PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS nr 537 • 2018

ISSN 1899-3192
e-ISSN 2392-0041

Zhanna Tsaurkubule
Baltic International Academy
e-mail: zcaurkubule@inbox.lv

THE IMPACT OF SOCIO-ECONOMIC POLICY OF LATVIA ON THE PRESERVATION OF HUMAN RESOURCES IN THE CONTEXT OF EUROPEAN INTEGRATION

WPŁYW POLITYKI SPOŁECZNO-EKONOMICZNEJ NA ZACHOWANIE ZASOBÓW LUDZKICH ŁOTWY W KONTEKŚCIE INTEGRACJI EUROPEJSKIEJ

DOI: 10.15611/pn.2018.537.11
JEL Classification: I38, O15, R23

Summary: The article examines the current state of social policy in Latvia and its influence on the preservation of human resources in the country. The analysis is conducted through determining the current state of quantitative and qualitative indicators of socio-economic development of Latvia, as well as through describing social policy in Latvia as part of the social policy of the European Union.The purpose of the research is to analyze the impact of socio--economic policy on the preservation of human resources in Latvia, as well as to develop thereupon recommendations to improve management of socio-economic processes in the state. Possible courses of action to improve the quality of state regulation measures of social policy in Latvia are reviewed and proposals to increase the effectiveness of the social policy system in Latvia are developed.The research is based on the methodology of the systemic analysis, involving structural-functional approach, which is to highlight structural elements in the system objects and to define their roles (functions) in the system.

Keywords: Latvia, social policy, socio-economic indicators, human resources, European economic integration.

Streszczenie: W artykule omówiono obecny stan polityki społecznej na Łotwie i jej wpływ na zachowanie zasobów ludzkich w kraju. Analizę przeprowadza się, określając aktualny stan ilościowych i jakościowych wskaźników rozwoju społeczno-gospodarczego Łotwy, a także opisując jej politykę społeczną w ramach polityki społecznej Unii Europejskiej. Celem badania jest analiza wpływu polityki społeczno-gospodarczej na zachowanie zasobów ludzkich na Łotwie, a także opracowanie zaleceń dotyczących usprawnienia zarządzania procesami społecznymi i gospodarczymi w państwie. Autorka przeanalizowała możliwe obszary działań w celu poprawy jakości środków polityki społecznej na Łotwie i opracowała propozycje poprawy efektywności systemu polityki społecznej na Łotwie. Badanie jest oparte na metodologii analizy systemu i podejściu funkcjonalnym, które polega na identyfikacji elementów strukturalnych w obiektach systemowych i określeniu ich ról (funkcji) w systemie.

Słowa kluczowe: Łotwa, polityka społeczna, wskaźniki społeczno-ekonomiczne, zasoby ludzkie, europejska integracja gospodarcza.

1. Introduction

Social policy is an important part of the policy of any state and represents activities to manage the development of the social sphere of society in order to meet the interests and needs of its citizens. The main objectives of social policy are: improving welfare, improving working and living conditions for people as well as implementing the principles of social justice. The solution for these issues is impossible without the development of the state economy. Accordingly, social policy and the economy are in close interconnection and interdependence. The implementation of social policy is directly related to the economic development of the country. The economic growth and development of the state are ensured through the effective use of mechanisms and instruments of social policy. Social policy is an indicator of the level of social and economic development of the society. At the same time, modern economy cannot be considered effective if it does not fulfill its main purpose – to satisfy the needs of citizens, to ensure the growth of their living standards and national well-being.

After joining the European Union, Latvia has had a situation in which high economic growth rates are combined with natural population decline, labor shortages in most sectors of the economy and emigration to other countries, which requires the creation of policies based on the development and preservation of human resources in the state. In modern conditions, increasing the efficiency of the use of human resources is becoming an essential condition for the economic development of the region.

The **problem** arises: how to ensure stable economic development of the state, and what factors in modern conditions affect the preservation and development of the country's human resources? The problem characterizes the relevance of the topic of this study.

The aim of the research is to analyze the impact of Latvia's socio-economic policy on the preservation of human resources, and also to develop recommendations on this basis for improving the management of socio-economic processes in the state.

Research objectives:

1. To consider the impact of the current economic and political situation in the state on the development of human resources in the context of European integration.
2. To identify the problems facing Latvia in its socio-economic development and ways to overcome them.
3. To develop recommendations on the preservation of human resources in Latvia in modern conditions.

The **subject** of the research is an analysis of socio-economic indicators of state development in the context of preserving human resources. The **object** of the research are socio-economic processes and relations connected to the development and preservation of human resources in Latvia.

Research methodology. The research is based on a process approach to analyze the trends of Latvia's socio-economic development in modern conditions, 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 as well as structure and comparative analysis. The basis of the comparative analysis is based on statistical data from the European Statistics Department, the Central Statistical Bureau of Latvia.

2. Results and discussion

The main socio-economic indicators that characterize the development of the country and the standard of living of the population include [Tsaurkubule 2015]:

- the volume of real gross domestic product (GDP) per capita,
- monetary incomes and expenses of the population,
- real wages,
- natural population growth and migration processes,
- share of budget expenditures for the development of the social sphere.

Gross domestic product (GDP) is one of the key quantitative indicators of economic development, used throughout the world for the most general description of the economic performance of a country over a period of time (usually per year), the pace and level of economic development. GDP is defined as the sum of values of all goods and services produced in the country and is the most commonly used indicator for cross-country comparison. The derived GDP per capita is widely used to compare the quality of life between countries.

According to Eurostat **[***Statistical Yearbook*... 2015**]**, in recent years Latvia has been in a state of stable economic development. From 2010 to 2014 Latvian GDP grew 17.4%, making Latvia one of the most quickly developing member countries of the EU. In 2015, Latvia's GDP in actual prices exceeded the indicator of the pre-crisis of 2008 for the first time. However, with the positive GDP growth indicators, there is no real economic growth in the country. One of the reasons for this is the excess of public spending over revenues, while the public debt continues to grow – for 5 months by 714 million euros and by 1 May last year it amounted to 9,126 billion euros or 39% of GDP [Rosbalt 2017]. That is, the state continues to be in debt, consuming previously accumulated reserves. The structure of GDP is unstable. The largest decline (20%) is observed in the construction industry due to changes in the conditions for granting residence permits for foreigners (as a result, the inflow of foreign buyers has decreased by almost 90%), and because of the delay in mastering European Structural Funds. The second major drop in the GDP structure (4.7%) was observed in the financial sector. Since the task of the financial sector is, among other things, investing in the economy, this will in the future also affect the development of business in Latvia.

Against the backdrop of anti-Russian sanctions by the European Union and Russia's retaliatory actions, there was a sharp decline in transit in 2016, compared to

2015. The volume of cargo transportation by land and pipeline transport fell by 8,1 million tonnes, or 6.6%. This was the lowest rate since 2010. Also, the Latvian ports in 2016 showed the worst results, starting from 2010. The volume of transshipment of goods, compared with 2015, fell by 9.3% to 63,1 million tons. At the same time, there is no real alternative to transit, and there is virtually no industry in Latvia [Baltic Export 2016].

Thus, to consider GDP growth as the main indicator of the country's socioeconomic development without a systemic analysis of the situation as a whole is not correct, as confirmed by the commission of leading economists, set up on the initiative of French President Nicolas Sarkozy in 2008, to answer the question of whether GDP is a reliable indicator of socio-economic development. The commission recognized that market production is not a yardstick of the well-being of society, and the use of market prices when creating methods for assessing economic development is vicious in principle [Baltic Course 2016].

Despite the growth of the gross domestic product, in Latvia over the past two years the number of payers of value added tax has been rapidly decreasing – from 91,700 as of July 1, 2015 to 90,859 as of July 1, 2016. A lot of businessmen pay attention to a paradoxical situation: officially the economy of Latvia grows, and the number of VAT payers is reduced. According to entrepreneurs, even during the economic recession of 2009-2010, there was no reduction in the number of VAT payers.

A more objective indicator of the socio-economic development level is **GDP per capita according to PPP** (purchasing power parity). In Latvia, GDP per capita, expressed in purchasing power parity standards, was in 2016 65% of the EU average and remained the lowest in the Baltics. These Eurostat agencies show that in Lithuania this figure was 75%, and in Estonia – 74% of the EU average. This indicator was lower only in Bulgaria, Romania and Croatia and it was the highest in Luxembourg – 267%. GDP per PPP per inhabitant of Latvia is almost half below the average European index and six times lower than that of the countries in the richest regions of the EU, lagging behind the Czech Republic by 20 percentage points.

According to Eurostat, the price level in Latvia at the purchasing power parity level of the population is somewhere at the level of the Czech Republic, ahead of Lithuania, Poland, Hungary, not to mention Bulgaria and Romania. The conclusion is unambiguous – the incomes of the inhabitants of Latvia do not correspond to the existing prices in the country, which sharply limits the purchasing power of the population and does not contribute to the increase in domestic consumption in the country and thereby to the growth of taxes.

One of the most important social indicators of the living standard of the population is the **subsistence minimum**, which is an indicator of the minimum level of consumption of material goods and services necessary to preserve human health and ensure its vital activity. An analysis of the dynamics of the change in this indicator in Latvia shows (Table 1) that the state, offering residents to work for a minimum wage,

does not guarantee getting even a subsistence minimum for workers. Since 2014, the state has no longer calculated this indicator, justifying its decision by the fact that the contents of the basket of consumer goods and services have not changed since 1991.

Table 1. The ratio of the minimum wage and the subsistence minimum per inhabitant in Latvia (euros)

Time	Before taxes	After payment of taxes	Subsistence minimum
01.01.2007	170,74	130,76	189,24
01.01.2008	227,66	183,84	227,66
01.01.2009	256,12	206,81	239,04
01.01.2010	256,12	185,43	236,20
01.01.2011	284,57	205,96	246,16
01.01.2012	284,57	205,96	250,42
01.01.2013	284,57	207,85	249,00
01.01.2014	320,00	229,67	252,19
01.01.2015	360,00	265,34	-
01.01.2016	370,00	272,24	-
01.01.2017	380,00	275,68	-
01.01.2018	430,00	306,16	-

Source: compiled by the author according to the electronic database of the CSB of the Republic of Latvia [Statistical Yearbook of Latvia 2015]

At the same time, comparing the level of the minimum wage in Latvia and other the poorest and the richest EU countries (Table 2.) it can be concluded that Latvia excels only Lithuania, Romania and Bulgaria in this indicator, which indicates a low income of the main part of the population of Latvia.

Table 2. The minimum wage in the EU countries (euros) as of 01.01.2018

Belgium	1562,59	Luxembourg	1998,59
Bulgaria	260,76	Malta	747,54
Czech Republic	477,78	Germany	1498,00
France	1498,47	Poland	502,75
Greece	683,76	Portugal	676,67
Estonia	500,00	Romania	407,86
Ireland	1613,95	Slovakia	480,00
Latvia	**430,00**	Slovenia	842,79
United Kingdom	1400,99	Spain	858,55
Lithuania	400,00	Hungary	444,69
Croatia	462,34	Netherlands	1578,00

Sorce: [Eurostat Statistics Database 2015].

As the Eurostat comparative table shows, the minimum wage in Europe ranges on average from 260 euros per month in Bulgaria to 1998 euros in Luxembourg. Our country is included in the closing four countries – Bulgaria (260 euros), Lithuania (400 euros), Romania (407 euros) and Latvia (430 euros).

According to the OECD estimates, an organisation Latvia is a member of, 16.2% of its population are below the poverty line, which is the highest among all countries belonging to it. In neighboring Lithuania, according to official data, 15.7% citizens live in poverty, in Estonia – 15.5%, in Greece – 13.8%, in Slovakia – 8.7%, and in the Czech Republic – 5.9%, which is three times less than in Latvia. On average, for OECD countries, this indicator is 11.5%.

At the same time, according to Eurostat data for 2015, **spending on social protection** in relation to the gross domestic product (GDP) in Latvia is the second lowest in the EU after Rumania (14.6%) and makes up 14.9% of GDP. In Lithuania it is 15.6%, in Estonia – 16.4%. The largest in the EU funding for social protection, the state allocates in France (33.9% of GDP). In Denmark it is 32.3%, in Finland – 31.6%, in Belgium – 30.4%, in the Netherlands and Austria – 30.2%, in Italy – 30% of GDP. In the EU, on average, government spending on social protection in 2015 was 29% of GDP [Eurostat Statistics... 2015].

Hence, the extremely low costs of the Latvian state for medicine – only 3.3% of GDP. This situation does not contribute to the health of the nation. In 2016, due to an illness 67,5 thousand employees that is 7% of the total workforce were on sick leaves. In Lithuania and Estonia the expenditure on health system measured in GDP is 1-1.5% higher. In its recommendations for 2016 the World Health Organization (WHO) advised the Latvian authorities taking into account the demographic and economic situation in the country and spending almost 12% of the entire state budget

Table 3. The demographic situation in Latvia

Years	Population	Natural growth	Immigration to Latvia	Emigration from Latvia	Balance of migration
2007	2 208 840	-9 084	7 517	15 463	-7 946
2008	2 191 810	-6 609	4 678	27 045	-22 367
2009	2 162 834	-7 853	3 731	38 208	-34 477
2010	2 120 504	-10 259	4 011	39 651	-35 640
2011	2 074 605	-9 715	10 234	30 311	-20 077
2012	2 044 813	-9 128	13 303	25 163	-11 860
2013	2 023 825	-8 095	8 299	22 561	-14 262
2014	2 001 468	-6 720	10 365	19 017	-8 652
2015	1 986 096	-6 499	9 479	20 119	-10 640
2016	1 968 957	-6 612	8 345	20 574	-12 229

Source: compiled by the author according to the electronic database of the CSB of the Republic of Latvia [Statistical Yearbook of Latvia 2015].

on healthcare. According to WHO standards, medical expenses are catastrophically high if the compulsory payments for treatment reach or exceed 40% of the family's income left after meeting basic needs. In Latvia, 13% of households are in such a situation. For comparison, in Lithuania – 9.5% and in Estonia – 6%.

Latvia reported a decrease in the unemployment rate in 2017, when 85,4 thousand unemployed were registered, which is 8.7% of the number of economically active residents. Compared to 2016, the unemployment rate fell by 0.9 percentage points. Official unemployment was reduced because people were still going abroad.

According to the CSB, in 2016 the population of Latvia was 1,97 million people, which was 239 883 people (i.e. 12%) less than in 2007. As before, the greatest impact was on the imbalance between birth and death rates, but the emigration processes continued to be clearly felt. Only according to official data, 20 574 people left the country in 2016, mostly the young ones. In just 25 years of independence, about 400 thousand people left the country, while 13% of the able-bodied population left Latvia during 10 years of its membership in the European Union [Цауркубуле, Махмудова 2017].

Summarizing all the above data, it should be noted that the current situation with the quality of life of more than half of the inhabitants of Latvia creates great difficulties for the positive development of Latvia's economy now and in the short term. The country's loss of human resources is the consequence of the deteriorating welfare situation and, in the long term, it can lead to the country's lack of the potential for its strategic development.

As practice shows, actions to preserve the human resources of the state through education, improve health care and nutrition affects the prospects for economic growth, especially in countries with low levels of human development and low incomes. The World Bank, using the example of a survey of 192 countries, concluded that only 16% of growth in transition economies was due to physical capital (equipment, buildings and industrial infrastructure), 20% to natural capital and the remaining 64% to human and social capital [Морова 1998].

Investments in the country's human resources deal with the financing of the spheres of education, health care, and social security. The peculiarities of the social policy pursued in a separate state and the fulfillment of social functions are objectively judged in the analysis of state budget policy. Budget expenditures in economically developed countries are generally divided as follows: up to 10% on the maintenance of state administration and security agencies, from 20 up to 40% on the social needs of the population. At the same time, a state with a strong social policy does not allow a sharp differentiation of incomes in the society and thereby helps to equalize the living standards of various social groups [Храмцов 2010]. Today, at the disposal of the government of Latvia, for all of its promised expenditures (defense, medicine, education, culture and state administration) there are only some 4.3 billion euros. It is very little, only 16.5% of GDP. For the needs of the government, there is only money from the state's core budget, and most of the income is attracted from the EU funds (foreign financial assistance).

In this situation, it seems necessary to move to a new economic model, oriented to the development of production, and not to the redistribution of finance.

Objectively, all creditors and investors of the Latvian economy are interested in it. However, this path requires a serious change in the principles of state administration, which is absolutely not supported by the Latvian ruling bureaucracy. The hope for the implementation of Latvia's new economic development model is related to the support that the leadership of the European Union and the governments of most European countries can provide to the country.

3. Conclusions

The existing model of power and the corresponding management mechanisms are not oriented to the independent development of the Latvian economy. The main sense of its existence is the distribution and redistribution of material and financial benefits obtained through participation in all spheres of economic life – from privatization and participation in budgetary financing to obtaining external financial resources and participation in the programs of the funds of the European Union.

To reduce budget expenditures, it is necessary to carry out structural reform of public administration. In the course of its implementation, it is necessary to liquidate some ministries and transfer some of their functions to other ministries, as well as to completely abandon the performance of other management functions, handing them over to private business.

According to the author of the article, only new approaches to revenue generation and planning of budget expenditures will help to improve the economy of Latvia and restore the population hope of overcoming the crisis.

An analysis of the dynamics of changes in demographic indicators over the past decade and up to the present time has made it possible to identify the main problems of human development in Latvia and the European Union as a whole. They are inevitably threatened with a decline in the population. Therefore, increasing the efficiency of the use of human capital is becoming an essential condition for the economic development of the region.

State programs to overcome the current situation should contain at least two components: mechanisms for stabilization and development of the economy and a program for social and economic protection of the population, as the basis of a common domestic policy for the countries of the European Union, which guarantees fundamental human rights.

References

Baltic Export, 2016, *Главная опора латвийского экспорта*, http://balticexport.com/?article=latvijas-eksporta-galvenais-balsts&lang=ru (access: 01.11.2016).

Baltic Course, 2016, *Ю. Балтгайлис. Большой секрет маленького латвийского ВВП*, http://www.baltic-course.com/rus/opinion/?doc=123304 (access: 10.12.2016).

Eurostat Statistics Database, 2015, http://epp.eurostat.ec.europa.eu (access: 10.02.2017).

Rosbalt, 2017, *Госдолг Латвии вырос больше всего в ЕС в первом квартале 2017 года*, http://www.rosbalt.ru/world/2017/07/20/1632308.html (access: 10.09.2017).

Statistical Yearbook of Latvia*,* 2015, http://www.esb.gov.lv (access: 10.02.2017).

Tsaurkubule Z., 2015, *Improving Social Policy of Latvia as a Factor of Sustainable Development of the State*, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, no 380, pp. 510-524.

Морова А., 1998, *Инвестиции в человеческий капитал и социальную инфраструктуру*, Социологические исследования, №. 9, с. 72-77.

Храмцов А.Ф., 2010, *Бюрократия и социальное государство*, М.: Институт социологии Российской Аакадемии Наук (ИС РАН), с. 9.

Цауркубуле Ж.Л., Махмудова Ю.А., 2017, *Социально-экономические проблемы и диспропорции развития рынка труда в Латвии,* Социологические исследования, №. 10, с. 133-140.