

# European Pillar of Social Rights and Latvia's Choices

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- The European Pillar of Social Rights is considered a guideline for the employment and social policies of countries within the EU. Today, not only has Latvia achieved compliance with the social and economic standards of global economic heavyweights by joining the OECD, but it has also achieved significant economic development, making great strides in bringing itself in line with EU economic leaders. This positive momentum has to continue.
- An active labour market policy for long-term unemployment, the use of e-services and e-tools in labour protection policies, and social dialogue mechanisms are Latvia's strongest points. These can be leveraged to help Latvia balance its economic and social interests on both the private and national levels.
- Access to health care, income inequality, poverty (in terms of both remuneration and the adequacy of social protection), pensions, regional disparities, the development of social services and affordable housing are the most important socio-economic challenges for Latvia.
- At both the national and EU levels, Latvia is striving to achieve the best outcomes surrounding its socio-economic situation, as well as the rights, opportunities and security of every citizen.

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## Introduction

Latvia gained significant socio-economic benefits from joining the European Union (EU) and has used those benefits to foster healthy economic development.<sup>1</sup> This has come thanks to the EU's investment in infrastructure, education and labour markets in less-developed regions to advance socio-economic convergence throughout the bloc. In 2014, Latvia joined the Eurozone and in 2016 the Organisation for Economic Co-operation and Development (OECD). Achieving these landmarks required hard work from Latvian policy-makers, who installed best-practice standards in line with those implemented by global economic heavyweights. Latvia is also currently one of the fastest-growing economies in the EU (at 4.2 percent in Q2 of 2018) and has the "second most competitive tax system in OECD", trailing only neighbouring Estonia.<sup>2</sup>

The paradox of economic growth is that development can fail to reduce poverty. The Central Statistical Bureau's data for 2017 shows that 425,000 people – or 22.1 percent of Latvia's population – is at risk of poverty.<sup>3</sup> The EU is still combatting inequality that results from "a number of social challenges" which "reflect[s] the weak social protection in Latvia".<sup>4</sup> This includes inadequate spending on benefits, old age pensions trailing economic growth, an inefficient and deprived healthcare system, a lack of access to affordable housing, unemployment (especially in rural areas), and more. These issues are aggravated by limited access to vocational and higher education, hampering the development of workplace skills (especially for those from vulnerable economic backgrounds), and relatively low productivity rates, keeping inclusiveness

out.<sup>5</sup> On top of that, in Oxfam's *Commitment to Reducing Inequality Index 2018*, which measures governments based on what they do to tackle the gap between rich and poor, Latvia fell to 48th place, behind most EU member states as well as Chile, Argentina, the US and Belarus. Progress for Latvia's economy has been slow but steady, as shown by the GINI coefficient, which has steadily decreased from 39 in 2006 to 34.2 in 2015. For comparison, in the same year the average GINI index in the Euro area was 30.8.<sup>6</sup>

In these conditions, the promise of the European Social Rights Pillar should, at least in theory, resonate very well in Latvia. The pillar, if it's implemented correctly and takes into account the specifics of each state, can be harmonised with national law to improve the circumstances of social security, while developing alongside its population. It is the principles of a welfare state that make a democracy a social democracy, clearly driving the need for the implementation of these principles in practice, not just as written law. The pillar is an attempt to guide the member states towards a wilful implementation of its principles. However, its 'soft-law' nature forces the EU to resort to a control mechanism, the functions of which are not legally binding.

Social democratic policies gained momentum in Latvia's last parliamentary elections, with their champions winning over 1/3 of seats. Meanwhile, survey results show that low salaries, negative demographic trends and healthcare-related issues are among the primary concerns of the Latvian population. News headlines include articles such as "Emigrants are kept from returning to Latvia due to their concerns about their place of residence and work"<sup>7</sup> and "Returning to Latvia does not mean staying".<sup>8</sup> This paper will attempt to understand the

1. See also: Vineta Kleinberga, Karlis Bukovskis, *Post-2020 Budget of the EU: Latvia's Interests and Opportunities*, 2018, <https://www.fes-baltic.org/publications/>

2. Latvian Information Agency LETA, *Latvia has second most competitive tax system in OECD* – index, 24.10.2018, <http://www.leta.lv/eng/home/important/133F0206-440D-E359-7C76-B5F881FA83ED/>

3. Centrālā statistikas pārvalde, 22.1% of Latvia population at risk of poverty, 18.01.2018, <http://old.csb.gov.lv/en/notikumi/221-latvia-population-risk-poverty-47206.html>

4. EUR-Lex, *The European Semester 2018: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011*

5. OECD, *Latvia Policy Brief, Labour Productivity: Re-Invigorating Labour Productivity Growth in Latvia*, July 2018, 2

6. Eurostat, *Gini coefficient of equivalised disposable income-EU-SILC survey*, October 2018, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_di12](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12)

7. Gunta Matisone, *Aizbraucējus no atgriešanās Latvijā attur bažas ar dzīvesvietu un darbu*, 22.8.2018, <https://www.lsm.lv/raksts/zinas/latvija/aizbraucejus-no-atgriesanas-latvija-attur-bazas-par-dzivesvietu-un-darbu.a289545/>

8. Dace Kokareviča, *Atgriešanās Latvijā nenozīmē palikšanu*, 19.4.2018, <http://www.la.lv/atgriesanas-latvija-nenozime-paliksanu>

attitudes of the relevant stakeholders – the state, social partners, and the population – vis-à-vis the initiative. It will also try to determine whether the pillar's 20 key principles have become issues in the agendas of Latvian policy-makers, or have served as a 'soft' motivation for policy-makers.

This paper is based on interviews with representatives of the stakeholders, which are analysed below, and meticulous research of primary and secondary sources. This analysis is divided into three parts. The first chapter of the paper starts by explaining what the European Social Rights Pillar is, and investigates the coordination mechanisms that stand behind it. The second chapter concentrates on Latvia's approach to the pillar and progress that has been made so far, reviewing how well Latvia complies with the pillar's norms. Finally, the paper will provide a list of conclusions and recommendations.

## 1. Unboxing the European Social Rights Pillar

The following chapter provides an insight into the development of a 'social Europe' that has taken place since the inception of the European project. It will cover the main debates revolving around the gradual construction of the pillar. It will then sketch out the legal tenants of the pillar and its place in the *sui generis* European legal body.

### 1.1 The reasons behind the European Social Rights Pillar

European social policy is derived from Economic and Social Rights, which weren't recognised as human rights until after World War II when the notion of a welfare state developed and morality was of rising importance in European development.<sup>9</sup> In the aftermath of the Second World War, an emphasis on Keynesianism policies and the concept of 'full employment' became dominant in most Western European countries. The socio-economic devastation caused by war created a high

level of demand for the state to secure employment, foster post-war recovery, and provide social assistance to deal with the individuals that were affected the most. The growing popularity of social-democratic and socialist ideas was widely spread throughout the world, reaching a peak in the 1970s when the Chicago school and neo-liberalism became increasingly popular.

Nevertheless, the popularisation of reducing state expenditure on social assistance and easing regulations on the economy – most notably by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States throughout the 1970s and 1980s – did not result in the complete death of social rights. Social democracy has remained as the strongest alternative line of thought to counterbalance liberal economic policies. Even the wave of post-socialist countries (including Latvia) that adopted liberal economic policies in the 1990s did not result in support for alternative models. In democratic societies, inequality and poverty are still issues that need to be addressed by the state and by politicians. An open market economy and the liberalisation of trade on a global scale is often seen as exacerbating inequality, both between countries and between people within a single state. Hence, demands for social protection can be used to easily mobilise voters for elections. Whether the right to social security, healthcare, education and employment have to be provided and guaranteed by the state (or the European Union) are still issues to be debated. This is especially true in a world with growing unemployment caused by the robotisation and the digitisation of workplaces.

The financial crisis of 2008–2010 revitalised discussion on a Keynesian approach to economics, with greater state regulation and bigger social programmes. The crisis raised questions about the European Social Model (the ESM, which pertains to sustainable development, a social market economy, gender equality, supporting the elderly and other groups that face social risk, children's rights, improving societal cohesiveness, and social justice and protection)<sup>10</sup> and European

9. Ivan Manokha, *Financial Crisis and Economic and Social Rights*, 2010, [https://www.sciencespo.fr/ceeri/sites/sciencespo.fr/ceeri/files/art\\_im.pdf](https://www.sciencespo.fr/ceeri/sites/sciencespo.fr/ceeri/files/art_im.pdf)

10. Mahamat K. Dodo, *Historical Evolution of the Social Dimension of the European Integration: Issues and Future Prospects of the European Social Model*, in: *L'Europe en Formation*, 2014/2, ne. 372, <https://www.cairn.info/revue-l-europe-en-formation-2014-2-page-51.htm>

solidarity – these values have been progressively replaced by austerity and budget constraints in many EU member states. Disappointment in this trend is increased by the fact that the essence of the ESM has been ingrained in European values ever since the EU was founded, with a foundation that recognises the need for social inclusion and protection, financial aid, and equal opportunity. It is part of the EU social *acquis* – a legislative framework for the EU, concerned with social policy, employment and industrial relations. The social *acquis* was created with the intent of coordinating and harmonising social policy in the EU, with the pillar being located in its ‘soft law’ section. The social *acquis* can be traced back to the Treaty of Rome (1957). Title III of the Treaty on Social Policy, in Article 117, argued that “Member States agree upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained”.<sup>11</sup> Whereas social policies remained under the full control of member states, the Commission was tasked with promoting cooperation in fields relating to employment, labour law and working conditions, basic and advanced vocational training, social security, the prevention of occupational accidents and diseases, as well as the right of association and collective bargaining between employers and workers.

The European Economic Community (EEC, a predecessor of the EU) further passed legislation on the free movement of people, which required harmonised health standards and working conditions, as well as social security.<sup>12</sup> In 1974, the EEC put in place the first Social Action Programme, which finalised several directives that target the working conditions and living conditions of the European labour force. A further expansion of the EEC also led to the establishment of the European Regional Development Fund in 1975 (a financial tool directed at increasing regional cohesion, akin to the ‘structural funds’ that are in

place today).<sup>13</sup> The social *acquis* was included in the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU). In this case, Article 9 (also known as the ‘social clause’) explains that “the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health”.<sup>14</sup> This was later expanded through a variety of measures, such as the Lisbon Strategy, which was restructured into the Europe 2020 initiative.

The new member states that emerged out of the ‘big bang’ enlargement of 2004 were given a body of legal obligations that included the European Social Charter (1962) and the Community Charter of the Fundamental Social Rights of Workers (1989), as well as the Charter of Fundamental Rights of the EU (2000) – documents that are recognised as particularly pertinent to the pillar in the preamble of the document.<sup>15</sup> With the European economy at a relatively stable point<sup>16</sup> and European politics arguably undergoing more turmoil than ever before, the regulation of social policies has become a priority for European citizens. This claim is also supported by the fact that the economic situation, at the EU level and nationally, are ranked respectively in third and fourth place in the “Main concerns of Europeans” Eurobarometer findings of Spring 2018, lagging behind only immigration and terrorism.<sup>17</sup> This generation of Europeans clearly sees the connection between economic and social rights – a connection which became more prominent during the financial crisis. Economic turmoil posed a threat to the protection of human rights,

11. European Economic Community, Treaty of Rome, 1957

12. Mahamat K. Dodo, *Historical Evolution of the Social Dimension of the European Integration: Issues and Future Prospects of the European Social Model*, op.cit.

13. Ibid.

14. Ibid.

15. European Commission, *European Social Rights Pillar*, 2016, Preamble, 3-4

16. In other words, “The current economic context provides a window of opportunity to promote inclusive growth, to modernise the EU social market economy and to invest in people, in line with the European Pillar of Social Rights.” Source: European Commission, *Monitoring the implementation of the European Pillar of Social Rights*, Strasbourg, 13.3.2018 COM(2018), 130 final, 9

17. European Commission, *Standard Eurobarometer 89, Public Opinion in the European Union, Spring 2018*, 4

as rights were no longer a priority and were violated in the push for economic stability in the EU. The crisis had the most significant impact on populations that were already subject to a low level of social security, forcing people in classes slightly above to the poverty line, or already below the line, further into poverty – the safety mechanisms to help prevent this weren't efficiently functioning, even when the economy was stable. For instance, in Latvia's case, 38 percent of the population was at risk of poverty in 2010, as the crisis peaked.<sup>18</sup> The recession provided in insight of how areas of social policy are prioritised in times of financial instability. Today, as member state economies have recovered and the single market is functioning well, there are no clear obstructions to the successful implementation of the pillar. Except, of course, for the fact that it is not legally binding or popular throughout the EU. Moreover, as social protection in accordance with the EU treaties is a matter of national competence, it is up to the member states to recognise the importance of a well-functioning welfare state that prioritises long-term socio-economic strategies.

The need for specification surrounding the harmonisation of EU and national law stems from differing conditions in member states. Differences in the structure of the workforce between the east and the west of Europe leads to an imbalance in European development. The labour costs of the Eastern European workforce are slowly rising, and with employees conducting strikes (or threatening to strike) companies are forced to act. Western European production companies have relied on the east for cheaper manufacturing, but workers in countries such as Slovakia, Hungary and Poland are now demanding higher pay. When comparing the minimum wages in the EU, wage disparity becomes clear by looking at the group of countries in the 'below 500 EUR' category, which consists of Bulgaria, Lithuania, Romania, Latvia, Hungary, Croatia and the Czech Republic; the minimum wages in these countries ranges from 261 EUR

18. Eurostat, *At risk of poverty or social exclusion in the EU27. In 2010, 23% of the population were at risk of poverty or social exclusion...and 27% of children aged less than 18*, STAT/12/21, 8 February 2012

in Bulgaria to 480 EUR in Slovakia and Poland.<sup>19</sup> Such variance greatly impacts the economic output of those EU regions. The West depends on this workforce, but the pillar suggests ways of levelling the job market by providing equal opportunities for everyone to provide for their family and lead a dignified life. However, it is essential to keep in mind the need for European unity – both in its values and in opportunities for development. Eastern Europe has suffered greatly from emigration: from 1992 to 2015, Eastern Europe lost around 6 percent of its population (or roughly 18 million people) to Western wages.<sup>20</sup> Brexit and the rise of nationalist sentiments is driving a political and economic wedge into the West, but also indicates that there is a lack of labour at all qualification levels in Western European countries. A lack of socio-economic cohesion has created a situation whereby the EU in itself is in danger. Rapid emigration (and the fact that countries like Lithuania, Slovenia and Estonia are experiencing critically low levels of immigration<sup>21</sup>) is also leading to the lack of a working force in local markets.

Furthermore, it is important to highlight the 'social Europe vs. market Europe' debate. This fundamental question, more than ever, plays into future visions of the EU. As nationalism and populism strikes European capitals, the idea of a 'Europe of nations' with a growing inter-governmental dimension is taking hold, casting a shadow on the potential for developing the European project in a more federal direction by transferring social and employment-related competencies to Brussels. As there is no agreement whatsoever between the member states on what role the EU should play in the social domain, the proponents of a 'market Europe' (such as Germany, Belgium, and the Netherlands) are taking the lead.

19. European Commission, *Variations in national minimum wages*, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum\\_wage\\_statistics#Variations\\_in\\_national\\_minimum\\_wages](https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics#Variations_in_national_minimum_wages)

20. Economist, *Eastern Europe's wave of emigration may have crested*, 26.8.2017, <https://www.economist.com/europe/2017/08/26/eastern-europes-wave-of-emigration-may-have-crested>

21. Phillip Connor, Jens Manuel Krogstad, *Immigration share of population jumps in some European countries*, <http://www.pewresearch.org/fact-tank/2016/06/15/immigrant-share-of-population-jumps-in-some-european-countries/>



For these reasons, Juncker's Commission declared the functioning of the EU to be a prioritised area for ensuring development both on a national and international level, mainly by focusing on raising the level of employment, naming principal social work streams, relaunching social dialogue, mainstreaming social policies, creating fair and universally enforceable rules for labour mobility, and investing in youth and skill development.<sup>22</sup> The Commission has been accused of having alternative motives for setting these guidelines, however, in light of the upcoming elections; doubts about the pillar's effectiveness have also been expressed by critics who point to the need for a "Social Europe that is based on horizontal social goals and not merely on policies".<sup>23</sup> For many analysts, there is no clear guarantee that the EU's attempts to bring a social Europe back will succeed this time. What guarantees the popularity of these initiatives among the population and the relevant stakeholders, especially in times when Europe's social democrats are losing trust?

## 1.2. The legal basis of the European Social Rights Pillar

The pillar is a soft law instrument that was jointly proposed by the European Parliament, the Council and the Commission (the so-called "institutional triangle") during the Social Summit for Fair Jobs and Growth on 17 November 2017. The pillar is more political than legislative, as the EU has very little say in the implementation of social policies in member states. The EU has no competence that provides a basis for the harmonisation of EU and national law regarding employment, education and social policy. According to Article 6 of the TFEU, the union does have a competence to support, coordinate and supplement the actions of the member states in public health, education, vocational training, youth and sport. Other designated domains of shared competence exist relating to cohesion policy, consumer protection and cross-border public

22. European Commission, *Social Summit for Fair Jobs and Growth, Social priorities under the Juncker Commission: three years on, 2017*, [https://ec.europa.eu/commission/sites/beta-political/files/social-summit-social-priorities-juncker-commission\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/social-summit-social-priorities-juncker-commission_en.pdf)

23. Patrik Vesan, Francesco Corti, *EU Pillar of Social Rights – what comes after Gothenburg?*, 12.12.2017, <http://www.euvisions.eu/achievements-expectations-gothenburg>

health issues. Domestic public health, education and vocational training, meanwhile, are all national competences.<sup>24</sup> This makes the provisions of the pillar non-binding for member states.

The pillar is based on three main chapters, which encapsulate the goals and objectives that define the recommended directions for member states to take. These three areas include:

1. equal opportunities and access to the labour market;
2. fair working conditions;
3. social protection and inclusion.

The pillar is further divided into 20 main principles that set out specific areas of focus for each of the chapters, clearly outlining the social policy issues with the most urgent need for improvement. The severity of the problems varies between member states, and nation-specific recommendations can be found in the European Semester Process – a framework for the coordination of economic policies across the EU that has existed since 2010<sup>25</sup> – which provides both a progress report of member states' advancement towards Europe 2020 targets<sup>26</sup> as well as comprehensive recommendations for each member state for the next 12–18 months.<sup>27</sup> The progress made in terms of country-specific recommendations is evaluated in the following progress report.

The first chapter of the pillar deals with "equal opportunities and access to the labour market". It consists of four main principles, focussing primarily on vital societal issues – mostly surrounding equality in employment and education. It starts at the root of the problem by drawing

24. Mahamat K. Dodo, *Historical Evolution of the Social Dimension of the European Integration: Issues and Future Prospects of the European Social Model*, op.cit.

25. European Commission, *The European Semester: why and how*, [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/european-semester-why-and-how\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/european-semester-why-and-how_en)

26. European Commission, *Europe 2020 strategy*, [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/europe-2020-strategy\\_en#howisthestrategymonitored](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/europe-2020-strategy_en#howisthestrategymonitored)

27. European Commission, *The European Semester: why and how*, op.cit.

attention to the need for high-quality education that can be acquired and further developed as time passes and certain aspects of jobs change due to technological developments and transitions in the labour market. The second clause addresses the well-known issue of gender equality in the workplace and “the right to equal pay for work of equal value” for both genders. Career progression is also included in this article, as this area has been highlighted as one of the main reasons for the continuation of the pay gap. Thirdly, in this chapter the pillar emphasises the right for equal opportunities to be made available regardless of a multitude of potential discriminatory factors. The article also draws attention to “under-represented groups”, which can be understood as ‘unlikely’ learners or employees based on, for example, age. The final article of this chapter outlines the need for active support for employment, including a clear vision of “tailor-made assistance” for both people in employment and self-employed individuals. It also promotes the integration of young people into the job market. The issue of youth unemployment has been prevalent in recent years. Therefore, this article postulates that apprenticeships, traineeships, job offers, and similar opportunities should be treated as a right, not just an option.

The second chapter of the pillar focusses on “fair working conditions”. It dissects the nebulous and interpretable implications of the word ‘fair’ by highlighting certain areas that will be made priorities. Article 5 of the pillar (the first of this chapter), targets the need for fair treatment in the workplace and shows support for open-ended forms of employment, which creates a more free-flowing job market due to these types of employment contracts not having a termination date for the employee as long as their performance meets set expectations. The issue with regulating employment is that there is a need to take the private sector into account – in these cases the employee is always in a weaker position than the employer, leaving the onus on legislation to create a defence mechanism for the employed. As the pillar is not legally binding, even though it explicitly references legal protections by highlighting the importance of abuse-prevention when it comes

to ‘atypical contracts’, it is left to the member states to provide a well-functioning regulatory labour law. However, it is also essential for people to be well informed about the rights and duties their contracts create in conjunction with written law. Article 6 highlights the correlation between adequate minimum wages and providing a decent standard of living, while acknowledging that these variables differ between member states and that nation-specific regulation is necessary. Article 7 states the principle that it is necessary to protect the ‘weaker’ group mentioned above – namely, the employees. It focuses on the need for companies to inform employees about the nature of their job and provide the employee with reasonable time before any dismissal, which is a pervasive notion surrounding social protection at the workplace. Continuing along the lines of protections for employees, Article 8 postulates the need for a more open social dialogue and the involvement of workers in matters relevant to them. Articles 9 and 10 include the basic notions of welfare and stipulate regulations that ensure a work-life balance, to protect members of the workforce with families. Moreover, in light of the recently created General Data Protection Regulation, it includes a clause regarding the protection of workers’ data.

The third and the last chapter of the pillar is by far the largest in terms of content, housing half of the pillar’s principles due to the expansiveness of its topic: “social protection and inclusion”. The chapter covers a wide variety of subjects likely to cause social exclusion, such as children, unemployed individuals, the elderly and the homeless. Article 11 covers childcare and support for children, but it does not include anything on how that support should be provided, thus making it unclear whether support is meant to be provided directly to parents or centralised by providing government support to programmes rather than individuals. Article 12 includes a controversial principle regarding the self-employed. For example, in Latvian law, the self-employed are perceived as highly unlikely to become unemployed because they are their own boss. However, self-employed individuals face tremendous risks by choosing this form of occupation,



and the pillar clearly states that such workers have to be working 'under comparable conditions' to be subject to social protection. This clause can be understood in conjunction with Article 20, which concerns "the right to access essential services" for those in need. In this case, it is up to member states to decipher the subjects considered 'in need' and whether this should be applied to the self-employed as well. This is also tied to the fact that the rate of unemployment in the EU has been a significant concern for the Juncker Commission.

Article 13 provides an outline of unemployment benefits with the aim of stimulating reintegration into the labour market, stressing that benefits cannot create a disincentive to return to employment as soon as possible. Article 14 also highlights the need for ensuring minimum income and further providing incentives for a successful integration or reintegration into the job market. Article 15 returns to the topic of regulatory issues surrounding self-employed individuals and workers, drawing attention to pensions, equality when receiving allowances, and ensuring that there are sufficient resources for everyone to lead a dignified life. Articles 16, 17 and 18 focus on healthcare and social inclusion for individuals with disabilities, stating that everyone is entitled to the level of healthcare he or she needs. Article 19 touches on yet another principle of the welfare state: the need for housing and assistance for the homeless, drawing attention to the vulnerable position these people are in. Lastly, Article 20 is a general clause stating that everyone has the right to access essential services for those in need.

## 2. Latvia's approach to European Social Rights Pillar

The second chapter of this paper focusses on explaining how various stakeholders have reacted to the introduction of the pillar and taken action vis-à-vis its implementation. The stakeholders involved include the Ministry of Foreign Affairs, the Ministry of Economy, the Ministry of Finance, the Ministry of Welfare, the Employer's Confederation

of Latvia and the Free Trade Union Association, as well as various NGOs in Riga.

### 2.1. Latvia: Complacent yet sovereign

The importance of the pillar's tenants is understood in Riga. According to Lolita Čigāne, Chairman of the European Affairs Committee of the 12th Saeima (2014-2018), "In order for Latvia to benefit from the free movement of labour within the European Union, we need to provide both access to education and fair working conditions for the population as well as provide social protection measures".<sup>28</sup> However, the government's initial reaction placed it firmly in the 'one size does not fit all' position, stating "Latvia believes that it should first focus on solutions to current challenges, such as long-term unemployment reduction. It is also important to take into account that labour market and social policy development issues need to be considered in the light of national circumstances, for example, the necessary improvements in labour law should be assessed in the context of each Member State".<sup>29</sup> This approach to EU-level policy has been a consistent trend in Latvian politics, whereby the end result is considered more important than complying with all procedural requirements.<sup>30,31</sup> It seems, however, that this cautious view has been somewhat justified by a lack of clarity surrounding the pillar.

In January 2017, the Latvian Academy of Sciences held a scientific consortium, with participation by officials from the Ministry of Finance and the Ministry of Welfare, which posed several important points that shed light on Latvia's position.

28. Latvijas Portāls, *Lolita Čigāne: Eiropas Savienības Sociālais pīlārs galvenokārt ir svarīgs pašai Latvijai*, 18.10.2018, <https://lvportals.lv/dienaskartiba/290642-lolita-cigane-eiropas-savienibas-socialais-pilars-galvenokart-ir-svarigs-pasai-latvijai-2017>

29. Labklājības Ministrija, *Latvijas nostāja Eiropas Savienības Nodarbinātības, sociālās politikas, veselības un patērētāju lietu ministru padomes*, 8.10.2016, [www.lm.gov.lv/upload/ministrija/epsco\\_zino\\_decembris.pdf](http://www.lm.gov.lv/upload/ministrija/epsco_zino_decembris.pdf)

30. Latvijas Portāls, *Lolita Čigāne: Eiropas Savienības Sociālais pīlārs galvenokārt ir svarīgs pašai Latvijai*, 18.10.2018, <https://www.cfla.gov.lv/lv/jaunumi/2017/fm-latvija-pauz-savu-nostaju-par-es-fonciem-pec-2020-gada>

31. Latvijas Republikas Ārlietu Ministrija, *Briselē valsts sekretārs Andris Teikmanis pauž Latvijas intereses par ES Kohēzijas politikas nākotni*, 21.2.2011, <https://www.mfa.gov.lv/aktualitates/zinas/29742-brisele-valsts-sekretars-andris-teikmanis-pauz-latvijas-intereses-par-es-kohezijas-politikas-nakotni>

During the discussion, the European social model was described as “the idea of what connects the EU Member States in social issues, possibly to a greater extent in Western Europe than Eastern Europe, while the European Social Pillar is a more specific list of goals that the Member States should aim to cover as far as possible all labour markets and social policies.”<sup>32</sup> The overarching model, therefore, needs to be put in place to smooth out differences in national social models by achieving convergence (both in terms of social rights and social protection). The primary use of the pillar was seen when the discussion turned to issues that relate to the dissatisfaction of EU citizens – e.g., unemployment. However, it was also considered important to note the fact that each member state has different priorities and limits on the financial means available. On top of this, at the point in time, there seemed to be some confusion with regards to what the EU wants and expects in the social domain. The very fact that Europe-wide convergence on social models, which has already been enshrined in various cohesion-related documents, has not yet been achieved seems to cast doubt on the rationale behind creating pillar itself. The pillar, therefore, seemed in danger of disappearing from the spotlight quickly (as did the flexicurity concept).

Over time and with the development of the pillar, Latvia's position vis-a-vis the pillar seems not to have changed. The country has diligently followed the European Semester's recommendations, within the range of possibilities available to it. Indeed, the *Annual report of the Minister of Foreign Affairs* argues that “Latvia supports the political commitment of the European Social Law pillar to improve working and living conditions. Further work on the implementation of the rights and principles contained in the pillar requires a well-thought through and balanced approach. It should be noted that the economic convergence of the Member States is a prerequisite for a more successful solution

to the social dimension”.<sup>33</sup> Economic cohesion is therefore seen as key to addressing the most critical challenges to Latvia, including access to health care, income inequality, poverty (both concerning wages and social protections, including pensions), regional differences, and limited access to social services (including social housing).<sup>34</sup>

The primary actor engaged in pillar-related issues, including international coordination, is the Ministry of Welfare. The ministry is the primary coordinator and sponsor of all issues related to the pillar. It is at the forefront of cooperation with social partners in social dialogue. The ministry's overall position on the pillar is similar to the one expressed by the Ministry of International Affairs. However, an interview with a representative of the Ministry of Welfare confirmed that the rich body of issues described in the next chapter of this paper is not only related to a lack of resources, but also to the country's inability to find a ‘responsible ministry’ to handle issues of a horizontal nature – for example, housing, life-long and vocation education, making training available in line with the requirements of the labour market, issues related to the rights of the disabled, and gender equality. These issues often become ‘hot potatoes’ that are tossed between the ministries without ever being properly addressed or resolved. The Ministry of Welfare does not have the resources or the mandate to implement and monitor all dimensions that relate to the social pillar. Therefore, the question of a lack of resources (and, to an extent, of order) was underlined in interviews.

The Ministry of Finance, which had to carry out and supervise the austerity programme during the financial crisis, and has become the institution that scrutinized almost all budget-related issues in Latvia, has a slightly different position. The logic within the institution creates conditions whereby increased spending is always looked on with hesitation. The ministry is also known for empha-

32. Latvijas Zinātņu Akadēmija, *Latvijas Zinātņu akadēmijas Humanitāro un sociālo zinātņu nodaļas ekspertu konsilija “Eiropas Savienības sociālais modelis un sociālo tiesību pilārs ienākumu aspekts” slēdziens*, [http://www.lza.lv/index.php?option=com\\_content&task=view&id=3639&Itemid=47](http://www.lza.lv/index.php?option=com_content&task=view&id=3639&Itemid=47)

33. Latvijas Republikas vēstniecība Zviedrijas Karalistē, *Latvijai prioritārie Eiropas Savienības jautājumi 2018. gadā*, <http://www.mfa.gov.lv/stockholm/the-latvian-community-in-sweden/organisations/2-ministrija/58856-latvijai-prioritarie-eiropas-savienibas-jautajumi-2018-gada>

34. Labklājības Ministrija, *Latvijas nostāja Eiropas Savienības Nodarbinātības, sociālās politikas, veselības un patērētāju lietu ministru padomes, op.cit.*

sising Latvia's increasing competitiveness and productivity as key indicators of economic health. Despite this approach, the ministry's achievements in increasing social protections have been significant. One important example of the ministry's recent struggles was the introduction of tax reform from 1 January 2018. The vote on the reform was perceived as a 'vote of confidence' on the whole government, as this was also deemed to be one of the most important achievements of the 12th Saeima.<sup>35</sup> The reform, as expected, faced criticism from various stakeholders, revealing that social-democratic reforms are seen as controversial in Latvian society.

The reason that issues resonate at all levels of Latvia's administrative and political establishment is that it is related to globalisation and new forms of work (such as the crowdsourcing of work, or workers contracted for different projects by several firms, among other things). The future will bring a world where low-qualification jobs are less popular. Thus, the Baltic and Central European states ought to stop relying on lower production costs and instead increase their human capital.<sup>36</sup> However, it could be argued that the feeling of uncertainty towards the pillar most likely stems from Latvia's own inability to identify the model of social politics that society expects; in other words, how can the Baltic States enhance their current social welfare model? A goal-oriented approach in such conditions is difficult to take. Besides this, the process of amending and passing laws is often technocratic and does not provide sufficient explanation to the population about why certain reforms are necessary.<sup>37</sup>

The evolution of the Ministry of Finance as the 'guardian of Latvia's fiscal policy' has been to balance the growth of country's economy and labour

productivity with the growing demands from society for higher pensions, more accessible healthcare, improved unemployment benefits and maternity benefits, better disability allowances, and financing for many other social needs. Managing society's expectations and unwillingness to see taxes increased has always been the classical conundrum of fiscal policy. Based on this, the approach taken by many Latvian politicians and decision makers regarding the European Social Rights Pillar can be summarised as 'it's too soon'. Namely, the decision makers, while being aware of needs and problems in the poorest sectors of Latvian society, do not see the possibility to provide the same level of social protections, especially regarding minimum wages, as is expected by EU partners from richer member states. Not only could Latvian companies lose their competitive edge and consequently access to markets and revenues, but it would also require increasing taxes or redistributing the state budget away from economic support projects and towards social support projects.

## 2.2. Other relevant stakeholders and popular narratives

Firstly, when assessing the will of the population, one must account for the popular narratives in Latvia. With the revival of the discussion on a social Europe in 2016, the population in Latvia was predominantly concerned with low salaries and insufficient social guarantees, low birth rates and negative demographic trends, healthcare, and corruption.<sup>38</sup> Furthermore, according to a poll in April 2018 only 7 percent of Latvia's population was satisfied with the current economic situation in Latvia, whereas 46 percent were dissatisfied (the remaining 45 percent said that it is 'average'). Only 9 percent of the population positively evaluated their ability to find an adequate job in Latvia, whereas 51 percent evaluated it negatively.<sup>39</sup> This shows that, overall, that the dimensions of the pillar are in high demand in the wider population.

35. LSM, *Reizniece-Ozola: Balsojums par nodokļu reformu būs uzticības balsojums valdībai*, 11.6.2017, <https://www.lsm.lv/raksts/zinas/ekonomika/reizniece-ozola-balsojums-par-nodoklu-reformu-bus-uzticibas-balsojums-valdibai.a242897/>

36. Alf Vanags and Ieva Moore, *European Pillar of Social Rights and Social Harmonization in the Eyes of Latvian Stakeholders*, Baltic International Centre for Economic Policy Studies, [www.biceps.org/Admin/assets/js/ckfinder/userfiles/.../Policy\\_brief\\_BICEPS.pdf](http://www.biceps.org/Admin/assets/js/ckfinder/userfiles/.../Policy_brief_BICEPS.pdf), 4

37. Latvijas Zinātņu akadēmija, *Latvijas Zinātņu akadēmijas Humanitāro un sociālo zinātņu nodaļas ekspertu konsilija "Eiropas Savienības sociālais modelis un sociālo tiesību pilnārs ienākumu aspekts" slēdziens*, op.cit.

38. Latvijas Nacionālā Aizsardzības akadēmija, *Drošības un Stratēģiskās pētniecības centrs, Sabiedrības destabilizācijas iespējamība Latvijā: potenciālie nacionālās drošības apdraudējumi*, red. Ieva Bērziņa, 4

39. Baltic International Bank, *Latvijas Barometrs, 2018. gada septembris*, <https://www.bib.eu/lv/baltic-international-bank-latvijas-barometrs>, 3

Furthermore, the recent election results clearly show that socioeconomic issues are gaining relevance in society, and this is resonating across the political spectrum. European social democrats share several principles and values with the pillar, including freedom, justice and solidarity. Despite the disappointment that social democratic parties might be experiencing across Europe, social democratic notions are often prevalent during pre-election campaigns in attempts to attract voters. This has been particularly visible in Latvia's case: in the 6 October 2018 elections, parties representing the liberal left and social democratic views won 37 seats in the 100-seat parliament (these parties are 'Development/Pro' and 'Harmony'), suggesting that Latvia could play a role in European left-wing politics, as faint as that branch is. It should also be noted that other new forces – namely the 'Progressives', who are proposing that Latvia should model itself after Scandinavian welfare states<sup>40</sup> – gained 2.6% of the popular vote (which seen as a strong result for a first national election, even though they did not cross the threshold). These political forces have been pressing issues of freedom, solidarity and equality (they do not directly touch upon the pillar, but they are aligned with it).

The full development of Latvia's political spectrum has so far been hampered by the 'ethnic factor', where 'ethnic Latvian' and 'pro-Russian' parties have been engaged in a perpetual stand-off both on national and municipal levels. The main split in the political spectrum has therefore not been one of right vs left, but rather one of citizenship, language and geopolitical orientation. In the academic community, it is expected that the arrival of a European-minded left-leaning mentality "would provide a big chance to change the traditional, ethnically rigid political landscape and to promote socially balanced development of the country".<sup>41</sup> Here, however, a small disclaimer has to be made: the rate of political party participation in Latvia is only 1.1 per-

cent, which is the lowest in the Baltic States.<sup>42</sup> This is explained by the fact that there is a low threshold (of 200 people) to register a party (and only 500 to run for elections), which then leads to a situation in which "there's a vicious circle at work – people don't trust the political parties in Latvia because they have too few members, and they don't join them because they don't trust them".<sup>43</sup> Given the changing political party spectrum in Latvia, it is hardly a 'safe bet' that this trend will remain a definitive characteristic of the Latvian political horizon in 2022.

Moving on to an analysis of interest representation, social dialogue has played a significant role in the process of pushing for the implementation of the pillar. Two organisations – the Employer's Confederation of Latvia (ECL, *Latvijas Darba Devēju Konfederācija*), the largest organisation that represents employers in Latvia (with 4 percent of Latvia's employers as members)<sup>44</sup> and the Free Trade Union Confederation (FTUC, *Latvijas Brīvo Arodbiedrību Asociācija*), a cooperation initiative between 21 independent trade unions, which represents and protects the interests of its members in national and international organisations (but only represents 10 percent of the labour market<sup>45</sup>) – both work alongside the government to form the National Tripartite Cooperation Council, which strives to ensure that that social dialogue in Latvia takes place successfully. The interests of the FTUC in the context of the pillar mostly relate to the following points: prioritising social rights (above economic freedom); increasing convergence, which leads to progressive and measurable improvements in social rights; protecting high-quality employment, so that contracts for indefinite periods of time become the standard of employment (as promoted by the pillar); ensuring that the interpretation of the law is favourable to the employee; promoting rights that are enshrined in the Charter of Fundamental Rights; and advancing and strengthening collective agreements in Latvia.<sup>46</sup> On the flipside, the ECL, despite

40. Progresīvie, *Atbalstām Eiropas minimālā ienākumu tīkla prasības*, <https://www.progresivie.lv/atbalstam-eiropas-minimala-ienakumu-tikla-prasibas/>

41. Ivars Ijabs, *2018 parliamentary elections in Latvia*, 2018, <https://www.fes-baltic.org/publications/>, 8

42. Māris Klūga, *What's up with Latvia's feeble civic engagement?* 3.1.2018, <https://eng.lsm.lv/article/politics/politics/whats-up-with-latvias-feeble-civic-engagement.a262962/>

43. Ibid.

44. Latvijas Darba Devēju Konfederācija, <http://en.liddk.lv/>

45. Latvijas Brīvo Arodbiedrību Asociācija, <http://www.lbas.lv/lbas>

46. Eiropas Sociālo tiesību pīlārs – darba ņēmēju vidoklis, 2016. gada 19. septembrī

expressing its support for the pillar, mostly promotes the competitiveness of enterprises, including issues related to respect for labour law and labour protection; ensuring that wage growth is in line with labour productivity growth; establishing infrastructure suitable for business development; and reducing taxes on education and training as part of an effort to promote adult continuing education.<sup>47</sup> Given that the FTUC's prioritisation of social rights often clashes with the ECLs prioritisation of competitiveness, the situation arises that social dialogue in Latvia involves a lot of bargaining.

Here it has to be mentioned that one of the most visible problems with this mechanism for social dialogue is that at present FTUC includes slightly more than 10 percent of all workers of Latvia. Trade-unions in Latvia, in general, are not very strong, as they are still in their development phases, which hampers the effectiveness of collective agreements and other forms of worker's protection.<sup>48</sup> As of 2014, a total of 216 trade unions were registered in Latvia, but only 197 were active.<sup>49</sup> Given these circumstances, the quality of the social dialogue depends mostly on the political will of the policy-makers and the few groups that are willing to engage in policy-making to ensure transparency and openness. Therefore, in Latvia social dialog is still in the process of formation – in the public sector, both employers and employees are better organised, whereas in the private sector employers often have reservations about employee associations. This is why the development of social dialogue in the National Tripartite Council (or at the national level) is usually seen as 'positive' and 'good', while sectoral social dialogue is seen as 'good in separate cases' and social dialogue on an enterprise level as 'positive only when it comes to bigger enterprises'.<sup>50</sup> The quality of social dialogue is further hampered by the

unstable economic situation both in Latvia and internationally, the disorganised entrepreneurial environment in Latvia, as well as the lack of a tradition of social dialogue. Conversations between employers and employees do often take place, but these can be merely 'procedural' and fail to produce any concrete results. The rapidly-changing legal environment, which goes hand in hand with economic and political changes, has disrupted long-term business planning and therefore hampers the ability of employers and employees to find consensus.<sup>51</sup> Here it should be mentioned that despite the regular and successful mutual dialogue between the government and its social partners, according to the European Semester's report on Latvia "social partners note that social dialogue can be further enhanced by ensuring their timely involvement in the dialogue and by further expanding their capacity."<sup>52</sup>

It is also important to highlight that a loud (if not the loudest) voice of support for various socio-economic enhancements to the Latvian social system has been the Ombudsman – issues of particular interest on the Ombudsman's agenda include a guaranteed minimum income, the implementation of the European Social Charter, ensuring parental benefits are still available even when the employer has not provided the state with the necessary information, ensuring human rights in long-term social care and rehabilitation institutions, ensuring that parental benefits are available while earning income as a self-employed person, and maintaining the rights of the disabled to access the labour market, among many other questions. For instance, this agency has been actively engaged in passing of the 'Healthcare Financing Law' (2017), which guarantees a minimum level of government-funded healthcare for all residents of Latvia regardless of their paid social taxes. This 'minimum' includes emergency medical assistance, visits to obstetricians and family doctors, as well as coverage of government-funded medication. On the flipside, to receive full government coverage the patient will need to pay social

47. LDDK stratēģija 2014.-2020.gadam, 12

48. Alf Vanags and Ieva Moore, *European Pillar of Social Rights and Social, Harmonization in the Eyes of Latvian, Stakeholders*, Baltic International Centre for Economic Policy Studies, op.cit., 5

49. Worker Participation EU, Latvia, <https://www.worker-participation.eu/National-Industrial-Relations/Countries/Latvia/Trade-Unions>

50. Latvijas Darba Devēju Konfederācija, *Nozaru sociālā dialoga attīstība un tā šķēršļi Latvijā*, [http://www.lddk.lv/wp-content/uploads/2014/07/ZINOJUMS\\_-\\_NOZARU-SOCIALA-DIALOGA-ATTISTIBA-UN-TA-SKERSLI-LATVIJA.pdf](http://www.lddk.lv/wp-content/uploads/2014/07/ZINOJUMS_-_NOZARU-SOCIALA-DIALOGA-ATTISTIBA-UN-TA-SKERSLI-LATVIJA.pdf), 6

51. Ibid.

52. European Commission, *2018 European Semester: Country Report – Latvia*, op.cit.



contributions and receive a health insurance package. The law also means that the government healthcare expenditure will reach 4 percent of GDP by 2020.<sup>53</sup> As a part of the Ombudsman's work towards pass of this law, the institution has also become a vocal supporter of the rights of the employee, as the "employee is the weaker side if the employer acts unlawfully". The employee is unable to supervise compliance with the legal norms of the employer, which means that if the new 'Healthcare Financing Law' is moulded to the employer then it could effectively remove an employee's ability to access this right independent of their employer.<sup>54</sup>

NGOs and academic institutions have also played some role in this process. For instance, the European Anti-Poverty Network (EAPN Latvia) launched an initiative whereby the government was called on to establish a guaranteed income, which would be set to at least the official poverty level of 330 EUR per month.<sup>55</sup> In line with this initiative, the state would commit itself to ensuring, regardless of a person's age, place of residence in Latvia, or employment (pegging the amount to income level), a monthly subsistence level of 330 EUR. The suggestion referred to the European Commission's recommendations for Latvia and the Pillar of Social Rights of the European Union, which stipulates "the right to adequate minimum income benefits that ensure a dignified life at all stages of life for everyone who does not have enough resources"<sup>56</sup> The initiative has not yet, however, received the 10,000 signatories necessary to become a part of the agenda of the Saeima. Other NGOs that have shown considerable support include Latvia's Movement for an Independent Life (*Latvijas Kustība par Netkarīgu Dzīvi*) and the Baltic

International Centre for Economic Policy Studies (BICEPS).<sup>57</sup>

It almost seems to be a paradox that the introduction of the pillar in Latvia did not manage to generate more interest and discussion from the wider public. In part, low interest is linked to the fact that most policies are primarily seen as domestic issues – there is rarely an EU dimension (apart from some domains, such as sustainable farming). Some 47 percent of people have a 'neutral image' of the EU (instead of a positive/negative one) and a staggering 65 percent (the 4th highest in the EU) disagree with the idea that their voice counts in the EU.<sup>58</sup> This means that the population in Latvia has a very low sense of empowerment vis-à-vis the EU, and suffers from a certain Euro-apathy (not to be mistaken for Euroscepticism) which emerges from an overall lack of trust and interest in institutions. For instance, only 54.6 percent of the electorate took part in the recent national elections, which is the worst turnout of all elections since the restoration of independence. This clearly adds to the fact that the local populist party 'KPV.LV' came out victorious with 16 seats in the Saeima. There is a distinct lack of trust in the capability of the current political forces to improve the quality of life of everyday citizens: in the run up to 2018, 79 percent of the population mistrusted political parties, 74 percent mistrusted the Saeima, and only 25 percent trusted the government. The best result in terms of trust was enjoyed by President Raimonds Vējonis, who had 54 percent of respondents say they trust him,<sup>59</sup> and the EU, which in mid-2018 was trusted by 49 percent of the population. Therefore, the legitimacy crisis that democracies are experiencing across Europe can be found in Latvia as well, with some unique national characteristics.

53. LSM.lv, *Saeima passes new health insurance system bill*, 14.12.2018, <https://eng.lsm.lv/article/society/health/saeima-passes-new-health-insurance-system-bill.a260917/>

54. Latvijas Republikas Tiesībsargs, Latvijas Republikas tiesībsarga 2018. gada ziņojums, <http://www.tiesibsargs.lv/lv/pages/petijumi-un-publicacijas/gadazinojumi/gada-zinojumi>, 213

55. Manabalss.lv, *Par garantētu minimālo ienākumu virs nabadzības sliekšņa 330 EUR*, 19.6.2018, <https://manabalss.lv/par-garantetu-minimalo-ienakumu-virs-nabadzibas-slieksna-330eur/show>

56. Manabalss.lv, *Par garantētu minimālo ienākumu virs nabadzības sliekšņa 330 EUR*, op.cit.

57. Alf Vanags and Ieva Moore, *European Pillar of Social Rights and Social Harmonization in the Eyes of Latvian Stakeholders*, Baltic International Centre for Economic Policy Studies, op.cit. 5

58. European Commission, *Standard Eurobarometer 89, Public Opinion in the European Union*, Spring 2018, 8

59. LSM.lv, *President's trust ratings down*, 1.5.2018, <https://eng.lsm.lv/article/politics/politics/presidents-trust-ratings-down.a263233/>



### 3. Evaluating Latvia's achievements in the context of the pillar

The final chapter of the paper aims to present a snapshot of Latvia's current level of compliance with the requirements of the pillar. It underlines the progress of Latvia's social model in advancing towards the standards of the ESM; however, it also highlights that the country suffers from a great number of deficiencies, which are primarily produced by an emphasis on competitiveness instead of social protection in governmental policies, as well as by a lack of funding and resources, and by regional disparities (or, in other words, an absence of cohesion to put in place more welfare-minded policies).

#### 3.1. Getting there, slowly

The European Semester's annual report provides a comprehensive overview of Latvia's compliance with EU headline goals. Despite acknowledging that 'some progress' has been made in 85 percent of the previous recommendations, the Commission has stated that "The social assistance system has not improved over the years. A major reform introducing a universal minimum income level was presented in 2014 and was planned to be introduced in 2017, but so far has not been advanced, primarily due to lack of funding"<sup>60</sup> and that Latvia's "Labour market conditions have improved on the back of economic growth, but the social protection system remains weak". It also argues that, despite increasing employment opportunities in labour markets for both genders and the growth of disposable household incomes, social safety networks in Latvia's economy are still weak. This produces a dynamic of "high inequality, poverty and social exclusion".<sup>61</sup> The report references a decrease in the labour force, which is related to a decline in the working age population and the slow and steady emigration trend that is still ongoing in Latvia. "Between 2009 and 2016, the outflow of people with higher education accounted for 40% of net outward migration"<sup>62</sup> –

a factor considered a serious problem for the stability of future labour markets, as labour shortages are already a factor that negatively impacts the productivity of industry in Latvia.

The issues go further than that, as employment opportunities strongly correlate with education level (the unemployment level among low-educated population is 20.6 percent, while among the highly educated it is only 4.3 percent). Age has also become a factor – the employment rate of older workers (between 55 and 64) is growing, but their education level is not, thus depreciating their skills. The youth unemployment rate is on par with EU's average of 16.2 percent.<sup>63</sup> This is compounded by the fact that employment opportunities also vary widely by region; Riga had the lowest unemployment rate and Latvia's eastern-most region Latgale had the highest unemployment rate in December 2017. Furthermore, there is a need to continue work on behalf of stakeholders who represent groups of society with disabilities, as "While the employment and activity rates for persons with disabilities in Latvia are higher than the EU average, their poverty or social exclusion rate is among the highest in the EU at 38.9%. Also, the difference in poverty rates between people with and without disabilities is higher than the EU".<sup>64</sup>

The trend surrounding national minimum wage is not far from other EU member states – in 2018 it was increased by 13 percent to EUR 430, which brings it to 42 percent of the average wage. However, this has not mended the growing inequality in society, as Latvia's social protection spending is too low to be effective in mending inequality and poverty. The lack of social protections particularly affects the self-employed (who total 8 percent of workers), as they cannot opt-in to the unemployment assistance regime. Latvia is also experiencing issues related to social housing (which is only 0.4 percent of the total housing stock), and 15.5 percent of the population rely on housing that is in poor condition or over-crowded.

60. European Commission, *2018 European Semester: Country Report – Latvia*, [https://ec.europa.eu/info/files/2018-european-semester-country-report-latvia\\_en](https://ec.europa.eu/info/files/2018-european-semester-country-report-latvia_en), 11

61. *Ibid.*, 26

62. *Ibid.*

63. Eurostat, *Unemployment statistics*, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics#Youth\\_unemployment](https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics#Youth_unemployment)

64. European Commission, *2018 European Semester: Country Report – Latvia*, op.cit.

Latvia has also managed to decrease child poverty – it currently stands at 23.9 percent, below the EU average. Life expectancy is still among the lowest in the EU, which is in part due to an inefficient health care system that is still struggling to receive appropriate funding. Latvia spends only 40 percent of the EU average on health expenditure. A shortage of workforce only exacerbates issues in public healthcare (Latvia only has 3.2 doctors available per 1,000 people, compared to the EU average of 3.6). Eventually, a lack of students results in a lack of teachers (due to the ‘money follows the student’ system), which in turn makes the Latvian school system lose yet more students in rural areas, creating a vicious circle which critically affects the quality of education in Latvia.

### 3.2. Checking in with the progress

Firstly, it has to be pointed out that Latvia’s national body of laws was already largely compliant with the EU’s normative acts prior to joining the EU. The law ‘On the European Social Charter’ (2001) covers the right to work, the freedom of association, the right to create collective agreements, the need to establish the preconditions for the protection of workers, the right to vocational guidance, the right to health protection, the right to social and medical assistance, the right to use social services, the right to social, legal and economic protection, the rights of mothers and children, and social and economic protections in the labour market. In 1995, the law ‘On Social Security’<sup>65</sup> became an ‘umbrella’ law that made it possible to develop other laws along similar lines, including the ‘Law on State Social Security’ (1997)<sup>66</sup>, the ‘Law on State Social Allowances’ (2002)<sup>67</sup>, the ‘Law on Social Services and Social Assistance’ (2002)<sup>68</sup>, the ‘Law on Unemployment Insurance’ (2000)<sup>69</sup>,

the ‘Law on Maternity and Sickness Insurance’ (1998)<sup>70</sup>, the ‘Law on State Pensions’ (1995)<sup>71</sup>, and the ‘Law on State Funded Pensions’ (2002)<sup>72</sup>, among others. On top of these laws, pertinent rules for the Cabinet of Ministers were created to ensure that the developing economy has a system of social protection in place. With accession to the EU, these standards have only been raised. But which factors pose the biggest challenges to Latvia’s progress towards aligning itself with the pillar’s requirements?

Firstly, financing for a drastic change to social policy in Latvia is a critical challenge. Yearly expenditure on social protection in Latvia is 12 percent of GDP, which is lower than the 2018 EU average of 19.1 percent.<sup>73</sup> The same (relatively weak) financing scheme also applies to health expenditure. According to medium-term budgetary plans, public spending on healthcare is set to increase from 3 percent of GDP in 2017 to around 3.5 percent in 2018 and 2019, which is still well below the EU average of 7.1 percent<sup>74</sup>. Importantly, a great deal of Latvia’s current progress can be attributed to the European Social Fund (ESF), which has helped in fields such as boosting employability and education reform (including vocational training and the implementation of lifelong learning models at regional levels).<sup>75</sup> The amount that the ESF has contributed to Latvia since the start of the current funding period of 2014–2020 is just over 107 million EUR, which is only 15 percent of the 717 million EUR that was earmarked for the country over that time.<sup>76</sup> The slow rate of absorption

65. Likumi.lv, *Par sociālo drošību*, 7.9.1995, <https://likumi.lv/doc.php?id=36850>

66. Likumi.lv, *Par valsts sociālo apdrošināšanu*, 1.10.1997, <https://likumi.lv/doc.php?id=45466>

67. Likumi.lv, *Law on State Social Allowances*, 31.10.2002, <https://likumi.lv/ta/en/en/id/68483-law-on-state-social-allowances>

68. Likumi.lv, *Law on Social Services and Social Assistance*, 30.10.2002, <https://likumi.lv/ta/en/en/id/68488-law-on-social-services-and-social-assistance>

69. Likumi.lv, *Law on Unemployment Insurance*, 25.11.1999, <https://likumi.lv/ta/en/en/id/14595-on-unemployment-insurance>

70. Likumi.lv, *Law on Maternity and Sickness Insurance*, 6.11.1995, <https://likumi.lv/ta/en/en/id/38051-on-maternity-and-sickness-insurance>

71. Likumi.lv, *On State Pensions*, 2.11.1995, <https://likumi.lv/ta/en/en/id/38048-on-state-pensions>

72. Likumi.lv, *On the State Funded Pensions*, 17.2.2000, <https://likumi.lv/ta/en/en/id/2341-law-on-state-funded-pensions>

73. Diena.lv, *Eurostat: Latvijā izdevumi sociālajai aizsardzībai zemāki nekā ES vidēji*, [https://www.diena.lv/raksts/pasaule/eiropa/\\_eurostat-latvija-izdevumi-socialajai-aizsardzibai-zemaki-neka-es-viději-14192895](https://www.diena.lv/raksts/pasaule/eiropa/_eurostat-latvija-izdevumi-socialajai-aizsardzibai-zemaki-neka-es-viději-14192895)

74. Eurostat, *Government expenditure on health*, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Government\\_expenditure\\_on\\_health](https://ec.europa.eu/eurostat/statistics-explained/index.php/Government_expenditure_on_health)

75. European Commission, *European Social Fund in Latvia*, <http://ec.europa.eu/esf/main.jsp?catId=389>

76. European Commission, *European Structural and Cohesion Funds*, <https://cohesiondata.ec.europa.eu/countries/LV#>

of European Structural Funds has been long discussed in the Latvian media as a severe challenge for Latvian economic growth, as in the previous 2007–2013 budget, EU funds amounted to 4.29 percent of Latvia's GDP.<sup>77</sup> The 2021 budget and cuts to regional funds and cohesion are viewed with caution, as investment in Latvia is predicted to shrink by 15–30 percent.<sup>78</sup>

A lack of means (or capacity) also reflects on Latvia's ability to implement and monitor relevant legislation – this can be seen, for instance, in the labour law. As mentioned earlier, the largest organisation of trade-unions in Latvia only represents 10 percent of Latvia's labour force, thus creating a vacuum. Meanwhile, the Labour Inspectorate (*Darba lietu inspekcija*) also has limited capacity in terms of its ability to survey all businesses. This creates space for dishonest employers to take advantage of the labour rights of their employees.

The second relevant issue concerns a lack of responsible ministries for 'horizontal coordination issues', such as creating a housing policy. This is formally the responsibility of several institutions, including the Ministry of Economy, which deals with the availability of buildings; the Ministry of Environment and Regional Development, which deals with energy efficiency; and the Ministry of Welfare, which attempts to provide affordable housing. The issue is strongly reflected in both emigration trends (as "sometimes moving to Dublin is easier than finding affordable housing in Riga"<sup>79</sup>) and in the quality of life of families. Some 62.4 percent of Latvia's population lives in apartment buildings, and 30 percent live in houses (compared to Ireland, where this number is 90 percent). A total of 21.3 percent of households still complain about loose roofs, wet walls or broken window frames.<sup>80</sup>

77. Urmas Varbane, *EU Structural Funds in the Baltic countries – Useful or harmful?*, ojs.utlib.ee/index.php/TPEP/article/download/13098/8175/, 6

78. LSM.lv, *FM: Pēc 2020. gada Latvijai pieejamie ES fondi var samazināties no 15% līdz 30%*, 22.10.2017, 2017, <https://www.lsm.lv/raksts/zinas/ekonomika/fm-pec-2020.gada-latvijai-pieejamie-es-fondi-var-samazinaties-no-15-lidz-30.a247529/>

79. Interview with an official from the Ministry of Welfare of the Republic of Latvia, 5.10.2018

80. Zanda Ozola-Balode, *Tikai 10% mājoķļu būvēti pēc neatkarības atjaunošanas; vairākums dzīvo padomju laika namos*, 15.3.2017, <https://www.lsm.lv/raksts/zinas/latvija/tikai-10-majoklu-buveti-pec-neatkaribas-atjaunosanas-vairakums-dzivo-padomju-laika-namos.a228258/>

This situation mainly affects large families, which suffer not only from poor housing conditions but also from limited space.

It's also important here to touch on the issue of demography. Even though Latvia is moving towards ratifying the 'Diaspora Law' (which has become a special priority due to Latvia's centenary celebrations in 2018), which brings the Diaspora question under the auspices of the Ministry of Foreign Affairs and therefore creates a similar situation to the other 'horizontal coordination issues', roughly 15 percent of Latvia's population is currently living abroad.<sup>81</sup> The return rate of emigrants has so far been low due to a lack of social support and protection networks in Latvia – including, importantly, kindergartens. Even if a returned emigrant finds work with an adequate salary, they are still faced with the hurdle of access to public kindergartens and a lack of qualified nannies. For instance, in 2017/2018 in Riga, 1,000 children did not have an ensured spot in public kindergartens.<sup>82</sup> Parents have access to municipal co-financing in these cases. However, each city sets a ceiling for co-financing, creating a situation in which a child in Riga receives 230 EUR of co-financing<sup>83</sup> while a child in Liepāja only receives 164 EUR.<sup>84</sup> This situation clearly highlights the regional disparities in Latvia. These disparities are linked to a European-wide trend: national convergence is faster than regional convergence. In EU countries, higher income growth is observed in capitals and in other more advanced regions, while the growth of less-developed regions lags behind, resulting in an increase in income inequalities within countries.<sup>85</sup>

81. Inese Helmane, *Diasporas likumprojekta sāk vērtēt Saeimā*, 24.5.2018, <https://lvportals.lv/skaidrojumi/295914-diasporas-likumprojektu-sak-vertet-saeima-2018>

82. Rīga.lv, *Jaunami 2018: kas jāzina par Rīgas bērnudārzēm*, 26.3.2018, <https://www.riga.lv/lv/news/jaunami-2018-kas-jazina-par-rigas-bernudarziem?8841>

83. E-klase, *Līdz 231 eiro palielinās Rīgas pašvaldības līdzfinansējumu privāto bērnudārzu apmeklēšanai*, 19.1.2018, <https://www.e-klase.lv/aktualitates/zinas/lidz-231-eiro-palielinas-rigas-pasvaldibas-lidzfinansejumu-privato-bernudarzu-apmeklesanai?id=14865>

84. Liepāja.lv, *Pašvaldības līdzfinansējums privātajam bērnudārzam*, <https://www.liepaja.lv/lidzfinansejums-privatajam-bernudarzam/>

85. Agnese Rutkovska, *Kā attīstās Latvijas reģioni?*, 4.4.2018, <https://www.makroekonomika.lv/ka-attistas-latvijas-regioni>

These issues are not only concentrated in the public sector. The private sector is mainly concerned with innovation and changing forms of work – digitisation and robotisation. The education supplied by most university degrees depreciates in the span of four years, creating a labour force that is unable to meet the evolving requirements of the markets. Although the onus should also be on the private sector to invest in their employee's professional development, it seems that this is not always the case; in fact, private sector companies are often not interested in upskilling employees as they are afraid the employees might seek a job with a higher salary after acquiring the new qualification. As a result, Latvia has one of the lowest employer-employee investment rates in the EU, as a result of a reluctance to introduce apprenticeships and company-based learning.<sup>86</sup> Whereas the previously mentioned ESF has allowed Latvia to enhance the quality of vocational education, it has not been able to ensure that vocational education and training has a strong connection with the labour market and that the level of students enrolled in such programmes increases. It must be noted, however, that some progress has been made in this field – the establishment of 12 Sectoral Expert Councils that ensure cooperation with educational institutions, social partners and the government is proving to be an efficient tool to adapt the current vocational curricula to the needs of the future.<sup>87</sup>

There is also a question of political will, especially when looking at other 'horizontal issues' such as disability and gender equality. These issues are often neglected due to a lack of financing. There is also an issue with the implementation of the legal norms Latvia has put in place; a potential solution for this could be 'raising the issue to a higher level', calling on the Cabinet of Ministers to create efficient monitoring mechanisms – a proposal which has so far remained unimplemented. Admittedly, creating another 'tool for populists' out of the pillar is a worry in the eyes of policy-makers. Although

initially there was some speculation that the pillar might imply a reshuffling of competences, it is now clear that the EU will stick to the already-established boundaries. For this reason, the pillar is likely to remain low profile.

Considering Latvia's complacent, sovereign approach to the issue, it becomes clear that the launching of the Pillar has unlikely been the sole rationale for reform in Latvia. Some achievements – such as the creation of the Insolvency Administrator (*Maksātnespējas kontroles dienests*) in 2015, tasked with implementing state policy in matters of legal protection and insolvency proceedings and protecting the interests of employees during their employer's insolvency proceedings<sup>88</sup> – were implemented prior to the establishment of the pillar. In fact, the reform process for various landmark decisions that have been implemented by the 12th Saeima had already started in the aftermath of the financial crisis. One of the more recent areas of contention (and advancements) were the political deals surrounding the 'Labour Law'. The government's social partners, representing stakeholders that were highly concerned with the issue, had very different perspectives. The LEC emphasised that there was a need to reduce the supplementary pay for an employee who performs overtime work or work on a public holiday from a minimum of 100 percent to one of 50 percent (Article 68 of the 'Labour Law'), and to abolish a provision that prevents an employer from giving an employee notice of termination if the worker is a member of a trade union without first getting the consent of the trade union (Article 110 of the 'Labour Law').<sup>89</sup> The high overtime wage system creates a situation where employers are forced to switch to the shadow economy (there is a persistent shadow economy in Latvia due to so-called 'envelope salaries', which reach 22 percent of the GDP<sup>90</sup>). Furthermore, this situation can go on to harm Latvia's global competitiveness. Requiring

86. Interview with an official from the Ministry of Welfare of the Republic of Latvia, op.cit.

87. OECD, *OECD Reviews of Labour Market and Social Policies: Latvia*, 2016, <http://www.oecd.org/publications/oecd-reviews-of-labour-market-and-social-policies-latvia-2016-9789264250505-en.htm>, 22

88. Maksātnespējas kontroles dienests, <http://mkd.gov.lv/lv/parmums/>

89. Raita Karnīte, *Latvia: Strengthening the role of trade unions in ensuring employment rights*, 8.8.2015, <https://www.eurofound.europa.eu/publications/article/2015/latvia-strengthening-the-role-of-trade-unions-in-ensuring-employment-rights>

90. Rūta Kesnere, *Ēnu ekonomika Latvijā*, 16.5.2018, <http://www.db.lv/zinas/enu-ekonomika-latvija-pieaug-475047>

consent from trade unions makes the firing and hiring process rigid. The FTUC did not agree with this opinion, explaining that wages are already low and reducing them further would exacerbate the situation. Overtime work is often not reported or paid at all, or is not paid in line with the higher rate. Amendments to the 'Labour Law' came in force in August 2017, introducing a number of important changes regarding collective agreements, professional training or qualification improvement, the notice period given by employers, overtime work, the calculation of hourly payroll rates, removal from work, and additional leave.<sup>91</sup> However, the most recent (and not yet in force) amendment is to do with overtime hours: employees will receive a minimum of 50 percent additional pay for the first two overtime hours, and each additional overtime hour will be remunerated at a rate of at least 100 percent.<sup>92</sup>

An equally important step has been the introduction of the progressive tax in Latvia. The discussion surrounding this has been long and difficult: for instance, in 2011, manabalss.lv received an initiative to introduce the progressive tax, which did not come into force until 1 January 2018.<sup>93</sup> The biggest beneficiaries of tax reform will be the recipients of small wages, as a higher level of non-taxable minimum income will increase the amount of money they have at their disposal. Other beneficiaries will be employees who can be classified as middle-class and whose salary is not more than two average salaries. The tax law also aims to reduce the labour tax burden for employed people with low incomes, increase the income of working people, and reduce income inequality.<sup>94</sup> The debates around the introduction of a new taxation system have provided a serious challenge for the 12th Saeima in its attempts to carry out the reform. Institutions such as BICEPS have claimed after the reform, the income of the wealthiest in-

habitants of Latvia will actually increase instead of decrease.<sup>95</sup> The Bank of Latvia made similar claims, arguing that tax reform is not a tool powerful enough to reduce inequality in Latvia. Similarly, a representative of the ECL argued that "Latvia's economic system is still in the development stage" and that therefore it cannot afford to adopt the practices of developed countries. There was fear that the progressive tax will hamper economic development, and its natural transition to higher incomes and higher income sectors.<sup>96</sup>

A truly positive example of Latvia's social model is the existing social dialogue. The National Tripartite Cooperation Council has managed to strengthen the position of collective agreements in the various economic sectors of Latvia. By the end of 2018, two cooperative agreements will be concluded: one in the railway industry and another in the construction industry. Collective sector-wide agreements are seen as a sign of the quality and maturity of Latvia's market, as well as a way to strengthen Latvia's trade unions. Cooperation measures have also agreed upon between Latvia's trade unions and the state enterprise 'Latvenergo', which shows that collective agreements can be put in place with the country's biggest employer. This came in addition to the 'Law on Trade Unions' (2014), which widened the authority of trade unions in Latvia and is recognised as being in line with international best practices.

## Conclusion

The European Pillar of Social Rights is considered to be a guideline for employment and social policies for countries within the EU. Today, Latvia is significantly closer to the EU average than ever before, and this positive momentum has to continue. In this process, EU Structural Funds have provided a significant amount of support for Latvia. Investment in less-developed regions – including

91. Latvijas Lauku Konsultāciju un Izglītības centrs, *Būtiskas izmaiņas Darba likumā*, 25.8.2017, <http://new.lkc.lv/lv/nozares/gramatvediba/butiskas-izmainas-darba-likuma>

92. LSM.lv, *Arodbiedrību savienība: Darba likums ir jāizmaina šai Saeimai*, 16.4.2018, <https://www.lsm.lv/raksts/zinas/latvija/arodbiedribu-savieniba-darba-likums-ir-jaizmaina-sai-saeimai.a275056/>

93. Manabalss.lv, *Par progresīvu nodokli*, 22.8.2011, <https://manabalss.lv/par-progres-vu-nodok-u-sist-mu/show>

94. Ibid.

95. Delfi.lv, *Progresīvā nodokļa augstākā likme – fikcija, vēsta raidījums*, 27.8.2017, [http://www.delfi.lv/business/budzets\\_un\\_nodokli/progresiva-nodokla-augstaka-likme-fikcija-vesta-raidijums.d?id=49181321](http://www.delfi.lv/business/budzets_un_nodokli/progresiva-nodokla-augstaka-likme-fikcija-vesta-raidijums.d?id=49181321)

96. Latvijas Darba Devēju Konfederācija, *Nodokļu sistēma ir valsts saruna ar savu iedzīvotāju*, 1.11.2018, <http://www.lddk.lv/viedoklis/nodoklu-sistema-ir-valsts-saruna-ar-savu-iedzivotaju/>

in infrastructure, education and the labour market – increases the potential for economic growth and creates opportunities for additional social support mechanisms to be generated through growth.

In many areas, Latvia's performance is strong: it has an active labour market policy for long-term unemployment, and the use of e-services and e-tools in labour protection policies and the social dialogue mechanisms have been mentioned as among its strongest points. Latvia has continued to build upon the aim of balancing economic and social interests at the private and national level. On the other hand, the most important challenges facing Latvia are a lack of availability of healthcare, income inequality, and poverty (both concerning remuneration and the adequacy of social protections, including pensions, as well as regional disparities and the development of social services and affordable housing).

In general the development trend is positive, but at the same time the aim of reforms in various fields

has never been to align with the EU Social Rights Pillar. Firstly, these reforms have been about implementing the recommendations of The European Semester, and secondly about the country's work toward becoming an OECD member. On a positive note, at both the national and EU level there is an effort to achieve the best results for the country's socio-economic situation, including ensuring that there are adequate rights, opportunities and security for every citizen. As with other EU member states, Latvia also tries to be complacent yet sovereign on the European Social Rights Pillar and believes in a gradual increase of social standards. Due to democratic pressure and overall solidarity among the Latvian people, stronger social programmes should materialise when the overall economic situation of the country becomes closer to the EU average and when the fiscal situation allows it.

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