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IMPROVING SOCIAL POLICY OF LATVIA AS A FACTOR OF SUSTAINABLE DEVELOPMENT OF THE STATE

Summary: The article presents an analytical overview and defines the essence of the concept of “social policy” in the context of its relation to the economy. The article analyses a system of key indicators of socio-economic development of Latvia in the context of the European integration. It identifies problems faced by Latvia in its socio-economic development and ways to overcome them, as well as the necessity of the new model of socio-economic policy in Latvia. Ensuring the steady growth of the level and quality of life of the population and the creation of conditions for human development has to become the main goal of social policy of Latvia in the long term. The most important objectives of sustainable development of Latvia are the transition to innovative development, the implementation of system-wide changes in the economy and society with the construction of a highly socially-oriented market economy.

Keywords: Latvia, social policy, indicators of social policy, efficiency of social policy, sustainable development of the state.

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1. Introduction

Among the main priorities of economic growth stabilization in Latvia in terms of overcoming the economic and financial crisis is achieving sustainable economic development through the idea of “economic breakthrough” in the country’s economy in order to achieve economic efficiency. The most important task of the state is to ensure a balance between economic efficiency and social justice as such balance is a prerequisite for achieving sustainable economic development. In this connection, ensuring sustainable economic growth while improving living standards of population remains the main task of the state. This is especially pertinent in the light of Latvia’s accession to the eurozone: before 1 January 2014, Latvia was the third poorest country in the EU (according to Eurostat, the situation was worse only in Bulgaria and Romania), after the first of January, Latvia became the poorest country among the eurozone countries. Expenditure on social protection of the population is also very low in Latvia in comparison with the European average.

The relevance of the research on problems of improving the social policy in Latvia is due both to the objective requirements of the present stage of global socio-economic development, as well as to the specifics of the current situation in Latvia, which requires taking decisions to ensure sustainable economic growth while achieving a higher level of welfare.

In these circumstances, the main concern should be improvement of living standards of the population as a necessary condition for the preservation and development of human resources of the country, which is one of the main factors of economic growth.

Thus the following **problem** arises: how to ensure sustainable economic development of the state at the same time preserving and developing its human resources, and what kind of factors affect improvement of country's welfare in modern conditions? The problem characterizes the relevance of the topic of the research.

The **aim of the research** is to analyze trends in the interaction and mutual influence of social policy and sustainability of economic development of Latvia and to generate proposals for the improvement of state social policy.

Research tasks:

1. To make a brief analysis of the major socio-economic indicators of the development of Latvia.
2. To identify challenges faced by Latvia in its socio-economic development and ways to overcome these challenges.
3. To identify trends of further social development of Latvia in terms of its integration into the European Union.
4. To justify the need for a new model of socio-economic policy in Latvia.

Object of research – social policy in Latvia and its place in the strategy of sustainable development. **Subject of research** – social indicators and social consequences of economic development when designing a strategy for sustainable development of Latvia.

The ideas and concepts are presented in classic and contemporary works of scientists on sustainable economic development, social policy, welfare, labor and social behavior form **theoretical basis** of this research. The results of studies, surveys on labor and social behavior, as well as statistical materials form informational basis of the research.

Research methodology – as the basis of scientific research a process approach is used to analyze trends of socio-economic development of Latvia in modern conditions. The studies are based on the methodology of system analysis, involving the structural-functional approach of allocating objects in the system of structural elements and defining their roles (functions) in the system. We used scientific methods, such as systemic and situational approach, structure and comparative analysis.

2. Results and discussion

2.1. Definition of social policy

The concept “social policy” is defined in different ways, often representing a definition of the objectives of social policy. This uncertainty stems from the fact that it is difficult to identify the social sphere, and distinguish it from other areas. In the European Union, the concept “social policy” is defined as a policy affecting social circumstances in which people live [*Sociālās drošības politika...* 2012].

According to E.I. Kholostova, social policy is a set of society’s and state’s ideological perceptions of social development goals for achieving social indicators that meet these goals [Холостова 2006]. Т.М. Apostolov and N.R. Kosevich provide the following definition of social policy: “It is possible to define social policy as a purposeful activity of the state, which aims to mitigate contradictions between the participants of economic (market) relations and to prevent social conflicts” [Апостолова, Косевич 2008]. According to I.M. Lavrenenko, social policy is the management of the social sphere of society, aimed to ensure the life and reproduction of new generations, and to create the conditions for stability and development of social system and a decent life [Лаврененко 2000]. E.A. Tsyglakova and I.A. Grigorieva define social policy as the activity of the state or public institutions aimed to harmonize the interests of different social groups and social and territorial communities in the production, distribution and consumption field, enabling to reconcile the interests of these groups with the interests of people and long-term goals of society [*Социология безопасности* 2009; Grigorjeva 1998]. According to I.G. Zaynyshev social policy is an integral part of domestic policy of a state, embodied in its social programs and practice and regulating attitude in society for the benefit and in the interests of the major social groups [Зайнышев 1996]. According to E.G. Skvortsov, social policy is a part of the internal policies of the state and public institutions, in the form of social programs and practices, aimed at regulating the relationships between basic elements of social structure in order to maintain or change their social position [Скворцов 2007].

In a practical sense (context), social policy is understood as a set (system) of specific measures and activities aimed at the sustenance of the population. Depending on the main initiator (subject) of these measures, different types of social policy can be distinguished: state, regional, municipal, corporate, etc [*Социальная политика* 2008].

State social policy can be defined as actions of the state within social sphere, pursuing certain objectives correlated to the specific historical circumstances, backed up by the necessary organizational and promotional efforts, financial resources, and dependent on specific milestone social results [*Социальная политика* 2008].

Summarizing the essence of social policy, it can be concluded that a fairly broad range of issues of the life activity of citizens and society fall within the boundaries

of social policy. The concept “social policy” cannot be treated heavy-handed. Historians, jurists, sociologists, philosophers, political scientists, economists consider some aspects of this quite a multi-level, but at the same time comprehensive phenomenon. However, a lot of researchers reveal the essence of social policy by addressing economic issues.

The reasons for this are following [Быковская 2013]:

a) an effective use of methods, tools and instruments of social policy provide economic growth and development of the state, in other words a wisely pursued social policy has an economic effect;

b) understanding of social policy comes down to financing social services, to the distribution and redistribution of state resources, income between the individual layers and groups;

c) any solutions to social problems, and effects of social policies, ultimately affect the economic situation of the state and the people, that is, social policy is an indicator of socio-economic development of the state.

2.2. Analysis of social policy indicators in Latvia

The main socio-economic indicators of standard of living of the population are: the volume of real gross domestic product (GDP) *per capita*, cash income and expenditure, real wages, consumption of basic foodstuffs *per capita*, share of budget expenditures for social development, etc.

Gross domestic product *per capita* is the main indicator of changes in poverty levels, as due to the interaction of business, government and society.

In Latvia, according to Eurostat, the GDP *per capita* is almost half below the European average and six times lower than those of the richest regions in the EU. If we take the European average for 100%, the level of wealth of Latvia (in terms of the purchasing power of the population) is 56% of the EU level (Lithuania – 61%, Estonia – 68%) [<http://epp.eurostat.ec.europa.eu>]. According to the European statistical agency, GDP *per capita* in Latvia, Romania and Bulgaria was 50-60% lower last year than the average level in the European Union [www.freecity.lv].

Welfare level of Latvians is on the 48th place in the world, but in comparison with other European countries, Latvia is on one of the last places. This is evidenced by a study conducted in 2013 by Legatum Institute [*Legatum Prosperity Index* 2013]. The list takes into account not only material wealth, but also a subjective satisfaction of human quality of life (democracy, personal freedom and business opportunities). Norway, Switzerland and Canada are in the lead in the list; the first ten are also Sweden, New Zealand, Denmark, Australia, Finland, the Netherlands and Luxembourg. Lithuania is on the 43th, Estonia on the 36th place.

At the same time, comparing a minimum wage level in Latvia and other European Union countries (Table 1), it is possible to draw a conclusion that Latvia surpasses in this indicator only Romania and Bulgaria, conceding even to the neighbors

– Lithuania and Estonia, which indicates low incomes of the main population of Latvia.

Table 1. The minimum wage in the EU countries (euro)

Belgium	1502	Luxembourg	1874
Bulgaria	158	Malta	697
Czech Republic	312	The Netherlands	1469
France	1430	Poland	377
Greece	684	Portugal	566
Estonia	320	Romania	157
Ireland	1462	Slovakia	338
Latvia	320	Slovenia	784
United Kingdom	1264	Spain	752
Lithuania	290	Hungary	341

Source: [based on the Eurostat data].

The average minimum wage in Europe ranges from 157 euros per month in Romania to 1874 euro in Luxembourg. Our country is one of five states with the lowest minimum wage: Lithuania (290 euro), Estonia (320 euro) and Latvia (320 euro), Bulgaria (158 euro) and Romania (157 euro).

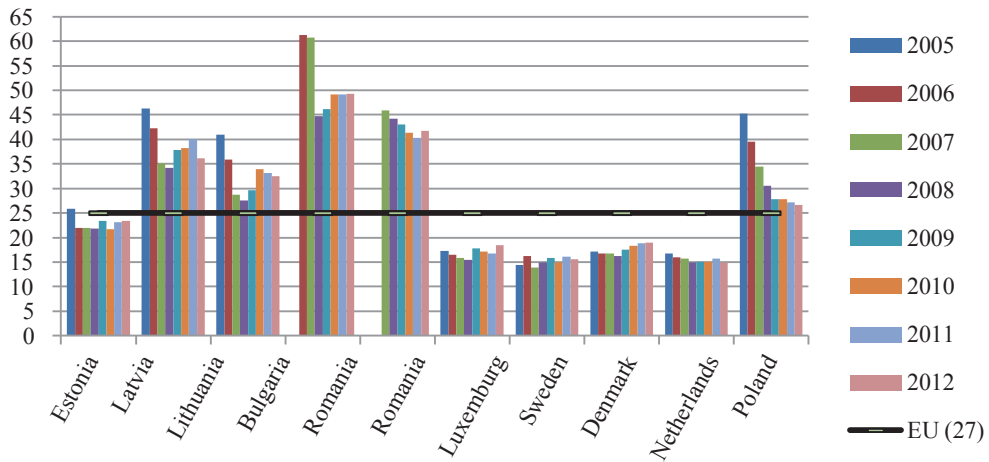


Figure 1. Proportion of people at risk of poverty and social exclusion (% of total population)

Source: [based on the Eurostat data].

The study of household budgets in the Baltic capitals, conducted by the Institute of Private Finances [www.manasfinanses.lv] showed that after spending on basic needs (food, housing and public transport) the average inhabitant of Riga still has 660 euros, or 53% of income, in Tallinn 1266 euros, or 71% of income, in Vilnius

670 euros, or 56% of income. At the same time, according to statistics, the income per family in Tallinn in the last year reached 1785 euros per month, which is 538 euros more than in Riga, and 600 euros more than in Vilnius.

Latvia is still among the poorest countries of the European Union, the welfare of Latvians is lower than their neighbors in other Baltic states, according to Eurostat the EU statistical office (Figure 1).

According to the study of Eurostat, the number of Latvians at risk of poverty has been growing steadily from 2008. Thus, in 2008 the poverty rate was 34,2% of the population, in 2009 it increased to 37,9%, in 2010 it was already 38,2%, and in 2011 it rose to 40,1%. In 2013, the index of poverty risk among Latvians went down for the first time, reaching 36,2%. Today Latvia is one of the poorest countries in the EU – larger proportion of low-income residents is observed only in Bulgaria (49,3%) and Romania (41,7%).

In numerical terms, back in 2010, 846 000 Latvians lived at the poverty line, at the end of 2011 – 900 000, and last year, official statistics showed the figure of 700 000 Latvians living in poverty.

On average in the EU 16,5% of inhabitants or 81 million people are subject to risk of poverty.

Latvia is also the anti-leader of the European Union by the number of people living in a state of deprivation, heavy material estrangement (25,6%), and at the beginning of crisis (19,3%).

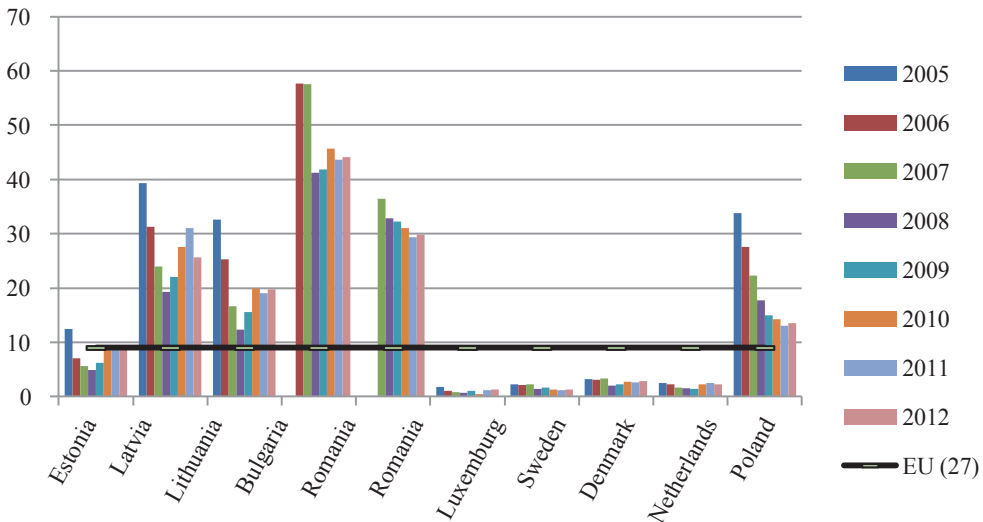


Figure 2. Level of material deprivation of inhabitants (%)

Source: [based on the Eurostat data].

The level of deprivation is defined by such indicators as ability to cover unplanned expenses, to spend week holidays outdoors, to pay off the debts, to eat meat and fish (or analogues for vegetarians) every second day, to pay for heating, to buy a washing machine, a color TV, a telephone and a car.

According to Eurostat, if a person cannot afford at least four types of expenditure, they live in heavy material exclusion [Eurostat 2013] (Figure 2):

Thus, from all EU Member States, Latvia is practically a “leader” of poverty growth. Currently in Latvia 573 000 people (or 30,9%) live in deep poverty, which is the second highest among the EU countries (the situation is worse only in Bulgaria – 43,9% of poor people). For comparison: in Lithuania 18,5% of population live below the poverty line, in Estonia – 8,7%, in Luxembourg – 1,2%, while the EU average is 8,8%. In the EU at the moment about 84 million people are living below the poverty line [rus.delfi.lv].

The degree of inequality in income distribution is measured by the Lorenz curve. It shows what part of total income amount goes to different income (according to the level) segments of the population, resulting in a change from 0 to 1 of the Gini coefficient, whose values reflect the concentration of cash income. To assess the quality of redistributive processes in society today Gini – coefficient of income concentration that characterizes the degree of deviation of the actual distribution of the total income of the population (consumer spending) from the uniform distribution is used. The value of this coefficient ranges from 0 to 100 percent: the higher a value of this index the more unequally distributed income in society (Figure 3):

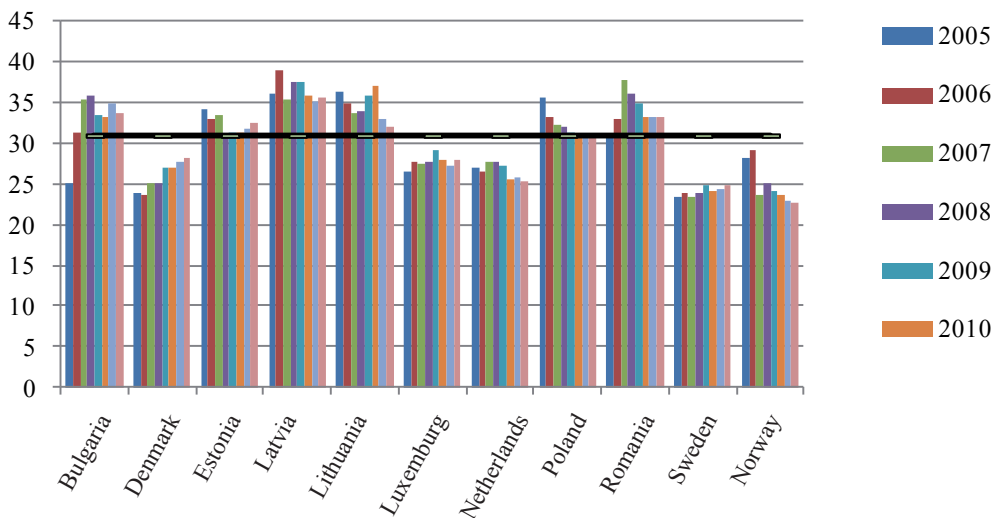


Figure 3. Gini coefficient of disposable income distribution

Source: [based on the Eurostat data].

Calculations show that in the Europe Union a wealthy inhabitant is richer than a poor one approximately 5 times, and in Latvia 7,3 times. Lorentz's curve is usually applied to the distribution of the current monetary income. However, if we apply it to the distribution of wealth (property), results will show stronger inequality.

The features of social policy pursued in a certain state and its performance of social functions can be objectively judged according to the analysis of its budgetary policy. The budgetary expenses in economically developed states, as a rule, share as follows: to 10% on the maintenance of officials of a state administration and power structures, and from 20 to 40% on social needs of the population. Thus the state with strong social policy does not allow sharp differentiation of the income in society and by that promotes alignment of a living standard of various social groups [Храмцов 2010].

The analysis of expenses structure of Latvian state budget since 2008 (the last before the global financial and economic crisis) till 2012 shows that expenses on officials of a state administration, even in the crisis years, despite persistent recommendations of the European Commission for a reduction of the budgetary expenses for crisis overcoming, did not decrease significantly and still exceed 10%, and in the sum with defense expenditure on both public order and safety, exceed 20%. That is two times above the recommended norm. At the same time expenses on social needs of the population on the eve of the crisis were at least – 21,5%, and in the years of crisis were raised in connection with global impoverishment of the Latvian population (Table 2):

Table 2. The expenditure structure of the consolidated budget of Latvia according to individual positions (%)

Year	Government	Defence	Public order	Education	Healthcare	Social protection	Culture
2008	13.6	3.5	5.0	20.2	8.1	21.5	4.0
2009	14.8	2.4	4.5	19.6	7.5	27.9	3.4
2010	13.4	2.0	4.4	16.7	7.2	33.8	2.9
2011	12.1	2.3	4.4	17.1	7.8	28.5	3.2
2012	13.3	2.1	4.5	16.6	7.8	28.2	3.5

Source: [based on the data of Central Statistical Bureau, Ministry of Economics of the Republic of Latvia].

At the same time, according to the United Nations (UN), for normally developing state expenses on social needs have to make not less than 20% of gross domestic product.

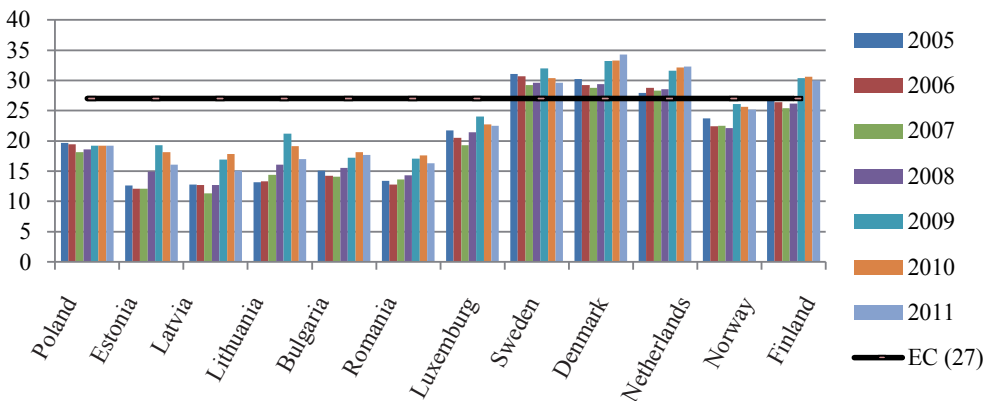
Table 3. Expenditures of the consolidated budget of Latvia, % of GDP

Year	Government	Defence	Public order	Education	Healthcare	Social protection	Culture
2008	5.3	1.4	1.9	3.5	3.1	8.4	1.6
2009	6.4	1.0	1.9	8.4	3.2	12.0	1.5
2010	5.7	0.8	1.8	7.1	3.1	14.4	1.2
2011	4.7	0.9	1.7	6.6	3.0	11.0	1.3
2012	4.9	0.8	1.7	6.1	2.9	10.4	1.3

Source: [based on the data of Central Statistical Bureau, Ministry of Economics of the Republic of Latvia].

Statistical data of the Ministry of Economics of Latvia show that UN recommendations are ignored by Latvia, and, since 2011, when the prime minister of Latvia V. Dombrovsky declared that Latvia had successfully overcome the crisis, expenses on social protection of the population of Latvia have been gradually cut, though, according to Eurostat, they are one of the lowest in Europe (Table 3).

In 2011 the European Union countries spent on average 29,1% of gross domestic product on social protection or on expenses providing normal living conditions of the population in case of social risks and other problems. Thus this indicator in various countries significantly differs (Figure 4):

**Figure 4.** Expenditure on social protection (according to ESSPROS classification), % of GDP

Source: [based on the Eurostat data].

According to Eurostat, in 2011 Latvian expenses on the social protection, calculated according to ESSPROS methodology, were one of the lowest in the EU (15,1% of gross domestic product) that is 2,7% less than in 2010 when they made 17,8% of gross domestic product. Latvia obviously concedes in social protection of the population to the Baltic neighbors: Estonia for these purposes allocates 16,1% of gross domestic product, Lithuania – 17,0%.

Less than 20% of gross domestic product in 2011 was also spent by Romania – 16,3%, Bulgaria – 17,7%, Slovakia – 18,2%, Malta – 18,9% and Poland – 19,2%. At the same time the highest expenses on social protection were in Denmark – 34,3% of gross domestic product, in France – 33,6% and in the Netherlands – 32,3%, Belgium – 30,4%, Greece – 30,2% and Finland – 30,0%.

According to Eurostat, the distinctions reflect different living standards of different social systems, demographic and economic situations in the level of social expenses.

2.3. The necessity and starting conditions for transition to a model of sustainable development

Socialization and transformation of the modern economy lead to the deepening of the interaction of social indicators and their impact on both internal and external economic stability of a state. The neglect of law designated in the implementation of sustainable development policies can lead to hopeless failure of the reforms. Therefore, the national development strategy aimed at accelerating social progress, has to form new principles not only to provide the population with minimal social safety net, but also enhance their social well-being.

In the applied plan, the model of sustainable development is a way of the organization and functioning of society, state and economy on the principles of stability, providing the prevention and neutralization of external and internal threats. National strategy is the long-term program of stage-by-stage transition to the sustainable development, defining the concrete directions of transformations and kinds of activity on achievement of strategic objectives, resources necessary for this purpose and mechanisms, a control system and coordination at local, regional, national and international levels.

Sustainable development of the country is considered as an element of a sustainable development of the world community, and the national purposes – as the realization of common goals and tasks, the principles and the directions of development stated in the Millennium Declaration [*Декларация тысячелетия...* 2000], the Universal declaration of human rights [*Всеобщая декларация...* 1948], the Johannesburg declaration on sustainable development [*Йоханнесбургская декларация...* 2002] and other documents of the UN, in specific conditions of Latvia.

The main factors of sustainable development should be: human, scientific, production and innovation potential, natural resources and favorable geographical position of the country, and the main priorities: “high intelligence – innovations – welfare”.

The most important objectives of sustainable development of Latvia are the transition to innovative development, the implementation of system-wide changes in the economy and society with the construction of a highly socially-oriented market economy.

At the end of 2012 in Latvia there was adopted Latvian National Development Plan (NDP), which is part of the long-term development strategy of Latvia until 2030 (Latvia 2030). As reported, the main motto of the plan is the “economic breakthrough”, which is a subject to three main priorities: development of national economy, human resources and supported territories [*Latvijas Nacionālais...* 2012]. The main focus in the next seven years will be paying attention to the development of exportable and high-performance businesses of production and serving areas which aims to create a framework for growth of other industries. Much attention in NDP is paid to development of human resources and increase of personal competitiveness on the labor market, and also to investments into science and research. However, many prominent economists of Latvia have already called this plan utopian and reminiscent of Soviet plans of building developed socialism. According to them it has just slogans, but does not show the actual mechanisms for achieving its goals. “Today we know that the government costs are doubtful. As the Minister of Justice said: It is the deepest crisis. Do you know how much money is necessary to make this “economic surge”? “Do you know that we are in the last place among innovation countries?” – the chairman of the Center of Strategic Research, PhD Andris Deninsh asked. Thus he noted that Europe has just entered the way of innovative economy. “Europe has set itself as the main task the innovation of economy, which is based on knowledge and all the newest things in science” he said adding that in the prepared draft of the National Development Plan he sees no solutions: “Here everything is absurd” [rus.apollo.lv].

Scientists remind us that long-term European strategy of development until 2020 provides science funding in the amount of 3% of GDP, but Latvia intends to allocate for this purpose half of funds – 1,5% of GDP. The consequences of such a policy are already evident in the economy structure. “Latvia is in the last place in EU on the level of innovation, and the backwardness and poverty in the future will only increase if the Development Plan and other documents do not provide sufficient support for the national science and research. Our policy much less dare to enter into the plan for the year 2020 than Estonia right now” said the president of the Latvian association of Young Scientists, a member of the Scientific Council of Latvia, Gatis Kruminsh [rus.delfi.lv].

2.4. Socio-political mechanisms of the sustainable development

Political and economic stability of society and effective social policy of the state, urged to create the necessary conditions providing good living conditions of the population of the country are the most important factors of providing the sustainable development of society and human development. Social stability of society development can be provided only with carrying out the effective social policy of the state which **criteria** are:

- the realization of social policy priorities, as one of the most important conditions of society’s sustainable development;

- the guarantees of the rights for free realization by any member of society of labor and intellectual potential for providing themselves and their family with the necessary level of material welfare;
- the differentiation of social policy concerning various segments of population and address social protection of lower-income strata;
- the rights and the guarantees focused on strengthening a family, and on spiritual, cultural and moral development of all members of society and first of all the youth;
- the joint liability of all subjects of society (government, employers, trade unions, public) to achieve social development.

Ensuring steady growth of level and quality of life of the population and the creation of conditions for human development has to become the main goal of social policy of Latvia in long-term prospect.

To realize this goal, the main directions of social policy should be [Цауркыбуле 2013; Цауркыбуле 2011]:

- creation of conditions and opportunities to all able-bodied citizens to earn means for satisfaction of their and their family requirements;
- ensuring real employment of the population by creation of new and preservations of available workplaces at the vital and perspective enterprises, including the private sector of economy;
- consistent increase in the level of pay as the main source of income of the population and the major incentive of labor activity of wage workers through increased productivity and economic efficiency in all sectors of the economy, the growth of the investment potential of the population;
- strengthening legal protection of employees' rights to work and fair pay; reducing the tax burden on payroll entities of all forms of property that will contribute to the creation of new jobs, legalization of shadow incomes, development of social partnership at all levels of government;
- increase of the real incomes by raising real wages in line with productivity growth and GDP growth;
- formation of the middle class as a factor in the stabilization of society based on the considerable growth of monetary incomes and reducing poverty;
- the fight against poverty through the reduction of the poverty level in the country. That objective realization can be possible on the basis of economic growth and rising living standards, especially the working population;
- improving social protection of indigents, based on optimization programs providing assistance and strengthening targeting assistance to rationalize the system of benefits, improve social services, etc;
- improving the living standards of pensioners through increased levels of pensions, as well as improvement of the pension system by creating a stable, financially sustainable pension system that satisfies the principles of social justice, capable to resist to future demographic changes;

- achievement of social justice in the society, which is one of the basic needs of the individual. A group of Latvian society prevent strengthening of statehood because of national, social and cultural and economic reasons. The main segments of society diverge farther on value orientations, on wealth, lifestyle patterns and norms of behavior, etc. Therefore, social consolidation is a necessary condition for the consolidation of democratic institutions and the consistent development of civil society. The creation of legal and institutional mechanisms is necessary to ensure such coordination – the basis of the sustainable development strategy of the state.

3. Conclusions

Sustainability of social development is organically included in the system of sustainability of national development. The concept of sustainable socio-economic development should be based on variety of factors, including the main element – economic efficiency growth as a guarantor of social stability. Ensuring a decent standard of living and economic prosperity of citizens is the goal of any modern state.

Social indicators show current trends in the development of social processes in terms of the implementation of equitable distribution of wealth principle. Since many indicators characterizing social and economic development of society coincide (GDP, inflation, unemployment and population, etc.), this study aims to show that improvements in social indicators lead to stabilization and strengthening sustainability of economic and national development of the state.

The following conclusions can be drawn from the present study: the most important tasks to ensure sustainable development of Latvia are the transition to innovative development, the implementation of system-wide changes in the economy and society and the construction of highly efficient socially-oriented market economy.

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POPRAWA POLITYKI SPOŁECZNEJ ŁOTWY JAKO CZYNNIK ZRÓWNOWAŻONEGO ROZWOJU PAŃSTWA

Streszczenie: Artykuł przedstawia analityczny przegląd i treść pojęcia „polityka socjalna” w kontekście jej stosunku do gospodarki. W artykule analizowany jest system wskaźników rozwoju społeczno-gospodarczego Łotwy na tle integracji europejskiej. Zidentyfikowano problemy w rozwoju społeczno-gospodarczym Łotwy i sposoby ich przewyżczenia, zwrócono uwagę na konieczność stworzenia nowego modelu polityki społeczno-gospodarczej na Łotwie. Główne cele polityki społecznej w perspektywie długoterminowej to zapewnienie stałego wzrostu poziomu i jakości życia ludności oraz tworzenie warunków do rozwoju człowieka. Najważniejsze zadania zrównoważonego rozwoju na Łotwie to przejście do innowacyjnego rozwoju, wdrożenie transformacji całego systemu gospodarki i społeczeństwa, budowa zorientowanej społecznie gospodarki rynkowej.

Słowa kluczowe: Łotwa, polityka społeczna, wskaźniki polityki społecznej, zrównoważony rozwój państwa.