support for families with children. In the survey conducted for the Report of Human Development, respondents chose state demographic support policy measures that, in their opinion, would be most effective in raising the birthrate (LU SZF, 2013). Most of those surveyed (52%) indicated the need for a substantial increase in the state family allowance, which currently amounts to eight lats a month. Until 2009, the amount of this allowance was indexed for subsequent children, paying LVL 9.60 for the second child, LVL 12.80 for the third, and LVL 14.40 for the fourth and subsequent children (Ministry of Welfare, 2011). A family with four children thus used to receive a total of LVL 44.80, but, starting July 2009, only 32 lats. Latvia should follow Estonia's example by tripling (or at least doubling) the state family allowance for

each child, first of all, for families with three and more children. That will also help to diminish the poverty risk for families with multiple children. Such an approach, i.e. increasing the total financing earmarked for family support and more generously supporting residents with lower incomes, is recommended to the Latvian government also by the World Bank economist Emily Sinnott (Sinnott, 2013).

The next two most needed state support policy measures, according to the survey participants, are doubling the mandatory exemption for dependent children (39% respondents) and indexing the minimum childcare benefits to minimum wage (34%). In July of this year, the mandatory tax exemption for dependent children was raised from 70 to 80 lats per child, and the government is planning to raise it further, to 116 lats, in 2014 (LR Ministry of Finance, 2013). Survey results indicate, however, that this amount should be at least doubled, so that the mandatory exemption would reach 140 lats per child. A substantial increase in the minimum childcare benefits was indicated as the third kind of priority support. Up until the end of 2012, its amount was only LVL 50 per month but, as of January 2013, it was raised to 100 lats. A notable number of respondents think that it should be pegged to the minimum wage (currently, LVL 200). Finally, a considerable part of the surveyed (30%) indicated that it would be necessary to secure state support for the first housing of the young family. It could take the form of a state guaranteed loan, a part of which the state could dispose with subsequent births in the family.

Of the ten proposed state support measures, expanding the infertility treatment program received the least support of the respondents (4%). Respondents apparently did not consider significant the small number of babies that could result from such measures. The next least supported (15% of all respondents) measure is applying real estate tax rebates also to tenants and reducing the number of children to qualify for such rebates from three to two. The remaining three proposed measures – free lunch for all schoolchildren, abolishing kindergarten lines and relating the retirement age and amount to the number of children raised were supported on average by relatively large number of respondents (21%-22%).

How sustainable is a rapidly shrinking nation?

If the state fails to substantially reduce the risk of poverty for families with children and does not increase its support (in terms of benefits, tax rebates, and available services), then, with the current demographic trends continuing, Latvia's population will continue to shrink rapidly and its composition will undergo radical changes. Already in 1993, the number of children slipped below the number of people of retirement age, and every year the gap continues to widen despite raising the retirement age. The number of children who reach working age keeps constantly dropping, but recently the number of people above working age is also beginning to grow. In recent years, the number of new pensioners has been exceeding the number of young people of that year by 40-50%, but after 2020, this difference will have doubled.

Thus the demographic burden will continue to rise and it will get increasingly more difficult for the social insurance contributions to ensure an adequate support for the growing number of pensioners and other social groups in need of support. While in the past couple of years (2011-2013) the total number of people of working age has dropped from 1,331 thousand to 1,278 thousand, the number of people past working age has grown from 449 thousand to 453 thousand. At the beginning of 2013, the numerical ratio of residents past working age to residents of working age was 35%, or slightly less than three people of working age to one person past working age. This proportion is even more radical if the number of people of working age is compared to people receiving pensions. In 2012, the total number of employed residents reached 876 thousand people, whereas the total number of pensioners was 583 thousand (of these, 484 thousand were old age pensioners). If the birthrate remains so low in the long-term, the proportion of pensioners to working people will double within a single generation and thus the state will be faced with the difficult choice between substantially raising the social tax and promoting mass immigration.

Since 1990, Latvia's total population has dropped from 2.67 million to 2.01 million in 2013. Currently, there is a lack of research regarding population change in the shorter and longer term. In the past, research was done by the Demographics Center of the University of Latvia headed by Pēteris Zvidriņš, but that work has been interrupted because of lack of financing. According to the author's estimates, if the current demographic processes continue and there is no extensive immigration, in 2060, the population in Latvia will drop to 1.2 million and to 1.0 million in 2070, but in 2100, it will approach 0.5 million. If, in the first few years after the restoration of Latvia's independence (1990-1995), the drop in numbers was mostly related to the withdrawal of Russian army, in

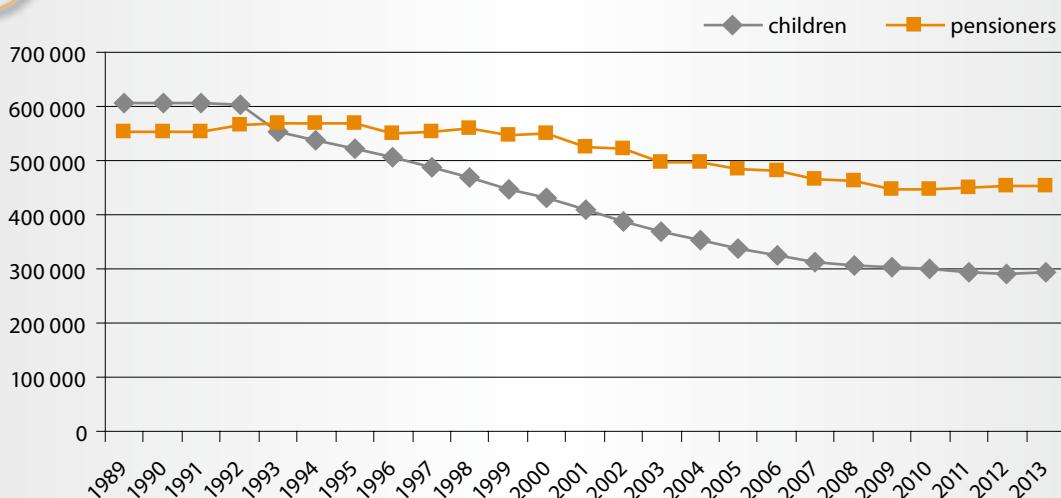
later years, it has been dropping because of the low birthrate and substantial emigration. Forecasting the development of population numbers, Eurostat projections are sometimes used, according to which, the population in Latvia would drop to 1.67 million by 2060. Yet there are two reasons to regard Eurostat predictions as overly optimistic. First, Eurostat projections were made before the results of the latest census were published and are therefore based on the old data regarding Latvia's population, assuming that it amounts to 2.25 million and ignoring the mass emigration of young people. Second, Eurostat bases its estimates on the assumption that birthrate, life expectancy, and immigration in Latvia will rise to the EU average indicators.

In the census of 2011, only 2.07 million residents were accounted for (including 0.19 million of which may no longer live in Latvia because they were not met in their places of residence and their information was obtained from several registers). The latest Central Statistical Bureau data indicate that on September 1, 2013, the population of Latvia amounts to 2.012 million (LR Central Statistical Bureau, 2013h). Thus it is highly probable that as early as the first months of 2014, that number will drop under the psychologically important 2 million mark. According to Eurostat projections, however, the Latvian population will drop to under 2 million about 20 years later. Adjusting the Eurostat base data to the actual (as per latest census) population, it follows that by 2060, there could be only 1.44 million residents, and by 2100, their number would drop to under 1 million.

The other reason why Eurostat projections are groundlessly optimistic is the assumption that «fertility, mortality, and net migration will progressively approximate among all the member states in the long run» (Eurostat, 2011 b). It is assumed that the birthrate will increase year after year, immigration will rise rapidly and emigration will decrease, mortality will fall, and average life expectancy will go up. Fertility

Box
3.6

Population in Latvia pre- and post- working age, 1989-2013



Source: LR Central Statistical Bureau (2013e).

indicators are currently among the lowest in Latvia, and the fact that within the next ten years, the number of young women will drop by half cannot be ignored. The assumption that the average life expectancy of Latvian residents will rapidly approach the EU average, exceeding 81 years for men and 87 years for women by 2060, is equally optimistic. Finally, the assumptions in migration statistics that in Latvia, first among the Baltic States, the number of immigrants will exceed the number of those who have left and such positive migration balance will be maintained until 2060. In the case of Latvia, these assumptions prevent using Eurostat projections for an objective evaluation of the impact of current demographic processes on the more distant future. Yet even operating with these optimistic assumptions, Eurostat projections envision the most rapid rise in the proportion of old people (over 65) in Latvia: from the current 17.4% (which matches the EU average), it will double to 35.7% in 2060. In view of the expected depopulation and rapid ageing of the society, there is no ground for optimism in future predictions for a sustainable existence of the Latvian nation (Box 3.6).

In all European countries with economic growth, sizeable immigration from poorer countries is observed. To some degree, immigration balances out the relatively low birthrates and ageing of the European population. In Latvia, there is an influential view that Latvia could avoid extensive immigration in the future as well. This perspective usually ignores predictions about decreasing population numbers and ageing as well as immigration trends throughout the EU. The statistics of recent years indicate that the number of people who settle in Latvia from Russia and other third world countries is on the rise. If in 2010, there were only 1,270 such persons, then in 2011, the number of immigrants had risen to 5,024 and in 2012, to 6,002 persons. Starting 2017, there will be notable shortages of workforce, which will particularly worsen after 2020; therefore immigration

can be expected to grow substantially. There is reason to think that most of the loss of Latvian population will be compensated by sizeable immigration, especially after 2020. Immigration could ensure certain sustainability of the economy and social security, which is now seriously threatened given the current trends of decreasing population. At the same time, what impact extensive immigration could have on the cultural milieu of Latvia and the existence of Latvian language and culture as basic values of the Latvian nation state is anybody's guess.

Conclusion

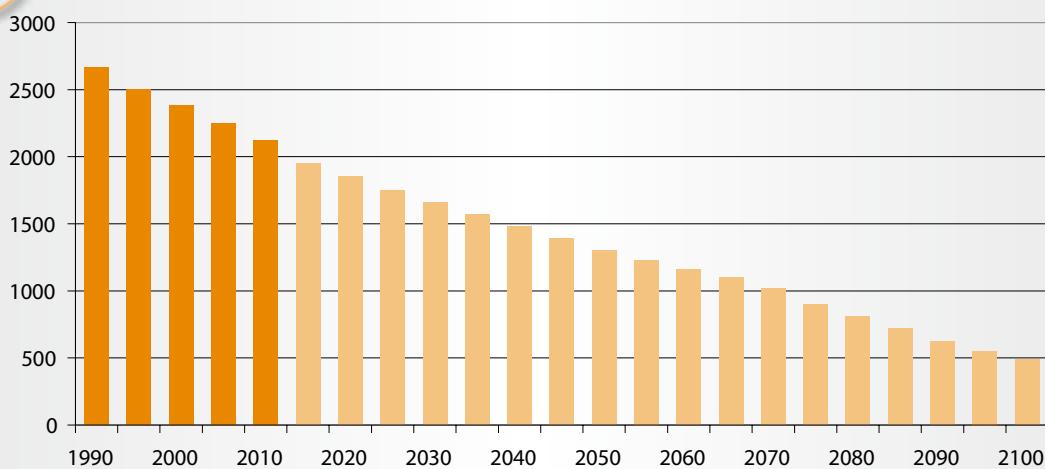
Due to the activation of the theme of demographics, several crucial improvements have been made in the national demographic support policy in 2013. The minimum childcare benefits have been substantially increased and the duration of their disbursement has been prolonged; an assistance program is underway for parents whose children are not provided with a place in a municipality administered kindergarten; the mandatory tax exempt minimum for dependent children is on the rise, and the first babies are being born in families that have received state support in treating infertility, etc. Albeit slightly, but the number of births has been growing in the last couple of years.

Yet the state investment in families with children remains small: it is only 1.5% of GDP, whereas the EU average is 2.5% of GDP. Given the slight drop in the number of young women after five years, Latvia will need a much more substantial investment in demographics to ensure a population drop as low as possible. The number of births is still about 2/3 of the number of deaths, but around 2020, it could go down even more.

The main short-term goal in ensuring sustainability of the Latvian nation would be to balance the number of

Decrease in Latvian population (thous.), 1990-2010, and predictions up to 2100, without immigration

Box
3.7



Source: 1990-2010 – Central Statistical Bureau; subsequent years – author's predictions.

deaths with that of births as has been accomplished in Estonia and most other EU countries. The long-term goal would be to approximate the number of born children to two per woman, as has been achieved in Scandinavia. In the next few years, Latvia must increase the amount of state invested financing to support women with children, providing relevant infrastructure (e.g., kindergartens), tax rebates, and also financial benefits to counteract the disproportional rise in poverty in families with at least three children.

In a survey conducted within the framework of the Human Development Report, Latvian residents indicate that they would mostly support a substantial increase in family benefits, doubling or tripling the current amount with the birth of the second and third child. In fact, a law providing

just that has been in place for several years, yet its implementation was postponed from year to year. The respondents indicated that the next two most necessary support policy measures should be further raising the mandatory tax exemption for dependent children and pegging the minimum childcare benefits to minimum wage.

Latvia has no other choice in ensuring its sustainability than to rapidly increase the total state support to young families with children from the current 1.5% of GDP to at least 2.5%, which is the EU average. It is important that Latvian residents want significantly more children than they can afford and we have sufficient grounds for optimism that Latvia too can achieve positive natural change within the next 3-5 years.

Box
3.8

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

Due to the activation of the theme of demographics, several improvements in the national demographic support policy have been achieved. The minimum childcare benefits have been substantially raised and their disbursement term has been prolonged; assistance is underway for parents whose children have not been provided with local government kindergartens; the mandatory tax exemption for dependent children has been raised; the first babies are being born in families that have received state financial support for infertility treatments, etc. Albeit slightly, but the number of births have been increasing in the past couple of years.

Most serious problems

The state investment in families with children remains small: it is only 1.5% of GDP, whereas the EU average is 2.5% of GDP. Given the slight drop in the number of young women after five years, Latvia will need a much more substantial investment in demographics to ensure a population drop as little as possible. The number of births is still about 2/3 of the number of deaths, but around 2020, it could go down even more.

Most important tasks

The main short-term goal in ensuring sustainability of the Latvian nation would be to balance the number of deaths with that of births as has been accomplished in Estonia and most other EU countries. The long-term goal would be to approximate the number of born children to two per woman, as has been achieved in Scandinavia. In the next few years, Latvia must increase the amount of state invested financing to support women with children, providing relevant infrastructure (e.g., kindergartens), tax rebates, and also financial benefits to counteract the disproportional rise in poverty in families with at least three children.



Sustainable nation and integration of society

4

Chapter

The idea of sustainable development today is understood not only in relation to resources and the environment but also in relation to people's ability to arrange their lives so that economic, social and environmental sustainability as well as harmony between present and future generations are ensured, raising the prosperity level and quality of life of members of the society, improving accessibility of education and healthcare, ensuring minimum security standards and observation of human rights. Contemporary societies are becoming increasingly diverse and, in this context, a crucial component to the social political sustainability is the ability to ensure the unity of society, respecting diversity, supporting pluralism and opportunities for participation (United Nations, 2012). In Latvia too an ethnically diverse society has formed historically: representatives of about 150 ethnicities live in Latvia, even though the absolute majority of the population (93.2%), according to the 2011 census, belong to four

largest nationalities – Latvians (62.1%), Russians (26.9%), Belarusians (3.3%), and Ukrainians (2.2%) (LR Central Statistical Bureau, 2013c). In view of the fact that the representatives of the latter three nationalities and also a substantial part of minorities mostly use Russian in their everyday life, one of the most important distances, from the point of view of social unity, exists between those who mostly use Latvian at home (56.3% during 2011 census) and Russian speakers (33.8%) (LR Central Statistical Bureau, 2013e). Sustainable development here means the ability of the society to ensure favorable conditions for the development of Latvian language and culture and to reinforce the sense of belonging of other ethnic groups, in other words, to integrate the society, ensuring its unity through variety.

In terms of mutual relations between the majority of a society and ethnic minorities, contemporary social theory distinguishes integration, assimilation, segregation, and

marginalization (Berry, 2006, 35). In the context of processes discussed in this chapter, the distinctions among integration, assimilation, and segregation are particularly important. The main difference among them is the degree to which individuals or ethnic groups wish to preserve their culture and distinct identity on the one hand, and their ability to have contacts with the other groups, on the other hand. Assimilation – a high degree of communication of various groups in combination with a weakly expressed wish to preserve their distinct culture – leads to the choice by individuals or whole groups to melt with another ethnic community. If assimilation is voluntary, if it takes place on the individuals' free will, there should be no objections to it; forced assimilation, on the other hand, is rejected in the context of contemporary system of human rights. A high sense of cultural distinctness and disinclination to lose it combined with the weak intercultural communication is expressed as segregation of an individual or a group. Given the viability of group identities, as well as the increase in the ethnic variety of European societies as a result of migration processes, social integration is becoming the leading trend that provides for, on the one hand, the state's respect for the individuality of ethnic groups and their wish to preserve their specific identity and, on the other hand, creates a common ground for the co-operation of the majority and minorities within a united society. Here, integration is understood in accordance with the concept formulated in the book «How Integrated Is Latvian Society?» published in 2010 by the Institute of Social and Political Research of the University of Latvia Faculty of Social Sciences. Integration is understood as the consolidation process of the ethnically diverse societies based on intercultural interaction, participation and non-discrimination. True integration of society is a two-sided process of mutual adjustment, in which not only the minorities but also the majority has to change. Concerning the interactions between cultures, knowledge of the state language as a fundamental intercultural competence has a particular significance: it forms the basis of successful communication between ethnic groups and is an essential precondition for social political integration of minorities. Participation as a component of the important process of integration is based on intercultural communication and competence and is closely tied to non-discrimination that prevents differential treatment of people based on their ethnic origin, religious affiliation, skin color, or some other characteristic. All of the above promotes equality as well as representation that has to guarantee group representatives economic, cultural, and political influence (Muižnieks, 2010, 29-31).

The factors promoting and hindering integration in Latvia

The stability and consolidation processes of multiethnic societies depend on several factors, among them we will single out as the most important the power and historical ties to the society; distance between ethnic cultures and languages; relationship among the kinds of their information space; the similar/different in the historical memories of the titular ethnos and non-titular communities and their related group identities; demographic factors (settlement traditions,

percentage of mixed marriages); and social and economic differences between the titular ethnos and non-titular communities. Finally, we should mention the political factors: both the internal – actions of the ruling political elites and relationships among the political representatives of communities – and the external – the influence of international organizations and influence of the historic homeland of the non-titular community, particularly if it is located next door.

In view of the limited space, it is not possible to consider all of the above factors in the detailed way they deserve. Several of them have received a systematized treatment in the book «How Integrated Is Latvian Society?»; the controversial relationship between the historical memories of the largest communities of Latvian society have been discussed in publications by Vita Zelče and other authors (Kaprāns & Zelče (ed.), 2010; Muižnieks & Zelče (ed.), 2011). In this chapter, we will focus on those factors that for a variety of reasons have hitherto have received less attention. Although we aim to review the integration processes in the Latvian society, the situation in Latvia, on the basis of data available to the author, will be compared to that in other Baltic countries, particularly Estonia. Such a comparison seems useful, given the similarities in the historic fates of Latvia and Estonia in the postwar period and the comparable demographic situations. For this purpose, we will use the results of the quantitative research, conducted in 2008-2010 by a group of researchers led by M. Ehala, of the vitality and identity-forming of the most significant ethno-linguistic groups in the Baltic countries (Эхала & Забродская, 2011).

The Soviet legacy in Latvia's demographic situation and mutual relationships of ethnic communities gives rise to a contradictory picture. On the one hand, as a result of a whole series of circumstances, Latvia had suffered most compared to its Baltic «sisters». Postwar migration processes led Latvians close to the brink of becoming a minority in their historical territory. According to the 1989 USSR census data, Latvians were only 52% of the total population of Latvia and were a minority in all the largest cities. In the last decades of Soviet regime, a situation arose in Latvia where the society consisted of two, numerically almost equal communities: the Latvian-speaking and the Russian-speaking ones. They differed fundamentally in terms of their sources of information, attitudes to the situation in Latvia, and value orientations. On the other hand, if we are to compare Latvia to Estonia (for a variety of reasons, the demographic situation in Lithuania developed along substantially different lines), at the end of 1980s, a more favorable situation formed in Latvia at the end of the 1980s, which, in many aspects, has persisted to this day. Even though the proportion of Russian speakers in Estonia (321 thousand or 24.8%) is only slightly smaller than in Latvia, where, according to the data of the 2011 census, almost 560 thousand Russian speakers lived (27% of total population) (LR Central Statistical Bureau, 2013c), the proportion of those non-titular residents whose ancestors lived in Estonia before the Second World War is smaller there. The proportion of population of ethnic Russians was very similar in pre-war Latvia and Estonia. In the second half of the 1930s, according to Statistics Estonia, it was 8.2% (as quoted on Estonia.eu, n.d.) in Estonia and 10.59% in Latvia (Central Statistical Bureau of Latvia (2013f)). However, most of the Russian population in pre-war Estonia

inhabited territories that were incorporated in Estonia according to the Tartu Peace Treaty of 1920 and then incorporated back to the Russian Federation in 1945. In 1944, Latvia too lost a part of its pre-war territory to the Russian Federation, but in the part of Abrene district turned over to Russia, only one fifth of Latvia's prewar Russian speaking population lived. In Latvia, there was a substantially larger percentage of so-called «old Russians» most of whom were citizens of the Republic of Latvia already before the war and who were aware of their ties to Latvia, by and large separating themselves from post-war immigrants. It should also be taken into account that in Soviet times, Riga became a center of military and economic power in the Soviet Baltics, which led to All-Union level institutions of higher education and research centers (for the most part, in technical and engineering disciplines) being stationed in the Latvian capital and a relatively large proportion of intelligentsia (first of all, technical) in the Russian-speaking community of Latvia. On the one hand, it ensured a higher overall level of education of the Russian speaking community compared to the Russian-speaking community in Estonia where a larger percentage of blue-collar workers appeared after the war, but, on the other hand, increased its self-confidence and potential for protests. Overall, the Russian-speaking community in Latvia, compared to those in Estonia and Lithuania, is characterized by the relatively highest feeling of its power and social influence. If we are to express the self-assessment of a group on a scale of 0 to 1, where 0 is a total lack of influence and 1, a totally dominating influence, the self-assessment of Latvia's Russian speakers is 0.51, which is higher than that of Russian speakers in Lithuania (0.49) and Estonia (0.45) (Эхала & Забродская, 2011, 30).

Enumerating the differences between Latvia and Estonia, we should definitely mention the different traditions of settlement of non-titular ethnoses. In Estonia, the Russian speaking population is concentrated primarily in the northeastern part of Estonia where Russians are a majority. In Narva, for instance, Russians are 82% of the population (Narva Department for Development and Economy, 2011, 9); in Sillamäe, there are only 2.7% Estonians (Sillamäe Linnavalitsus, 2010). In Tallinn, the proportion of Russians is 38.5%, but Russian-speaking residents account for almost half (46.7%) of the total population of the city (Tallinn City Government,

2011, 9). In the rest of Estonia, even in the big cities, the percentage of Russians is small. In Tartu, the second largest city in Estonia, Russians account for 16% of the population (Tartu Linnavalitsus, 2012) and altogether, outside of northeastern Estonia and Tallinn, there are only 20% Russian speakers (Эхала & Забродская, 2011, 17). All of the above acts to diminish the possibilities of contact between the largest ethnic groups in Estonia and raises the potential for segregation of the Russian speaking population. In Latvia, by contrast, non-Latvians, including Russians, are more evenly distributed throughout the territory of the country. The Russians are concentrated in the republic-level cities. According to the census data of 2011, Daugavpils has a Russian majority (53.59%); Russians are almost half of the population in Rēzekne (46.49%), and in Riga (40.2%), and they account for about one third of the other republic-level cities, with the exception of Valmiera, where the proportion of Russians is the least, 11.57%. In Latvia's regions overall, the percentage of Russians varies from 8.77% in Vidzeme to 38.86% in Latgale (LR Central Statistical Bureau, 2013d).

We must note that the Russian speakers in Estonia are more separated from the titular nation than in Latvia not only geographically but also socially. On the one hand, it is closely related to the aforementioned settlement traditions. One third of Estonia's Russian speakers live in the northeast of the country, which in the post-socialist Estonia has become a depressed region. In Estonia, a much larger difference in wages persists between the representatives of the Russian-speaking community and the titular nation than in Latvia (Hazans, 2010, 142-143). In all the years of restored independence, the unemployment level among Russian speakers has been substantially (up to two times) higher than the respective indicator among Estonians (Pavelson, 2002, 101). In Latvia, there are no such pronounced differences among communities in terms of socioeconomic conditions (Hazans, 2010, 141).

In the literature of social sciences, the indicator of the percentage of mixed marriages tends to be singled out in the context of relations between ethno-linguistic groups: it is viewed as an essential characteristic of the «social distance» between ethnic groups, because mixed marriages involve not only individuals but also wider social groups to which

Box
4.1

Percentage of mixed marriages in the largest ethnic groups of Latvia, 2006-2012

(% of total)

	2006	2008	2010	2012
Latvian men with non-Latvians (with Russians)	21.7 (15.1)	19.7 (13.4)	20.5 (14.1)	20.6 (13.6)
Russian men with non-Russians (with Latvians)	40.9 (23.4)	42.2 (25.7)	43.6 (24.9)	43.5 (24.0)
Latvian women with non-Latvians (with Russians)	19.8 (12.3)	20.0 (12.3)	21.2 (12.5)	20.4 (12.0)
Russian women with non-Russians (with Latvians)	45.6 (27.2)	45.06 (26.6)	46.6 (26.3)	46.1 (26.1)

Source: LR Central Statistical Bureau (2013a; 2013b).

the individuals belong. In Latvia in the postwar period, the number of mixed marriages was traditionally relatively high: if, according to 1959 census, 15.8% of marriages were ethnically mixed, in 1979, so was almost every fourth marriage conducted in Latvia (24.2%), and by this indicator, Latvia was in the first place among the then Union republics. In Estonia, the respective indicators were 10% and 15.8% (Gorenburg, 2006, 147). For Latvians, the number of mixed marriages is traditionally relatively high, and that has not substantially changed with the restoration of independence, hovering around 20% in the last forty years (Box 4.1). Moreover, the percentage of Russians marrying Latvians has increased substantially from 16% at the beginning of the 1990s to 25% less than fifteen years later (Monden, 2005, 334), which, apparently can be explained by the fact that during the mass exodus from Latvia at the beginning of the 1990s, the part of the Russian speaking population that least intended to integrate with the Latvian society and culture was the one that left.

It is a commonly held view that Russification processes in Latvia had been more advanced than in Lithuania and Estonia. Generally speaking, there is no reason to doubt the truth in this assertion, particularly in regard to the central structures of state administration and communist party. Yet, compared to Estonia, there was and still is a higher percentage of those Russian speaking residents who have a command of the language of the titular nation. Thus, according to the 1979 census results, 20.1% of non-Latvians knew the language of the indigenous population of their republic, whereas only 13.0% of the non-Estonians knew Estonian (Misiunas, 1993, 283). This difference increased even more in the twenty years of restored independence. According to the results of the 2000 census, 12.2% of Estonian residents (37.4% of non-Estonians) had a command of Estonian as a second language. In Latvia, the proportion of speakers of Latvian as a second language was 25.2% (59.5% of non-Latvians) (Statistical Office of Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania, 2003, 37). From the point of view of social integration, it is fundamentally important to take into account the fact that the bilingual segment of the society is substantially larger in Latvia than in Lithuania or Estonia. According to the data of M. Ehala, such a segment is constituted of about 18% of the population in Lithuania and Estonia, whereas in Latvia it exceeds 40% (Ehala, 2012).

Concluding this brief overview of the significant factors in the context of integration, let us turn into a very important (yet most difficult to measure and identify) issue of the identities of ethno-linguistic groups and their mutual relationships. The Latvian post-socialist collective identity was substantially influenced by two persistent attitudes that we will designate here as «cultural trauma» and a «hope for a return». The outstanding Polish sociologist Piotr Sztompka uses the notion of «cultural trauma» (Sztompka, 2000, 449-466) to designate the transformation of the groundwork of society; disorientation of culture, and the loss of common cultural reference-points as a result of rapid, forcibly introduced from outside, society-shocking and unacceptable changes. For Latvia and Latvians, such trauma was the experience of occupation, mass repression, deportations, ideological pressures, and massive immigration and Russification processes. Under the conditions of post-socialist transformations, the social

discomfort was exacerbated by the rapid changes in social structure, unemployment, cost of living, and uncertainty about the future. To describe the main social adaptation strategies in a situation of «cultural trauma», Sztompka uses the distinction borrowed from another outstanding sociologist, Robert K. Merton, between innovation and resistance on the one hand and ritualism and leaving on the other, where the former two are active strategies and the latter two are passive ones. The innovation strategy involves individual and collective participation in the development of the economic, cultural, and social capital. The resistance strategy is oriented to creating new forms of culture and orientations that would allow for a complete or partial aversion of the traumatic situation. The ritualism strategy is expressed as turning back to common, routine cultural reactions and practices, viewing them as a rescue from the situation of «cultural trauma». Finally, leaving is attempts to simply ignore and forget the traumatizing situation. «Cultural trauma» is expressed differently in regard to different individuals and different social strata: different strategies of action can be present in a society at the same time and, in this regard, education level, the strength and width of social ties, and openness to change all play a role. Latvian society is no exception. We should note that in Latvia, similar to several other East European countries, turning to history as a strategy of surviving «cultural trauma», which often turns to reopening old wounds, has become an integral component of the social political discourse. Moreover, in the Latvian collective consciousness of recent decades the «vicious circle of cultural destruction», as Sztompka calls it (Sztompka, 2000, 464), has become rather pronounced. It is characterized by attempts to choose cultivation of memories as a strategy that maintains or even exacerbates the trauma syndrome. Such an approach is evident in the attempts to resolve the internal problems of society and establishing relationships with other countries by choosing to be guided by the need to overcome past injustices. It shows itself as idealization of prewar Latvia, a black-and-white view of the Soviet period, identification of leftist and Russian, as well as attempts to make the collective responsibility of the Soviet regime for the occupation, Sovietization and Russification of Latvia a matter of individual responsibility of current postwar immigrants and their offsprings. Here, we must mention a persistent characteristic of the Latvian collective consciousness: their minority complex (Ščerbinskis, 2004). Its roots can be found in the centuries-long experience of being a minority subjected by various alien powers, including the almost five decades as a part of the USSR. As an expression of the minority complex, linguists often mention the readiness of many Latvians to switch to Russian when communicating with Russian speakers. It is also asserted that «a couple of Latvian generations have grown up with a minority complex, whereas the generations of immigrants have grown up with a feeling of impunity and dominance» (*Ibid.*). Latvian low self-image was also discussed in the research paper of the Baltic Institute of Social Sciences «Society Integration and Tolerance in Latvia» (2004), concluding that «Latvians are characterized by a sense of endangerment because Latvians in their country ... feel as an endangered majority» (Baltic Institute of Social Sciences, 2004, 12). According to the data presented by M. Ehala and M. Zabrodska, Latvian

self-assessment (0.66) is substantially lower than that of Lithuanians (0.74) and Estonians (0.72) and similar differences exist also in regard to the titular nation by the relevant Russian speaking minorities. Lithuanians have the highest evaluation (0.78), they are followed by Estonians (0.74), and finally Latvians (0.70) (Эхала & Забродская, 2011, 30). Also in terms of the relative ethnic potential of titular groups (which is calculated, comparing the self-assessment of the titular nation with the ethnic potential of the Russian speaking minority in its evaluation) Latvians afford themselves a very slight upper hand over Latvia's Russian speakers (0.10), substantially lagging behind the Estonians (0.23) and Lithuanians (0.20) (*Ibid.*). Of course, it is debatable to what extent such self-assessment is commensurable with the undeniable fact that it is Latvians who have dominated Latvia's political life over the past twenty years, but in this case, the state of collective consciousness becomes a fact of social life. The minority complex is apparent not only in regard to everyday language use in communication with non-Latvians where a firmer stance by Latvians would be useful. It is reflected also at the level of political culture, in forming individual attitudes to political institutions and the manner of resolving socially significant issues. Based on this approach, an exclusive political culture is widespread in Latvia that is rooted in two mutually related assumptions. First of all, it is the conviction common within the public and the political elites alike that Latvians are incapable of resolving the existential issues of their ethnos in a democratic way. In the author's opinion, that explains the habit, widespread among the political elites, to look for the solution to political problems in legal argumentation. Second, it is the conviction that postwar immigrants have no right to make decisions on issues that are strategically important to Latvia's development. At the beginning of the 1990s, 52% of Latvians were of the opinion that only prewar citizens and their offsprings should take part in elections of the restored state. To compare, only 44% Estonians and a mere 12% Lithuanians shared this opinion, which is a clear indication of the relation between the degree of «cultural trauma» (which in this case is inversely proportional to the percentage of the titular nation in total population) and support for exclusive political culture (Rose & Maley, 1994). Such orientation of everyday consciousness turned out to be very viable. It became one of the reasons why the Latvian public in the mid-1990s turned against the idea of political nation and, as Elmārs Vēbers notes, «perceived it in a negative and intensely inadequate way» (Vēbers, 2007, 119). In subsequent years, the Latvian public opinion similarly – with incomprehension and suspicion – reacted to the ratification of the General Convention on National Minorities Protection by the Saeima. In a 2010 survey of Latvian citizens after the election of the 10th Saeima, 62.8% Latvian respondents agreed with the statement that minority identities and cultures should be supported and strengthened. Yet 31.1% Latvian respondents agreed to the statement that Latvia's development would be promoted by a more active participation of non-Latvians in state governance (Faculty of Social Sciences, University of Latvia, 2010). In a 2013 survey, 60.3% of citizens agreed that it is necessary to support and promote the maintenance and strengthening of minority identities, but a more active participation of non-Latvians in the promotion of the development of Latvia was

supported by 37.5% (Faculty of Social Sciences, University of Latvia, 2013).

As another dominant feature of Latvian post-socialist consciousness could be mentioned «the hope for a return», the widespread conviction that after close to fifty years spent in the USSR Latvia belongs to where it once belonged, i.e. in the Western world. As Estonian researcher Marju Lauristin wrote in 1997, «The Baltic people expect that the self-evident outcome of political liberation will be their *Return to Europe*. The cultural will to preserve Western traditions was for them a matter of national survival. Their wish to be accepted again by the West and to be recognized as an integral part of the Western cultural realm is a more substantial driving force in their development than mere economic or political motivation could ever be» (Lauristin, 1997, 29). The hope of returning to Europe became a very powerful consolidation factor for the society at large but particularly its Latvian part. Because of it, many were ready to make certain sacrifices but, on the other hand, it also meant openness to pressures from the West (Mužnieks & Brands Kehris, 2003). True, it must be taken into account that the return to Europe is determined by two interrelated yet distinct factors. First, it is the transformation of legislative norms and political institutions in conformity with the so-called Copenhagen criteria, i.e. requirements that were formulated vis-à-vis EU candidates at the meeting of the Council of Europe in 1993 in Copenhagen. To become members of the European club, they had to establish a legal and institutional framework of democracy; ensure observation of human and minority rights; develop a viable market economy that could survive the pressure of the EU common market as well as take on the obligation to move toward a closer political, economic, and monetary union. In fact, that meant creating the formal framework to the preconditions of democracy, which could not, however, guarantee the formation of a democratic political culture. Although respecting of minority rights is mentioned in the Copenhagen criteria as one of the most important preconditions of the integration process, its particular framework remains undefined, given the diversity of approaches within the EU. The establishment of a truly democratic culture within wide strata of the population, which, in turn, is a fundamental precondition of sustained democracy, requires much deeper (and requiring longer time) changes in the basic attitudes of the society and the basic characterizations of the political process, making them conform to the spirit of European humanist traditions. That is Europeization in the true sense of the word, and in this respect, Latvia still has a long way to go. Moreover, from now on it will much more depend on the choices of the society itself and the political elites – both because there are no universal prescriptions for establishing consolidated democracy and because, with Latvia joining the European Union and NATO, the ability of our allies to influence our internal policy have substantially diminished.

In contrast to the Latvian identity, the self-identification of Latvia's Russian speaking population formed within a different cultural tradition. As far as Russians as the core of Latvia's Russian speaking community are concerned, it was the historical experience of the great nation, which associated itself with powerful, despotic statehood (originally, the Russian Empire, later its heir, the Soviet Union). As the British

historian Geoffrey Hosking notes, that was a fundamental obstacle to the development of the Russian nation in two most important aspects, ethnic and civic (Hosking, 1997). During the last years of Soviet power, as well as during the Singing Revolution, the majority of Latvia's Russian speakers were bearers of «normal» identity: they felt that they belonged to the politically and culturally dominant part of the society, and in their scale of values, social economic priorities dominated over the specifically ethnic ones (for instance, the use of the native language in social communication and education), because the observance of the latter seemed «normal» and self evident. A kind of «normalcy momentum» formed that could be more pronounced for Latvia's Russian speakers if for only the reason that after the war they enjoyed a more comfortable situation than in the other two Baltic republics. The dominance of social economic priorities in the collective consciousness of Latvia's Russian speakers also meant that the possible regaining of Latvia's independence was perceived with hope for a more rapid socioeconomic development, which was not in conflict with the desire of Latvians to restore their statehood as a precondition for the sustainability of their language and culture. The above circumstances were of essence on Latvia's road to the restoration of independence. According to public opinion surveys, in 1990, independence for Latvia was supported by 39% of local non-Latvians (Zepa, 1992). The poll on national independence, which, at the beginning of 1991 was conducted in Latvia in contrast to the referendum on preserving the Soviet Union conceived by the then leaders of the USSR, the proportion of eligible population that voted for national independence (64.51%) substantially (by about 12%) exceeded the proportion of Latvians in total population (52.05%, according to the 1989 census data). That provides grounds for the assertion that a significant portion of non-Latvians – at least 25% – at the March 3, 1991 poll, voted for Latvia's independence. In terms of this indicator, Latvia surpassed Lithuania where the proportion of those voting for independence was about the same as the proportion of Lithuanians in total population, and it also surpassed Estonia where the number of those voting for independence was only a couple of percentage points higher than the proportion of Estonians in the total population of Estonia. These data invite the conclusion that the support for the independence idea among minorities was greater in Latvia than in Lithuania and Estonia. This assessment is corroborated by the research of identity transformations of Russian-speaking communities in Latvia, Estonia, Ukraine, and Kazakhstan conducted at the beginning of the 1990s by the well-known American political scientist David D. Laitin: he arrived at the conclusion that the Latvian Russian speakers are generally more open to social transformations in the direction of nationalization than the Russian-speaking communities in Estonia, Ukraine, and Kazakhstan (Laitin, 1998).

At the beginning of the 1990s, the Russian-speaking population of Latvia also ended up in a cultural trauma situation, even though the reasons were substantially different. It was caused by the rapid socioeconomic change and change in their previous social standing, which was furthered by the fact that the dominant attitudes to language and citizenship questions became stricter after 1991 if compared to the rules

(admittedly, also promises) at the time of the Singing Revolution, and it was stricter in regard to several fundamental issues, than the attitudes in Estonia, not to mention Lithuania. In the first half of the 1990s, almost one third of Latvia's population (including about two thirds of Russians) did not enjoy full political rights. The Latvian Russian speakers quickly lost their normalcy illusions and began regarding themselves as a minority that has to fight for its rights. It is still a debatable and politically very sensitive question to what degree in this process were lost the privileges established during Soviet time and to what extent the nationalization process involved infringing upon the inalienable rights of non-Latvians. It is however indisputable that in Latvia, a potentially dangerous confrontation of two minority consciousness arose, which, in global history, often had had devastating consequences. We must note that, according do data of M. Ehalasand and A. Zabrodskaya, the small minorities of the Baltics (Lithuanian Russians and Poles), assess the legitimacy of the inter-ethnic relationships in their country with grades above average (3.77 and 3.90 points, respectively) in a 6 point scale where 1 equals low and 6 high legitimacy. The large minorities, the Russian speakers of Estonia and Latvia, on the other hand, give the legitimacy of these relationships a much lower evaluation: 2.78 and 2.31 points, respectively. In Latvia, there is also the highest level in the Baltic countries of mutual distrust among ethnic groups. Latvians give it 3.29 points, which is substantially higher than the Estonian 3.06 and Lithuanian 2.76 points. A similar picture emerges with Latvia's Russian speakers who assess the mutual distrust with a 3.37, which substantially differs from the assessment by Lithuanian and Estonian Russian speakers (respectively, 2.76 and 3.16) (Эхала & Забродская, 2011, 36). Because of limits of space, we will not discuss in detail what role internal factors (resistance of Russian speakers to nationalization attempts; the often inflexible policies of the Latvian state in the area of language, citizenship and civic participation of minorities etc.) and Russia's policies with respect to compatriots in the near abroad played. We must note, however, that susceptibility to external influences is usually explained by the internal problems of a society.

Integration policies in Latvian society in the last twenty-five years: the time of lost opportunities

To what extent Latvian leadership managed to use the historically formed opportunities for consolidation of the society and its stabilization on sustainable foundations and to prevent or at least mitigate the undesirable dissociation trend between the communities?

Latvian officialdom depicts integration policies in Latvia as an area where Latvia has had notable achievements. On the other hand, the integration notion itself has been increasingly often used in a negative sense both among the Latvians and among the Russian speakers. It cannot be denied that deep and persistent traditions of coexistence of people of various nationalities, languages, and religions have spontaneously come about. Yet the experience of the twenty years of renewed independence shows that Latvia is still far from having a consolidated society, and there is no agreement as to the political basis of consolidation.

Evaluating the experience of the last twenty-five years in the area of integration policies, several basic features stand out. Let us begin by noting that a fundamental difference exists between the achievements of spontaneous «from the bottom» integration and the obvious skidding of the official integration and consolidation policies. In the last twenty-five years, no consensus has formed either among the political elite groups or in the society at large with regard to the need for integration, its methods and desired results. This, moreover, does not concern just the contradictions between the political representatives of the Latvian and Russian speaking communities – even among the political forces oriented toward the Latvian electorate there is no agreement in regard to integration issues and most Latvian politicians lack a deep-down conviction that an active integration policy is necessary (Vēbers, 2001, 47).

As a result, integration policies over the past twenty-five years have always been the «unloved child» of the Latvian political elite, with the tides followed by ebbs and activation taking place mostly because of external pressure, even though the source and direction keeps shifting substantially over time. During the Singing Revolution, the proliferation of integration ideas was promoted by the pressure of pro-imperial forces from the central structures of the USSR and the pressure from their supporters within Latvia. Given the ethnic composition of the then Latvian society, the necessity to address the Russian speaking part of the society and seek out opportunities for mutual cooperation seemed self-evident. This approach was expressed most clearly by the first-generation leaders of the Latvian Popular Front (LPF), which was the most influential national democratic organization at the time of the Awakening. The First Program adopted by the LPF in 1988 emphasized: «The LPF stimulates and consolidates the endeavors of all residents of Latvia to democratize the society and promote its moral rejuvenation independently of their social standing, language, party, religious, or national affiliation» (Latvian Popular Front, 1989, 208).

At the time of Awakening, supporters of the «legal» method of restoring independence came onto the political stage, assembling in the Citizens Congress of the Republic of Latvia. They considered all postwar immigrants illegal and therefore the very question of society integration seemed secondary: the first order of business, for them was reinstating the rights of the citizens of prewar Republic of Latvia and their descendants. At the end of the summer of 1991, the situation was very favorable for the restoration of independence of the Baltic States: Mikhail Gorbachev's attempts to save the USSR from collapsing by means of signing the new Union treaty failed and the defeat of the August coup d'état meant a radical weakening of the USSR hardliners both in Latvia and Moscow. On August 21, 1991, the Supreme Council of the Republic of Latvia adopted the Constitutional Law «On the Statehood of the Republic of Latvia», and Latvia regained its independence that was lost 51 years ago. Less than within a month since its adoption, the independence of Latvia was recognized by 74 countries, and, by the end of 1991, their number increased to 93. The burden of reality seemed to have been lifted from the shoulders of Latvian politicians, and many of those who, at the beginning of the year, were inviting non-Latvians to vote in a referendum

on Latvia's independence, promising them citizenship in independent Latvia fast became supporters of the «legal» approach. On October 15, 1991, the Supreme Council adopted a resolution on renewing the body of citizens of the Republic of Latvia, leaving the regulation of the citizenship status of postwar immigrants for some later date, which came only four years later. Without making slight of the significance of legal succession and the need to restore the body of citizens of the Republic of Latvia, we have to admit that the opportunity to develop closer ties to the renewed Latvian state of at least that part of the Russian speakers who supported the idea of Latvia's independence during the Awakening period and thus avoid the splitting of society along ethnic lines. Unfortunately, as it has happened more than once in Latvian politics, the resolution of a real sociopolitical problem was sacrificed to the letter of legal norms.

During the first years of restored independence, Latvia did not have a unified integration policy. Among the Latvian society and political elite of the time, there was a widely held conviction that the resolution of Latvian and non-Latvian relationship was to be found in the emigration of non-Latvians to the lands of their ancestors, primarily to Russia. Such hopes were fostered by the mass exodus of Russian military personnel and their families, the rhetoric of nationalist radicals as well as the policies of state institutions with regard to citizenship, language, and education issues, which in Latvia and Estonia was oriented toward promoting the leaving of Russian speakers (Jarve, 2003, 82). Subsequent years showed, however, that most of Russians of Latvia or the other two Baltic countries did not seem to have much of a desire to follow the Russian military personnel and their families. Compared to other former Soviet republics that had become independent countries after the collapse of the USSR, the number of Russian speakers who left Latvia was smaller. At the same time, sociological research of the 1990s pointed to substantial differences between the values and attitudes of the Latvian and Russian-speaking parts of the society (Baltijas Datums, 1997).

The theme of integration came to the foreground of the political agenda in relation to Latvia's desire to join the European political structures and the 1997-1998 crisis in its relations with Russia. In this regard, parallel to the vigorously expressed solidarity, Latvia also had to experience as yet unknown pressure from its partners in the West whose aim was to encourage Latvian political elite to take measures in consolidating the society, otherwise threatening to leave Latvia without political support from the West. As a result of this pressure, the Law on Citizenship was amended in 1998 and work was begun on the basic principles of state policy in the area of society integration. In 1999, the conceptual draft of the state program «Society Integration in Latvia» was published for public review and, at the beginning of 2001, overriding nationalist resistance, the program was approved by the Cabinet of Ministers; a Society Integration Foundation was set up and, after the Saeima election of 2002, a Secretariat of Special Tasks Minister for Society Integration Matters (STMSIM) was established.

The next ebb in integration policy came with the end of the years of plenty. That was promoted by the pressure from politicians skeptically inclined toward integration in

combination with the skepticism of the social partners of the government, which to a great extent reflected the opinion of the broader public. In the fall of 2008, using the economizing of finances as an excuse, it was decided to abolish STMSIM. The functions of the Secretariat were divided among several ministries; most of the former STMSIM employees were let go, and financing allotted for carrying out the functions of STMSIM was cut.

The third wave of interest in issues regarding society consolidation came to pass with the Saeima election of 2010 and – in contrast to the previous two – its causes were found domestically: they stemmed from the consolidation of the political representatives of Russian speakers and constantly growing election success. In the election of the 10th Saeima in 2010, «Saskaņas centrs» (Harmony Center) lost only slightly to «Vienotība» (Unity Party), winning 28 mandates and forming the second largest faction in the Saeima. The society integration issues were passed on to the Ministry of Culture, which, headed by Sarmīte Ēlerte («Vienotība») prepared the new approach to society integration that were approved at the Cabinet of Ministers in the fall of 2011.

The state policy of Latvia has not been consistent up to now. Success in one area usually was followed by the endeavors of the nationally inclined part of the political elite to achieve reciprocation in some other area. The most striking example here are the amendments to the Education Law, which, after the positive results of the October 3, 1998 Referendum on Amendments to the Law on Citizenship, the 6th Saeima adopted on the last day of its authority, providing for education in the state language in state and local educational establishments as of 2004. Six years later, implementing this legal provision caused mass protests by the Russian speakers and had serious consequences in areas not directly related to education issues, for instance, the civic activity of the Russian speaking community increased in close connection with these protests and the degree of its organization grew – an effect that was unexpected and unpleasant to the Latvian political elite. From a politically relatively amorphous mass it became a well organized political force.

Finally, another feature of the hitherto conducted integration policy by the Latvian state, which is directly related to its failures: the pronounced paternalism, i.e. the tendency to resolve minority related issues without the participation of minorities themselves. A striking example is the Advisory Committee of Nationalities established in 1996. Under President Guntis Ulmanis, it did not begin real work out of fear

of its politicization because of the inclusion of several of its members in the election bulletins of political parties; under President Vaira Vīķe-Freiberga (for whom, minority politics was among the weakest areas in her presidency), the Committee was not convoked even once. It resumed its activities under President Valdis Zatlers, and, in another composition and under a different leadership, is continuing them under President Andris Bērziņš, yet experience shows that the Committee is rather fulfilling ritual functions. President is under no obligation to support its opinions in the top government structures. In the remote year 2002, the author wrote in an article published on the *Politika.lv* website: «Difficulties with integration are programmed in: the elites are of the opinion that only Latvian politicians know what the Russians in Latvia should want» (Rozenvalds, 2002). This statement can unfortunately be applied to all minorities of Latvia and its topicality is borne out by the events of recent years.

As we mentioned above, twenty years ago there were generally more favorable preconditions for society integration in Latvia than in neighboring Estonia. After twenty years of independent statehood, we have to conclude that the situation in Estonia developed in a direction that was more favorable to the state than in Latvia. This is evidenced by the fact that, opposite to Latvia, Estonia has not experienced well organized actions by Russian speakers as did Latvia in the protests against the school reform in 2003-2004 and the referendum for Russian as the second state language in February 2012. Even the «bronze soldier» unrest in Tallinn caused by moving the burial site of the Second World War dead from the center of Tallinn to a military cemetery, which resonated far and wide in the world, was not an organized action by political parties as opposed to events in Latvia.

More favorable trends in Estonia are observed also in the transformation of the identity of Russian speakers. As noted by the Estonian researcher Triin Vihamm, the Estonian Russians, after twenty years of Baltic independence, are more likely to self-determination in transnational and civic forms. In this connection, the generally pro-western orientation of the Estonian Russians is observed in contrast to the basically pro-eastern orientation of the Russians in Latvia. In recent years, according to Estonian researchers, there is a tendency in Estonia of homogenization of the political culture of the Estonian majority and Russian speaking minority based on values of consumer society, gains from participation in the European Union, and an increase in the use of the Internet (Vihamm, 2002). Yet there is still a great degree

Box
4.2

Support for Russian parties in Estonian and Latvian parliament elections (1992-2011, %)

	1992	1993	1995	1998	1999	2002	2003	2006	2007	2010	2011
Estonia	boycotted		5.9		2.0		2.44		1.2		0.9
Latvia		10.0*	12.4	14.1		20.1		22.5		27.5	29.1

* Approximate calculation, taking into account the schism in the «Saskaņa Latvijai» fraction of the 5th Saeima.

Source: Data of the Estonian and Latvian Central Electoral Committees (Estonian National Electoral Committee, n.d.; Centrālā vēlēšanu komisija, n.d.).

of separation between the communities, which may result in further segregation of the Russian speaking community.

In Estonia, the degree of political consolidation of the Russian speaking community is low: the majority of Estonian Russian speaking citizens in parliament elections vote for the «Center Party» led by the former Popular Front leader Edgar Savisaar, which, despite its dubious association with the ruling «United Russia» party of Russia, enjoys respect in a substantial part of the Estonian society and has participated in ruling coalitions. The influence of Russian parties in Estonian politics keeps dropping from one election to the next (Box 4.2). Without delving into an analysis of the mechanisms of the Estonian political landscape, it must be noted that these processes were substantially influenced by the greater (at least, compared to Latvia) opportunities for political participation on the part of the Russian speaking minority, including non-citizens. This concerns the right of Estonian non-citizens to vote in local elections. The OSCE recommended this measure to Estonia and Latvia already in the early 1990s. Estonia was forced to take this step in a situation where there arose a real possibility that a referendum may be organized on separation of northeastern Estonia from the rest of the country. Yet reaching a compromise regarding the issue of the voting rights of non-citizens, albeit under duress, Estonia turned out to be the winner in the long term. In Latvia, on the other hand, the splitting of the political spectrum by ethnicity; increasing electoral support to the «Russian parties» from one election to the next; the inability to find a cooperation model between the Latvian and Russian parties, as well as relegating the Russian speaking political representatives in perpetual opposition are giving rise to ever more pronounced negative consequences with respect to sociopolitical processes in the society at large. First, we should mention an unavoidable decrease in political competition, which created instability in the work of governments and becomes a substantial obstacle in carrying out consistent, strategically oriented policy. As pointed out by Vello Pettai, Daunis Auers, and Ainē Ramonaitē, from 1992 to 2011, Latvia had 17 governments with the average duration of effective activity of 345 days, which is a substantially shorter period of activity than the average of 575 days for 11 governments in Estonia and 552 days for 10 governments in Lithuania (Pettai, Auers, & Ramonaitē, 2011, 147).

The narrow circle of political forces forming governments and the lack of a real alternative capable of forming a government inevitably leads to indispensability of some political forces and their disproportional influence on governmental decisions. In the last twenty years, with corresponding consequences with respect to the state integration policy, it was the nationalist parties that became such a force. From 1993 to this day, they have participated in 12 ruling coalitions out of 17, including four of the six coalitions formed by the 8th and 9th Saeima where the nationalists were represented only by seven and eight deputies, respectively. The low level of political competition is mentioned also as one of the main reasons for the relatively high level of corruption, which, in the assessment of international organizations, has been traditionally higher than in Estonia and Lithuania. In the first decade of the 21st century, administrative corruption has diminished in Latvia, whereas political institutions, e.g.,

political parties, in the evaluation of the Global Corruption Barometer, are largely affected by corruption (Transparency International, 2013). Finally, weak political competition combined with the identification between the leftist and Russian, characteristic of the Latvian political culture, seriously limited the formation of a civilized leftist alternative to the right-wing political forces, which have dominated Latvian politics in the first twenty years of the restored independence. That is one of the main reasons for the disproportional growth of socioeconomic inequity in the course of post-socialist transformations, which our neighboring countries have not experienced to such a great extent, not even speaking of such post-communist countries as Slovenia, the Czech Republic, and Slovakia.

Quo vadis, Integration of Latvian society?

One of the most characteristic tendencies in Latvian political and intellectual elites of the last decade is an ever greater emphasis on the priority of Latvian ethnic values as the main precondition for sustainable development of the society. This is evidenced, for example, by the differences in the formulations of the integration programs of 2001 and 2011. The 2001 formulation of the integration program, while emphasizing the significance of the Latvian language and culture, nevertheless puts civic values at the foreground: «The integration of society is directed at mutual understanding and cooperation among individuals and different groups within the legal system of the Latvian state, on the basis of the Latvian language as the state language and loyalty to the Latvian state. The aim of integration is to form a democratic, consolidated civic society based on common fundamental values» (State program «Society Integration in Latvia», 2001, 4). «The Basic Tenets of the National Identity, Civic Society, and Integration Policy for 2012-2018» adopted in 2011 is a substantial reconsideration of civic and ethnic values. According to Basic Tenets, integration is «the integration of all the people residing in Latvia with the society irrespective of their nationality and self-identification. The common ground for integration is the Latvian language, a sense of belonging to the Latvian state and its democratic values, respect for Latvia's unique cultural space, forming of shared social memory. Society integration promotes civic participation that is oriented towards democratic and rational resolution of social problems and it fosters mutual cooperation and trust among individuals.» (Basic Tenets of the National Identity, Civic Society, and Integration Policy for 2012-2018, 2011, 6). In the understanding of the authors of this document, society's integration is by and large passed on Latvian ethnic values, and civic participation, instead of being a fundamental precondition for and part of integration processes, but an offshoot of integration (i.e. with the Latvian cultural space) that has already taken place. In this regard, not even discussing to what extent such an approach corresponds to ideas dominating in Europe about the norms and mechanism of society integration, one cannot but doubt whether such an approach is realistic in the circumstances of contemporary Latvian society. We must emphasize that most of Latvian residents, independently of their ethnicity, are convinced of the need to

have a knowledge of Latvian and assume that support for Latvian language and culture is one of the fundamental tasks of the Latvian state. In a survey of 2010, 84.7% respondents (93.1% ethnic Latvian respondents and 72.2% ethnic Russian respondents) agreed to the statement that every resident of Latvia must know Latvian (Faculty of Social Sciences, University of Latvia, 2010). In the 2012/2013 survey, the question asked was whether every Latvian citizen should know Latvian. Despite the fresh memories of the language referendum that had taken place a year earlier, the respondents were equally united in their view of the necessity for knowledge of Latvian. This was the opinion of 89.7% respondents (97.1% ethnic Latvian and 76.5% ethnic Russian respondents) (Faculty of Social Sciences, University of Latvia, 2013). These data once again pose the question what the February 18, 2012 referendum was really about. Unfortunately, the answer to this question seems to be of little concern to the ruling political elite of Latvia: nothing has been heard of any desire of state institutions to support serious empiric research of the causes of the mutiny either right after the referendum or a year later. Apparently, it is assumed that it is enough to breathe a sigh of relief and celebrate victory after the announcement of the referendum results and to consider proposals about supplementing the Constitution with unalterable formulations on the ethnic cultural identity of the Latvian state, as if legal norms could solve social political problems on their own. This invites the educated guess that most of the 273,347

Latvian citizens who voted «yes» in the language referendum, actually voted not for the Russian language but for recognition – for recognizing the Russian-speaking community of Latvia as a legitimate opponent whose interests would be taken into account in order to reach a rational compromise.

It can be stated without any exaggeration that after twenty years of renewed independence, the Latvian society finds itself at a crossroads where, looking for a way to guarantee the sustainability of the state and the nation, it must choose between two entirely realistic scenarios for further development. The first of these has been mapped out in the 2011 Basic Tenets of Integration as an emphasis on the Latvian language and culture as the sole foundation of the unity of the society. The opinions of the largest ethno-linguistic communities of Latvia are radically different on this question. Moreover, the aggregated data of sociological surveys shown in Box 4.3 indicate that the gap between the Latvian and Russian speaking parts of the society has a tendency to widen. It is not clear by what means it could be bridged, if we take into account the obvious rise in the self-confidence and degree of political organization of the Russian speaking community in recent years. That provides grounds for considering the Basic Tenets of 2011 as a document based on utopian assumptions and to assert that the implementation of the ideas contained therein is likely to lead to a result completely opposite to the expectations of the authors, i.e. to the reinforcement of a two-community society.

Support for the idea that the foundation of the unity of the Latvian society is Latvian language and culture, by ethnicity of the respondent

Box
4.3

(% of ethnic group, aggregated replies «completely agree» and «rather agree»)

Ethnicity	Foundation of unity: Latvian language and culture	
	2010, n = 1004	2013, n = 1001
Latvians	89.1	90.9
Russians	46.0	43.1
Others	54.5	60.9
All	71.8	73.2

Source: NI: Human Development Report: Latvia (Faculty of Social Sciences, University of Latvia, 2010); NI: Human Development Report: Latvia (Faculty of Social Sciences, University of Latvia, 2013).

Attitude to civic values by the ethnicity of the respondent

Box
4.4

(% of the respective group; aggregated replies «important» and «very important»)

What does it mean to be a good citizen	Observe rules and regulations		Pay taxes		Be informed about what is happening in the society		Participate in elections	
	2010 n = 1004	2013 n = 1001	2010 n = 1004	2013 n = 1001	2010 n = 1004	2013 n = 1001	2010 n = 1004	2013 n = 1001
All	87.1	90.3	77.0	86.0	75.8	86.5	78.9	76.7
Latvians	87.7	90.1	76.6	87.7	77.6	86.3	79.3	78.0
Russians	86.6	88.9	76.7	83.4	71.6	85.8	79.6	77.5
Others	85.7	94.5	80.0	84.5	78.1	89.1	74.4	69.0

Source: NI: Human Development Report: Latvia (Faculty of Social Sciences, University of Latvia, 2010); NI: Human Development Report: Latvia (Faculty of Social Sciences, University of Latvia, 2013).

The other scenario is based on the assumption that the foundation of the unity of the society is found in the emphasis on civic values; a renewed constructive dialogue between the largest ethno-linguistic communities of Latvia; widening of civic inclusion of the minorities, and in their full-fledged representation in making decisions important to the Latvian society. The data of the surveys of 2010 and 2013 indicate that the attitudes of Latvians and non-Latvians toward civic values are very similar (Box 4.4). Historical evidence suggests that emphasis on civic values is a rather effective means whereby the state can include and integrate ethnic minorities and – in the longer term – a much more effective means for drawing together the minorities and titular ethnoses than forced assimilation measures. In the current context of Latvia, it would create a new, more favorable climate in the relationship between the largest ethno-linguistic communities and thereby promote the role of the Latvian language as the cornerstone of social communication recognized by the majority of the society.

Implementing this scenario will to a large extent depend on the success of the normalization of collective consciousness of Latvians, i.e. the success of getting rid of the minority complex in the sense given in this chapter. A crucial role in this process will be played by the political elite groups and their ability to refrain from the ethnic card hitherto played so often to achieve their immediate political aims. It must be noted that despite the recently increasingly strained interethnic relationships, the potential for compromise has remained relatively high. M. Ehala's data indicate that the proportion of utilitarian minded respondents among Latvia's Russian

speakers reaches 46%, whereas among the Estonian Russian speaking respondents it is 40%. The difference is even greater in this respect between the core ethnoses of Latvia and Estonia. Among the respondents of Latvian ethnicity, 82% are utilitarian minded, whereas among Estonian respondents that percentage is only 56% (Ehala, 2012). These data were also borne out by responses to a survey conducted while preparing this Report where respondents were asked to choose among three scenarios of Latvian ethno-cultural development: the idea of Latvian Latvia that would involve limiting other languages and cultures; the integrative model entailing priority development of the Latvian language and culture while at the same time providing support to the development of other languages and cultures, and, finally, the melting pot model where the relationships between languages and cultures would form on the basis of free competition. A substantial majority among the respondents who have an opinion regarding this issue (71.5%) favor the integrative model – a mere 8.8% support the idea of Latvian Latvia, and 19.7% see Latvia's future in a free competition among languages and cultures. Furthermore, moderates among the respondents have an obvious majority both among Latvians and Russians (78.0% and 62.4%, respectively) (Faculty of Social Sciences, University of Latvia, 2013). In other words, in the consciousness of the society, sustainability and a reasonable compromise go hand in hand. Taken into account the experiences so far, we must recognize that quick and easy success in consolidating the Latvian society cannot be expected. Yet it is very important to make the kind of choice today that would promote a sustainable development of the Latvian state and nation.

Box
4.5

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

Deep and persistent traditions of peaceful coexistence of people of various ethnic backgrounds, languages, and religions have formed in Latvia. The spontaneous processes of integration have generally been successful in Latvia as evidenced by the relatively high percentage of mixed marriages, the relatively small differences between ethnic and linguistic groups in terms of employment and income, as well as the increase in the number of people with knowledge of Latvian in the past twenty years.

Most serious problems

In the two decades of renewed independence, no consensus has arisen either among the political elite or in the society at large regarding the understanding of the ways and means of integration. As a result, the policy of the Latvian state in this area have not been consistent; to a large extent it has been determined by external pressures, and there has not been guaranteed a sufficiently broad involvement of minorities in formulating and implementing integration policy. The limited political communication and insufficient mutual understanding between Latvia's largest ethno-linguistic communities have found expression in increased interethnic tensions in the last few years. The increasingly great emphasis on the ethnic values of Latvians as the most important cornerstone of society integration observed in the integration policy of the Latvian state in recent years, promotes alienation of minorities from the Latvian state.

Most important tasks

An equal political dialogue should be promoted among Latvia's ethno-linguistic communities. Unity of the majority of the public in regard to the significance of the Latvian language and culture in the society of Latvia as well as the readiness of the majority of society for a reasonable compromise could be promoted by a greater emphasis on civic values as a foundation of integration of Latvian society and broadening of civic and political participation.



Sustainability of democracy and civic participation

5

Chapter

Along with the growing importance of the sustainability paradigm in social sciences, the question of the relationship of sustainability to democracy is becoming ever more important. Democracy as a political system that provides for *equal, broad, protected and mutually binding consultations* in the relationship of the state and its residents (Tilly, 2007, 13-14), establishes continuous agreeing of political decisions with society, which thus gets involved and expresses its attitude toward these decisions. Yet the desires of society, which are of ruling importance in democratic politics, do not always respect the interests of future generations, which we normally discuss in the context of sustainable development: climate change, lack of resources, demographic problems and the like. Also from the historical perspective, democratic countries have not always respected considerations regarding sustainability: they have experienced significant pollution, lack of water and food, major consumer credit crises,

and demographic problems. On the other hand, calls for sustainable development on the global level have originated in democracies; it is democracies that have acted most decisively on behalf of sustainable development.

Thus the relationship between democracy and sustainability is hardly simple. On the one hand, democracy always provides for following the wishes of the majority, which often are expressed as a demand for «more»: more consumption, more social prosperity, or more military security. On the other hand, it is only democracy that can provide society at large with the chance to learn from its mistakes, when the demand for «more» causes problems in other areas of social life. For instance, a democratically voiced demand for new jobs leads to rapid industrialization and problems with the ecology; a demand for extensive social programs and benefits leads to a stagnating economy and emigration of the workforce. In such situations, democracy gives people a

chance to learn from their mistakes and together reach the necessary balance between the wishes of the society and future needs or, as stated in the definition of sustainable development created by the so-called Brundtland Commission: reach the kind of development that satisfies the needs of today without endangering the ability of the coming generations to satisfy theirs (WCED, 1987).

It is in this sense that the considerations of sustainability are closely tied to democracy and the ability of society to learn from mistakes and develop together. The linking of democracy and sustainable development is particularly important with regard to new, recently established democracies, which are undergoing other modernization processes as well: introduction of the principles of human rights and a rule of law, increase in the proportion of industrialism in the economy etc. In exactly these kinds of situations, institutionalized accountability of the authorities to society make them respect the basic principles of sustainability. Social justice as one of the factors of sustainability is also closely related to the participation of the population in making political decisions.

At the same time, considering the situation in the contemporary world, there does not seem to be much reason for optimism. The traditional representative democracy is undergoing a crisis – also in the sense that people in democratic countries are not certain about their and their children's future. Of course, society in developed democracies still considers democracy the best possible form of government, but certainty that the democratic system will be able to bring results in the future acceptable to all has fundamentally diminished. That suggests a need for structural changes in the democratic system itself where the traditional institutions of representation (parliaments, political parties, etc.) are experiencing ever bigger problems.

This suggests the need to consider the role of civic participation in ensuring sustainable development. The formal institutions of democracy still form the main framework for making political decisions in democracies: the national and sub-national elections remain the main instrument with which the commonly binding decisions are made and influenced. Therefore, fostering the institutions in Latvia is one of the main tasks in creating a sustainable democracy. It should be taken into account however that in these institutions: parties, the Saeima, elections can increasingly less guarantee legitimacy of the commonly adopted decisions. People are losing interest in politics, participation in elections is dropping, informative fragmentation promoted by the increasing influence of information and communication technologies is forming in the society; globalization is increasingly often reducing territorial attachment and sense of community (Bauman, 1998, 11). That creates a serious need for enriching the democracy with increased opportunities for participation. Speaking of the need for a democratic «learning ability», which could ensure sustainable development of the society, it is necessary to think about ways to involve the individual in democratic decision making. Contemporary society is becoming ever more convinced that such involvement cannot be achieved if an individual is treated as a passive subject, participant in the

market economy and a client of the state social care system. Belonging and involvement is more associated with collective activity.

At the same time, the demand for participation opportunities observed in the last twenty years deserves a critical assessment. First of all, not every participation can be considered democratic or all forms of participation civic. Civic participation first of all involves a positive attitude toward the democratic institutions of the state, i.e. to the forms of civic participation included in the Constitution and individual rights protected by this Constitution. In this sense, participation is related to the notion of «constitutional patriotism». It is clear that the borderline between civic and non-civic participation is itself subject to a wider discussion in each particular case and cannot be determined *a priori*. However, even though many supporters of participation tend to insist on any kind of participation as an end in itself, such an undifferentiated approach to participation is in conflict with the idea of democracy as such, for it provides for generally accepted rules of the game for democratic decision making. Supporters of such an approach are attempting to blend the borders between different forms of participation, including those that are based on hatred toward the Constitution, parliamentary system, and party pluralism. In this case, the fact that political participation can of course be also antidemocratic is being ignored.

Second, speaking of civic participation, the differences among political cultures of different societies are often being neglected. One of the problems, because of which people are civically passive and are not getting involved in political decision making, according to what they themselves claim, is that they do not see any sense in these activities. This assertion deserves a careful analysis within the framework of particular societies. The sense that people see or do not see is culturally determined: it is determined by historically generated understanding of civic activity, relationship between the state and society, the significance of a person's civic identity vis-à-vis other ethnic, religious, and class identities. For this reason, in different democratic countries, civic participation acquires different forms and intensity. Many international organizations which are involved in promoting democratic participation in the new democracies, tend to be decidedly insensitive to such cultural differences, offering instead forms of civic participation characteristic of Western Europe and the United States, albeit these initiatives do not reach their goal, remaining formal and not rooted in society. That creates problems of sustainability for the civic participation itself and causes concern about rational use of resources.

These problems should be kept in mind also when analyzing Latvia's situation with regard to the participation of its society and its role in ensuring sustainable development of the country. In considering this issue it makes sense to take a look at two aspects of the problem. First, how the Latvian population regards the importance of its participation in the development of the country. Second, how sustainable the nongovernmental organizations (NGOs) of Latvia are; which factors increase and which decrease their sustainability. Civic participation is not an entirely autonomous phenomenon: it

is affected by the developments in the economy, culture, etc. All of these factors should be taken into account when trying to ascertain how civic participation is developing in today's Latvia.

Sustainability in a participatory democracy

The period under review brought a series of developments in the civic participation both in terms of new sporadic activity and its institutional regulation. Contradictory tendencies were observed: on the one hand, there was a series of new initiatives hitherto unknown in Latvia but, on the other hand, ethnic polarization was on the rise, resulting in endeavors to limit opportunities for populist initiatives also at the constitutional level.

On January 19, 2012, the Saeima adopted amendments to its Rules of Order providing for the right for ten thousand Latvian citizens (if they have reached the age of 16) to collectively apply to the Saeima and Saeima is obliged to review the application (Latvijas Republikas Saeima, 1994), moreover the signatures can be submitted also electronically. A great role in pushing through this initiative was played by the social initiative platform *manabalss.lv* established in mid-2011, in which, since its launching, more than 50 initiatives have already been announced. After a lengthy discussion, the Saeima adopted these amendments to the Rules of Order, doubling the necessary number of signatures, among other things, from five thousand to ten. After the amendments were adopted, four applications have successfully made it to the Saeima where they have received much discussion and, as a result, have influenced legislation. Initiatives often are tied to the agenda of the media and mostly pertain to the areas of social inequality and interethnic relations.

On February 18, 2012 a referendum took place on the draft law «Amendments to the Constitution of the Republic of Latvia», which provided for establishing the status of second state language to Russian. This so-called «two state languages» referendum gave rise to much enthusiasm both on the part of the supporters of the draft law and on the part of its opponents. The result was a voting pattern clearly along ethnic lines: 24.88 % of Latvian citizens voted for the draft law and 74.8% against it, which approximates the ethnic composition of the body of Latvian citizens. Generally, the referendum confirmed the persistent significance of language and ethnic division in the Latvian society: it was the most attended referendum of the ones held after the restoration of independence. 1,098,593 citizens took part, i.e. 90 thousand more than in the second most attended referendum after the restoration of independence, on Latvia's accession to the European Union in 2003 (Central Electoral Commission, 2012). The results on bilingualism gave rise to a number of rather diverse interpretations: both talk about the disloyalty of the Russian speakers to the Latvian state and assertions that the referendum had in fact nothing to do with language but rather with the state's attitude to the Russian speakers. Be it as it may, it is clear that the subject of interethnic relations and language can elicit mass participation in Latvia. In contrast to many other political issues on which referenda have been held and which have fallen through

because of a lack of quorum, the issues involving interethnic relationships and language can cause a tide of mass participation.

The notable tide of enthusiasm related to the February 18 referendum generated discussions in society about possibilities of avoiding the repetition of similar future events where referenda initiated by undisputable extremists provoke wide disagreements and are a threat to civic peace. To avoid the repetition of such initiatives, the political elite chose a double strategy. On the one hand, despite the protests from various activists and some politicians, the Saeima adopted amendments to the Law «On the Referenda, Initiating Legislation, and the Initiative of European Citizens,» which provide for abolishing the hitherto customary «first phase» in the people's initiative (LR Saeima, 1994, 2012). It provides for collecting 10,000 notarized signatures, after which the Central Electoral Commission takes upon itself any subsequent collection of signatures. Upon the amendments taking force, 30,000 signatures are necessary for this purpose and, as of January 1, 2015, the Central Electoral Commission will be fully relieved of the need to collect signatures on citizens' initiative while at the same time providing for a possibility for submitting electronic signatures.

Another way to limit populist referenda was suggested by a number of experts in constitutional law who recommended to limit the possible range of legislative issues, excluding from it the so-called unalterable groundwork of the Constitution or the unwritten Constitutional core: the principles of a democratic, law-based, national and socially responsible state which, within the framework of the current political system, none of the legislators could touch: either the Saeima or the people (President's Commission on Constitutional Law, 2012).

Both the amendments regarding referenda and search for the Constitutional core gave rise to discussions about their commensurability, i.e. whether encumbering or narrowing the referenda are not in contradiction to the basic principles of a democratic state. At the same time, normative arguments are hardly all that determine attitudes to referenda. The political environment where ethnic divisions, geopolitical disagreements, and considerations of practical political gains and losses dominate is of no smaller significance. Parallel to the initiatives for limiting referenda in 2012 and 2013 at the national level, a discussion took place on possibilities of holding referenda at the local government level, including ones on dismissing the local council. At the moment, the draft law on Local government referenda is still in the drafting stage. The main subjects of discussion here are related to the range of issues on which referenda could be held, on the necessary quorums, and the practical side of holding referenda, including financing. There are reasons to think that the aforementioned law will be adopted in the near future, thus providing opportunities for citizens to participate in the area that is most directly connected to their everyday life, i.e. in the work of local governments.

Parallel to the changes in the institutions regulating society participation, we have to look at people's attitudes and readiness for getting involved in various civic activities. Institutional changes only partly reflect the extent to which people really get involved in maintaining a sustainable

democracy in Latvia. In this respect, the impact of the crisis is important: has the turbulence that affected Latvia as part of the global economic crisis affected people's desire to participate and get involved? This question has to be asked both in regard to participation in the work of the governmental democratic institutions (elections, political parties, referenda) and participation in various non-governmental organizations, including the ones whose activities are not primarily political but are geared toward achieving certain everyday goals: improving one's health, supporting culture, spending one's free time. Has the crisis changed people's communal habits and if so, then how?

To find an answer to this question, we can analyze a number of surveys in which people were asked questions regarding their political orientation and communal activities in the first half of 2008 and the first half of 2013. 2008 was a time when the consequences of the global economic crisis had yet to affect the overheated economy of Latvia, whereas 2013 is time when, despite heavy social losses during the crisis, Latvia once again is experiencing gradual growth. To follow such changes, it would be useful to take a look at the answers of Latvian residents to the question of their experience with civic involvement: participation in elections and referenda, membership in various organizations, and attitudes toward their possibilities of influencing, together with others, the decisions of the authorities.

Comparing the years 2008 and 2013, we fail to observe important structural changes. The majority of Latvian residents are relatively passive in terms of civic participation. For example, both in 2008 and 2013, the absolute majority of Latvian residents admitted to not participating in any nongovernmental organization. In 2013, only 5.9% of the respondents stated that they have taken part in rallies, pickets, demonstrations, and strikes; only 7.4% admitted to active participation in a nongovernmental organization, trade union, or professional association (LU SZF, 2013). At the same time, certain changes can be observed when comparing the pre-crisis and post-crisis periods. Albeit slight, increased activity is evident in several areas – particularly with respect to political participation. For instance, in 2008, only 0.9% of the respondents stated that they have donated money to political parties, whereas in 2013 their percentage had grown to 1.4%; in 2008, 11.4% of the respondents had participated in public debates, but in 2013, 14.1% had done so (LU SZF, 2008; LU SZF, 2013). Even though this does not signal a fundamental structural change, in certain segments of society, increased activity is observed. Overall, however, the level of participation has to be evaluated as low.

Looking at other indicators that reflect people's involvement in civic society and sentiments of solidarity, we may pay special attention to charity and volunteer work. A 2011 *Eurobarometer* survey indicates that in terms of volunteer work, Latvia is close to average among the new EU member states that joined in 2004 and 2007: in Latvia, 22% of the population are engaged in volunteer work (TNS Opinion & Social, 2011, 7). Among 27 countries, it is the tenth lowest position, with the EU average at 24%. On the other hand, a number of the old European countries – Sweden, Spain, and Portugal – look worse than Latvia in this respect. Overall, a rather high interpersonal solidarity level is characteristic of

Latvian residents: for example 58.1% of the population, according to their statements, have donated money for charity (LU SZF, 2013).

Unfortunately, the situation is different regarding participation in various nongovernmental organizations. In spite of expectations that the crisis might have encouraged people to organize, surveys indicate the opposite: in 2008, 65.8% of the Latvian population stated that they did not participate in anything, but in 2013, their number had reached 71.7%. This indicates that nongovernmental organizations as a source of social capital are unfortunately losing their significance. Even though researchers sometimes have good reasons to doubt the accuracy with which surveys can identify the real level of participation in various organizations as well as the precise formulation of the questions, it is nevertheless obvious that the popularity of nongovernmental organizations is not growing alongside the development of democracy. Regarding different types of organizations where Latvian residents participate, no fundamental changes have been observed here since 2008. The most popular are religious organizations and congregations (8.8% in 2008 and 7.6% in 2013), whose membership has again surpassed that of trade unions (9.6% in 2008 and 6.9% in 2013) (LU SZF, 2008; LU SZF, 2013). These figures pose the question as to the role and function of trade unions under the conditions of economic crisis: apparently, in 2008 trade unions were more popular possibly because of their political activities that year and initiating amendments to the Constitution. With the economic crisis, however, the popularity of trade unions has dropped. The explanation might be that trade unions in Latvia are mostly active in the public instead of private sector and that it was the public sector which was most heavily affected by the substantial budget cuts during the crisis of 2008.

The number of people who in surveys confirm their participation in nongovernmental organizations is very small in absolute numbers. Here too, however, certain changes are noticeable. The traditionally popular amateur performing arts groups (choirs, dance groups etc.), judging by survey data, have lost some of their appeal: if in 2008 7.7% of the population stated their membership, in 2013, their number had shrunk to 4.3%. That may cast doubt on the sustainability on the Latvian Song Festival tradition, still continued in July 2013. The participation of people in sports and leisure organizations and clubs has remained at about the same level (about 6-7%) (LU SZF, 2008; LU SZF, 2013).

As far as organizations that deal with sustainable development problems directly, for instance environmental protection organizations, the number of their supporters in Latvia is persistently low (1.4% in 2008 and 1.6% 2013). A similar situation is observed in regard to organizations involved in human rights protection (0.5% and 0.4%, respectively) and women's organizations (1.5% and 1.2%, respectively) (LU SZF, 2008; LU SZF, 2013). That leads to the general conclusion that the role of nongovernmental organizations over the last five years has rather diminished. Of course, people's organization habits and form of cooperation change very slowly. To a much greater extent than sometimes is believed, they depend on cultural and meaningful events. At the same time, the relatively high apathy levels and alienation from state institutions are not indicative of sustainable democracy.

It should be pointed out, however, that with respect to civic passivity, there exists a certain dissonance between the political passivity of people and the generally optimistic assumption that, owing to various forms of civic activity, something can be changed. For instance, 54% of residents who have an opinion regarding the question: «Do you personally agree that it is possible to change something by being active in a political party?» agree with the affirmative answer or at least more agree than disagree with it. With respect to writing letters to authorities, 30.5% see it as a possible means to bring about change and with respect to participation in political campaigns the relevant number is 36.9%. Most Latvian residents have a positive attitude also to various social campaigns and charity: 65.7% of those surveyed state their belief that such campaigns could improve the situation in the country (LU SZF, 2013). This indicates that the passivity of the population is not related to a particularly negative attitude toward the effectiveness of participation as such but rather to the fact that people are not using this positive resource in their own lives – because of a lack of both desire and skills. The low self-image of Latvian residents with regard to their personal knowledge and ability in the area of political participation has been noted before. Generally speaking, this situation indicates that civic passivity is more related to the area of practical action than cognitive convictions.

Sustainability of the nongovernmental sector

Even though, as follows from the above, participation in nongovernmental organizations is relatively low in Latvia, there are relatively many nongovernmental organizations active in many different areas. They have attracted a number of energetic people and enthusiasts for whom participation in civic organizations is an important part of life. Such organizations not only help people solve various problems but also constitute an important element in the development of a sustainable democracy. For the state to be able to carry out sustainable policy, it needs a continuous dialogue with non-governmental organizations which represent interested social groups. To develop sustainable policy in education, a dialogue with parental organizations, students' associations, employers' organizations etc. is necessary; to ensure sustainable social policies, it is necessary to have a constructive dialogue with trade unions and organizations of pensioners, the disabled etc. In order for policies to be adequately adjusted to the needs of society, a structured dialogue is needed with the partners in the relevant area who would be present in all stages of policy development, from planning to ensuring feedback in the implementation stage.

From this perspective, an important question has to be asked about the sustainability of Latvian NGOs themselves: can the cooperation partners of the state administration guarantee the representation of these separate groups within the system? For NGOs to be able to fulfill this task, a long-term perspective is crucial: i.e. whether or not the respective organizations are capable of attracting human resources as well as expertise and finances so as to be able to adequately represent their particular area.

Given the relatively weak support for NGOs in society, we can assume that the weak support for nongovernmental activities in general has a negative effect on the representation of the NGOs of various groups in politics. As a result, NGOs suffer from compromised sustainability: in many places, organizations are financially dependent not on membership dues but on their ability to attract financing from various Latvian and foreign foundations. As this financing dries up, the organizations are forced to limit or even discontinue their activities. That puts in jeopardy the interactions between the state administration and the relevant branch. Moreover, activities based on short-term project financing often prevents them from gaining the necessary competence to know the problems of the relevant area as well as the legislation pertaining to it and to do good work within the bureaucratic apparatus of the state.

A similar problem exists with regard to human resources whose deficit and mobility is a threat to the sustainability of the NGO sector. There are not many people who have worked in the organization of the relevant branch for any length of time and can adequately represent its interests. If they change their place of work or residence, a vacuum often forms in the organizations. In 2009, a study was done of Latvia's NGO sustainability problems, and, within its framework, focus group discussions took place with NGO activists. They were asked to respond about problems of sustainability encountered by their organizations both in terms of financing and human resources (Golubeva & Ijabs, 2009).

Regarding human resources, representatives of organizations are generally rather optimistic and believe that there will never be a lack of active people, although the total number of people involved in NGOs is not likely to grow (Golubeva & Ijabs, 2009, 8):

«In this sector, the people are the same as at the beginning of the 1990s: those that haven't left. As far as human resources are concerned, nothing terrible will happen. We will not have a huge leap in terms of capacity – that much is clear. Yet while there is demand and people who are ready to assume initiative (and there are such people among Latvians), human resources will be no problem. We still have very many people, including women, who really want to help others; who want to not just make money but do something good and worthwhile.» (Representative of Women's NGO cooperation network, as quoted in Golubeva & Ijabs, 2009, 8-9)

«We have only 180 people who pay membership dues, but we have 400 activists. There are people to help with any event. [...] Change of generations is no problem.» (Representative of Extracurricular Education and Social Assistance NGO, *ibid*, 9)

Regarding the availability of financing for NGOs in the near future, most of the participants in the study were rather pessimistic. There was a difference in opinion regarding sources of financing and most emphasized the state; some (mostly representatives of organizations of Russian speakers) stressed difficulties with writing projects and carrying them out. As the number of NGOs is growing, competition in

attracting financing is also increasing. Critical opinions were noted in the study on the lack of interest by the state and insufficient support by it, as well as amendments in the legislation that could reduce the already insufficient participation of entrepreneurs in supporting NGOs. The lack of co-financing unfortunately prevents NGOs from attracting larger EU projects, which in turn could improve the financial situations of the NGOs (Golubeva & Ijabs, 2009, 10-11):

«It is ideal if civic society is financed by the state. The state can see that NGOs can successfully solve many problems. But for that a smart state is needed, and that is our problem. The NGO structures that work only for money – their prospects are sad, for the crisis will take away financing. Structures that work on the basis of enthusiasm currently do not have great resources of that.» (Representative of a think tank, as quoted in Golubeva & Ijabs, 2009, 11)

«We live from small donations and projects. Competition is growing, but we are not picky. We feel that no one needs our projects: the bureaucrats are resisting with all their might. Resources are wasted at the state level. For instance, for two years, people, e.g., from ISEC went to Brussels for a seminar on children with special needs, but no results materialized.» (Representative of Special Interests Organization in, *Ibid.*)

«Latvia is incapable of receiving all the resources that would be available to us. Businessmen as donors have problems: today, organizations have grown their muscle and can do projects for 100, 200, or 300 thousand, but we cannot get that money because there is no co-financing. Local governments cannot give it to us either. Amendments to the taxation policy will also have a negative effect.» (Representative of Women's NGO cooperation network, *Ibid.*)

Of course, from the point of view of sustainability, the capacity of NGOs cannot be separated from their effectiveness. In other words, whether sustainable and competent NGOs will form in Latvia greatly depends on the state's attitudes to these organizations. If the state institutions are open for the participation of society, if they are interested in listening to the NGOs and involving them in decision making, motivation for participation will be substantial. And vice versa: if the attitude of state institutions to participation is formal, sustainable and competent representational organizations will probably not develop, because there will be no point in their existence.

Since the restoration of independence, a number of documents have been adopted with which the legislative and executive powers resolve to involve nongovernmental organizations in decision making; there are consultative councils at ministries. Yet, as a 2013 study indicates, dialogue between the NGOs and state administration is not always successful (Baltijas Konsultācijas & Konsorts, 2013). NGOs often are unhappy about the attitude of the state administration, especially in cases where the recommendations or protests of organizations are simply ignored. The

state administration representatives, for their part, indicate that the NGOs often lack competence in administrative and legislative issues, which makes having a dialogue difficult. Financing is also a problem: although various state organizations provide material support to the NGOs in its sector, there are no united policy in the state administration for dealing with this issue. Financing for NGOs is therefore provided in non-transparent form, based on projects that do not promote sustainability of the nongovernmental sector. First, a clear division of roles is necessary in the dialogue between the NGOs and the government, as well as respect for each other. The division of roles seems to be problematic. It is clear that passing laws and making decisions in a democratic country is in the hands of elected officials instead of non-elected NGOs, and any attempt to cast doubt on this is undemocratic per se. On the other hand, the executive power in its special status cannot give in to its bureaucratically political logic and refuse to listen to or reject the needs of organized civic society. If we leaf through the study on the cooperation between NGOs and Government recently commissioned by the State Chancellery, it is full of indications of transgressions against this mutual division of roles: here the NGOs are complaining that they are turned down without any argument, there officials complain that the NGOs actually want to take away the decision making functions from elected politicians and usurp their authority. Obviously missing here is an initial discussion in which the roles in this process would be defined.

In order to improve the role of the NGO sector in the democracy and care for its sustainability, long-term cooperation between the state and nongovernmental organizations is necessary. The state administration too should be interested in the existence of active and competent NGOs without which balanced decisions cannot be made. At the same time, the relatively new civic organizations of Latvia must gradually shift the emphasis from confrontation to cooperation with the state as the guardian of the legitimate interests of a democratic civic society.

Conclusion

As far as the involvement of Latvian society in the development of a sustainable democracy is concerned, we should think about ways of promoting the involvement of citizens in the discussions of important questions, at the same time educating them on the basic principles of a democratic state and the democratic system of Latvia. As we saw, very often, society's readiness to participate faces a fundamental lack of a civic attitude and lack of understanding of the basic principles of the structure of the Latvian state and its core values. A good excuse for such educational labor could also be the expected discussion on the draft of the preamble to the Constitution. The development of civic participation should also go hand in hand in improvements in the quality of the media, trying to shift them away from sensationalist reporting to a more detailed understanding of the political processes.

Regarding the problems of sustainability of the Latvian NGO sector, the main task of the state administration would be to create easy to understand and transparent regulations

for those NGOs that would like to take part in the decision making process. That includes the distribution of financing to the NGOs, which should take place in all ministries and institutions according to the same and easy to follow principles, avoiding ad hoc support. As far as NGOs, attention should be paid to the need to foster the internal democracy of the organizations; transparent processes of decision

making, and representational authority. It is necessary for the public administration, in cooperation with the NGOs, to really work for results, without wasting time on solving problems of branch representation. It should also be noted that state financing in different forms, including co-financing, will still be crucial for an effective cooperation of competent and powerful NGOs with the state.

Box
5.1

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

The greatest achievement in the area of civic participation is the stable work of democratic institutions (elections, referenda, civil rights protection system), which in Latvia is free of political interference. In this respect, Latvia has accomplished much. Another achievement could be considered the emergence of new forms of participation, including in the Internet environment.

Most serious problem

The alienation of a large part of the population from state democratic institutions as well as a low level of nongovernmental participation and social capital are the greatest problems. Even though a democratic country can live for a long period of time with low levels of support to democratic institutions, this phenomenon has a number of negative consequences: increase of emigration, civic cynicism, and low prestige of the political profession.

Most important tasks

First of all, it is necessary to reinforce the political party system, which serves as an interface of sorts between civic society and the state. It would be possible to increase the minimum number of party members as well as reject the so-called changeable lists, which weaken party structure and promote the formation of short-lived phantom parties for the needs of 1-2 elections. Second, the state should work out a uniform strategy for its work with the NGOs, including their financing. In order to maintain a dialogue with their particular branch, various state institutions should stimulate the consolidation of sustainable NGOs, which could engage in a quality dialogue with the public administration.



Use of information pertinent to sustainability of society

6

Chapter

An important factor in ensuring the main principles of social sustainability – equity, quality of life, and democratic governance is information availability to any member of the society. Only in an informed society it is possible to guarantee the main elements of the social dimension of sustainability: satisfying people's basic needs; an equal access to services (including healthcare and education) and participation in the political processes (Harris, Wise, Gallanger, & Goodwin, 2001). We will therefore analyze where and what information the residents of Latvia are seeking and how easily accessible and understandable it is. We will also pay attention to the range of available e-services and to what extent Latvian residents use these e-services in whose development the state has invested substantial means.

Types of information, sources, availability and trustworthiness of information

The survey data obtained by the Human Development Report indicate that residents have most needed information on developments in Latvia (72.7%), developments in their city or municipality (70.6%), medical services (63.4%), and educational opportunities (46.4%).

Those who are looking for reliable information on **developments in Latvia** most often find it in mass media (radio, television, and the press) (66%). The older generation usually obtains information from the media and less from the Internet. The younger generation has the opposite information

gathering habits, but the age group 15-24 finds information both in the media (49%) and the Internet (47%). Finding information on **developments in one's city or municipality** follows a similar pattern. Only 8% of residents who have looked for such information have obtained it from the webpage of the local government, which should actually be an up-to-date and reliable source of information.

As far as **medical services** are concerned, women (69.5% of all women) have been interested in them more than men (63.6% of all men), city dwellers (62.5% of Rigans and 68.8% of other urban dwellers) more than country residents (59%). Substantial differences in the interest in medical services are related also to the education of the respondents: those with higher education have shown more interest (72.1% of the respondents with college-level education, whereas in the group with less than a high school education, only 53.4%). Women traditionally care more for their health, whereas people with higher education may be better able to afford medical services. Reliable information regarding medical services has equally often been obtained from family members, friends, colleagues, and through consultations with employees of government institutions (27% of those who have sought such information).

43% of those surveyed who have looked for information for **education opportunities** (information on educational institutions, courses, possibilities for obtaining professional qualifications etc.) have received it from the Internet. 15% have received reliable information from the mass media and 14% from family members, friends, and colleagues. Slightly less has been the use of webpages (12%) and the opportunity to consult with an employee on the spot or by phone with an employee (11%). Information has also been noted to be received at educational institutions, from brochures, and the fair «School». The need for information on possibilities for education has been most pressing for young people (81.3% of the young people surveyed have sought such information), whereas in every subsequent age group the information about various education opportunities becomes less of interest. Analyzing other social demographic differences, certain trends that seem somewhat paradoxical emerge. Information on various education-related issues seem to have been more of interest to people with higher education (60.5% of the surveyed in this group), whereas those for whom raising their education and qualifications level could be most essential – people with less than secondary education (38.2% from the surveyed in this group) – have shown the least interest in looking for this kind of information.

One of the aspects of social sustainability is social inclusion and reduction of social inequality. It is therefore important that the residents have available information on the various social guarantees: benefits, tax exemptions, pensions. With that in mind, we will take a closer look whether people have been seeking such information and where they have done so most often. Information on **state level normative acts** – laws and Cabinet of Ministers regulations – has been necessary for 38 % of the population. Those who have sought such information mostly have obtained it from the media (36%), Internet (30%) and webpages of state or municipal institutions (24%). Of those surveyed, 39% have taken an interest in the **resolutions taken by the local government**.

Comparing the data by place of residence, Rigans have taken less interest in the local government decisions (33%), but for those residing in the country or other cities, the interest level has been slightly higher (42% and 42.5%). These issues have been more important to residents with a college education. Those who have sought information on resolutions taken by the local government have mostly got it from the mass media (43%), only 19% have got it from the webpage of their local government, and 10% by consulting with an employee at a state or municipal institution.

According to the results of the survey, information on various **benefits** was needed by 42.8% of the population both in the country and cities. In a breakdown by income on one family member, residents with lower income have shown more interest. Reliable information was most often obtained by consulting employees at state or municipal institutions (41% of those who needed such information). Those who sought information on benefits, have used webpages of the relevant institutions less frequently (14%), some have obtained the information somewhere else on the Internet (15%) and others from friends or colleagues (14%). Information on **tax exemptions** was necessary for 39.9% of the population. Most interest was shown by residents in the age groups from 25 to 34 (54%) and from 35 to 44 (48%). Those who have sought such information have most frequently found it by consulting employees at state or municipal institutions (29%), and on the Internet (21%), whereas state or local government webpages have been used relatively rarely (18%).

35.7% of the population have been interested in the **second pillar pensions**. Mostly this information has been of interest to residents in the 25-34 age group (47%). Reliable information on these issues has most frequently been found by consulting employees at the state or municipal institutions (29%), as well as on the Internet (22%), with the webpages of state or local government used relatively little (10%). Respondents have also mentioned learning information on the second pillar pensions at banks.

According to the survey data, relatively few people have taken interest in the possibilities of starting their own **business** – a mere 23.5%. Yet there are rather substantial differences among those interested. In a breakdown by age, most of those interested have been in the age groups 25-34 (36%) and 35-44 (33%); but the number has been smallest in the age group 55-74 (10.3%). There are important differences also by other parameters – residents with high income have expressed more interest in the possibility of starting their own business than residents with low income (39.8% in the income group LVL 501 and above to 10.8% in the income group LVL 151-200). The trends are similar in relation to education – people with higher education have taken interest in starting their own business substantially more often than people with a low level of education. In a breakdown by gender, the replies testify to business as a traditional male occupation: this information has been sought more often by men than by women. Most frequently it has been obtained on the Internet (34% of those who have sought it) or from acquaintances (21% of those who have sought it).

The number of those who have sought information on obtaining and use of **e-signature** is almost equally small (19.8%). This information has been more of interest for

residents of active working age – from 25 to 34 (31%). Those who have sought reliable information on this have most often obtained it from the Internet (36%) or by consulting with employees at state or local government institutions (23%).

Comprehensibility of institutional information

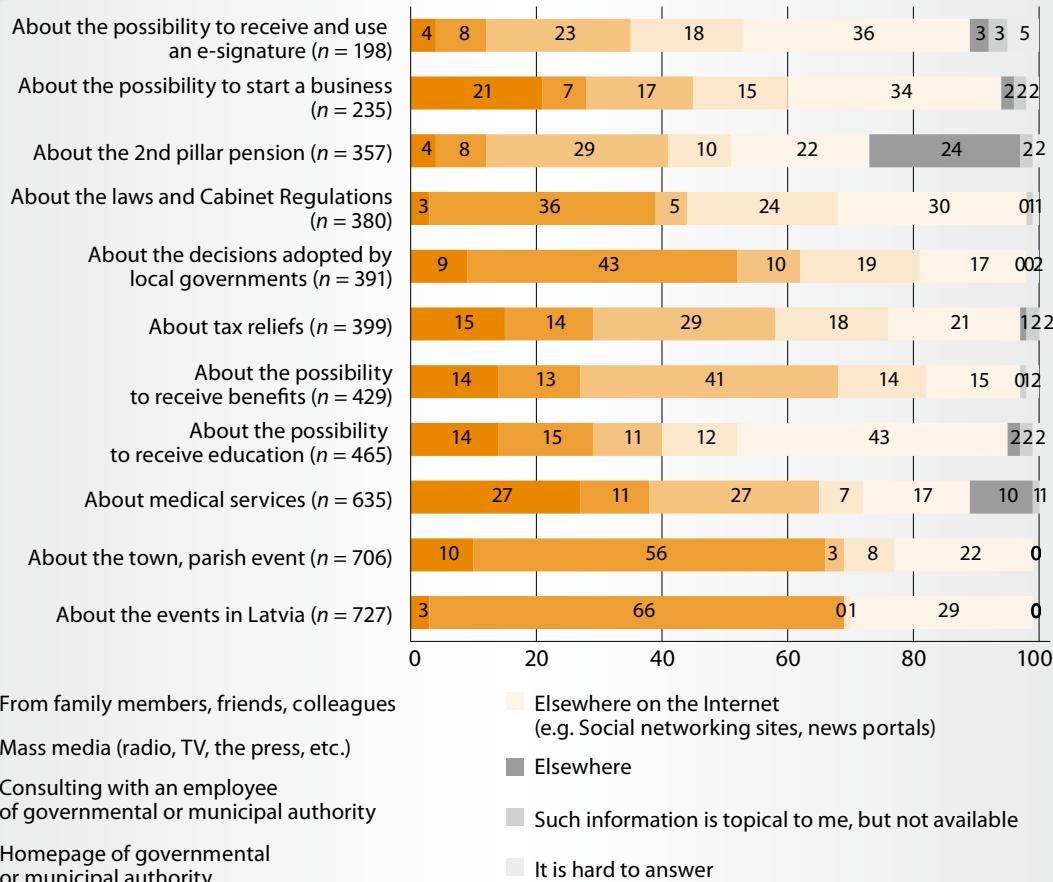
Social sustainability depends upon the social security system of the population. This system consists of various social services, but the ability to use them depends on the level of information and understanding of these services. In order for the information to be used for rational decision making and well-weighed actions, which would thus improve people's overall quality of life, it is important for it to be comprehensible. Information comprehensibility is characterized by several aspects: language (sign system) whereby information is registered and transmitted; representation (the structure of the text and other elements); logic of the exposition etc. Comprehensibility of information is one of the quality indicators of the information provided by state and local government institutions.

Survey data indicate that 77.1% of the population have sought information necessary for their social security and resolution of everyday problems (for instance, information on taxes, social benefits, the labor market, education, developments in the local government, housing management, etc.) (Box 6.2). Most frequently, information has been sought with the local government (37%), followed by State Revenue Service (32.9%) and kindergarten or school (28.6%). Slightly less frequently, information was sought with social service/with a social worker (27.4%) or at the housing management office / with housing manager (27.3%). Only one fifth of those surveyed have sought information from the State Social Insurance Agency and State Employment Agency, or various municipal services (water supply, garbage collection, etc.) (22% in all).

The comprehensibility of information provided by the official institutions varies, however. In the assessment of those respondents who have needed the relevant information, it has been most comprehensible coming from kindergartens and schools, both when consulting their employees and examining their webpages. The lowest assessment in terms of information comprehensibility is given to the

Box
6.1

Types of information and the locations for its obtaining (%)



Base: respondents, who chose the respective information type and location (number of respondents (n) appears on the illustration).

Source: NI: Human Development Report: Latvia (LU SZF, 2013).

housing management office (or housing managers) – one third of respondents who have sought information there consider the information provided only partially or not at all comprehensible.

Analyzing the **comprehensibility** by the manner of obtaining it (Box 6.2), it is evident that through **in-person consultations** with employees of official institutions, most residents have obtained comprehensible information in schools and kindergartens and the State Social Insurance Agency (respectively 91% and 83% of those who have obtained such information), substantially fewer respondents have obtained comprehensible information through in-person consultations with employees at local governments and housing management offices (respectively 74% and 67% of those who have obtained such information).

The survey results indicate that residents use webpages of official institutions relatively rarely. Of the information available, the most comprehensible information, according to those surveyed, is found on the webpages of schools and kindergartens and State Social Insurance Agency

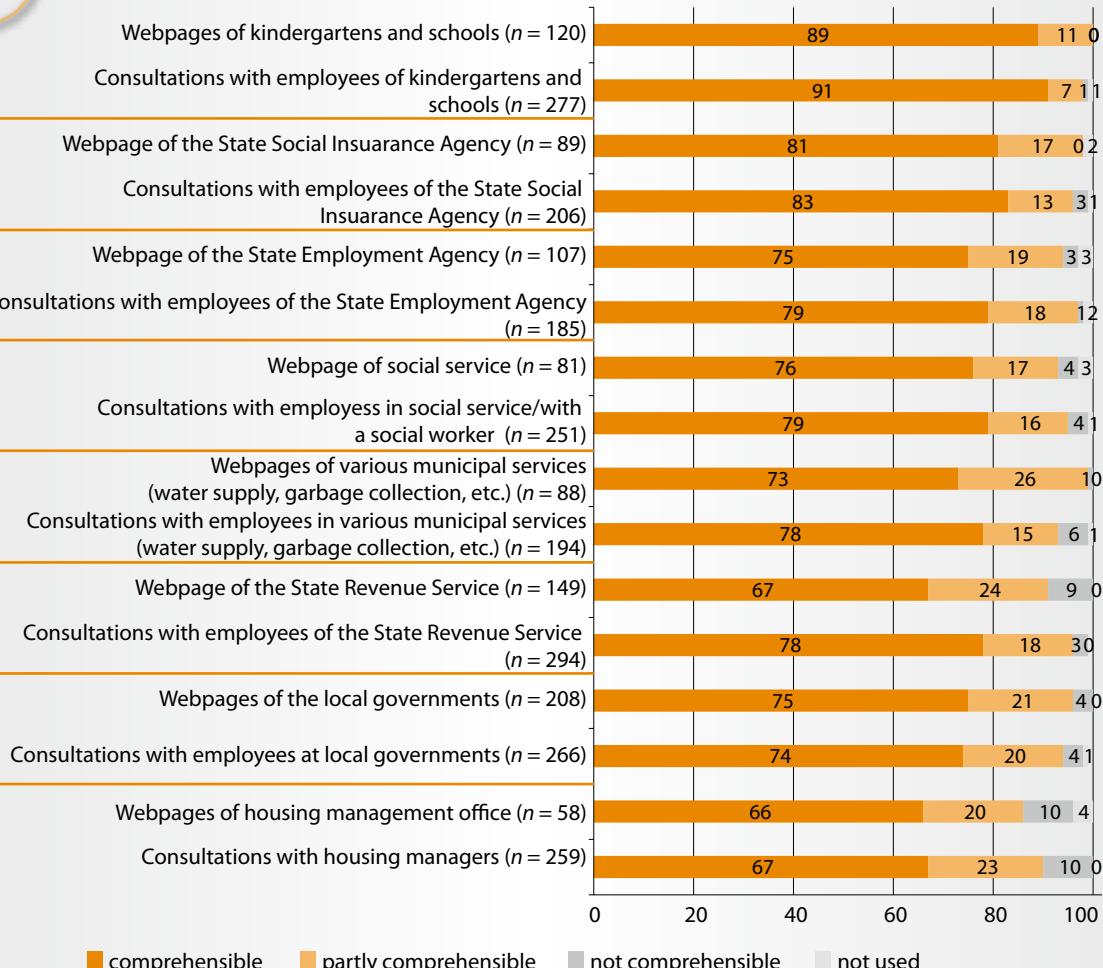
(respectively 89% and 81% of those who have sought such information), but it seems less comprehensible on the State Revenue Service and housing management office sites (respectively 67% un 66% of those who have sought such information).

Electronic services: awareness and use thereof

Electronic services (e-services) are services that are provided remotely, using electronic information exchange and electronic means of communication. In the area of digitization of public services, 20 e-services (12 services to the general population and 8 to businesses) are designated in the European Union (EU) as basic services that must be provided in all member states. In this range of services are mentioned such e-services as information about income and taxes, social security, personal (including medical) information, registration of transport vehicle/business, submitting of declarations, applying for studies etc. (Capgemini, IDC, Rand Europe,

Box
6.2

Obtaining and comprehensibility of information



Base: respondents who have obtained information from the relevant official institution, (number of respondents (n) by group of services pictured).

Source: NI: Human Development Report: Latvia (LU SZF, 2013).

Sogeti & DTi, 2010). In the ninth e-government evaluation report prepared by the European Commission (EC), Latvia is mentioned as having significantly progressed in providing such services: in 2010, Latvia was 15th of 32 countries and had transformed in an electronic format 65% of the 20 e-services, which places it above the European average (to compare, in 2007, Latvia was 28th of 31 countries and had transformed in electronic format only 30% of the above services) (Capgemini et al., 2010). One of the positions in which Latvia's indicators exceed the European average is the availability of services to residents online: 90% (EU average (in 27 member states) 87%) (Box 6.3).

The potential of the use of e-services is characterized by the statistics of the infrastructure of the information and communications technologies (ICT) and habits of Internet use by the population. In 2012, an Internet connection at home was available to 69% of households. Of all households that had access to the Internet, 67% had a broadband connection, which is 44 percentage points more than, for instance, in 2006 (23%). In 2012, 70% of the population (in 16 to 74 age group) used Internet regularly (at least once a week) (Eurostat, 2013). The above data suggest that Latvia has an infrastructure suitable for e-services to be used and sufficient activity of residents in using the ICT.

A targeted introduction of e-services in Latvia is taking place within the framework of the development of electronic government (e-government). E-government is access to providing social services and carrying out state government that is based on ICT possibilities and the use of principles of action characteristic of e-business. The development of e-government is aimed at improving the quality of life of the population, providing electronic access and ICT skills, focusing on digital skills, as well as on the development of social services to meet the needs of residents (LR Cabinet of Ministers, 2011). To reach this goal, several directions of action have been set, for instance, reducing the administrative burden (introducing the principles of one-stop agency and optimization of the ICT infrastructure in state administration – the www.latvija.lv portal as the point of one-stop agency), as well as introducing e-services adequate to the needs of the population. These directions of action in the context of human capital and innovative governance have also been mentioned in the Strategy of Latvia's Sustainable Development

to the Year 2030 (LR Saeima, 2010). The sustainability of e-services is in their active and functional use, therefore, in the study for the Human Development Report, the crucial aspect of the value of e-services is its adequacy vis-à-vis the needs of the population.

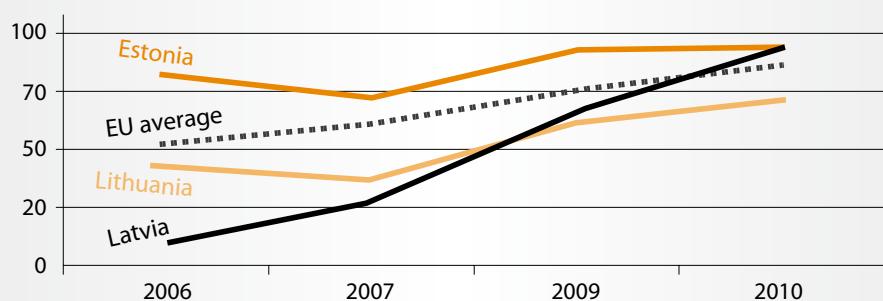
In a situation where Latvian residents are active ICT users, an adequate infrastructure is available and a sufficient range of e-services has been developed, it is necessary to find out if these services **match people's needs**. In the analysis of the aforementioned aspect, three problem questions are of crucial importance: has the population been informed about the available e-services; what is the intensity of use of the known e-services; what are the reasons for not using e-services? To find answers to these questions, the opinions of Latvia's residents have been obtained on the e-services that are available from the joint state and local government services portal www.latvija.lv, as well as from sites that provide e-services that are relevant for everyday situations. At the beginning of 2011, at the portal www.latvija.lv information on more than 1,500 services was granted by the state and local governments. Altogether, the state portal www.latvija.lv was visited 5.5 million times in 2010, i.e. about 15,000 times a day, which points to the high interest of the public in obtaining state administration information (LR Cabinet of Ministers, 2011). The websites studied in the survey are epakalpojumi.lv, bezrindas.lv, bilesuparadize.lv, bilesuserviss.lv, www.vid.gov.lv, csdd.lv, and internet banks.

In accordance with the EU-defined basic range of e-services and according to the rights and obligations of the data subject that are provided for in the normative documents of Latvia (the possibility to follow information about oneself in the government information systems and to check facts from which social security, the amount of pension, tax calculation for a property and other important questions) (LR Saeima, 2011-2012), 14 e-services groups in four categories were chosen for a detailed analysis in the study:

- 1) *practical needs of everyday life* (paying utility bills; purchasing tickets for cultural and sporting events; purchasing public transportation tickets; payment of real estate tax);
- 2) *communication with state and municipal institutions* (applying to studies in the primary studies programs; electronic application to a state or municipal

Box
6.3

Availability of basic services (%) to residents online, 2006-2010



Source: LR Cabinet of Ministers (2011, 6).

- institution; registering a personal business; submitting an income declaration; submitting a residence declaration);
- 3) *social security* (information about the account of a second pension pillar member; information on pensions, benefits, compensations; information on taxes withheld; information on insurance payments and insurance periods);
 - 4) *opportunities determined by the normative base* (checking one's data in state registers).

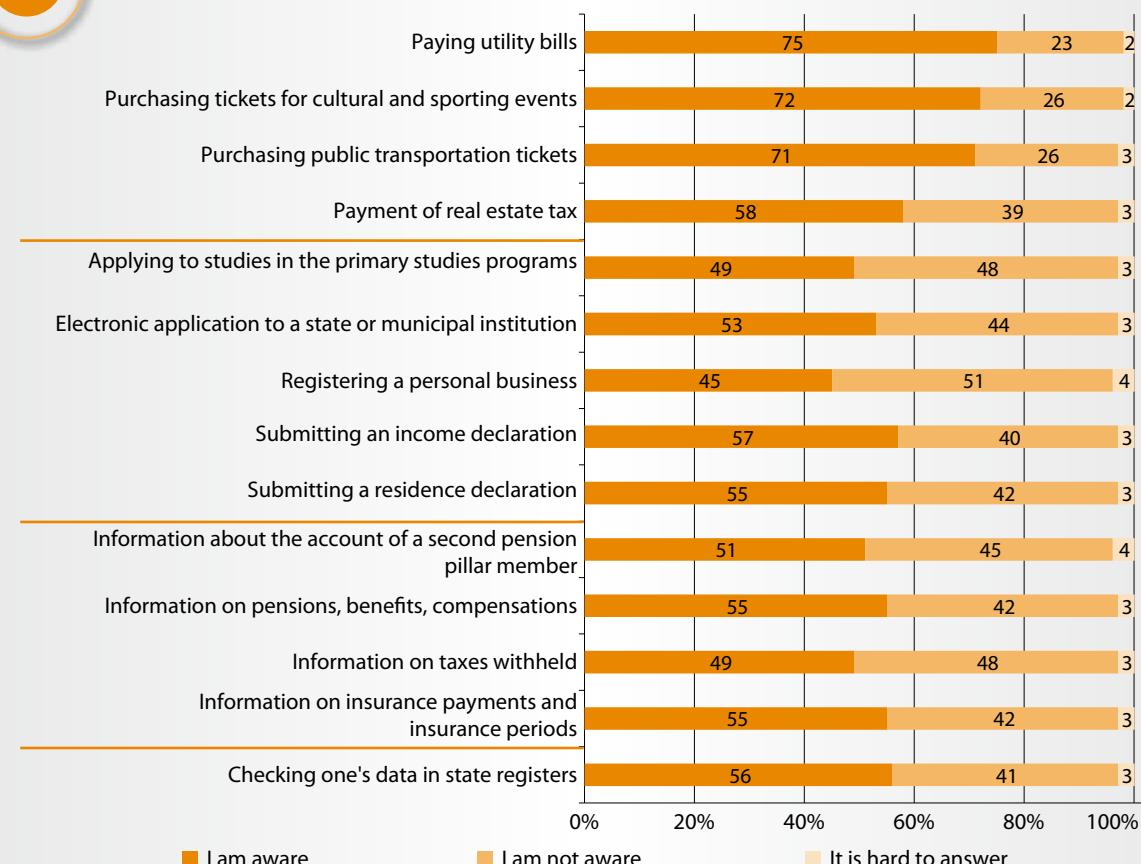
Survey data (LU SZF, 2013) indicate that 82% of the respondents are aware of at least one of the 14 services mentioned in the survey. Most respondents are aware of the opportunity to pay the public utilities bills (75%), but the least number of respondents know about the opportunity to register their business electronically (45%). Analyzing particular categories of services (Box 6.4), it is evident that the population is best informed about e-services in the practical needs of everyday life category, but the least number of residents are aware of social security services and communication with the state and municipal institutions. Analysis of the level of awareness indicates that the respondents have a medium level of awareness of the e-services that are aimed at optimizing the ICT infrastructure in state administration and to introduce the principles of one-stop agency, i.e. to reduce

the administrative burden. For example, only a half of the respondents are informed of e-services that would provide them with the opportunity to follow the news on social security payments and pension levels, even though this information is the cornerstone of social guarantees. These problems deserve a more critical analysis, evaluating the success of the development of e-government.

Yet it is one thing to be informed but quite another to use the particular services. To find out about the intensity of use, we will examine the opinions of those residents who are informed about any of the e-service groups. Survey data indicate that, for instance, in the category «practical needs of everyday life», in which the level of awareness is highest, almost half of the informed residents have not used it (paying for public utilities, which is not used by only 28% of the informed respondents, is an exception; see Box 6.5). Most respondents have used services in this category regularly or have used them at least once. Thus the opportunity to electronically pay the utility bills is regularly used by 64% of the informed respondents. The largest number of those who are informed of e-services but do not use them is in the category «communications with the state and municipal institutions.» Thus the e-service «electronic application to a state or municipal institution» has not been used by 76% of the informed respondents. If the intensity of use of

Box 6.4

Latvian residents' awareness of electronic services (%)



Base: all respondents, n = 1001.

Source: NI: Human Development Report: Latvia (LU SZF, 2013).

the above service is evaluated in the context of all respondents of the survey, it is evident that 5% have used it regularly and 8% at least once. These results indicate that the population is still rather passive in using the advantages offered by e-government.

In order to find out why the respondents have not used any of the provided e-service groups, the reasons for lack of use have been surveyed. In this case, clarifying questions have been asked about the services for which the respondents chose the answer «have not used». In all the groups of electronic services, the respondents have not used them because there has been no need to do so (even in the e-service category «practical needs of everyday life» where the awareness level was highest). Such dominating answers are observed independently of the respondent's age, location, or education level. A relatively small part of the population have noted a lack of skills or the fact that someone else is doing what needs to be done on behalf of the respondent.

Comparing the reasons for the Latvian population non-users of e-services with the ones mentioned in the e-government development evaluation report on the EU countries a correspondence is observed. Similar to Latvia, the dominating reason why the residents of EU member states fail to use

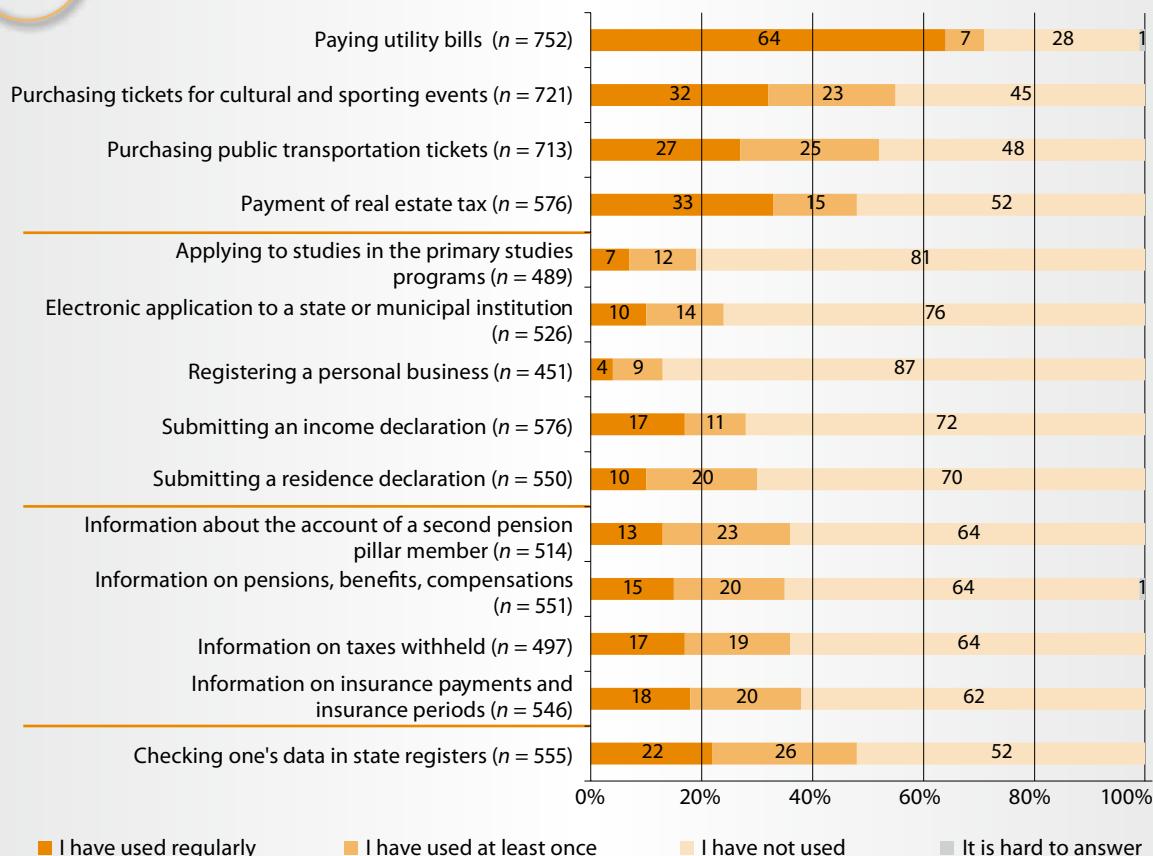
public e-services, is a lack of need (European Commission, 2010). The data of the survey of Latvian residents are indicative of the current problematic situation in e-government development in Latvia: one of the directions of its actions is the introduction of e-services that would match the population's needs, yet most of the population is not yet informed of them or do not have a need of them. Soon the young generation that is accustomed to using electronic devices already from their pre-school or school years will come of age. To them it will seem natural to take care of all their needs on the internet; and then perhaps the e-services platform will finally be used fully.

Conclusion

The population has expressed active interest in developments in Latvia, their city or municipality, in medical services and educational opportunities. There has been surprisingly little need for information on such an important question in the age of the Internet as obtaining and using the e-signature, as well as on the possibilities of starting one's own business relevant in the conditions of market economy. The data obtained in the study indicate that reliable information

Box
6.5

The intensity of use of known electronic services (%)



Base: respondents who were informed about some of the groups of electronic services (number of respondents (n) in groups of services shown in the illustration).

Source: NI: Human Development Report: Latvia (LU SZF, 2013).

is sought in various sources, yet the use of the media and the Internet are most widespread; information is also obtained from family members, friends, and colleagues. Generally, it can be concluded that information on various questions related to social sustainability is available, but not always the safest and most updated information sources are used. For instance, the websites of state and municipal institutions are used very rarely.

77% of the residents have sought the information relevant to their social security and taking care of everyday problems (e.g., information on taxes, social benefits, labor market, education, developments in the municipality, housing management, etc.) in various official institutions, both in person and on websites. In almost all institutions, comprehensibility of information obtained in consultations with employees is valued higher. Evaluating the comprehensibility of information by both means of obtaining it, kindergartens and schools have got the highest approval: 92% of those who have sought information from these institutions either consulting an employee or looking at the webpage consider the obtained information easy to understand. The lowest rating has been reserved for the information obtained from housing management offices: it has been evaluated as comprehensible by 67% of the respondents who have sought information there. Overall, however, most of the respondents

consider the information of those institutions that provide services essential for social sustainability comprehensible.

Latvia has an infrastructure suitable for the utilization of e-services, sufficient activity of the population in the use of ICT, and the range of government provided e-services is wider than on average in EU member states. Yet the study indicates that the population makes little use of e-services. Assessing the correspondence between the needs of the population and the e-services provided, several problems come to light. First, the level of awareness of the e-services on offer is mediocre, particularly the services that are related to communications with state or municipal institutions or social security. Second, the overall intensity of e-service use is low, because only 13% of all the respondents use the examined e-services regularly, 10% have used them at least once, 34% are informed but have not used them, and 43% are not even aware of them. Third, even where the residents know about any of the services the intensity of their use is insufficient. The main reasons why people do not use the e-services provided are lack of information (people are not informed about the availability of such services) and a lack of need. The sustainability of e-services depends on their active and purposeful use, therefore the problems listed indicate that serious measures popularizing, explaining, and motivating the population are necessary.

Box
6.6

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

In recent years, an ever increasing part of the population can access and use information necessary to solve everyday problems remotely, by using information resources freely available on the Internet.

Latvia can take pride in a developed information and telecommunications technology (ICT) infrastructure; most of the population have access to computers (69.5%) and the Internet (68.7%) (*LR Central Statistical Bureau, 2012*), and a goal-oriented introduction of e-government is being implemented in Latvia.

Most serious problems

Despite the fact that a large part of information necessary for solving everyday problems is usually available on the webpages (websites) of local governments and state institutions, the population make relatively little use of it. The use of e-services is also not very common, because people are often not informed about the e-services on offer and even in cases where people are aware of some of the services the intensity of their use is insufficient.

Most important tasks

With an increasing part of the population actively using the ICT, it is essential that the remotely available information and e-services match the needs and interests of the population that they be comprehensible and easy and convenient to use. In order to ensure this, the specialists of state and municipal institutions should improve the practicability and usefulness of the webpages, paying attention to the assessment by residents of the information posted there and the possibilities of locating it. For a more active use of e-services, it would be necessary to explain and popularize them as well as motivate the population to use them.



Sustainability of territories: the individual perspective

7

Chapter

From the perspective of human development, place is an important factor for the realization of possible activities of life of a person and community, therefore this chapter is dedicated to the analysis of the sustainability of territories. In the context of territorial development, the notion of sustainability has been used in the planning documents both at the national and EU level; at the same time, study of sustainable development is a serious challenge from the methodological viewpoint. We will look at the role of territories in sustainable development, the instruments for determining the sustainability of territories, and will take a closer look at the aspect of territory sustainability that is most difficult to measure, the social dimension. Even though effective and, from the point of view of methodology, impeccable social indicators of territory sustainability are yet to be developed, in this chapter, we will turn to an analysis of those social phenomena that are crucial for the viability of a place and community. In the survey

conducted in the framework of the Human Development Report, only 7.6% of respondents could state with certainty that their grandchildren will continue to live in the same locality (LU Faculty of Social Sciences, 2013). Not only the place is a factor for the realization of life activity of a person, but a person is a factor in the development of a place. If the population of Latvia does not see their place of residence as attractive to their grandchildren, can we consider these territories sustainable? This is why the concluding chapter of the Report is dedicated to the relationship between people and place, inviting a discussion about the sustainability of territories.

EU and national strategic documents on sustainability

Well intended policy measures of some branches during their implementation can lead to unexpected

consequences: support for intensive agriculture can endanger the biological diversity of a landscape; the realization of the plans of external investors may come into conflict with the interests of the local community etc. The concept of sustainability based on the goal to reach the balance of different systems aims to balance the relatively short-term economic interests with the long-term development needs of the social system and ecosystem. The concept of sustainable development (growth), along with the idea of **balance (balanced development)** of different systems also emphasizes the significance of the temporal dimension in the development processes. Sustainability means not a short-lived leap forward but moving toward a stable **long-term balance** in the life of nature, society and each individual. Another feature significant for sustainable development is that it is not an achieved static situation of a system: **sustainability is a dynamic process**, movement toward an even more sustainable growth because the ecological, economic and social processes are constantly undergoing change.

In strategic development documents, great attention has recently been paid to sustainability of development. Sketching out the directions of European Union development for the next decade, the strategy «Europe 2020» provides for smart, sustainable, and inclusive growth. The priorities set out in the strategy are as follows:

- smart growth, i.e. development of the economy based on knowledge and innovation;
- sustainable growth, i.e. promotion of the kind of economy that would be more effective in terms of resources, less damaging to the environment, and more able to compete;
- socially inclusive growth, i.e. promotion of an economy with a high level of employment and one that ensures economic, social, and territorial cohesion (European Commission, 2010).

Both at the EU level and at the level of particular countries, these priorities have been formulated in common goals of development and determine also the particular development indicators to be reached by each country.

The Latvian National Development Plan for 2014-2020 is the main medium-term development planning document in the country. It is stated on the National Development Plan (NDP) webpage that «NDP 2020 can also be viewed as a

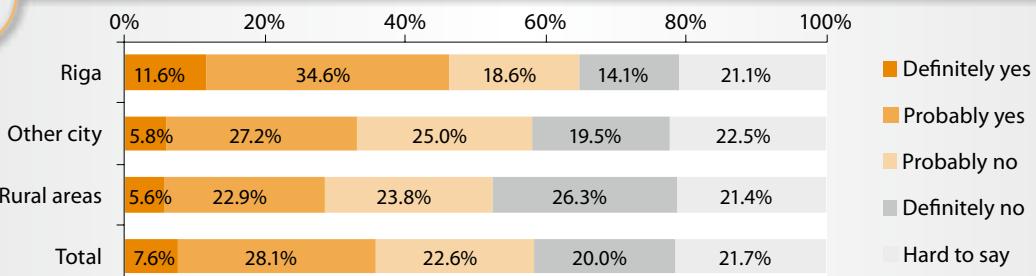
«social contract», which the state takes upon itself to execute/achieve by 2020 and which it expects from the society. The state indicates the common vision regarding medium-term development in order to ensure long-term predictability in the decision making of branches, businesses, and each individual (Trans-department Coordination Center, 2013). In the main planning document that is legally binding, the «Latvian Strategy for Sustainable Development by the Year 2030» (LR Saeima, 2010) sustainability of development is emphasized in its very title. In all these documents, the notion of sustainability has been used in different contexts. Yet certain problems come from the fact that the state planning documents sketch out the guidelines for development but do not provide clear points of reference for the planning of the development of territories in the medium term. Also at the level of ministries and branches, planning documents are being agreed rather formally and the development of different areas is not being planned in a mutually supplementing way. As a small country with limited resources and very unevenly developed territories, Latvia would certainly benefit from the notions of sustainability and balanced development being used in a less declarative form and more practically, drafting the development documents of territories and branches in a mutually agreed way. Of course, no planning document will ever be able to predict all the nuances, for a balanced development of the economic, social, and environmental systems, which form the basis of the concept of sustainable development, can practically be carried out in a variety of sustainable development models. In each particular situation, unique combinations of various systems can emerge, ensuring sustainability of development.

Indicators of sustainability of territories

We will now attempt to find an answer to the question what sustainability means in the context of regional development and stimulate discussion on the possibilities for determining objective criteria for the sustainability of territories. How can it be ascertained that a territory's development is sustainable? What are the indicators of sustainable growth? Developing sustainable development indicators of different scale (state, regional, district, municipality, particular settlement) is a topical area of research at the EU

Opinions of the population regarding whether their grandchildren will live in their place of residence

Box 7.1



Base: all respondents, n = 1001.

Source: NI: Human Development Report: Latvia (LU Faculty of Social Sciences, 2013).

level (and also in Latvia), putting a particular emphasis on the need to turn to social aspects (European Communities, 2009). Most often, sustainability is reduced to an economic and ecological development dimension, without paying adequate attention to the aspects of social sustainability because measuring and analyzing these is very complicated.

Ecological and economic development can be measured by quantitative indicators. It is relatively simple to measure the ecological processes, for they are characterized by such indicators as the variety of species, levels of pollution, CO₂ emissions, etc. For precise evaluation of these processes, arrays of important, reliably obtained data are necessary, which characterize the developments in the ecosystem in the long term. In the analysis of processes in the ecosystem, the costs of data acquisition and availability of data on long term observations could be problematic (measuring equipment is expensive and technologically complicated; observations have begun recently; they have been temporarily interrupted because of limited financing, etc.). The accuracy and data availability of monitoring measurements most often depends on the availability of technologies and financing.

The developments of the economic life of a society can be easily measured by quantitative indicators. Economic growth is characterized, for instance, by the number of jobs created, the amount of investment attracted, and similar indicators. These indicators are used in practice to evaluate the economic effectiveness of various projects already carried out. Even though theoretically these are good indicators of economic processes, their use is often complicated not only by the credibility of data (than correct methods of data acquisition) but also by a lack of data from the important territorial angle. Decision makers (state and local government representatives) have available data from the *novads* (local government) at best, whereas reliable data on many significant economic processes are not available even for the region, not to mention *pagasts* (similar to parish in UK) or a particular locality. Even though the methodologies of statistical data acquisition have been carefully developed and are very complicated, official statistics do not always present the real situation accurately. For instance, analyzing such an economic aspect as migration of labor, it cannot be characterized accurately on the basis of official statistics. Analyzing the regional migration processes in the Baltic countries, professor Mikhail Hazan writes that the official data (not only from Latvia but also Lithuania, Estonia, and other countries) cannot be used for econometric analysis (Hazan, 2013). Analysis is complicated also by the changes in the administrative division, because the borders of *novads* (municipalities), districts, and *pagasts* have undergone historical changes, therefore it is almost impossible to obtain quantitative data that would characterize the development of a particular place in a longer period of time (e.g., in 2-3 generations).

The analysis of social processes is even more complicated, because it creates additional methodological problems. The dimensions of social sustainability are characterized both by objective (subject to quantitative measurement) and subjective (subject to qualitative measurement) developments. Parallel to quantitative indicators characterizing the well-being of the population (level of income, household amenities, etc.), the subjective indicators

characterizing individual satisfaction with quality of life are important and researchers are trying to capture them with such subjective evaluations as satisfaction with life (OECD, n.d.; Koroļeva, 2011), well-being (Cimdiņa, Raubiško, 2012), and the like. Unfortunately, both decision makers and society at large tend to have a rather skeptical view of the need for a quality data analysis in understanding social processes. The triangulation of data (a complex analysis of data obtained by various methods) provides a much deeper understanding of the developments in society. Parallel to the information obtained as a result of a quantitative analysis on «what people are doing, how they are behaving», qualitative data provide an insight in «why people are behaving that way», an understanding of how differently representatives of different social strata see the world. Most people make the crucial decisions in their lives not after a thorough analysis of statistics, strategies for their country's development, and similar documents but guided by their understanding of values, subjective assumptions, or because «that's how it should be done», because «that's how it's done (according to tradition)», «everybody does it like that» (social stereotypes), etc.

The examination of sustainability of a territory is a serious challenge to a (multidisciplinary) team of researchers that turns to a concrete place as a unified whole of the natural and historical landscape of the space and community, assessing its long-term chances of well-being and resilience. **Resilience of the place and community**, the ability to survive crises, adapt, flexibly transform in changing circumstances, is an important indicator of sustainable development. Those places that are able to survive the changing circumstances and maintain attractiveness as places of settlement are sustainable.

In the survey of the Latvian population conducted during preparation of the Report, the respondents were asked a question: «What do you think – will your grandchildren live in that locality (*pagasts*, town, *novads*) where you live now?» (Box 7.1). Only 7.6% respondents were certain that would be the case, 50.7% had doubt, and 20% replied in the negative. Thus less than a tenth of those surveyed are sure of the resilience of their current place of residence, one half has doubt about it, one fifth has no opinion, and another one fifth is certain that the next generations will conduct their life elsewhere. Perhaps the situation is not so dramatic because most people simply refrain from definite predictions regarding the choice their grandchildren will make about their place of residence.

Analysis of the replies received indicates that differences are greatest in the breakdown by type of locality. Assessing the distribution of the replies of respondents by *novads*, it can be concluded that it is inhabitants of Riga who most often believe that they will not change their place of residence, whereas the number of such respondents is the smallest in Latgale. Country residents by and large are the least optimistic about the resilience of their current locality: 26.3% of the surveyed believe that their grandchildren will definitely abandon the places of residence of their ancestors. Compared to all respondents, most of the skeptically minded (those who chose the answer «definitely not») are among those who do not work (25.9% against 16.1% of those working), and those respondents who live in households without children (22.2% against 16.7% respondents from households with children

up to 18 years of age). Certainty about the resilience of one's current place of residence grows along with the income level. Among the well-to-do respondents (monthly average income per family member above LVL 301), 46.8% chose to answer «yes» or «possibly yes» and only 12.1% replied «definitely not», and this distribution of answers differs substantially from the average. The future will show if these are judgments about the resilience of these places or it is a reaction to the publicly dominating opinions about the inevitability of the concentration of the population in the central part of the country and moving to countries with a better quality of life.

Social and human capital of a place

The social and human capital of a place (know-how, skills, knowledge, health, security, institutions, governance, community inclusion); nature capital (climate, atmosphere, land, ecosystems, and biological diversity, natural resources, water); economic capital (wealth, income, residences, transport, and infrastructure, productivity, innovations) form a unified capital, where the **capacity to act** of social agents – their capacity to use the opportunities offered by a place – is decisive. The actions of social agents are determined both by the activities of the agent and by the opportunities offered by the place. Without the activities of the agent, the capital of the place is not being used. For instance, rivers flow since times immemorial, but people started building hydroelectric plants relatively recently when technologies were invented for using the energy generated by water for the production of electric current. Human capital and social capital are what maintain a place and generate its added value. The actions, values and traditions, and networks of mutual relationships of both the community and separate individuals form the social dimension of a place.

Social capital, i.e. the properties of social structure formed by networks of social relationships, community values and practical models, forms slowly but can be lost quickly, for instance, as a result of emigration. As a place is abandoned, the local practices and knowledge lose their value

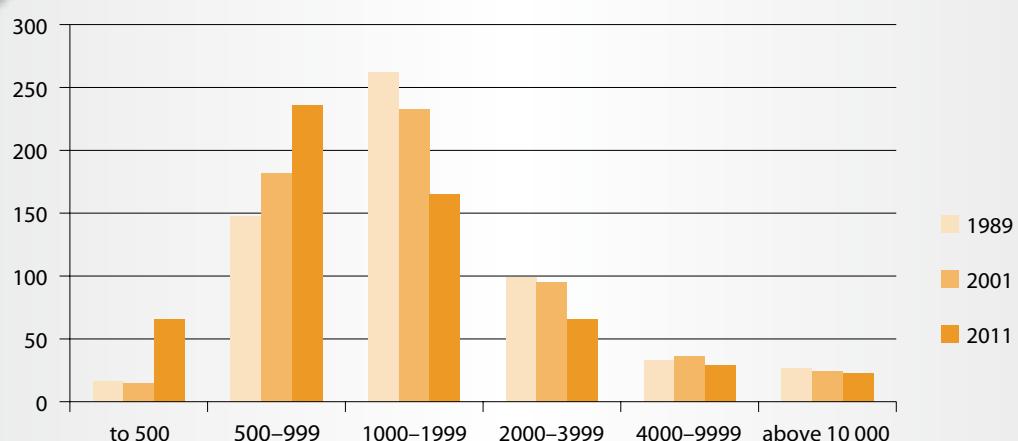
and social networks gradually fall apart: contacts with former neighbors and relatives change their quality, whereas the social network in the new place forms slowly (immigrants use their former social capital, forming it anew in the new places). As people leave and the place loses its human capital (ageing of the population, drop in birthrates, emigration), it also loses its social capital and, with it, its potential for growth, although modern technologies allow for a more regular and intensive maintenance of emotional and family ties. The social ties in the virtual environment, conversations on Skype, and cheap and convenient mobile communications cannot be compared to the months it took for an exchange of letters in the «pre-Internet era», but indirect communication is still a meager substitute for direct everyday contacts with one's fellow man. The broken apart families and abandoned children resulting from emigration are stark evidence. Recently, however, families tend to leave Latvia with their children, and their starting school outside of Latvia substantially reduces the possibility of return (Zepa & Kļave (eds.), 2011, 89).

Social capital does not have an unequivocal impact on the development of a place: it may promote mobilization of resources and an innovative perspective on the place or it may be an obstacle to its development with momentum, bias etc. Development of new innovative ideas can be hindered by consolidated resistance by the community based on traditional values and prejudice against any change. On the other hand, not all new ideas are to be celebrated on their own. The views of different social agents of the capital of a place can differ substantially. There was a time (1950s and 1960s) that the construction of the Pļaviņas Hydroelectric Plant was a point of contention: as a result of building it a symbolic national treasure, the Staburags cliff, was flooded. The example of Pļaviņas and Staburags indicate that a view from outside may be harshly pragmatic and the plans of the newcomers of utilizing the capital of the place may destroy its unique value.

The local community often fails to appreciate the treasures of its social and cultural capital that have been generated over many generations at that particular place. Individuals

Box
7.2

Number of pagasts by number of population: 1989, 2001, and 2011



Source: LR State Statistics Committee (1992) and LR Central Statistical Bureau (2013a).

too often do not appreciate their belonging to a small local community as being of unique value. For example: «...those young people of Maliена who have lived there all their lives do not have a sense of belonging as pronounced as those who live or have lived for a prolonged period of time outside of Maliiena. Young people who permanently live elsewhere have had a closer encounter with individuals in other novads, towns, and local communities, therefore they can not only observe the differences better but also appreciate and feel their belonging to Maliiena» (Daume, 2013, 74-75).

Sometimes just by distancing oneself from one's native area a fresh view from outside becomes possible, allowing for an innovative use of treasures accumulated by ancestors and letting them shine with new intensity and special quality; getting involved in global networks, and realizing EU territorial development visions concerning remote and backward places that become into connected, smart rural areas (The ESPON 2013 Programme, 2013). Thus the traditional cheese recipes perfected in remote Italian mountain villages are behind delicatessen on demand in the global market and these villages themselves have become objects of international tourism. It is possible that in Latvian rural communities as well specific traditions, recipes etc. have been preserved that could turn a remote periphery into an internationally recognized tourist destination, providing jobs and income to people who are loyal to their native area.

Depopulation of novads

In view of the decisive role of human capital in the development of a place, particular attention should be paid to the tendencies in demographic processes in a breakdown by novads. Along with a rapid decline in the population of the country, the depopulation of Latvian local governments and parishes has been taking place for some time now: in almost all novads and towns, the number of residents has been dropping year by year. In the last 20 years, the number of residents has dropped in 107 out of the current 119 novads. Thus, 90% of all novads are experiencing depopulation. Among these 107 novads and largest towns, in only eight novads, the drop has been less than 10%; in 23 administrative units, it has

been 10-20%, but most often (in 45 administrative units) it has amounted to 20-30%. There are 30 novads and one town (Liepāja), where the drop has exceeded 30%, including six where it even exceeded 40%. It should be noted, however, that of these six novads with the greatest decline in population, in three (Vaijode, Skrunda, and Priekule), as well as in Liepāja, the drop was the greatest in the first decade when the bases of the Russian army were removed from there.

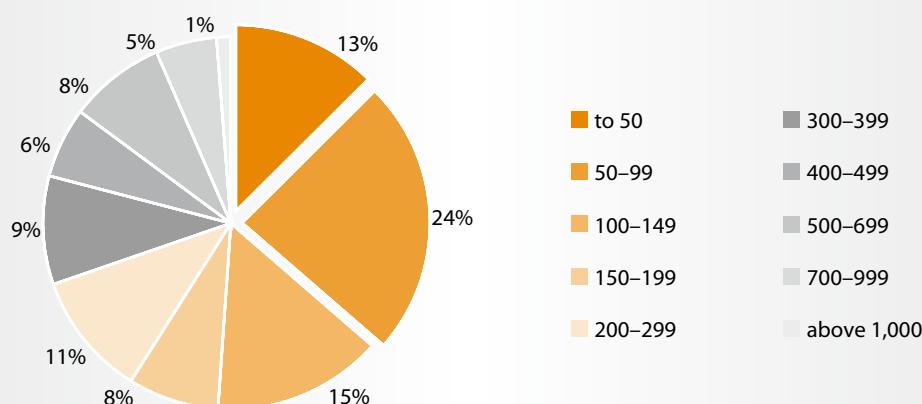
The average number of residents in an administrative unit declined from 1,315 in 1989 to 1,250 in 2001, to 981 in 2011. If ten and twenty years ago most Latvian pagasts had 1,000 to 2,000 inhabitants, now most of the pagasts (236) have population numbers between 500 and 999 people. Very rapidly – more than fourfold (i.e. from 15 to 66) has grown the number of pagasts that have a population of less than 500. In total, more than one half of Latvian pagasts have a population under one thousand. The greatest decline was observed in the Kalncempji pagasts of Alūksne novads – from 351 in 2001 to 189 in 2011. Behind these figures, there are real people, empty and abandoned houses, and settlements that are no more.

As opposed to most of Latvian novads, in some a rise, sometimes very rapid, in the number of inhabitants has been observed. These are the novads close to Riga where more prosperous residents both from Riga and the rest of Latvia settle. Growth has been the most rapid in the Garkalne novads where the population has more than doubled, from 3800 to 7800, in the last decade (2001-2012) (LR Central Statistical Bureau, 2013a). This is followed by such novads as Mārupe (increase of 168%), Carnikava (150%), Ikšķile (149%), Babīte (140%), and Stopiņi (139%) (*ibid*). The main reason for the growth of the population in these regions is the proximity to Riga and the wish of more well-to-do residents to move from small apartments in Soviet era apartment blocks to single-family houses with gardens or more spacious apartments away from the crowds and dust of the city.

We would like to focus now on problems that have to be faced when governing territories with a small number of residents. Comparing the Latvian situation with other European countries, it is important to choose countries with an approximately similar population density, because in countries

Box
7.3

Number of schools by the number of children, 2012



Source: LR Ministry of Education and Science, 2013.

where it is several times higher, principles of administrative division are different. For instance, in Denmark with its 98 municipalities, only one has less than 3,000 inhabitants and another three has a population of 3,000 to 10,000 (Økonomiog Indenrigsministeriet, n.d.). The large majority of Danish municipalities have population of 20,000 to 100,000. In Finland, on the other hand, there are slightly more small municipalities: in 15 out of 336 municipalities, the number of residents does not exceed 1,000 (Väestörekisterikeskus, 2013). The eight smallest of those are tiny islands in the Åland Archipelago. Estonia, too, has several municipalities with a very small number of residents – a few hundred or even below 100, but these are usually small islands (Ruhnu, Piirissaare, Kihnu, Vormsi, etc.). In the more densely populated Poland, only in 11 municipalities (gminas), the number of population is 1,000 to 2,000 (0.5% of all gminas) and in another 84 gminas, it is between 2,000 and 3,000 (3%), whereas in most (83%) of all 2,459 gminas, the population counts 3,000-20,000 residents (Główny Urząd Statystyczny, 2011).

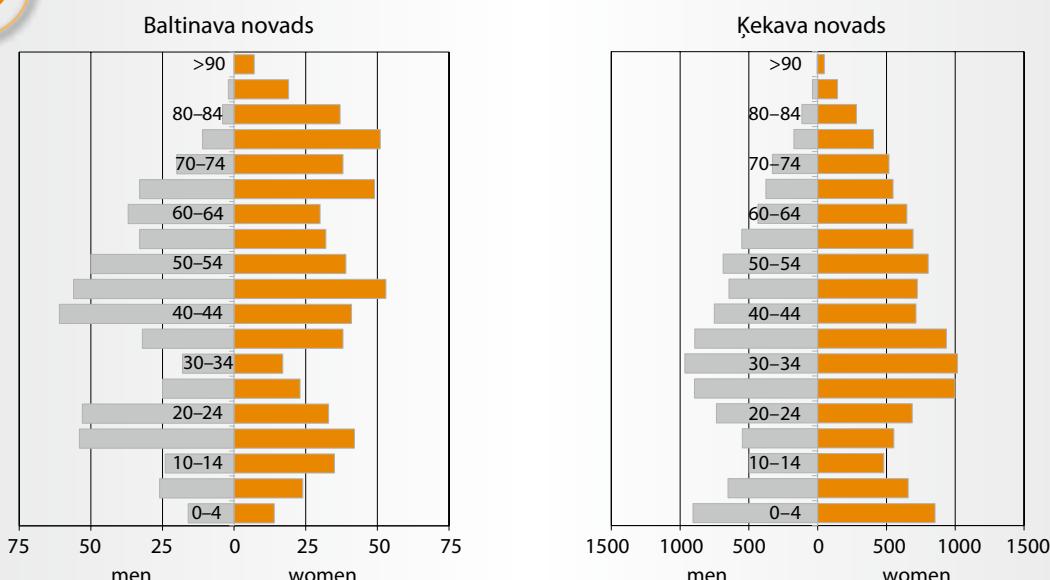
In Latvia, the rapidly growing number of municipalities with a small number of inhabitants highlights the issue of depopulation of large areas of the country and the administrative costs per inhabitant. The Administrative territory and settlement law (LR Saeima, 2008), has a provision that the minimum number of residents in a novads should be at least 4,000, for it to be possible to maintain a minimal infrastructure, including administration, there. Currently, in 36 novads (1/3 of the total), population is below 4,000, including five where it is below 2,000, and the population continues declining in all these novads. In public discussions on the future of the small municipalities, two main viewpoints have crystallized. One defends the historically formed administrative division, irrespective of the number of inhabitants, without any regard to administrative and infrastructure costs that are necessary to ensure the viability

of the place and the fact that the government will have to find extra funding in the budget for its support. The other view would have the process take its natural course, to invest in development mostly in Riga and other bigger towns and growth centers and have people move to the places where there are jobs. Economist Girts Rungainis, for example, recommends to change the current regional policy that provides for directing the flow of investments evenly to all novads and concentrate investments in Riga and its vicinity: «[...] it would be only logical to increase the number of people in places where they should and could earn more instead of tying them down to hopeless places, making them and the place dependent on the charity» (Rungainis, 2012). According to the pragmatic approach, investing funds in the maintenance of infrastructure should be stopped in places where it is impossible to build a developed economy. Discussing regional policy, the DNB economist Pēteris Strautiņš expresses a similar opinion: «Policy makers should ask themselves the question what the priority is: to save settlements or to save people. I think that people should be saved first» (Strautiņš, 2012).

The role of infrastructure in making people attached to some place comes into play particularly vividly in such an element as educational establishments, particularly schools. In a pagasts where the local school gets closed, the number of residents also goes down rapidly because the young families tend to prefer living near a school. According to the Ministry of Education and Science statistics, in the time period between 1998 and 2012, the number of schools functioning in Latvia has dropped by 267 (LR Ministry of Education and Science, 2013). In this school year (2012/2013) there is a total of 807 schools in the country, in 102 of which the number of students is below 50, and in another 196 schools, this number is 50 to 100 (*Ibid*) (Box 7.3). This means that 300 schools might be closed because of the low number of students. The

Box
7.4

Age pyramids of Baltinava and Ķekava municipalities, 2011



Source: LR Central Statistical Bureau (2013b).

declining birthrates and consistently high emigration indicators by and large preclude any hopes that the number of students in these schools could increase. Already in 144 pagasts, there are no local schools. True, this number includes pagasts that are located close to the school of a different municipality (e.g., the children from Priekule pagasts study in the town of Priekule, the Rumba pagasts children in Kuldīga etc.). If the current principles of financing small schools are maintained, in a few years, there will be no schools in most Latvian pagasts.

Could we perhaps expect that the rapid process of depopulation in most of Latvia will soon stop? This seems unlikely, first of all, because in most of the shrinking municipalities, there is a very limited number of jobs and mostly because the low birthrate and substantial emigration have caused changes that are unfavorable to reproduction in the age structure of many municipalities. We will take a closer look at contrasts in the age pyramids of Baltinava and Ķekava novads: the former has a pronouncedly unfavorable age structure and the latter a favorable one (Box 7.4).

Analyzing the age pyramid of Baltinava, we must note the extremely low number of children below the age of 15. The gap in the age group 25-35 is as pronounced: in that group, the number of those who have emigrated to other places in Latvia or abroad could be the greatest. In the age group above 40, on the other hand, there are relatively many

inhabitants, but there are even more women above the age of 65. In the Baltinava novads, there still remain relatively many young people between the ages 15 to 24, with a pronounced dominance of young men above the age of 20. It is likely that about one half of these young people will leave their native Baltinava novads and the number of newborns, already low, will drop by half. The number of inhabitants will probably continue to drop rapidly while the demographic burden increases.

Comparing the age pyramids, the demographic situation in Ķekava novads is favorable. The proximity of Riga makes Ķekava an attractive place to live: Riga provides wide opportunities in the labor market and business, whereas the novads can offer a green, safe, and well-kept environment for young families. While young people of reproductive age are leaving Baltinava, the number of people aged 25 to 40 has grown in Ķekava in the last 10-15 years. Since the newcomers are young and by and large well-to-do families, the number of children is also substantially on the rise. If a similar demographic situation were to be observed in most of Latvian novads, there would be no reason to worry about the prospects of the development of these territories.

But back to Latvian smallest novads, Baltinava, to show that the drop in population also means the disappearance of settlements (Box 7.5) and sketch in the changes that are characteristic not only of the Baltinava novads.

Box
7.5

Number of inhabitants in the largest settlements of Baltinava pagasts, 1935 and 2006

Settlement	1935*	2006**
Baltinava	725	645
Sloboda	291	69
Čudarīne	96	62
Danski	178	48
Obeļova	173	45
Pliešova	153	44
Dziervīne	231	43
Žeikari	120	41
Surikova	188	30
Pleitova	101	29
Svilpova	94	27
Kaši	90	27
Punduri-Zelči	70	26
Puncuļova	217	25
Breksīne	176	20
Silagaili	74	17
Odumova	38	17
Mačusola	35	16
Maiļupe	113	13
Svātūne	82	13
Peisova	54	11

*1935 census data, calculated from the settlement cards kept in files 14199-14201, entry 12, collection 1308 at Latvian State Historical Archives.

**Unpublished data of the Register of Residents, 2006.

Source: Data of 1935 census and Register of Residents.

Settlement	1935*	2006**
Keiši	30	11
Joržova	78	10
Slostova	53	10
Pazlauga	34	10
Zubki	79	9
Blauzgova	94	8
Risova	81	8
Boncani	33	8
Gnilki	43	6
Grikova	37	6
Kalnmeži	35	6
Dupurava	50	4
Lauruti	54	3
Teležniki	66	2
Motriņe	59	2
Vārnīne	58	2
Timšāni	32	2
Plienova	30	1
Maksi	167	0
Safronovka	30	0
Vonogova	30	0

The distribution of residents and changes in their number within a novads or even pagasts is not uniform. Usually, a pagasts or novads has its own capital with the concentration of a substantial or even the largest proportion of the population. In pre-war Latvia, the rest of the residents were usually distributed rather uniformly throughout the territory suitable for agriculture, but nowadays, many of these settlements are disappearing. Analyzing the list of the largest settlements of Baltinava, it is evident that there, just like in many other places in Latvia, people tend to increasingly congregate in the center of the novads. If before the war, 13% of the residents of the novads (within current boundaries of the novads; the historical Baltinava pagasts was substantially larger) lived in Baltinava, now they number 40%. Such a high concentration of pagasts residents in the center of the pagasts is common in many other places in Latvia, particularly in Latgale. Outside the center, on the other hand, houses tend to become empty. Before the war, there were 13 large villages in the territory of Baltinava novads, each with a population of over 100, and additional 16 villages with 50-100 residents, nowadays only one village, Baltinava, has more than 100 residents, and in two other settlements the population exceeds 50. In the other settlements, the number of residents is five or even ten and more times less than before. In many places, there are very few people, mostly pensioners, and some

once large villages are now uninhabited. In almost every pagasts there is one or several villages which once housed 50 or even 100 residents, but now there is no one there. In Baltinava novads, such a village is Maksi; in Asūne pagasts, Aprobauci, Aišpuri, Lielie Zeizi, and Rusački; in Ķepova pagasts, Misjikova; in Bērziņi pagasts, Leimanji, Budauka, Brokoni, Prikni, Žaguni, and Skradeļi.

From prewar times to today, the number of inhabitants of novads and pagasts has dropped about two to four times, but outside the centers of novads and some historical estate and/or kolkhoz centers there has been an even tenfold decline. The drop in the number of inhabitants has been determined by changes in the form of land management: before, there were workers for each 10-30 hectares of agricultural land who worked the soil with horses, whereas now dozens of people have been replaced by a few pieces of agricultural machinery. Before, all of Latvian pagasts were inhabited rather evenly, but now ever increasing territories are practically uninhabited. Of course, the migration of residents to towns and cities, the drop in the number of people employed in agriculture, and depopulation of the countryside are trends characteristic of Europe at large, yet some places simply fail to adapt to the 21st century changes in economic activity and their depopulation causes substantial changes in the traditional country cultural landscape and infrastructure of a place.

Box
7.6

Cultural capital of a place and practices of individual attachment

The types of consumers of culture in Ķekava novads

Attachment to a place can form through different practices, including the consumption of culture. To use culture as a resource that reinforces attachment to a place, the behavior, wishes, and needs have to be understood. In 2012, in cooperation with the local government of Ķekava novads, the sociology bachelor program students of the Social Sciences Faculty of the University of Latvia, under the guidance of their teachers, conducted a study of culture consumption of the Ķekava novads inhabitants and identified five like-minded groups with different habits of culture consumption. It is possible that similar conditions for the choice and attendance of cultural events are important also to the inhabitants of other novads and the results of the study may help the organizers of cultural events elsewhere in Latvia.

The Ķekava novads is one of the thriving novads in the vicinity of Riga whose residents for the most part work in Riga. Despite the proximity to the capital with its wide ranging offerings of cultural events, the residents tend to spend their leisure time in Ķekava. Over the course of last year, a total of 86% of Ķekava inhabitants surveyed had attended at least one cultural event in the Ķekava novads, which is a very high indicator. The most attended events have been the fairs (by 66%); traditional festivals (44%); events for families with children (39%), and exhibitions (38%). At the same time, there are no events organized in Ķekava with the goal of establishing a novads brand recognizable throughout Latvia and attracting large audiences. Visitors from other parts of Latvia are simply knowing guests, and the main audience is the locals.

Ķekava novads residents were asked about the most important considerations when choosing events to attend in Ķekava novads. Five groups emerged, which combined explain up to 68% of such considerations.

- *Simple requirements* group consists of people for whom the entrance fee is very important and who attach importance to the venue of the event but pay much less attention to the audience and quality of the event.
- *The individualist intellectuals* ar those for whom the quality of the event and its venue are important, but the company (friends, relatives, acquaintances) is of no importance.
- *Place lovers* ar those for whom the venue is the most important consideration, whereas the particular performers are of no importance.
- *Particular events* attendees pay much attention to the audience of the events, yet they attach no importance to timely information about the event. If they spot an acceptable audience, they may make a spontaneous decision to attend.
- The fifth group consists of the residents whose choice of events does not reveal any particular conditions. They have only one thing in common – on the questionnaire, they have never opted for the category «different answer» but have always chosen one of the options given. (Felicis & Zobens, 2012)

(Felicis & Zobens, 2012).

Functional attachment to places

Functional relationships between people and places are changing rapidly, therefore the question of depopulation of the countryside as a trend that will result in people mostly concentrating in cities in the near future but the countryside, as a location with less opportunities, will stay practically empty is controversial. Relatively recently, people (particularly in the countryside) to a large extent depended on the opportunities offered by the place. Nowadays, the places where one lives, works, receives services, and enjoys one's leisure mostly do not coincide because people are becoming ever more mobile. Before, people used to leave places with no prospects, whereas nowadays, people look for opportunities for working and getting an income also outside their places of residence, i.e. where there is a better environment for a professional career or business, and choose to receive services where they are of a better quality. The increase in everyday mobility is a relatively new phenomenon that changes the relationship between people and places. This is evidenced by the 2012 study on how country people receive the necessary services (shopping, banking services, healthcare, etc.) (Zobena, Lāce & Benga, 2012). Different groups of inhabitants develop different functional ties to places. Only some country dwellers – usually older people, with lower incomes and limited mobility (in places with bad public transportation; if there is no private car or if there are no driving skills etc.) – are totally dependent on services and

opportunities offered by their place of residence. A substantial percentage of country dwellers use a wide range of services in the near vicinity and farther afield, choosing them in the nearest centers and Riga.

New trends in the functional relationships between people and places are brought to light by a study conducted by the Institute of State and Regional Economy of the Riga Technical University on the possibilities of development of remote work (telework) in Latvia (Institute of State and Regional Economy of the Riga Technical University, 2013). In the course of this study, a survey of residents was conducted in Limbaži novads and Balvi novads in the second half of 2012 on the possibilities of working remotely. Most of the respondents turned out to approve of such opportunities. As the greatest benefits a telejob could offer, the respondents mentioned personal benefits most often (chance to spend more time with the family; flexible hours) as well as economic ones (chance to save on travel expenses and time spent traveling) (*Ibid*). Opportunities to choose work that would correspond to one's desires and professional ambitions without changing one's residence will have a substantial effect on the structure of the country population. Living in the country will no longer be related to limited business opportunities or necessarily having to take on unskilled jobs in agriculture or forest industry as well as reconciling oneself to a limited range of lower quality services available in the near vicinity.

Box
7.7

Can there be too much culture?

Cultural events in Sigulda novads

The cultural capital of a place can be used not only to foster the attachment of people to their place of residence, but also as a specific brand of a place and niche for economic activity. Sigulda novads is a successful example of how to address not only the locals but also organize cultural events known throughout Latvia and even abroad.

In 2013, the Sigulda novads council cooperated with the bachelor program students of the Social Sciences Faculty of the University of Latvia and their teachers, in conducting a study «The Impact of Events on Cultural Heritage». Special attention was paid by students to the issue of sustainability of events. The experiences of Sigulda novads might help other novads to review the range of their cultural opportunities and solutions for successful events in the longer perspective.

Sigulda, too, is a novads undoubtedly affected by the proximity of Riga, and many of its residents spend their working days in the capital. The range of Riga cultural events may be perceived as competition. Yet Sigulda has its own outstanding resources: a unique landscape and ancient cultural and historical heritage, which make it an attractive tourist destination for people from far and near. The cultural events held in Sigulda are therefore geared not only toward the locals but also a wider target audience.

Sigulda residents are quite active in attending events in their own novads. At the same time, both residents and organizers admit that the number of events is even too large, which means greater difficulty of choice, because it is impossible to attend everything one might like. For organizers of an event it means the risk that the audience may not be big enough and the event may suffer financial loss. The survey indicated that the recognition indicators of events are high and residents are generally very content regarding the range, variety, and quality of the event. Most respondents also recognized that the cultural events help to create a positive image for the town. The students worked out a suggestion to use the positive remarks of the respondents to advertise those events, which the Sigulda novads is planning to develop and orient to a wider target audience. The suggestion of «Aerodium» to develop a preferred customer card, which a visitor would get by visiting one of the places in the chain, e.g., «Aerodium» and it would let him or her receive a discount or some other benefit elsewhere, e.g., at «Tarzāns» or «Kakīškalns». There could be a similar card, which would provide the carrier with a souvenir, gift or some other bonus if a fixed number (e.g., ten) or kind (estates, museums, leisure activities) of places have been visited within a certain period of time (Felcis, Nikišins & Zača, 2013).

(Felcis, Nikišins & Zača, 2013).

People and places: emotional attachment and cultural capital

Let us now turn to a discussion of the set of circumstances that is particularly important in the relationship between people and places, for the choice of the place of residence is determined not only by pragmatic circumstances. We will pay more attention to the cultural capital of place. The relationship between social actors (individuals, social groups, organizations, communities, etc.) and a place are difficult to conceptualize in social sciences. The spectrum of these relationships is very broad: from an emotional attachment of an individual to a place (childhood memories of a place and people, concrete actions, etc.) to a functional mastery of a space through everyday actions (place of acquiring work and means of subsistence; receiving various services; real estate; natural resources to be used individually and collectively etc); membership in various communities and organizations; functional ties to spatially near (in the pagasts or novads) or farther (on the regional, countrywide, wider regional, or even global scale) places; ties to other social actors (not only in the physical and geographic but also virtual space). It is a physical space as a set of resources but also a social organization with the related functionality as well as the subjective attachment to a space (Cresswell, 2004). The particular practice of attachment forms depending on the scale and context of the place and individual preferences, yet the social and cultural capital of the place play an important role. Often, it is the only element that keeps an individual to a concrete place. There are many people whose work and professional contacts have expanded beyond the borders of their native place, yet the dwelling place of one's ancestors, social ties to the community, and local culture serve to tie them to a particular place. One's economic and pragmatic relationships may grow beyond the possibilities offered by a place, but one's emotional, social, and cultural ties preserve their meaning longer.

At the individual level, the ties between a person and a place are extremely varied. Functional ties between places nowadays often form on a global scale, while individual emotional motives are at the base of social and cultural attachment. The contact formed through economic cooperation (raw materials and production markets etc.) can link a small, remotely located Latvian enterprise with the world's business centers and faraway exotic lands, whereas emotional attachment is based on the social and cultural capital of a place. The global and the local are right next to each other in a person's everyday life: the prices of grain on world's stock exchanges and a neighbor's speculations on today's weather forecast may be of equal importance. Yet we will focus on only one of the different aspects of attachment, cultural capital.

The identity and unique quality of a place is expressed both through traditional events and ones newly created that have the potential of becoming traditional with time. Thus, in the small Vecpiebalga novads, a cultural week «Vecpiebalga atver durvis» was organized for a second consecutive year; the music festival «Positivus» has become a recognized brand of Salacgrīva and the Cēsis festival of the arts is already a tradition. The Jelgava ice sculpture festival in winter and sand sculpture festival in summer have been around for a while as has the classical music concert under blooming lilacs in

Dobele. Events of a different scale, independent of whether they are privately launched commercial undertakings (as is «Positivus») or supported by the local government (as the Vecpiebalga event), or started on the initiative of an institute of scientific research (as the lilac park in Dobele developed by the State Institute of Fruit-Growing are all unique events created for a particular place, which serve to add to the capital of that place and create an emotional and more or less successful commercial value added. These are genuine events that manage to attract not only the locals but also a wide audience from all over the country and neighboring foreign countries (Lithuania, Estonia), as opposed to the rather uniform city festivals that take place practically every weekend during the summer in towns all over Latvia: an arts and crafts fair and some amateur group performances. These may play some role in fostering the identity of the local community, yet town (novads) festivals do not always manage to attract a wider audience and uncover the unique nature of the place.

The role of local culture and identity in the attachment to one's novads is revealed in the study of Latvian smallest novads, Baltinava, emphasizing the significance of the Latgalian environment in the identity of Baltinava, albeit differently than the aforementioned traditional and newly created events:

«Culture creates and anchors the Latgalian environment in Baltinava novads. A large number of cultural events take place in Latgallian, which attracts more people. It is the Latgallian element that helps the population of Baltinava novads feel a sense of community and patriotism, which are appreciated by people of surrounding areas. Deputy of the Baltinava novads council, head of the culture and sports commission A. Nagle says: «Where else would you hear theater performed in Latgallian? A person can come to the theater and encounter a familiar environment. Elsewhere it is not on offer, only with us.» Their Latgallian identity is of great significance for the inhabitants of the Baltinava novads. It is one of the few places in Latvia, where in state offices, people are served in Latgallian and many cultural events are conducted in Latgallian. A good example is the play «Latgola.lv» by Danskovite, staged to great acclaim at the Latvian National Theater. It has been seen by a record number of spectators, and the «Palādas» drama group guest-performs at the «Splendid Palace» theater in Riga.» (Bubnovs, 2013, 65)

The potential inherent in the creation of a town or novads brand, attraction of tourists, and promotion of local business is often not used enough. Probably in every town and novads it is possible to find, nurture or create something that is not found elsewhere in Latvia.

One of the most widely recognized markers of Latvian identity is the Song and Dance Festival that takes place every five years with grand-scale concerts and a parade through the center of the capital. After the concluding concert, a narrow circle of professionals discusses the successes and failures of the latest festival, beginning work on the repertoire for the next festival, whereas the rank and file of the festival: singers, conductors, dancers, and directors of dance groups

continue to hone their skills in rehearsals. Regular regional song festivals in between the «big» festivals could perhaps become not only an opportunity for conductors and singers to polish their mastery but also a basis for an even wider popularity of choir singing and fostering of regional identity.

Social and cultural capital in action: LEADER and the development of Latvian countryside

One of the examples that shows how social and cultural capital can be used to promote the viability of places is the LEADER program (LEADER – Links Between Activities Developing the Rural Economy; from French: *Liaison Entre Actions de Développement de l'Économie Rurale*), which has been successfully used for the promotion of rural development not only in Latvia, within the framework of the Rural Development Program (hitherto, RDP) but throughout the European Union. Its methodology is based on the endogenous and neo-endogenous approach to rural development (Galdeano-Gómez, Aznar-Sánchez, & Pérez-Mesa, 2011). According to this approach, the countryside has long been not just a place where potatoes are grown and cows milked; where unspoiled natural environment has been preserved for the convenience of urban dwellers, i.e. where agricultural production takes place and environmental services are available. Nowadays, a variety of economic activities are developing in the countryside (diversified economy) and new lifestyles are forming, taking into account the peculiarities of the local territories and with an ever greater *participation* of local communities in *decision making*. In Latvia, between 2007 and 2013, 40 local action groups were active within the program of rural development, carrying out several hundreds of projects.

The capacity for action of a community is practically inseparable from the place to which this community is associated, i.e. from the environment where the conditions for its actions form and where it fulfills itself. The social and culture capital of a place forms the basis for capacity for action of a community, for every social behavior is rooted in the network of interpersonal relationships (Granovetter, 1985). Nowadays, the community is becoming an ever more important actor in the areas respected also by policy makers providing for support instruments for community projects and initiatives.

The analysis of demographic processes of recent years indicates that a tendency remains for the number of population to decline in Latvian rural territories. In all Latvian novads, with the exception of areas around Riga, the drop in the number of inhabitants over the course of five years has been up to 15% (State Rural Network, 2012). The rural residents – particularly young ones, launching their studies or career, leave the countryside for the city (usually Riga) or abroad and rarely come back to the rural setting. For the development of the rural environment, it is important to ensure that the rural territories do not become less populated and that a life and work environment attractive to the residents is maintained. Parallel to the large-scale intensive production that promotes the concentration and more efficient use of all resources, including human resources (i.e. bringing down the demand for labor), a large proportion of rural population and group of agricultural producers consists of the farms that

produce mostly for their own consumption. Armands Vēvers, researcher with the Latvian State Institute of Agrarian Economy, is of the opinion that: «Currently, it is becoming increasingly important to promote the growth of small and medium farms, for it is they that form the basis of the population and social economic environment of the countryside. To promote economic activity in the countryside, it would be expedient to tie the support for the big farms with the creation of jobs, promotion of cooperation with the small farms, and other conditions. Full-fledged growth of the countryside requires a complex approach and the involvement of many ministries is necessary» (as quoted in Stankēvičs, 2013). The quoted study on the development of small and medium farms invites the conclusion that small farms are also economically efficient, yet their production volumes are inadequate for a full renewal of fixed assets and expansion of production; these farms cannot become full-fledged market participants on their own, so they must be granted increased support. Additional social benefits gained from the small and medium farms are better opportunities to use environment-friendly methods (which is cumbersome in mass production because of the large volumes), as well as more jobs, a greater social significance (population etc.), as well as activity that is more environment-friendly altogether. The social significance of the small and medium farms oriented toward self-sufficiency in the development of the rural space is accented also in the study «Person and Work in the Latvian Countryside: a Social Anthropological Perspective» by Ausma Cimdiņa and Ieva Raubiško (Cimdiņa & Raubiško, 2013).

The RDP measures for the development of the rural space and realization of the LEADER approach are directed toward creating the necessary conditions for increased business activity and ensuring quality life environment in the municipalities. It is equally important to improve the infrastructure – the roads, which are often the reason for inadequate development of business activity in the countryside, – and to promote a society-driven development, involving and uniting communities for the purpose of improving the social economic situation, ensuring the carrying out of the local development strategy and forming local action groups on the basis of the experience of LEADER approach. These actions take several directions aimed at reinforcing the local economy and variety of business activity and stimulating people's interest in turning to entrepreneurship. Nowadays domestic production and domestic craftsmanship are undergoing rapid development and possibilities for rural tourism are growing. Altogether it promotes cooperation and formation of short supply lines, stimulates maximum and productive use of local resources, and creates higher added value, allowing the residents to take care of themselves, their families, and the development of their territory. These measures are directed at stopping the decline of social and human capital in the countryside and developing kinds of employment that would allow working remotely. To stimulate society to share responsibility for the creation of quality living space, it is necessary to involve residents in developing the potential of the place formed by the natural, physical, and cultural capital.

The LEADER approach is aimed at supporting mutually coordinated activities for promoting rural development. One of the basic principles of LEADER is from the bottom up

approach, where the initiative comes from the local residents and their involvement in identifying and solving problems related to their territory, thus the ability of rural residents to initiate measures for reinforcing the local economy and developing the potential of the place are to a great degree dependent on the activity within the local action groups (State Institute of Agrarian Economy, 2009).

The development of gradually evolving, open, directed from the bottom up cooperation networks of rural inhabitants is the best impulse for integrated growth of the countryside and development of new models of governance in the longer term. One of the basic principles of LEADER approach is wide participation of the parties interested in the development of rural space, which allows the newly created social networks to make an effective use of the potential of endogenous development of the countryside. The social capital created and developed in LEADER activities has the prospect of becoming a sustainable social structure even without external financing, therefore it is crucial to allot sufficient financial support for the development of local action group capacity, i.e. for interterritorial and international cooperation, ensuring the activity of the local action group, activating the territory, and support for the preparation of local development strategies and cooperation projects.

Studies (Marquardt, Mollers, & Buchenrieder, 2012) on the implementation of LEADER approach in rural development in the new EU member states indicate that the impact of external, particularly international experience on disseminating the LEADER principles, partnership, and development of local action groups is very important. The greater the radius of cooperation networks, the more powerful the group, the greater mutual trust, and the better developed the organizational structure of the local action groups and their capacity for action.

The networks initiated by population groups and local leaders are less effective at the beginning of their activity

and evolve slowly, but their impact on rural development is more sustainable. In a study (Macken-Walsh, 2010) on implementing the LEADER approach in rural development in Lithuania, a bottom up cooperation network effectiveness was compared to that of local government initiated projects carried out within the LEADER approach and a conclusion reached that even though the projects carried out with the participation of municipal administration have been successful, there is the risk that, fearful of losing their influence, the local political leaders are not interested in the development of powerful social networks because they can be a threat to their positions of power.

Currently, a rural development program is being prepared in Latvia for the next period from 2014 to 2020. Evaluating the functioning of the Rural Development Program in the previous period (2007-2013), it was concluded that within the LEADER approach framework, substantial improvements in the quality of life have been achieved, which have met with the residents' approval, yet transparency of the Program would be increased if the population were more widely involved in developing project ideas and projects themselves (State Institute of Agrarian Economy, 2012). The projects carried out within the LEADER framework are aimed at varying and improving everyday life; they promote the involvement of society in reinforcing the local natural, physical, social, and human capital and in the initiatives for strategic and sustainable use and development of culture capital, thereby raising the securability and the potential and attractiveness of the place, which could become a precondition for the development of the supply of new tourism, cultural, healthcare and other related services and products, corresponding to the aims stated in the local development strategy, and promoting the motivation of the residents to choose the corresponding territory as their living space.

Box
7.8

Greatest achievements. Most serious problems. Most important tasks

Greatest achievements

In the planning documents for the development of the country (National Development Plan for 2014-2020, (NDP2020), «Sustainable Development Strategy for Latvia Until Year 2030» (Latvia 2030) the notion of sustainable development has been emphasized. Society is forming an understanding of the development and viability of sustainable territories.

Implementing the LEADER approach within the framework of the Rural Development Program testifies to the importance of social and cultural capital in the promotion of sustainable development and viability of territories.

Most serious problems

Problems with the reliability and availability of data and the lack of practically applicable instruments for sustainable development of territories are impediments for the analysis of the sustainability of territorial development. Most often, sustainability is reduced to the dimension of ecological development, without paying enough attention to the social aspects of sustainability, because measuring and analyzing them is very complicated.

Most important tasks

Crucial demographic and administrative changes are taking place in Latvia, having a deep impact on the processes of regional development. So as to base the planning of the development of the state and society on accurate information and deep understanding of processes and to develop effective policies, it is necessary to perfect the methodology of sustainable development of territories, paying particular attention to the social dimension of sustainability.

The Human Development Index and Statistical Tables

The first Human Development Index (HDI) was published in the 1990 Human Development Report, and ever since then it has been of much interest among politicians, journalists and scholars. There have always been discussions about the components of the HDI and about the way in which it is calculated. The way in which the HDI is calculated and the relevant indicators have been chosen has been improved and altered since 1990.

The 20th anniversary of the HDI rolled around in 2010, and after a study of criticisms and discussions about the calculation methods, the indicators upon which the index is based and the way in which the index is calculated were changed.

More detailed information about these changes can be found at <http://hdr.undp.org/en/humandev/lets-talk-hd>

The HDI is a combined indicator which helps to evaluate long term progress in three major areas of human development – education, health and income. The HDI clearly shows that development involves more than merely economic growth.

Detailed information about the method of HDI calculation can be found at <http://hdr.undp.org/en/media/HDR%202013%20technical%20notes%20EN.pdf>

The following table shows how the method for calculating the HDI has changed over time.

Period	Indicators			Calculation Method
	Health	Education	Income	
1990	Life expectancy at birth	Proportion of literacy among people aged 25+	Real per capita GDP, PPP \$ (log)	Arithmetic average
1991–1994		(2/3) Proportion of literate people among adults (1/3) Average years spent obtaining an education		
1995–1998		(2/3) Proportion of literate people among adults (1/3) Proportion of attendees at educational institutions at all levels		
1999		(2/3) Proportion of literate people among adults (1/3) Proportion of attendees at educational institutions at all levels		
2000–2009		(2/3) Proportion of literate people among adults (1/3) Proportion of attendees at educational institutions at all levels	Real per capita GDP, PPP \$ (log)	
2010–2012		(2/3) Average years spent obtaining an education (1/3) Expected number of years spent obtaining an education	Real per capita GDP, PPP \$ (ln)	Geometric average

Until 2010, the HDI was calculated on the basis of a simple arithmetic average from indicators describing health, education and income. In 2010, the structure of three dimensions for the index was preserved, but new indicators were chosen for the segments of income and education, and the calculation method was changed from the arithmetic average to the geometric average. The arithmetic average method allows low achievements in one dimension to be compensated with high achievements in another. The geometric average method reduces the likelihood of replacing

the various dimensions in the index with one another, and it offers a more adequate reflection of the actual situation.

The HDI that is in this year's Human Development Report cannot be compared to indices from previous reports because of the differences in the calculation methodology.

Because of the changes in the HDI calculation method and indicators, we have republished Latvia's HDI from the Human Development Report of 2013 in this report. The full text of the report can be found at http://issuu.com/undp/docs/hdr_2013_en

Human Development Index: Latvia

	Ranking in HDR 2013	Human Development Index	Life expectancy at birth, years	Average no. of years in education	Expected no. of years in education	Real per capita GNP (PPP 2005 \$)
2012	44	0.814	73.6	11.5	14.8	14 724

The internationally comparable data that are used to calculate the HDI come from the following sources of information:

- per capita gross national product from the World Development Indicator database of the World Bank (2012);
- the average amount of time spent in education and the expected amount of time spent in education from the UNESCO Statistical Institute database (2012);
- the expected lifespan of newborns from the 2011 revised report of the UNDESA Global Resident Perspective 1950-2050 (UNDESA, 2011).

Information in the Human Development Report 2013 shows that Latvia's HDI rose from 0.675 to 0.814 between 1980 and 2012, placing it in 44th place among 187 countries in the world. More detailed information about this can be found at http://hdr.undp.org/en/media/HDR2013_EN_Statistics.pdf

The next table shows the changes in each of the HDI indicator value. This information comes from the publication Human Development Report 2013 and is not comparable to the Central Statistical Bureau's information. Life expectancy increased by 4.5 years, the average number of years in education – about 5.2 years, but the estimated number of years in education – about 1.5 years.

	Life expectancy at birth, years	Expected no. of years in education	Average no. of years in education	Real per capita GNP (PPP 2005 \$)	Human Development Index
1980	69.1	13.3	6.3	...	...
1985	69.9	13.5	6.9	...	...
1990	69.0	12.7	7.5	10 081	0.693
1995	68.6	11.6	8.8	6 147	0.673
2000	70.6	14.2	9.4	8 518	0.732
2005	71.8	15.6	10.4	12 870	0.784
2010	73.0	15.0	11.5	13 793	0.802
2011	73.3	15.0	11.5	14 293	0.805
2012	73.6	14.8	11.5	14 724	0.814

Tables of indicators related to human development have been prepared in accordance with the indicators of the UN Development Program (UNDP). There are 18 statistical tables featuring the main aspects of human development. The tables reflect the most important indicators in describing social processes related to health, education, the environment, employment, etc. The source of information is data from the Central Statistical Board (CSP), supplemented as necessary with data from government ministries and institutions, as well as international organizations.

The statistical information in the tables is based on international methodologies. Since 2000, some of the indicators in the tables have been redefined, with new methodologies and classifications. Information has been reviewed, and data have accordingly been adjusted for the entire period.

The data tables also use data from random cohort studies conducted by the CSP and other institutions. In the tables calculated according to population, the information is converted after 2011 Census. Information in the tables is current as of June 1, 2013.

Human development

	Life expectancy at birth, years	Maternal mortality		Number of inhabitants per physician	Enrolment at all levels of education, % of those aged 7-23	Higher education students, % of those aged 19-23		Per capita GDP, PPP ¹
		per 100,000 live births	Number of cases			Total	Women	
2000	70.5	24.8	5	289	86.3	62.4	79.8	...
2001	70.2	25.4	5	300	88.2	68.3	85.4	...
2002	70.5	5.0	1	290	89.6	73.0	91.7	...
2003	70.9	14.3	3	289	90.9	76.2	96.6	9100
2004	71.2	9.8	2	278	91.6	76.4	98.3	10100
2005	70.9	4.6	1	271	91.1	75.7	97.8	11100
2006	70.8	13.5	3	265	90.0	73.7	96.3	12500
2007	70.8	25.8	6	273	89.3	72.1	95.0	14300
2008	72.3	12.5	3	256	89.2	71.0	92.7	14600
2009	72.9	46.1	10	266	88.1	65.6	84.4	12700
2010	73.3	26.1	5	261	88.5	63.7	79.4	13200
2011	74.0	5.4	1	256	89.0	63.5	77.4	14700
2012	74.2	20.1	4	253	91.0	65.6	79.4	...

¹ Source: European Union Statistical Bureau homepage:
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00001&plugin=1>

Human distress

	Unemployed people as % of economically active residents	Residents aged 25-64 with at least secondary education, % ²	Proportion in income between 20% of richest and 20% of poorest residents ³	Annual inflation rate in comparison to previous year, %	Deaths in traffic accidents per 100,000 residents	Divorces as % of marriages	Children born out of wedlock, % of all children	Suicides per 100,000 residents		Per capita CO ₂ emissions, kg per resident ³	Per capita NOx emissions from stationary sources, kg per resident ³
								Men	Women		
2000	8.7	83.2	5.5	102.6	25	66.6	40.3	56.3	11.8	5.1	3.5
2001	7.9	79.6	...	102.5	22	62.0	42.1	52.3	11.2	3.8	3.7
2002	7.4	82.2	...	101.9	22	61.1	43.1	49.0	12.0	3.3	4.0
2003	6.6	83.2	...	102.9	22	48.3	44.2	45.8	9.8	2.6	4.5
2004	6.5	84.6	6.7	106.2	23	50.8	45.3	43.7	8.6	2.0	3.9
2005	5.6	84.5	7.9	106.7	20	50.6	44.7	43.1	9.8	1.4	4.3
2006	4.4	84.5	6.3	106.5	18	49.6	43.8	39.9	6.7	0.9	4.8
2007	4.0	85.0	7.3	110.1	19	47.8	43.2	35.3	7.9	0.8	4.7
2008	5.1	85.8	7.3	115.4	15	48.0	43.2	42.4	8.4	0.5	3.7
2009	11.2	86.8	6.9	103.5	12	51.4	43.5	41.9	8.5	0.5	3.4
2010	12.2	88.5	6.6 ²	98.9	10	53.1	44.1	39.1	5.4	0.7	4.0
2011	10.4	87.9	6.5	104.4	9	77.2	44.6	38.8	6.7	0.5	4.1
2012	9.9	89.1	...	102.3	9	65.0	45.0	39.6	6.6	0.6	4.5

¹ Source: European Union Statistical Bureau homepage:
http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

² Data recalculated after 2011 Census.

³ Data from Latvian Environment, Geology and Meteorology Centre.

Gender differences (women as % versus men)

	Life expectancy at birth	Number of inhabitants (beginning of year)	Secondary education enrolment ¹	Secondary education graduates ¹	Tertiary education enrolment (students aged 19–23) ¹	Employed ²	Unemployed	Wages and salaries in the country
2000	117.3	117.1	104.8	100.5	157.4	96.0	136.1	78.6
2001	117.4	117.3	99.0	112.3	142.1	97.6	134.6	80.2
2002	117.6	117.7	98.3	104.7	138.8	96.0	142.2	81.5
2003	115.9	118.0	97.9	101.4	140.0	94.9	140.9	83.5
2004	115.8	118.0	100.5	111.0	144.3	95.0	143.6	84.4
2005	117.3	118.0	102.2	111.9	145.8	94.0	149.3	81.9
2006	117.0	118.0	104.0	113.3	152.7	94.5	155.7	82.4
2007	116.7	117.9	104.3	106.4	156.9	95.1	160.2	83.9
2008	116.5	117.6	102.1	111.2	154.3	96.7	108.1	84.8
2009	114.9	117.9	97.4	108.9	150.4	105.4	103.4	83.9
2010	114.7	118.4	94.6	103.1	144.3	106.9	118.5	81.5
2011	114.4	118.9	93.6	101.0	139.5	107.01	134.5	83.4
2012	114.2	118.8	92.1	100.3	137.0	103.7	132.8	83.2

¹ Data recalculated after 2011 Census.

² Data from Labour Force Survey. 2000-2001 persons from 15 and older, from 2002 persons aged 15–74.

Status of women

	Life expectancy at birth, years	Average age at first marriage	Maternal mortality		Secondary education enrolment, % of women age 11-18	Secondary education graduates, % of women age 18	Tertiary education enrolment, % of women age 19-23	Proportion of women among the employed, % ²	Proportion of women among managers, specialists, % ³	Proportion of women among Members of Parliament, %
			per 100,000 live births	Number of cases						
2000	76.0	24.9	24.8	5	86.5	94.0	79.8	49.0	57.7	17 ⁴
2001	75.7	24.9	25.4	5	87.7	92.7	85.4	49.4	59.1	17 ⁴
2002	76.1	25.4	5.0	1	87.2	75.2	91.7	49.0	57.6	18 ⁵
2003	76.0	25.4	14.3	3	88.9	70.7	96.6	48.7	57.5	18 ⁵
2004	76.3	25.6	9.8	2	89.8	81.9	98.3	48.7	57.5	18 ⁵
2005	76.5	26.0	4.6	1	89.1	85.1	97.8	48.4	58.5	18 ⁵
2006	76.3	26.3	13.5	3	71.2	84.3	96.3	48.6	58.1	19 ⁶
2007	76.2	26.4	25.8	6	71.3 ²	84.5	95.0	48.8	60.3	19 ⁶
2008	77.7	26.7	12.5	3	71.3 ²	87.9	92.7	49.2	61.6	19 ⁶
2009	77.8	27.1	46.1	10	70.0 ²	87.4	84.4	51.3	60.3	19 ⁶
2010	78.1	27.4	26.1	5	69.6 ²	91.5	79.4	51.7	59.3	19 ⁷
2011	78.7	27.7	5.4	1	68.1 ²	90.2	77.4	51.7 ¹	60.5 ¹	19 ⁷
2012	78.9	28.0	20.1	4	...	...	79.4	50.9	59.2	19 ⁷

¹ Data recalculated after 2011 Census.

² According to Cabinet of Ministers regulations on the classification of Latvia's educational system (11 April 2006), the first phase of secondary education covers Grades 7-9 (13 to 15 year olds), while the second phase covers Grades 10-12 (16-18 year olds).

³ Labour Force Survey, 2000-2001 focusing on people aged 15+ and, after 2002, between 15 and 74 years old.

⁴ The results of a parliamentary election on 3 October 1998

⁵ The results of a parliamentary election on 5 October 2002.

⁶ The results of a parliamentary election on 9 October 2006.

⁷ The results of a parliamentary election on 2 October 2010.

Demographic indicators

	Population, millions, beginning of year	Annual population growth rate, %	Total fertility rate	Proportion of dependents, %	Proportion of population age 60 and over, %, beginning of year	Life expectancy at age 60	
						Men	Women
2000	2.4	-1.19	1.242	41.1	21.0	15.1	20.8
2001	2.4	-1.38	1.219	39.7	21.4	14.9	20.6
2002	2.3	-0.93	1.254	39.2	21.8	14.9	20.9
2003	2.3	-0.99	1.321	37.6	22.1	15.2	20.7
2004	2.3	-1.18	1.291	37.2	22.2	15.2	21.0
2005	2.2	-0.97	1.388	36.1	22.4	14.8	21.1
2006	2.2	-0.85	1.463	35.6	22.4	14.9	21.0
2007	2.2	-0.77	1.543	34.4	22.5	15.1	21.0
2008	2.2	-1.32	1.590	33.8	22.6	15.5	21.6
2009	2.2	-1.96	1.470	34.0	23.0	15.9	21.9
2010	2.1	-2.16	1.363	34.2	23.6	15.8	21.9
2011	2.1	-1.55 ¹	1.341	35.8 ²	24.1	16.3	22.4
2012	2.0	-1.00 ¹	1.443	36.4 ²	24.6	16.4	22.3

¹ Provisional data.² Data recalculated after 2011 Census.

Health care indicators

	Death from circulatory disease, % of all deaths	Death from malignant neoplasms, % of all deaths	Registered per capita alcohol consumption in litres ¹	Number of inhabitants per physician	State expenditures on health, % of total State expenditures	State expenditure on Health as % of GDP
2000	55.5	17.3	8.4	289	10.5	3.9
2001	55.9	17.4	7.8	300	9.2	3.2
2002	56.0	17.4	8.5	290	10.3	3.7
2003	56.1	17.9	9.4	289	9.7	3.4
2004	55.9	18.2	8.9	278	9.8	3.5
2005	55.1	18.0	8.7	271	12.0	4.3
2006	53.6	18.2	9.5	265	12.8	4.9
2007	54.6	17.9	10.0	273	12.0	4.3
2008	53.3	19.8	10.8	256	11.8	4.6
2009	53.8	19.9	...	266	10.8	4.7
2010	54.1	20.1	...	261	9.8	4.2
2011	54.9 ¹	20.6 ¹	...	256	10.7	4.1
2012	56.2 ¹	20.7 ¹	...	253	...	...

¹ Data from Centre for Disease Prevention and Control. Information is converted after 2011 Census.² Estimate.

Education-related indicators

	Enrolment at all levels of education, % of population age 7-23 (brutto)	Enrolment at primary schools, % of population age 7-15 (brutto)	Enrolment at secondary schools, % of population age 16-18 (brutto)	Enrolment at tertiary educational institutions, % of population age 19-23 (brutto)	Expenditure on tertiary education, % of all education expenditures	Average expenditures per student at public tertiary educational institutions, LVL	State expenditures on education, % of total State expenditures	Total State expenditures on education, % of GDP
2000	86.3	92.5	102.3	62.4	22.7	970	14.6	5.5
2001	88.2	95.0	98.5	68.3	23.4	950	16.0	5.4
2002	89.6	96.0	97.2	73.0	24.1	1014	16.1	5.7
2003	90.9	95.9	100.9	76.2	24.6	1004	15.8	5.5
2004	91.6	97.1	102.1	76.4	25.5	1173	17.0	6.1
2005	91.1	97.8	101.4	75.7	27.6	1657	15.7	5.6
2006	90.0	98.0	100.4	73.7	27.2	2119	15.7	6.0
2007	89.3	99.2	99.7	72.1	26.7	2970	16.3	5.8
2008	89.2	99.3	102.2	71.0	25.5	3440	16.8	6.5
2009	88.1	101.1	104.7	65.6	21.1	2055	15.5	6.8
2010	88.5	102.4	108.4	63.7	25.1	2307	14.0	6.1
2011	89.0	102.2	112.3	63.5	...	...	14.9	5.7
2012	91.0	103.1	116.8	65.6	...	...	...	...

Human Intellectual potential

	Scientists and technicians per 1,000 inhabitants	Total expenditures on research and development, % of GDP	Secondary education graduates, % of inhabitants age 18	Tertiary education graduates, % of inhabitants age 23	Science graduates, % of all graduates
2000	2.3	0.45	87.5	63.0	0.3
2001	2.3	0.41	85.6	59.8	0.2
2002	2.3	0.42	72.4	66.9	0.3
2003	2.1	0.38	69.3	76.3	0.3
2004	2.9	0.42	75.9	82.2	0.4
2005	2.4	0.56	79.4	82.6	0.4
2006	2.8	0.70	78.6	81.2	0.4
2007	2.8	0.59	78.3	69.9	0.5
2008	2.9	0.61	81.7	75.4	0.6
2009	2.4	0.46	83.1	79.0	0.7
2010	2.4	0.60	88.2	74.8	0.5
2011	2.3	0.70	87.9	67.0	1.2
2012	2.7 ¹	0.66	...	69.6	1.2

¹ According with Eurostat methodology since 2012 includes also science support personnel.

Employment

	Employed, % of total population ¹	Distribution of employed, % of total number of employed ^{1,3}			Increase/decrease of income of employed, %	Length of work week, hours ¹
		Agriculture	Industry	Services		
2000	48.2	15	26	59	5.7	41.4
2001	49.2	15	26	59	6.1	41.3
2002	54.4	15	26	59	8.0	41.8
2003	55.4	14	27	59	10.9	41.7
2004	56.1	13	27	60	8.8	41.0
2005	57.0	12	26	62	17.0	41.3
2006	60.1	11	28	61	23.1	41.3
2007	62.0	10	28	62	32.0	40.5
2008	62.6	8	29	63	22.5	39.4
2009	55.2	9	24	67	-2.3	38.9
2010	53.1	9	24	67	-7.5	38.4
2011	54.0 ²	9 ²	23 ²	68 ²	4.5	38.5 ²
2012	56.1	8	24	68	3.9	38.3

¹ Labour Force Survey, 2000-2001 focusing on people aged 15+ and, after 2002, between 15 and 74 years old.

² Data recalculated after 2011 Census.

³ From the 2008th year – Statistical classification of economic activities NACE Rev. 2.

Unemployment (end of year)

	Number of unemployed, thousands	Unemployment rate, %		Unemployed young people (15-24), % of all unemployed	Spending on unemployment benefit, % of all State expenditures ³	Proportion of long-term (12 mo.) unemployed
		Total ¹	Women ²			
2000	93.3	7.8	9.2	14.8	1.2	29.0
2001	91.6	7.7	9.0	14.6	1.0	26.6
2002	89.7	8.5	10.5	13.9	1.1	26.4
2003	90.6	8.6	10.5	13.2	1.1	26.1
2004	90.8	8.5	9.6	12.8	1.0	25.6
2005	78.5	7.4	8.8	14.0	1.2	26.2
2006	68.9	6.5	8.3	14.0	1.1	23.1
2007	52.3	4.9	6.3	12.9	0.9	18.0
2008	76.4	7.0	7.6	13.6	0.9	11.1
2009	179.2	16.0	16.8	14.5	2.5	13.5
2010	162.5	14.3	15.9	14.3	1.9	37.8
2011	130.3	11.5	13.4	11.8	1.1	43.7
2012	104.1	10.5	12.0	10.1	...	44.2

¹ Data from State Employment Agency (NVA).

² Central Statistical Bureau of Latvia calculation using NVA registered unemployed (women) number.

³ Beginning in 2007, this indicator has been calculated on the basis of the government function related to support for unemployed people, which includes spending on support payments for such people.

Priorities in government expenditures

	State expenditures on defence, % of GDP	State expenditures on health, % of GDP	State expenditures on education, % of GDP
2000	0.9	3.9	5.5
2001	0.9	3.2	5.4
2002	1.1	3.7	5.7
2003	1.2	3.4	5.5
2004	1.3	3.5	6.1
2005	1.2	4.3	5.6
2006	1.5	4.9	6.0
2007	1.5	4.3	5.8
2008	1.5	4.6	6.5
2009	1.2	4.7	6.8
2010	1.0	4.2	6.1
2011	0.9	4.1	5.7
2012	...	...	...

Natural resources

	Territory, Thousands of km ²	Population density, persons per km ² (end of year)	Agricultural area, % of all land ¹	Forests, % of all land	Reclaimed land, % of agricultural area	Annual water consumption ² per capita, m ³
2000	64.6	36.6	38.5	44.2	62.9	126.2
2001	64.6	36.3	38.5	44.4	62.9	126.3
2002	64.6	36.1	38.4	44.5	62.9	127.6
2003	64.6	35.9	38.3	44.5	63.0	121.9
2004	64.6	35.7	38.2	44.9	63.1	113.9
2005	64.6	36.0	38.3	45.2	63.1	118.8
2006	64.6	35.0	38.1	45.4	63.3	103.8
2007	64.6	35.2	38.0	45.4	63.1	109.3
2008	64.6	35.2	37.8	45.5	61.5 ¹	132.8
2009	64.6	35.0	37.7	45.7	...	198.7
2010	64.6	32.8	37.7	45.8	...	...
2011	64.6	32.1	37.6	49.9	...	...
2012	64.6	31.6	37.3	49.9	...	...

¹ Data from the State Land Service.

² Data from Latvian Environment, Geology and Meteorology Centre.

National income indicators

	Gross Domestic Product (GDP), million LVL	Agricultural production, % of GDP	Industrial production, % of GDP	Services, % of GDP	Private consumption, % of GDP	Development of domestic gross equity, % of GDP	Tax revenues, % of GDP ¹	State expenditures, % of GDP	Exports, % of GDP	Imports, % of GDP
2000	4716.0	4	25	71	63.0	23.1	29.9	37.6	41.9	49.0
2001	5162.0	4	25	71	63.2	25.8	29.0	35.0	42.0	51.7
2002	5702.8	5	25	70	62.7	25.7	28.8	36.0	41.3	51.1
2003	6370.2	4	24	72	62.4	28.4	28.8	34.9	42.2	54.8
2004	7420.1	4	24	72	63.0	32.8	28.8	35.9	44.0	59.7
2005	9000.3	4	23	73	63.1	33.6	29.4	35.8	48.2	62.6
2006	11126.6	4	24	72	65.7	39.1	30.8	38.3	45.1	66.6
2007	14720.7	3	25	72	62.4	40.0	30.8	36.0	42.5	62.6
2008	16084.7	3	25	72	62.5	31.2	29.7	39.1	43.1	56.8
2009	13070.4	4	24	72	61.4	20.5	27.0	43.7	43.9	45.4
2010	12784.1	5	24	71	63.1	19.8	27.4	43.4	53.6	54.9
2011	14275.2	5	25	70	62.2	24.9	27.7	38.4	58.8	63.6
2012	15520.5	5	26	69	62.1	25.9	...	36.5	61.1	64.4

¹ In accordance with the European System of Accounts (ESA 95) methodology.

Economic development trends

	GDP growth/decrease (in comparative prices from the year 2000), %	Per capita GDP growth/drop (in comparative prices from the 2000), %	Inflation rate, % compared to previous year	Budget surplus or deficit, % of GDP (in actual prices)
2000	5.7	6.8	102.6	-2.8
2001	7.3	8.7	102.5	-2.0
2002	7.2	8.5	101.9	-2.3
2003	7.6	8.6	102.9	-1.6
2004	8.9	10.1	106.2	-1.0
2005	10.1	11.3	106.7	-0.4
2006	11.2	12.2	106.5	-0.5
2007	9.6	10.5	110.1	-0.4
2008	-3.3	-2.2	115.4	-4.2
2009	-17.7	-16.4	103.5	-9.7
2010	-0.9	1.2	98.9	-8.1
2011	5.5	7.4	104.4	-3.6
2012	5.6	6.9	102.3	-1.2

Violence and crime¹

	Prisoners per 100,000 inhabitants ²	Juveniles, % of all convicted criminals	Reported number of rapes per 100,000 inhabitants ²	Drug-related crimes per 100,000 inhabitants ²	Intentional or attempted homicides by men, per 100,000 males ²	Reported number of rapes per 100,000 females
2000	217.2	14.2	4.2	21.5	12.1	7.9
2001	211.1	13.8	5.7	27.8	15.8	10.5
2002	204.7	14.2	5.2	35.8	13.7	9.6
2003	201.7	13.5	4.6	27.4	19.3	8.5
2004	217.6	13.5	5.4	43.8	14.8	10.0
2005	220.9	12.5	14.2 ²	51.0	5.4	26.2 ³
2006	213.2	13.5	10.9	47.1	6.4	20.1
2007	216.0	11.9	5.6	45.1	11.6	10.3
2008	219.3	10.0	4.2	65.4	6.3	7.8
2009	230.3	8.6	4.6	116.1	13.0	8.5
2010	238.4	7.8	3.3	108.8	4.1	6.0
2011	228.9	7.1	3.8	105.5	...	7.0
2012	221.3	6.7	2.4	96.2	5.6	4.5

¹ A new version of the Criminal Procedure Law took effect on October 1, 2005, and it included a new system of registering criminal offences. Accordingly, the data are not comparable to previous years.

² Data recalculated after 2011 Census.

³ Between January and July 2005, one criminal case related to rape involved the registration of another episode of a criminal offence.

Prosperity, Poverty and Social Expenditures

	Real GDP per capita, in European currency units, PPP ¹	Industrial production, % of GDP	Income ratio between the richest 20% richest and the poorest 20% of inhabitants ²	State expenditure for social security, % of GDP	State expenditure for education, % of GDP	State expenditure for health, % of GDP
2000	...	25	5.5	13.1	5.5	3.9
2001	...	25	...	11.9	5.4	3.2
2002	...	25	...	11.4	5.7	3.7
2003	9100	24	...	10.8	5.5	3.4
2004	10100	24	6.7	10.4	6.1	3.5
2005	11100	23	7.9	9.9	5.6	4.3
2006	12500	24	6.3	9.6	6.0	4.9
2007	14300	25	7.3	8.5	5.8	4.3
2008	14600	25	7.3	9.6	6.5	4.6
2009	12700	24	6.9	14.1	6.8	4.7
2010	13200	24	6.6 ²	13.7	6.1	4.2
2011	14700	25	6.5	12.1	5.7	4.1
2012	...	26	...	...	...	...

¹ Data from the European Union Statistical Bureau:
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00001&plugin=1>

² Data recalculated after 2011 Census.

Communications

	Cinema visits per capita ¹	Museum visits per capita ¹	Copies of daily newspapers per 100 000 inhabitants ¹	Book titles published per 100 000 inhabitants ¹	Passenger cars per 1000 inhabitants ¹
2000	0.6	0.6	8.3	107.3	237
2001	0.5	0.7	9.0	107.4	253
2002	0.5	0.7	9.9	100.2	269
2003	0.5	0.7	10.9	113.3	285
2004	0.7	0.8	11.1	113.8	305
2005	0.7	0.9	11.6	105.4	333
2006	1.0	1.0	11.1	108.9	372
2007	1.1	1.1	11.7	102.6	413
2008	1.1	1.2	12.0	130.3	431
2009	0.9	1.0	11.3	103.8	426
2010	1.0	1.2	9.3	96.0	307 ²
2011	1.0	1.2	10.0	102.6	300
2012	1.1	1.3	12.3	102.0	305

¹ From 2000 data is recalculated after 2011 Census.

² On December 30, 2009, a new norm was introduced in Cabinet of Ministers regulations on registration of motor vehicles – exclusion of a motor vehicle from the register.

Urbanisation

	Urban population, % of total population(end of year)	Increase/decrease of urban population each year	Population of major cities, % of all urban population(end of year) ¹	Population in cities with more than 40,000 inhabitants, % of all inhabitants (end of year)
2000	68.1	-0.9	75.8	47.7
2001	67.9	-1.0	75.9	47.5
2002	67.8	-1.0	75.8	47.4
2003	67.8	-1.0	75.7	47.3
2004	67.8	-1.0	75.7	47.3
2005	67.8	-1.0	75.6	47.2
2006	67.9	-1.0	75.6	47.3
2007	67.9	-1.0	75.6	47.4
2008	67.9	-1.0	75.6	47.3
2009	67.9	-1.0	75.5	47.3
2010	67.8	-1.0	75.5	47.2
2011	67.8	-1.0	75.5	47.2
2012	67.7	-1.0	75.6	47.2

¹ Because Valmiera and Jēkabpils are major cities, the number of residents was recalculated.

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The Report is aimed to evaluate the existing developmental processes in Latvia, paying particular attention to the social dimension of sustainability: inequality, the system of social security, demographic trends, integration, civic participation and population awareness as well as balanced development of territories. We would like to stimulate a serious discussion on sustainable national development in Latvia in view of the rapid drop in population because of low birth rates and high emigration rates; the high indicators of poverty and inequality; significant lack of consensus about the basic values of integration of society and other issues essential for social sustainability. It is a relevant question whether today's developmental processes will have positive results in the long run and whether the current situation in Latvia is such that we can hope for ensuring better possibilities in life for each inhabitant and future generations in the longer term.



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