



# EU Social Dimension – An Innovative and Reflective Society

Edited by **Tatjana Muravska** and **Biruta Sloka**



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This publication is a collective effort providing a methodological tool to students and teachers, offering a comprehensive overview of specific areas of EU social affairs in fields related to labour market, employment policy, social dialogue and social partnership.

The compendium illustrates key issues and challenges, policy actions and instruments at EU level and provides examples of best practices from EU and Baltic Sea region countries. It also presents views on the subject from Latvia as a country from the group of New Member States and highlights the importance of ensuring efficient labour market policies, effective social dialogue as well as good and healthy working conditions and integration of socially less protected population groups in the labour market.

The respective roles of the EU institutions and other stockholders in shaping the EU and Member States legislation on employment policies and working conditions are also reviewed.

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## Introduction

Society, politics and economics of the 21st century can be described by key words such as globalisation, interdependence and interaction of various processes, a clear indication that the problems of society are increasingly complex and interdependent. As the world is becoming ever more integrated – mutual ties between regional, national and international communities are strengthening. Reality is a nexus of interrelated phenomena, which are not reducible to a single dimension.

Globalisation is linked to new technologies, new economic relationships, as well as a wide range of actors, including governments, international organisations, labour, business and civil society. The process of globalisation has brought significant benefits to many people across the world; higher quality and earning jobs have been created in parts of the world which previously relied largely on agriculture to maintain their people.

However, the benefits of globalisation are not shared equally across all countries and societies. The results of economic integration at global level are unbalanced and often unfavourable to vulnerable societies; they also may impact differently specific regions and economic sectors of national economies.

The EU has become a powerful global player in last decades in the rapidly changing world. Technological changes have spread world-wide and new global powers such as China and India have emerged as the Asian miracles; they represent the dynamic performance of the East Asia economies due to their 'openness to international trade'. However, demographic change and poverty in other parts of the world increased pressure on migration and further increased poverty, which resulted in a growing debate about benefits of globalisation and critique of the 'globalization' negative impact on the economic and social dimensions. As the result of these new challenges world-wide, the central theme of the EU for the 21 century has become globalisation in the process of which social as well as human dimensions are important for the EU challenges.

The European Union represents an innovative model of economic, political and social integration. It has created a single market for the free movement of goods, services, capital and persons, reinforced by Economic and Monetary Union. The EU pursues mutually reinforcing policies to meet the needs of competitiveness, employment, social progress and sustainable environment. The system established by the EU is such that this economic integration is aimed at improvements of the living and working conditions of Europeans; particularly important to the less developed EU Member States. The EU has focused on involvement of the stakeholders through the European Social Dialogue and Social Partnership as well as on fundamental standards for employment, such as non-discrimination in employment and equality between men and women, minimum standards as regards occupational health and safety and working conditions, supportive national social protection systems, and investment in human capital.

The discourse about the social dimension in Europe has accelerated in recent years during which austerity measures were introduced by many EU governments. Public policies related to these measures have attracted the attention of many scholars and experts. The subject of discussion is focused on such models as, for example, 'European Social Union', which would complement the 'European Economic Union' and a 'European Political Union'. The importance of neo-liberalism and neo-liberal agenda in overcoming economic difficulties and keeping at the same time strong social systems and values represent another important trend in current debates at the EU and Member States levels. The latest considerations are related to the transformation of the EU into a multi-speed Europe. These changes are often considered in geographical terms (the South and North of Europe) and geo-political terms (the core and the periphery of the EU). The impact of these changes has already weighed heavily upon the balance of power among social partners (employers and trade unions) and governments, requiring the urgent need for institutional adjustments in a number of the EU policies including social and employment policies of the Member States.

In this compendium the authors discuss the theoretical considerations and provide a methodological overview of the role of social dialogue, social partnership, and employment policies. The issue of labour market integration is supported by practical case studies and in particular, focussing on socially less protected groups of population in the EU.

*The Editors*

## Learning outcomes

After reading this publication and analysing case studies you should be able to:

1. Identify some of the impacts of globalisation on industrial and employment relations worldwide
2. Appreciate the social dimension in globalisation
3. Understand the definition of Social dialogue and social partnership
4. Discuss the potential for EU to cooperate internationally on social dialogue issue
5. Explain how social policy models are defined
6. Learn about labour market stakeholders, flexicurity and financial participation
7. Be aware of problems in challenges of cross- border of labour mobility in the EU and Central Baltic Sea Region countries
8. Recognise and understand problems of integration of socially less protected groups of society related to immigration

# 1. Globalisation and Social Dialogue

Globalization is widely seen as a powerful engine that has the potential to promote growth and development. For many years, however, concerns have also been raised about the effects of globalization on jobs and wages. This has led to questions about the social sustainability of globalization. Policy makers and experts at both the national and international level are increasingly looking for new strategies to promote more and better employment in a globalizing world and to regain public support for a constructive Social dialogue.

## ▪ Social dialogue as a concept

Social dialogue is a comparatively new and not sufficiently developed world-wide concept. Its importance in the international public debates has grown over the last decades. Various international organisations, especially the International Labour Organisation (ILO), have assumed an important role in encouraging Social dialogue.

Social dialogue is defined by ILO as all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.<sup>1</sup> However, a definition of Social dialogue is not yet a concept that has been accepted unanimously by experts and international organisations. Experts commonly agree: autonomous, independent and strong workers' and employers' organizations are critical for effective social dialogue. The quality of this dialogue is determined by the extent to which social partners are able to negotiate collective agreements that govern terms and conditions of employment and regulate labour relations. The emphasis of this particular is therefore placed on primary industrial relations indicators, that is, membership of organizations and the coverage of collective bargaining agreements.

### BOX 1

According to ILO: the field of social dialogue is relatively weak also with respect to statistics and to statistical standards and tools to monitor progress in union membership and bargaining coverage. Although one-third of ILO member States compile, disseminate or make use of some kind of statistics related to social dialogue, there remains significant conceptual and methodological variation. No international consensus has been achieved so far. In this regard there is a need to develop international statistical guidelines on social dialogue indicators to improve the capacity of national (statistical) authorities and the social partners to make better use of them.

<sup>1</sup> International Labour Organization, *Social Dialogue Definition*. Available at: <http://www.ilo.org/public/english/dialogue/ifpdial/areas/social.htm>

Social dialogue can be bipartite, tripartite or “tripartite plus”. Tripartism is an important mean of establishing social dialogue and refers to labour relations in which the State, employers and workers are autonomous and interdependent partners with common interests. Bipartism between workers and employers organisation is a process of determination of a network of rules and regulations concerning terms and conditions of employment, etc., through consultation, negotiation, bargaining or other consensual processes. When bipartite dialogue does not lead to dispute avoidance or settlement, tripartite interventions like conciliation/ mediation and arbitration/adjudication become necessary.

Through its tripartite structure, the ILO has unique access to the world of social dialogue. It provides a forum for a global social dialogue for representatives of workers’ and employers’ organizations and governments from more than 170 countries. The ILO has also contributed to the implementation of the concept of Social dialogue by highlighting in its programme of activities for 2000 -2014, the strengthening of Social dialogue among ILO member States as one of its strategic objectives to be achieved.

### ▪ **Global and Regional dimension of Social dialogue and trade unions**

Social dialogue has similarities and differences in its development trends across countries and world regions. It also takes place at different levels and in different ways. The most significant achievements in this area are in the European Union as Social dialogue has become an important element in the process of decision-making already in the middle of the 1980s and since then has been strengthened further in the 1990s, through amendments at the Maastricht and Amsterdam Treaties. Since then it became essential for EU authorities and for authorities in the Member States to consult with the social partners on legislation issues.

#### **BOX 2**

Articles 137 EC (151 TFEU), 138 EC (153 TFEU) and the new Article (152 TFEU), stating: ‘The Union recognises and promotes the role of the social partners at its level, taking into account the diversity of national systems. It shall facilitate dialogue between the social partners, respecting their autonomy.’ Article 153 TFEU would also give the Member States the possibility to entrust the social partners with the implementation of a Council decision adopted on ratification of a collective agreement signed at European level (Official Journal of the European Communities, C 340, 10.11.1997; Official Journal of the European Communities, C 191/1, 29.07.1992; Official Journal of the European Union, C 306, 17.12.2007).

It is important to stress the existing attempts to established forums for Social dialogue at a regional block level and to promote this concept within the members’ countries in some of the regional blocks. One of such examples is Latin America and, in particular, Mercosur countries, that has declared promotion of social dialogue at national and regional levels as one of the main policy objectives. ILO contributed to the strengthening of Social Dialogue processes in Argentina, Brazil, Chile, Ecuador, Mexico and Peru and encouraged mutual recognition of legitimate actors for dialogue, building consensus among them, creating and strengthening diverse democratic structures to deal with a wide range of

socio economic issues of common interest. ILO assistance also helped to improve the effectiveness of the existing mechanisms for Social dialogue, provided technical support in the creation of new structures, and strengthen the technical capacity of the legitimated participants of Social dialogue – the workers’ and employers’ organizations and ministry officials – to be involved actively in institutionalised mechanisms of Social dialogue.

In Arab countries attention was given to labour law reform, industrial relations systems and labour administration. At the beginning of 2000’s ILO provided training and technical assistance to, for example, Jordan, Oman and Bahrain Governments as well as social partners to promote decent work and sound labour relations (International Labour Office, 2005).

### BOX 3

“in a world of growing interdependence and complexity and the internationalization of production, [...] social dialogue and the practice of tripartism between governments and the representative organizations of workers and employers within and across borders are now more relevant to achieving solutions and to building up social cohesion and the rule of law through, among other means, international labour standards”

*International Labour Organisation*

Positive developments are observed in South Asia where social partners have renewed their efforts to build sound institutions with a growing recognition of the important role of social dialogue in social and economic policy areas. In a number of countries in the region, social dialogue gained an important role as one of the main development policy instrument. These include the involvement of social partners in the poverty reduction strategy programmes for example in Sri Lanka and Nepal (Sivananthiran & Venkata Ratnam, 2003). To understand better concept of Social dialogue and its interrelation with trade union movement, a historical profile of the formation and development of trade unions are of prime importance. In addition, trade unions structure, their policies, practices as well as effectiveness – are factors that play a crucial role in the identity and performance of trade unions. Activities of trade unions are determined by existing trends in politics, labour markets and social structures.

Contrasts in Social dialogue and trade unionism within North America have been stressed by experts with regards to politics, economy and welfare policies. Canada is different from the United States in many respects and in many ways is similar to European countries. One of the reasons is that Canada retains British institutions and values. Canada represents a more social democratic society with social programmes oriented to social protection and the advanced development of a welfare state system than in the United States.

The Canadian Labour Congress was founded on April 23, 1956 as a merger of the Trades and Labour Congress with Canadian Congress of Labour. The Labour movement focus was pensions, health insurance, shorter workday, living wage, , and the right to organize by workers in unions and/or trying to form unions. The structure of the Canadian labour movement reflects the Canadian federal government system as well as dominant corporate structures. Analysts pointed out that Canadian union membership and density

is relatively stable, but however, it follows a general trend of decline during the last decade in the Anglo –American democracies. The decline in Canadian union membership is a complex of influential factors. Most important are the following:

- the adoption of labour saving technologies, work reorganisation;
- increased global competition and the displacement of unionised companies with non-union companies resulted in a decline in rates of unionisation especially in the manufacturing and resource sectors.

Union membership is increasingly concentrated in the public sector. The largest is Public Employees, the National Union of Public and General Employed, the United Steelworkers of America and the Canadian Autoworkers.

Canada's legal regime governing labour relations encourages decentralization. Existing fragmentation of the Canadian trade union movement is also explained by the fact that more than 800 unions operate in Canada with thousands of collective agreements. Collective bargaining is highly decentralized. Most unions negotiate separated agreements with each individual employer; these employers are dispersed across the country. The most organized and active trade unions are health care workers and teachers unions organizing strikes as a tool to protect their interests. These strikes are indicative of a national wide trend. The vast majority of strikes ended with collective agreement between the union and employers.

Studies related to labour movements in EU and Canada show common futures in relation to the trade union function and development trends due to Canadian 'social democratic culture':

1. *Provision of benefits to members:* unemployment, ill health, old age and funeral expenses. The provision of professional training, legal advice and representation for members are an important additional benefit of trade union membership.
2. *Industrial action:* trade unions enforce strikes or resistance to unfavourable changes for employees' environment.
3. *Political activity:* trade unions promote legislation favourable to the interests of their members.
4. *Collective bargaining:* trade unions operate openly, are recognised by employers, negotiate with employers over wages and working conditions.

The role of trade unions in decision-making process related to cooperation agreements of Canada and the EU could be illustrated by discussions related to the Comprehensive Economic and Trade Agreement (CETA) as the most debated issue. Trade unions of the EU and Canada had expressed serious reservations concerning the proposed, and now signed CETA Agreement discussing the following argumentation:

1. A full evaluation of the social, environmental and labour impacts of the proposed agreement has never been completed.
2. The negotiations have taking place without public scrutiny, there was a need for greater transparency of the process.

3. The public needs assurances that the agreement would not interfere with the right of governments to regulate in the public interest, protect existing public services or create new public programmes.

Another important issue under CETA's set of negotiations is labour mobility and immigration. In general trade unions in Canada do not support neo-liberal policies and neo-liberal governments.

For better understanding trade unions identities, the following major models of trade unions are:

1. Welfare trade unions – perform radical social and political activities. Mostly function in France, Italy and Spain.
2. Social partner unionism, created with the aim to harmonise the opinions of the employees and social partners. Such unions are in Scandinavian countries as well as in the Netherlands and Germany.
3. Business Trade Unions – represent the interests of the employed. The best examples of that type of unions could be found in North America.
4. Trade unions that have transformed from a trade union in which a state plays a decisive role in shaping the parameters of trade union practice to a trade union that is state's social partner. This particular model functions in most of the EU New Member States.

Nowadays the political and economic conditions that ensured the “golden age” of trade unions have lost their topicality. Experts at the ILO consider that the role of trade unions has narrowed and become more limited and that in the future trade unions will engage in partnership with the government or will become a part of new wide-range labour market institutions (Sivananthiran & Venkata Ratnam, 2003). Although globalisation has put a huge pressure on the trade unionism and countries, the majority of researchers admit that it has not caused a radical decline of the state authority or convergence of the labour relation system. At the same time, an agreement with social partners is necessary for the adoption of various EU-level decisions. Therefore, there is no reason to assume that the importance of trade unions will be reduced or become insignificant in the future at least at the EU level. The public sector trade unions have had to accept changes in the status of employment of civil servants and remuneration system more and more often. Some influential and well-organised groups of professionals have tried to protect their rights by way of collective bargaining (European Commission, 2011, p. 22). Trade unions have been included in the political and economic system of nearly all EU countries, and they will retain their importance not only due to the fact that they unite and organise employers, but also because they step in for social justice and democracy. The modern European labour relations system and participation of trade unions in the public administration decision-making process is based on the aforementioned European traditions in building labour relations.

During last decades the role of trade unions in many countries is becoming less important and visible. To different degrees all unions in the EU also have seen some decline in

their membership, resulting in overall decline in union density. Such a trend could be explained by the following general reasons:

1. *Globalisation and capital mobility* are very powerful in influencing the negotiation process among major actors involved in the economic process and, thus, reducing the effectiveness of trade unions in collective negotiations. The other major concerns in the context of globalisation are related to the loss of employment especially in the formal sector of economies as a result of restructuring or relocation and informalisation of work – employment is becoming a typical part-time work, casual, intermittent and etc. The power of trade unions as main defenders of the traditional work practices, to resist decentralisation and deregulation is weakened by strong unemployment trends that have intensified during economic crisis 2008-2010. However the process of globalization has underlined the need for greater participation in decision – making policies at all levels, including an international level. Workers' and employers' organisations can bring together representatives from different groups of societies and thus to enhance the role of the social partners as they represent broader interests in society.
2. *Foreign investments and Multinational Corporations (MNC)* have a strong impact on a policy of a state, which lowers the influence of trade unions. As the result of globalisation, MNC become major players in relations to global production and labour markets. The ability of capital and MNC to move freely around the globe for profitable returns on investments and use of lower labour costs is a consequence of markets liberalisation. In most cases labour is a much less mobile production factor and this gap in the mobility between MNC and workers can negatively influence the social dimension in companies and institutions at national level. MNC continue to work on global management strategies and management decisions, which may have impact on employment opportunities taken at the headquarters of MNC. Trade unions do not have those efficient mechanisms for transnational coordination as do MNC.
3. *Trade unions' political participation, involvement in election campaigns, and strong links with political parties* also reduces the importance of the membership in trade unions for current and potential members. Trade unions have not only economic agenda, they are also involved in political life; they are both political and economic actors. The relations between the two roles are complex and contradictory. The balance between them varies between countries and thus requires from the unions to redefine their political identities. Four factors seem of particular importance in explaining these distinctive patterns: ideology, opportunity structures, organisational capacity and contextual challenges.

#### BOX 4

##### Elements of globalization

- International capital flows
- Global integration of business activities
- Flows of images, ideas, information, and values through media and communications
- Spread of consumerism and individualism worldwide
- International mobility of people (for leisure, work) and ideas
- Impact of human activity on the global ecological system and the environment
- Consciousness by the public of global issues, events, and risks
- The rise of governmental and non-governmental organizations
- Political action across borders and directed at supranational fora

#### *Trade unions in the EU: new and old Member States*

Trends of trade unions operations are mainly established by the policy, labour market, society and institutions. Success of trade unions and their possibilities to represent the interests of the employees depends on the number and activities of members of trade unions. The ex-soviet states in the Central and Eastern Europe, i.e. the Baltic States, Slovakia, the Czech Republic, Poland, Hungary, Romania, Bulgaria have experienced the largest decrease in the number of members of trade unions in Europe since 1990. The number of trade union members in the EU-15 fell from 33% in 1990 to 24.4% in 2008, while in the Central and Eastern Europe the decrease was from 59% to 19%, (European Commission, 2013, p. 76). The most significant decreases in the numbers of trade union members were observed in Lithuania (-47.7%), Estonia (-43.6%), Slovakia (-43.4%), the Czech Republic (-27.9%), and Poland (-25.5%) (Visser, 2013). Such tendency in the Central and Eastern Europe can be explained with the lack of traditions in establishing trade unions and collective bargaining, poor activity of trade unions at the enterprise level, and increasing migration of labour force after 2004; as a result, the activity of trade unions is fragmentary and the level of trust of employees in trade union activity is extremely low. According to experts, the most widespread perception in the Central and Eastern Europe (Dimitrova & Vilroks, 2005) is that employees' organisations are not good and useful (Kohl, 2008), that they are too weak, but that they are however necessary to protect the interests of employees. Such contradictory situation has been created by the interaction of two parallel processes: "the socialism heritage" in the activities of trade unions and public perception, and the efforts of the Central and Eastern Europe countries to re-orient the activities of trade unions according to free market conditions. Such a situation does not promote the popularity of trade unions, and thus, as a result, trade unions in the Central and Eastern Europe countries face distrust and low level of interest of employees in their work. In addition, lack of traditions and poor activity of trade unions at the enterprise level in the Central and Eastern Europe countries prevent them to be recognised as associations and instead, employees associate them more with management. Another reason for the low popularity of trade unions could be their limited authority and influence on the public administration decision-making processes. While the institutional framework of the EU provides trade unions with the possibility

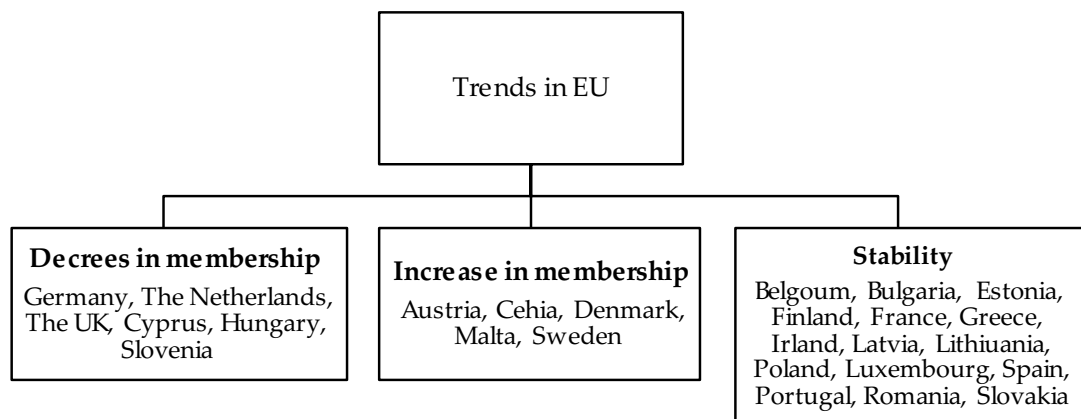
to participate in the public administration decision-making process and dialogue with employers' organisations, the low percentage of employees participating in trade unions hinders the use of full potential of trade unions. As a result, the trade unions in the Central and Eastern Europe countries are weak and are not able to use the authority entrusted with them within the social dialogue.

The low participation in trade unions could be explained also with the fact that participation therein gives no visible benefits. The opinion of participants on the benefits and advantages offered by the union is often called the "objective value"; it includes increments and social guarantees, as well as subjective considerations on other possible advantages arising out of the employees' trust in the trade union.

It is important to stress, that managers of trade unions in the Central and Eastern Europe countries should build a constructive dialogue with the society and explain it the role and potential of trade unions in solving social and labour-related issues. Since trade unions are in fact established by individuals trade union managers have the possibility to convince employees on the usefulness of trade unions and to gain their support; although it should be remembered that this can take time.

Further analysis of the density of trade unions allows for the conclusion that the trend of reduction in the number of trade unions continued in Germany, the Netherlands, the United Kingdom, Hungary, Slovenia, and Cyprus in 2011, while the number of trade union participants increased in the Czech Republic, Malta, Sweden, Austria, and Denmark (see Box 5).

#### BOX 5



**Figure 1. Changes in the number of members of trade unions from 2000**

Source: European Industrial relations observatory online. Available at: <http://www.worker-participation.eu/National-Industrial-Relations> and Eurofound (2012)

Many scholars admit that trade unions are ageing and that they tend to represent the public sector. However, there are big differences among the EU Member States also within this general trend; for example, the number of members range from 70% in Finland to 7.6% in Estonia and 7.7% in France (Visser, 2013). Several factors that have promoted the decrease in the number of members of trade unions in the EU Member States arise out of the changes that have taken place in the structure of national economies over the

last decades (e.g. the number of employed in manufacturing sector has fallen as a result of technological progress, the importance of service sector has grown significantly in the labour relations, and more and more employees work at small and medium-sized enterprises).

As a result of these changes there:

- is a trend of smaller number of young people joining trade unions;
- are difficulties in attracting and keeping members of trade unions in service sector;
- are problems to attract and keep members of trade unions in the small enterprises;
- are difficulties to attract and keep those members of trade unions who work under flexible and/or fixed-term employment contracts.

In the future, cooperation of trade unions with other organisations and social movement associations could be one of the most efficient ways for revitalization of trade unions. Beginnings of such revitalisation strategy can be found in countries, where trade unions often cooperate with other progressive social establishments. There is also another practice present along with the trade union renewal measures – merger or consolidation of trade unions.

Merge (or uniting) of trade unions is a practical and achievable solution for the trade unions facing difficulties in recruiting members and representing their interests. Therefore, it could be suggested to investigate the various experiences of trade unions in uniting their efforts and to identify the best practices that would allow trade unions to solve the representation problems more efficiently.

The fall in the number of employees in trade unions has a negative impact on not only the representation and influence of trade unions, but also their capability to act. As the number of members decreases, trade unions lose the financial and also administrative and human (expertise) resources, which are crucial for ensuring their efficient operation. Less number of participants means less financial means available to trade unions. Currently the majority of trade unions try to maintain relations with the unemployed by stressing solidarity between the employed and unemployed members.

### *Legal framework of social partnership*

These lowering trends of trade union density rates have spurred policy makers and scholars to examine the possibility for changes in the organisation of trade unions, their models, and their role in their in the negotiations of collective agreements.

Social Dialogue is a fundamental element in the European social policy. The process of launching and further development of Social Dialogue in the EU has four main stages (see Table 1).

Table 1. Development of Social dialogue in the EU 1985-2014

Period	Years	Actions
I	(1985 –1991)	In 1985, with the launch of a bipartite social dialogue the bipartite activities resulted in the adoption of resolutions, declarations and joint opinions, without any binding force. The bipartite dialogue takes place at cross-industry level and within sectoral social dialogue committees. As a result of their representativeness, European social partners have the right to be consulted by the Commission, and may decide to negotiate binding agreements. Another important event that strengthened Social Dialogue was the Single European Act adopted in 1986
II	(1992 –1999)	In 1991 an agreement between the social partners was adopted, which was subsequently integrated into the protocol on social policy and annexed to the Maastricht Treaty. In 1997, the agreement of 1991 was incorporated into the Amsterdam Treaty.
III	(1999 –2005)	In December 2001 the European social partners presented a joint contribution to the Laeken European Council. This last phase has been characterised by greater independence and autonomy for the social dialogue.
IV	(2006 –2014)	Social Partners in the EU reached agreements on a number of work programmes and in particular related to further implementation of European Structural Funds.

The European social partners use very narrow definitions, since they reserve the notion of social dialogue for their bipartite, autonomous work. Whenever European public authorities are involved, the social partners prefer to speak of tripartite concentration (Eurofound, 2012). The involvement of the social partners at the European level is organised around three different types of activities: Social partners at the European level are organised according to three different types of activities. This system is the most advanced organisational scheme in the international labour practices.

### Key Points

1. *Tripartite consultations*: exchanges between social partners and European public authorities;
2. *Consultation of the social partners*: this covers the activities from consultative committees and official consultations;
3. *European social dialogue*, the bipartite work of the social partners, whether or not it stems from the official consultations of the Commission are based on Articles 153 and 154 of the Treaty on the functioning of the European Union (Official Journal of the European Union, C 115/47, 09.05.2008)

In EU Member States the collaboration between state and social partners is an important link between industrial relations and government policy. It provides the means of adjusting collective bargaining to national economic, employment and social policy while opening it up to possible influence by social partners. Two subsystems of social partnership can be differentiated: bipartite consultations and negotiations between the social partners on one hand, and tripartite consultation and concerted policy-making between the social partners and the state on the other.

Bipartite social partnership encompasses:

- 1) the informal practice of negotiations and discussions at cross-sector levels;
- 2) the collective bargaining system, focused on the sectoral level and representing the core institution of bipartite social partnership.

Tripartite social partnership relates to all social and economic policy issues, which in formal terms fall within the purview of state powers and responsibilities.

The European Union has no power to harmonise the numerous – and in some cases very different – systems of employment policies and social protection in the Member States. Instead, the role of the EU institutions is to coordinate these systems to protect the main principles of the Common Market, by applying the Open Method of Coordination.

Along with the social dialogue, trade unions express their interests also within the social partnership. “Social partnership” is a constructive interaction of all parties, for example, implementation of joint programmes, concepts, action plans when solving common social problems. Such interaction benefits all the involved parties and also the general public. The social partnership is characterised by a joint identification and solving of problems, respect and acceptance of the basic rules, possibilities and limitations of the partners.

Two social partnership subs-systems can be distinguished on the national and EU level: bipartite consultations and discussions of social partners (i.e. bipartite social dialogue) and tripartite consultations (i.e. tripartite social dialogue). Bilateral cooperation of social partners covers three spheres of action: 1) unofficial consultations and discussions on the inter-sectoral level; 2) system for collective bargaining on the sectoral level; and 3) partner discussions within bipartite social dialogue. The view of the European social partners on the possibilities of the social dialogue is often very narrow. The social dialogue is only applied to bilateral cooperation process. For example, the European social partners use an autonomous bilateral dialogue to study the consequences of the shift to low-carbon economy or the impact of the climate-change related policy on the employment (European Commission, 2011). As soon as national or EU institutions involve in this dialogue, the social partners speak about tripartite consultation of participants.

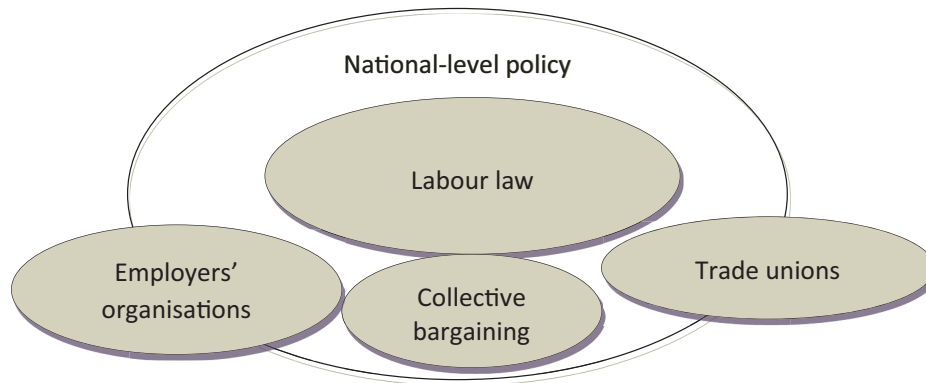
Tripartite social dialogue provide for the development of a coherent policy between the social partners and the state. Several EU Member States have tried to involve trade unions and other employee’s organisations in reaching tripartite social agreements regarding issues like work remuneration and reforms, establishing of retirement age, provisions for early retirement, employment protection, active labour market policy, unemployment insurance, and training. Social pacts are defined as tripartite agreements, namely, publicly-announced formal policy agreements between the public administration and social partners regarding income, labour market, and welfare policies, aimed at identifying and reaching the objectives of policy development. They are based on the

signatory parties' responsibility for the signed agreement (Avdagic, Rhodes, Visser, 2011). These agreements, which are executed in various forms, may have different periods of application and consequences, as well as content or the range of questions covered; in addition, these questions may have appeared at different times in different fields of policy.

Decision-making process in the field of labour relations is affected by the interaction of external factors and opinions of trade unions, employers' organisations, and the government. It is always a compromise between two or more parties. The prevailing opinion in the society has an indirect influence on the labour relations, and the public ability to unite with the aim to defend joint interests is most important in the process of labour relation development. The level of interest of employees to participate in trade unions is determined directly by the influence which trade unions have in the public administration decision-making. The more organised and active employees are the larger is the potential influence of trade unions and their possibilities to defend the interests of their members. Although representation of trade unions is one of the elements determining the result of consultations, it is by no means the decisive one. According to practice, institutional factors (government policy, institutional structure of public administration, legislation) play an important role in the development and implementation of labour relations (see Box 6); this is demonstrated by the inter-relation of institutional factors and their influence on the labour relations. As a practical example: the Spanish government decided to reduce remuneration of public sector employees at the end of 2012, despite the objections, protests and claims of trade union confederations submitted to the ILO<sup>2</sup>. Currently a new trend can be observed in the labour relations in the EU: labour relations are present not only in the private sector (enterprise level), but also in the public sector (state administration). The main institutionalising factor of labour relations at the public administration level is a strict fiscal policy and budget consolidation, which started in the EU Member States in 2008. As suggested by the experience of the EU Member States, fiscal consolidation, first and foremost, affects the employees of state administration. According to studies (Bordogna, 2008), collective bargaining provides the employees of state administration with social benefits; however, the economic benefits offered by collective bargaining are often more complex and quite unclear, as they can have a negative or positive (Clauwaert, Schömann, Warneck, 2008) impact on the employment and inflation and economic growth, depending on the collective bargaining system.

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2 European Federations of Public Service Unions. Available at: <http://www.epsu.org/r/193>

**BOX 6****Labour relations and the institutional factors affecting them**

In relation to the role of trade unions in the public administration decision-making process, implementation of trade union functions depends on their role in the society and the development of social dialogue and social partnership. Trade unions exist as a possibility to solve the problems of social dialogue and have a direct influence on the employment and social policy.

To tackle the unemployment and to pursue active labour market policies need a fundamental change and further implementation of the European Union's policies for smart, sustainable and inclusive growth and European Employment Strategy (EES), that was originated in 1997 (European Commission, 1998) to encourage the exchange of information and joint discussions by all Member States with the involvement of social partners, the European Parliament, European Economic and Social Committee, and the Committee of Regions in the Social Dialogue. The EES is intended as the main instrument to provide, through the open method of coordination, direction and coordinate the employment policy priorities supported by the Member States at European level. Employment policy in the European Union incorporates labour law and occupational health and safety, as well as gender mainstreaming. It is also sets standards and objectives in these areas, as well as laying down the principles of anti-discrimination policy. The European Union has no powers to harmonise the numerous – and in some cases very different – systems of social protection and employment policies in the Member States. Instead, its role is to coordinate these systems to protect the main principles of the Common Market. The European Social Charter<sup>3</sup> articulates a number of fundamental rights in such areas as collective bargaining, protection from unjustified dismissal, health and safety at work, etc.

It is important to stress that collective bargaining is the process through which the social partners arrive at an agreement that regulates both terms and conditions of employment and labour relations. Collective bargaining plays significant role in labour market governance. A collective bargaining coverage rate is an indicator of the degree to which wages and working conditions are regulated by collective agreements. For example, centralized collective bargaining structures tend to be associated with high coverage

<sup>3</sup> Council of Europe, *Treaty, European Social Charter*, adopted in 1961, revised in 1996. Available at: <http://conventions.coe.int/Treaty/en/Treaties/html/035.htm>

rates. In countries, which extend the terms of a collective agreement to enterprises and workers who may not be parties to the agreement coverage rates tends to be higher than in the others. At the company-level, social dialogue was implemented in the EU by the adoption of the European Works Councils Directive 94/45/EC in 1994 ([Official Journal of the European Communities, L 254/64, 30.9.94](#)) .subsequently revised in 2009 ([Official Journal of the European Union L 122, 16.05.2009, p. 28-45](#)). A general framework for informing and consulting employees in the European Community was established with a Joint declaration of the European Parliament, the Council and the Commission on employee representation ([Official Journal of the European Communities, L 080, 23.03.2002, p. 29-34](#)). It was a successful result of constructive negotiations on promoting fairer economic development through collaborative efforts to increase productivity and enhance work conditions.

### Questions:

1. What are the main areas of Social Dialogue?
2. How the Social dialogue is affected by Globalisation?
3. What types of Social dialogue are defined at the ILO level and at the EU level?
4. What is the method of open coordination and what are its merits?
5. What is the role of trade unions in the Social partnership?
6. How can you explain the trend of decline of trade unions?

## 2. Economic Democracy and European Union

### ▪ Concept of economic democracy

Economic democracy is a concept that was developed in the 19th and 20th centuries with the main idea to apply democratic principles in an economic system. This concept is aimed to minimise a potential conflict in the decision making process on the subject of the wealth distribution in a society and is focused on such issues as concentration of wealth and democratic principles. A macro-level approach to this dilemma requires involvement of a government to develop a mechanism for harmonisation of interests of different social groups. Besides, this approach needs certain strategies for transformation of power and property by promotion of further democratisation of a welfare state and public sector, corporative management, cooperatives and self-management. One of the most conceptual debates in Western Europe in modern times has been on economic democracy and the transition from the capitalist welfare state to democratic socialism. The major themes under considerations have been focused on the free market, market socialism and socialisation of the market. The major question remains whether market forces should play a central role in the economy or whether they should function under the pressure of democratic decision making? These debates have been dominated to a great extent by the 'Swedish Model' of socialism and theories of Gösta Rehn, one of the fathers of the 'Swedish Model', and Rudolf Meidner. The most influential economic model of the twentieth century is known as the 'Rehn-Meidner Model' wage earner funds (Burkitt & Whyman, 1994, pp. 22-29; Erixon, 2008). As the result of economic crisis in the 1970s and 1980s and its consequences, the Rehn-Meidner model became one of the most widely used financial participation schemes in Europe. It is argued that financial participation is essential for economic democracy and is a basis for employee motivation. However financial participation schemes in different societies have varied considerably, they clearly reflect very different traditions and regulations.

The idea of financial participation is originated in a notion of a conflicting nature of laissez-faire capitalism when wealth is generated by labour only with appropriate knowledge and skills. A number of schemes have been discussed and implemented with different degrees of achievements in different countries and continents since the first International Congresses on profit-sharing in Paris in 1889 (Cynog-Jones (OECD, 1956)) that also adopted the definition of the profit sharing.

### BOX 7

Profit sharing refers to definite arrangements under which workers regularly receive, in addition to their wages and salaries, a share on some predetermined basis, of the profits of the undertaking, the sum allocated to workers varying with the level of profits

It is remarkable that the economic crisis in the US steel industry in the late 1930s resulted in labour-management cooperation known as the Scanlon plan (Thornicroft, 1991, pp. 12-21) focused on financial participation. In 1956 Louis Kelso invented the Employee Stock Ownership Plan (ESOP) (Kelso & Kelso, 1986, pp. 15-54) that was implemented at the beginning in many companies mainly in the US, UK and Ireland, and which spread out later in other European countries.

European initiatives have, since the early 1990s, encouraged moves to boost profit-sharing, employee share ownership and employee stock options throughout the European Union.

Financial participation schemes will be discussed further in relation to Latvia.

Socio-economic democracy concept implementation is foreseen through implementation of Social policy and social protection. The European Social Charter articulates a number of fundamental rights in such areas as collective bargaining, protection from unjustified dismissal, safety at work, and etc.<sup>4</sup> It also involves regulation of employer-employee relations in a form of financial participation, which is regarded in the EU as a pillar of European social model.

### ▪ EU Social policy framework

Social policy was not originally one of the major issues in the EU. The most common approach is to consider Social policy of the EU or social dimension of European integration as actions carried out under the Social Policy Charter of the EC Treaties (The Agreement on Social Policy of 2 February 1992 was annexed to the Protocol on Social Policy of the Treaty of Maastricht (Eurofond, 2013)). In the Treaty of Rome however provisions for the European Social Fund and creation of the Economic and Social Committee were included. Moreover, in the 1970s and 80s there were some steps towards the creation of Social policy as one of the policies of the European Community.

<sup>4</sup> Council of Europe, *Treaty, European Social Charter*, adopted in 1961, revised in 1996. Available at: <http://conventions.coe.int/Treaty/en/Treaties/html/035.htm>

### BOX 8

In the **Treaty of Rome (1957)** provisions for the European Social Fund and the Economic and Social Committee were included. The dominant philosophy of the Treaty is improvements in welfare would be provided by the economic growth that arose as a consequence of the liberalisation and distributive form of public policy and functioning of the Common market. The Treaty suggested:

- the provisions on equal pay for both sexes
- The maintenance of existing equivalence between paid holiday schemes'
- The establishment of a European Social Fund

**The Single European Act (1986)** – allowed for minimum harmonisation as well as for qualified majority voting in the area of worker health and safety provisions only

**The Maastricht Treaty (1992)**. Before the Treaty negotiations focused on about reforms of the social policy provisions with a strong opposition of the UK. UK was granted an opt-out from the social policy measures agreed by the rest of the 12 MS

**Amsterdam (1997) and Nice Treaty (2001)** – confirms coordination of national employment policies on the basis of annual guidelines and national follow - up reports

- Workers protection where employment contracts have been terminated
- Representation and collective defence of collective interests
- the interests of third country nationals

The Treaty on **the Functioning of the European Union (2010)**. Social security provisions for migrant workers- the most important addition.

The crisis in the 1970s and 80s influenced certain civil society movements to launch a campaign to develop Social policy and social inclusion at EU-level. However the subsidiarity principle enshrined by EU Single European Act (1986), Maastricht Social Agreement (1992), Amsterdam (1997) and Nice (2001) means that the European Union competence is restricted to areas where national governments cannot meet policy objectives through their own actions.

### Key points

**'Agreement on Social Policy' (The Social Charter)** included as an extension of the Community competence a wide range of social policy issues:

- the information and consultation of workers
- equality between men and women with regards to labour market opportunities and treatment at work
- the integration of persons excluded from the labour market.

And, excluded from the scope of minimum harmonisation:

- the right of association
- the right to strike.

The Social policy is responsibility of the Member States and they set common goals and promote cooperation. The fundamental components of European Social policy are the Open Method of Coordination (OMC) with exchanges of best practice as well as an orientation of the European Social Fund (ESF) to encourage social inclusion.

### Key points

The 1957 Treaty of Rome established a European Social Fund. Its aims are narrow than its name suggests as they concern only labour market policy and mostly target specific regions

The ESF co-funds projects and programmes in the Member States. It has had, since 1987, its own priorities for funding, with a certain steering effect on national policies, as national governments want to share of the EU budget to flow back into their country.

The ESF and OMC are two instruments for supporting social inclusion efforts by Member States. The ESF was created in 1957 to ensure the solidarity between the Member States. At the European level regular debates are taking place on the national employment policy has a harmonising effect on social policies in Europe. Consequently the national policies in Europe can no longer be analysed without reference to the EU.

The OMC formulates common objectives, which all Member States are expected to implement through national measures in the areas of social protection, social inclusion, pensions, health, long-term care and poverty prevention.

### BOX 8

The EU has adopted the Open Method of Coordination (OMC) at the Essen European Council of 1994. The OMC is EU level approach as an alternative to regulation. It is based on European guidelines for national action plans, and national reports based on common indicators and EU level evaluations. Since the Amsterdam Treaty has formalised employment policy of the EU, the EU has adopted employment policy guidelines. Their specification and implementation is left to the national level so that domestic situation can be taken into considerations.

The overarching objectives of the OMC for social protection and social inclusion are to promote:

- social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy; good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

Social policy in the European Union incorporates labour law, occupational health and safety as well as gender mainstreaming. It also sets standards and objectives. The European Union has no powers to standardise the numerous, in some cases very different systems of social protection in the Member States. Instead, its role is to coordinate these systems to protect the main principles of the Common market function in the area of free movement of people as, for example, to guarantee established rights, e.g. for workers abroad, exchange students and etc. The EU is thus making sure that those exercising their right to freedom of movement are not put at a disadvantage. The requirements for Social policy development in EU Member States are determined by the EU common aims in relation to social protection and inclusion following the Open Method of Coordination on Social Protection and Social Inclusion. This helps to create the overall domestic system for Social policy implementation.

### Key Points

The open method of coordination is a new EU-level approach that is gaining in importance as an alternative to regulation.

It is based on European guidelines, national action plans, and national reports using common indicators, and uses EU-level evaluations that feed into new policy guidelines.

The practical effects of the open method have not yet been sufficiently and systematically evaluated.

The EU policy makers are confronted by conflicting social and economic goals, i.e., high levels of productivity and growth and maximization of social protection, inclusion and cohesion. However the EU Social policy and the Horizon 2020 can be tools for EU Member States in the process of adapting to the more competitive environment brought by globalisation and this is critically important for the further reform of the European Social Model. Given the diversity that exists, reform can only be addressed at the national level. The definition of European Social Model was adopted by the Barcelona European Council in March 2002 and it states “the European Social Model is based on good economic performance, a high level of social protection and education and social dialogue” (European Council, 2002). Most specifically, the Commission hopes to modernise the “European Social Model” to combine social cohesion with good economic performance. Interest in financial participation has been growing in the European Union. This definition of Social policy, stresses the need to combine social cohesion with good economic performance, and at the same time relies on high level of social protection against the risks of life. The challenge to balance economic and social policies is a challenge in particularly for the new EU Member States struggling for economic convergence.

Social policies and models are a mixture of trans-national, national, regional and local policies. The Horizon 2020, as a framework for further development of the dynamic EU, set up a requirement to increase employment in Member States. To make the EU “the most competitive and dynamic knowledge-driven economy” is a challenge not only for Europe’s economic performance, but as well for its social cohesion and solidarity. That challenge is to be understood in a double sense, as a threat to and as an opportunity for social cohesion. Some analysts and politicians depict the role of the state in social

protection as unsustainable or even counterproductive in the new global scenario. However, the risk of social exclusion remains. A possible answer to these new challenges is to associate closely the creation of more competitive economies and the struggle for social inclusion.

The EU approach to social inclusion does not consist in assisting the poor, but in helping them out of poverty by ensuring their participation in innovative economic activities. Social inclusion aims at the modernisation of the European social model, it can thus contribute to the economic dynamism of the EU rather than impairing it. The direct and indirect pressures resulting from the process of market-integration erode the capacity of the national welfare states to pursue autonomous social policies and the national policies in Europe can no longer be analysed without reference to the EU.

Following the streamlining of the Social policy, Member States are now charged with translating the common objectives into National Plans for each of the three areas of Social Inclusion, Pensions and Health and Long-Term Care. These plans, which cover periods of two years, are submitted to the Commission in the form of a National Report on Strategies for Social Protection and Social Inclusion.

The social situation in a country can be measured by a wide matrix of different statistical and descriptive indicators. For this purpose the Commission already in 2007 has established a tool for monitoring the social situation in its member countries called EU-SILC (Statistics on Income and Living Conditions)<sup>5</sup>, which contains internationally comparable data with reduced time lag between collection and publication.

### *Social models*

There is no one European social model. European countries have diverse approaches to Social policy. However, in the context of the European experience of Social policy implementation four major models can be distinguished.

*Anglo-Saxon (neo-liberal) model* with domination of free market, followed by the UK and Ireland is based on a more limited collective provision of social protection and more flexible labour markets. This model is more oriented towards individual responsibility and market solutions to social issues. The market and the family are the main providers of people's welfare with little role of national social policies. The state's objective is to ensure basic living standards and help those in need, and to cushion the impact of events that would lead to poverty, such as sickness, old age, or unemployment. Rhineland or Continental model, that is also as conservative (Esping-Andersen, 1990), of social welfare supported by France and Germany, as well as some other Central European countries. All of them share several communalities – such as equality, solidarity, non-discrimination, redistribution of resources – and are very distinct from the Anglo-Saxon model. *The Continental (conservative) model* entails the provision of social assistance through public insurance-based systems in the Bismarckian tradition. In these countries, the role of the market in the provision of social assistance is limited and employment protection is high. *The Mediterranean (Southern European) model* combines high legal employment protection with lower levels of unemployment benefits. It also represents high expenditures on

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<sup>5</sup> For the latest list of indicators available at: [http://ec.europa.eu/employment\\_social/social\\_inclusion/indicators\\_en.htm](http://ec.europa.eu/employment_social/social_inclusion/indicators_en.htm)

pensions. Spending is more concentrated on old-age pensions and the role of social support through the extended family remains important. The *Nordic or Scandinavian (social democracy) model*, or social-democratic (Esping-Andersen, 1990) is described by high social protection level, high taxes and inclusive labour market emphasising significant investment into social welfare (Sapir, 2006).

Table 2. **Social Models in the EU**

		Efficiency (Social policy as a productive factor)		
		Low	High	Low
Equity	High	Rhineland / Continental (conservative)	Nordic (social-democratic)	Central and Eastern European New MS
	Low	Mediterranean/ Southern European	Anglo-Saxon (neo-liberal)	Central and Eastern European New MS

All models involve government interventions to reduce poverty and social exclusion, achieve a fairer distribution of income, provide social insurance and promote equality of opportunity. The basic pillars of all models are pensions, health and long-term care, social protection for the poor or disabled, and the redistributive function of taxation.

As many of the studies in this area show, the process did and does produce mixed results, as well as controversy. This refers both to policies and to Social policy implementation.

Since the EU enlargements of 2004, 2007 and 2013 the need to increase economic efficiency of the Union and to bring the economies of the New Members up to par with the economies of the old member countries has become vital. Accession to the EU has brought rapid and fundamental changes for Central and East European and Balkan countries. Among major dilemmas that New Member States have been facing was a question about market and social security. The New Member States are in the process to choose their model for development as they are very diverse to be placed easily in a single group. However, they all emerged from welfare systems with universal, socialist traditions and since adopted various elements from continental and Anglo-Irish. But they may also have their own contribution to the European social model.

### Questions:

1. Is social Europe fit for globalisation?
2. What are the models of Social policies in the EU Member States?
3. What is the role of governments in Social policies?
4. How the Open Method of Coordination could be understood?
5. What is the role of the European Social Fund?

### 3. Globalization and Labour Market Outcomes

- **Industrial relations and Employment Policy in the EU**

Academic experts who analyse the various channels through which globalization affects jobs and wages pay close attention to industrial relations related research that is closely linked to the analysis of the position and activities of collective actors, e.g. employers' organisations, trade unions and governments. A fundamental element of industrial relations is social dialogue and the key institution that is involved in the relations between unions and employers is the collective labour agreement. The complex nature of the economic downturn influenced employment policies and industrial relations institutions that vary considerably between the different EU Member States (European Commission, 2011). In general, institutions of industrial relations are considered as *arrangements to regulate the employment relationship*. Given that wages are the most important feature of the employment relationship, the institutions which regulate, set or influence wages are of particular significance. As a result, trade unions play a major role in industrial relations. A general trend of growing trade union activity of employees in Europe was recorded between the 1930s and the 1980s. Collective bargaining performed impressively after World War II, more than tripling weekly earnings in manufacturing between 1945 and 1970, gaining for union workers an unprecedented measure of security against old age, illness, and unemployment, and, through contractual protections, greatly strengthening their right to fair treatment at the workplace. There have already been several decades of trade unions decline, shrinking union density in the EU Member States, decentralisation of collective bargaining, and lowering of employee participation level. This means that across both the private and the public sector, fewer workers are covered by collective bargaining than at any time since the end of WWII and in particular since the 1970's.

In the last decades modern welfare states have been confronted with major economic, technological, and demographic challenges. Social dimension under the Horizon 2020, which aims at the modernisation of the European Social model, can thus contribute to the economic dynamism of the EU rather than impairing it. The EU policies related to Horizon2020 also seek to strengthen the EU social cohesion by improving its economic structures and efficiency. In the current on-going climate of political, economic and social transition, the EU countries attempt to elaborate social welfare reforms to improve their resilience and prepare for future risks. Opposite to redistributive approach to social policy, social investments are aimed at improving prospects for future economic and social participation.

Social policy is increasingly accepted in the European Union as being a productive factor (Muravska, Berlin, Laval, 2009, p. 319). Building the sustained economic growth necessary for long-term employment creation and social protection schemes in all European states, while very important, is of special and crucial importance in the New

Member States. This task will require an unprecedented level of political, economic, and social cooperation between governments, business, social partners and individuals in every member state and throughout Europe.

There has been a series of initiatives at EU level in this area since 1990 and until now starting with the PEPPER (Promotion of Employee Participation in Profits and Enterprise Results Report). Based on reports commissioned by the European Commission. The European Council recommendations on the promotion of employees' financial participation encourages the European Commission, the Member States and Social Partners to promote the concept of employees' financial participation ([Official Journal of the European Communities, L 245, 26.08.1992](#)). In 2002 the Commission has issued a Communication on the topic, calling on Member States to take steps to assist the development of financial participation. Most of the Member States have taken initiatives to promote financial participation (Weber, 1997). France and the UK have a long tradition of encouragement of financial participation. Ireland, Finland and the Netherlands focus on achieving greater employee involvement, improved productivity, competitiveness and wage flexibility on labour markets. The governments of Germany, Spain and Italy encouraged social partners to promote financial participation schemes in the course of their negotiations. However there are differing traditions and practice concerning financial participation schemes in the countries of the European Union. For example as a study by Andrew Pendleton and Erik Poutsma ([2004, pp. 9-17](#)) has shown, Belgium has adopted a law on profit-sharing and share ownership; France has implemented a new law to promote financial participation in SMEs; Germany has taken measures to promote employee share ownership as well as reforming its company law to facilitate the use of stock options. Italy has also made changes in company law, providing new opportunities for financial participation schemes, and has advocated a more coherent framework for employee share ownership. In the view of scholars, the financial participation is divided into the following main forms: *profit-sharing*, *employee share ownership* and *employee stock options* ([Broughton, 2001](#)). Participation in profits means sharing of profits between those providing the capital and those providing the labour by giving employees a variable income, in addition to their fixed pay, that is linked with the profits or another measure of the enterprise's results. Employee's shareholding offers employees indirect participation in the enterprise's results in the form of dividends and/or appreciation of the value of the capital they hold ([Commission of the European Communities, 2002](#)). Employee stock options are where employees are granted a right to acquire shares at some future point at a price set when the right is granted. There is also a range of hybrid schemes, including convertible bonds, phantom stock and stock appreciation rights ([Pendleton & Poutsma, 2004, p. 2-3](#)).

The challenge to balance economic and social policies agenda is a challenge in particularly for the New EU Member States struggling for economic convergence. Following the streamlining of the Social policy, Member States are now charged with translating the common objectives into National Development Plans.

### ▪ Types of labour market regimes

According to a report by the Danish Ministry of Finance on labour market performance in the EU ([Räsänen et al., 2012; Danish Ministry of Finance, 2004](#)), there are four

fundamental regimes of labour market that policies in the Member States, that could be applied to the EU15:

1. The *North-European* regime (A) – Denmark, the Netherlands, Sweden. These countries have generous unemployment benefits and disincentive effects are counterbalanced by strict rules governing availability for jobs, and low to medium employment protection.
2. The *Anglo-Saxon* regime (B) – the UK and Ireland. Low unemployment benefits, and expenditures on active labour market policies, few demands for availability, and a low level of employment protection.
3. The *Central-European* regime (C) – Austria, Belgium, Luxembourg, Finland, and Germany. Labour market policies in these countries are predominantly passive and employment protection is at average European levels.
4. The *South-European* regime (D) – France, Greece, Italy, Portugal, and Spain. In these countries, employment protection is high, unemployment compensation close to the European average, and labour market policies are passive.

Table 3. **Employment Policies and Regimes in EU-15**

Regime	Policies	Countries
Regime A	<ol style="list-style-type: none"> <li>1. High compensation rates</li> <li>2. Strict availability for work requirements</li> <li>3. Active LMPs</li> <li>4. Low to average employment protection</li> </ol>	Denmark, the Netherlands, Sweden
Regime B	<ol style="list-style-type: none"> <li>1. Low compensation rates</li> <li>2. Few formal demands on availability</li> <li>3. Varying degree of active LMPs</li> <li>4. Limited employment protection</li> </ol>	Ireland, United Kingdom
Regime C	<ol style="list-style-type: none"> <li>1. Varying compensation rates</li> <li>2. Varying demand on availability</li> <li>3. Passive LMPs</li> <li>4. Average to high employment protection</li> </ol>	Austria, Belgium, Finland, Germany, Luxembourg
Regime D	<ol style="list-style-type: none"> <li>1. Average compensation rates</li> <li>2. Strict availability for work requirements</li> <li>3. Passive LMPs</li> <li>4. High employment protection</li> </ol>	France, Italy, Spain, Portugal, Greece

Source: Danish Ministry of Finance, 2004; Räisänen *et al.*, 2012

In most countries of the EU employment policies are based on a combination of elements from (B) and (C) regimes and that the performance of the regimes, in terms of structural and long-term unemployment, is closely related to the implemented policies in the regimes. In particular, the North-European and Anglo-Saxon regimes display better performance than the Central and South-European regimes. According to the Danish Ministry of Employment, the most flexible labour markets are in Sweden and in Denmark, representing regime (A).

The Danish market also serves as the best example of the 'flexicurity' concept. More flexible labour markets would reduce the costs of companies adjusting to rapid changes of the highly integrated international economy and improve competitiveness of the EU Member States. At the same time, increased labour participation and higher income security contributes to higher levels of social inclusion. Considering the above characteristics of labour markets, one can assume that in Latvia, for example, there are elements of (A) and (C) regimes with the following elements: low compensation rates, few formal demands on availability, limited employment protection, and passive labour market policies. However, some steps have been taken to promote the flexibility of the labour market, which resulted in amendments to the Labour Law and brought flexibility and security in employment relations. Steps are currently underway in a number of EU Member States by the adoption of measures reviewing the criteria of representation for social partners (for example, as done in Greece, Hungary, Italy, the Netherlands, Portugal, Romania, Slovakia, and Spain) and extending what used to be trade union prerogatives to other bodies of workers' representation – often at company level (for example in Greece, Portugal and Slovakia) (Eichhorst *et al.*, 2011). In Greece, for example, arbitration must be triggered by the joint request of the parties involved and is restricted to basic wage demands. In some countries, labour law reforms have been introduced to impose alternative dispute resolution mechanisms instead of tribunals (Bulgaria, the United Kingdom and Spain). In the United Kingdom, access to labour tribunals has been restricted. Decentralisation of collective bargaining to the lowest level weakens the social *acquis* achieved so far by the trade unions at national and local levels and will affect sectoral collective bargaining. It also lowers the standard of rights recognised anchored in legislation and collective agreements, as well as affecting fundamental employment conditions related to working time, pay, work organisation, working environment, social protection, and workplace health and safety. This trend increased the number of unemployed and the subsequent reduction in demand. As a result, trade unions have found it more difficult to maintain collective agreements in an increasingly international competitive economic environment. A number of protests had already been organised by trade unions against government decisions about state budget reduction for social protection. Despite the substantial decline in membership, unions seem to have retained as strong voice on the national stage. One can observe different situation in the EU13, where industrial relations and employment policies do not represent a significant role in social dialogue or in the collective bargaining. The difference between the EU15 and EU13 could be explained by the following: the evolution of trade unions in the EU13 is rooted in the transformation process from the socialist system to a market economy system and reflects responses to social and political changes their countries. Despite the existence of EU multi- level governance in social dialogue, a very important role is given to social dialogue at national levels. Willingness and ability of social partners to be engaged in social dialogue in setting up a national employment policy depends to a large extent on history and institutional traditions in the country. In addition, changes to labour laws and regulations in the Member States are presented as necessary to get out of the economic crisis. In Latvia, a number of anti-crisis measures have been undertaken: adjusting the minimum wage, lowering or even cutting social security, public services, social assistance protection and benefits.

As a result, such reforms weakened trade union representation and action at all bargaining levels. This in turn negatively affected core functions, and institutional tasks of trade unions in protecting and representing workers.

## 4. New Approach to Social Dimension and Employment Policy in Latvia

### ▪ Flexicurity and financial participation

#### *Flexicurity*

More flexible labour markets would reduce the costs of companies adjusting to rapid changes of the highly integrated international economy and improve competitiveness of the EU Member States. At the same time, increased labour participation and higher income security contributes to higher levels of social inclusion. The ‘flexicurity’ approach is integrated in the Europe 2020 strategy and is expected to contribute to the achievement of its objectives (European Commission, 2010). ‘Flexicurity’ comprises six fields of activities which promote labour market flexibility and employment security by mutual cooperation (Table 4).

Table 4. Fields of activities for implementation of the flexicurity system

Labour legislation and agreements are sufficiently flexible and correspond to the interests of both the employer and the employee	Active labour market policies must efficiently facilitate the transfer from one workplace to another or from the status of unemployed to employed	Lifelong learning systems should be improved enabling an employee to be employed throughout the working age
A modern social security system must be established	Adequate assistance to residents in case of unemployment	Flexicurity must facilitate mobility and faster return to the labour market

Source: European Commission, 2009

### ▪ Flexicurity in Latvia

Implementing the concept and principles of ‘flexicurity’ in Latvia requires ensuring an effective social dialogue between the Employers’ Confederation of Latvia, the Free Trade Union Federation, and the government. The development of this concept is still not included in national programmes on a large scale and does not enjoy strong government support. However several measures have been implemented in the recent years to improve the social dialogue on the national and local level. For example, with the help of European Social Fund financing, Latvian social partners including the Employers’ Confederation of Latvia and the Free Trade Union Federation of Latvia, local governments, and the

Latvian Association of Local and Regional Governments are involved in employment partnership and in improving the social dialogue at national and regional levels. This employment partnership could ensure social dialogue on the local and regional levels and increase the opportunities for social partner participation in the decision-making process and provision of public services, as well as to improve the quality of public services provided by non-governmental organisations.

Recently a number of changes and reforms have been taken place as the result of the current economic problems in the EU and EU Member States. Despite of the active position taken by the trade unions, their representation has been weakened as well as actions taken at all bargaining levels. This could affect the aim, core functions, and institutional tasks of trade unions of protecting and representing employees. Decentralisation of collective bargaining to the lowest level weakens the social acquis achieved so far by the trade unions at national and local levels and will affect sectoral collective bargaining. It also lowers the standard of rights recognised anchored in legislation and collective agreements, as well as affecting fundamental employment conditions related to working time, pay, work organisation, working environment, social protection, and workplace health and safety. The discussion paper by Christophe Degryse (2012, pp. 69-80) questions the relevance of the proposed remedies and criticizes the austerity approach which uses “structural reforms” to undermine the European social model.

It is also important to underline that national reforms affect the hierarchy of social norms. In some cases in Latvia, there has been recourse to ‘emergency procedures’ by national legislators to bypass agreements on ‘anti-crisis’ measures agreed upon by social partners and/or prepared by national governments in consultation with them. As a result anti-crisis (2008-2010) measures and labour law reforms directly or indirectly affected fundamental social rights.

### *Financial Participation in Latvia*

The principles of financial participation have been discussed in the chapter 3 **Industrial relations and Employment Policy in the EU** under the title: labour market policies: different models.

Latvia as the other EU Member States is aiming to maintain economic growth and to transform national economy into knowledge-based economy. The negative demographic situation in the country leads to labour shortages and negatively influences the availability of knowledgeable and skilled labour. Under such circumstances a new human resource management approaches are required to promote sustained economic development. One of them is financial participation that not only helps to attract and retain employees, but also provides confidence for the employees that while working they prepare adequately their retirement. There is also a strong push within SMEs in the European scale to increase private equity companies. As the result companies could facilitate financial participation that is based on democratic principles and aims at increasing productivity of labour and involvement of employees in democratic decision-making process. To address these questions, a programme of empirical and analytical research was undertaken in Latvia in the framework of the EU mainly in PEPPER III and PEPPER IV Reports (Lowitzsch (eds.), 2006; Lowitzsch, Hashi & Woodward, 2009).

The financial participation has had a relatively short history in Latvia and followed the legacy of privatisation process. The issue of financial participation in the post-socialist countries closely relates to the process of privatisation and share ownership. The process of privatisation in Latvia refers to the beginning of post-soviet era. Privatisation started in November 1991 in accordance with the Law on the Privatisation of Objects of Trade, Catering and Services. Local privatisation commissions decided the privatisation method, initial price, etc. Privatisation assets were for sale to employees, auctions to a selected group, open auctions, and sale to a selected buyer. Buyers had to be Latvian citizens or to have been residents of Latvia for at least 16 years. Large privatisation of state-owned property and land was carried out by the Latvian Privatisation Agency. Shares of state owned corporations could be sold to employees, in the course of privatisation, at a price even lower than the nominal value of such shares. However, the shares to be sold to the employees could not exceed 20% of the share capital of the particular company. The 20% limit on employee's share privatisation was a limitation of rights and not an entitlement. The initial stage of privatisation in 1991-1995 provided to employees an important role in managerial decision making, forming financial incentives to increase their contribution into major changes in enterprise governance system. Privatisation shaped the environment for employees' financial participation and influenced the current state of employee share ownership and profit-sharing.

In the 2000s, the introduction of profit-sharing schemes as incentives for productivity and performance is usually regulated on an individual basis by bilateral agreements between the employer and the employee, but is sometimes also unilaterally granted by companies as a part of their human resource management policies. However, these plans are usually applied only to top and middle management (Karnite, 2007).

A number of legislative acts and regulation which have been implemented before the accession to the EU can and influence the approach to financial participation. There are no limitations in the law with regard to profit-sharing; there are also no exact regulations with regard to such profit-sharing. Employee's shares can only be owned by employees' and board members. If employment is terminated, or the board member leaves office, the employee's shares are transferred back to the company. <sup>6</sup>

The regulation of employee share ownership has not been developed systematically, so that the legislation partly creates incentives and partly inhibits the development of such schemes. (Lowitzsch (eds.), 2006; Lowitzsch, Hashi & Woodward, 2009). Both employee's share ownership and profit-sharing exist in Latvian companies and are directly or indirectly regulated by legislation. There have been no reforms concerning EFP taken place in Latvia in recent years and no new laws (or other legal regulations) adopted/abolished in Latvia. No current statistics is available on incidence of different Employees financial participation plans (categories: (1) cash –based and share-based profit-sharing/ (2) share ownership with and without intermediary entity/(3) broad-based employee stock option plans).

There is no legal basis for involving worker representatives in the executive bodies of companies. Latvian company legislation by and large provides for a two-tier structure, with a management board and a supervisory board.

<sup>6</sup> Republic of Latvia Laws: Law on Privatisation (1991), the Law on Cooperatives (1998), The Law of the Reorganisation of State and Municipal enterprises in Corporations (1996), Commercial Law, the Law on Financial Instruments Market (2003) the Law on Taxation.

Although the direct election of “authorised employee representatives” by the workforce has been possible since 2002, the main channel for employee interest representation at the workplace remains the trade unions (Supreme Council of the Republic of Latvia, 2005 (updated)). In practice, workplace social dialogue mainly takes place where unions are strongly represented, which de facto leaves a large proportion of Latvian employees without representation. Financial participation schemes are likely to be used in new, human capital intensive sectors, e.g. information technologies (IT). The same trend is present in service industries, especially in real estate industry, law firms and consulting and real estate companies. IT is one of the most competitive and profitable sectors. Despite the fact that employees’ participation is presently low, there are factors that may influence the development of the financial participation of employees in these sectors in the future. Most employees are young and highly qualified, have knowledge of economic issues and are not necessarily bound to one company, so that employers have to create incentives to keep them, e.g. by introducing profit-sharing, and taking into account their high profits, employers are in a position to do so.

### ▪ The Role of National Government

The role of governments in promoting, or impeding, a financial participation measure is of increasing importance. Likewise, the role of the social partners, either in influencing government thinking or blocking government initiatives in this domain, cannot be underestimated. Governments are important facilitators for the development of any financial participation regulation and active exchange of information and possible promotion campaigns by governments may enhance the development of employee financial participation.

There are a variety of objectives and reasons for promoting financial participation and it is important to examine the nature of governmental aims to fully understand the specific provisions of legislation. These may include promoting such objectives as wage substitution, wage flexibility, income and wealth re-distribution, medium and long-term savings, better corporate performance and greater employee involvement in company affairs.

Governmental objectives are likely to influence corporate practice by implementing legislation and associated statutory instruments, backed up by fiscal initiatives. However, regulation of financial participation schemes is not the only statutory and governmental influence on financial participation. Wider company law can also influence the incidence and character of financial participation, while legislative changes in this area also have an effect on the use of financial participation.

Governments should also work in cooperation with non-governmental organisations in promoting financial participation. Programmes of social and economic development have certain elements which are complementary but which may also come into conflict. Nevertheless a questions arises: how can substantial levels of social dialog, cohesion and development be balanced with economic growth and labour market needs; where there is conflict, how can it be resolved and through what mechanisms?

**Questions:**

1. What are the main areas in labour laws?
2. To what extent Employment policy is a regulatory policy?
3. What means by stability of labour market in the time of flexibility?
4. How can flexicurity be explained?
5. What is the role of governments in promoting financial participation?

## 5. Labour Market Mobility in the EU and Central Baltic Region Countries

The term ‘mobility’ is used in many ways when discussing society in general. It may be used broadly as a reference to general social or cultural change (e.g. Greenblatt *et al.*, 2009). The concept of mobility is also used in discussions relating to social mobility dealing with changes in people’s position within the social structure, such as the transition from employment to unemployment (e.g. Goldthorpe, 2003). From an economic point of view, the mobility can be defined as a requirement for individuals to effectively enter the labour market. The benefits of geographic mobility could include increasing possibilities to find employment, greater economic well-being and the avoidance of unemployment. However, there are always particular obstacles to geographic mobility, such as language barriers, lack of information on labour market regulations in particular country, etc.

Free movement is one of the four cornerstones of the EU’s internal market as a part of the original Rome Treaty in 1957, alongside the free movement of goods, services and capital. In addition, the Council Regulation of 1968 secured the right to equal treatment and non-discrimination on the basis of citizenship. It also gave the right of access to workers’ family members.

The European Court of Justice extended these rights throughout the 1970s and 1980s to cover other economic actors such as the self-employed, paid apprentices and seasonal workers. A number of directives in 1990 further extended free movement to non-economic actors (students, pensioners) subject to the requirement that they have sufficient resources so as not to become a burden for the host country.

The 1992 Maastricht Treaty took this a step further with the explicit introduction of ‘European Union citizenship’ giving all EU citizens the right to move to and reside in the territory of any of the Member States, subject to the condition of sufficient resources mentioned above (Carrera, 2005).

Furthermore, this was further clarified in the 2004 Citizens Directive (European Council, 2004), which codified the evolved jurisprudence of the European Court of Justice. The directive also provided for the equal right of treatment without conditions for EU citizens having resided for more than five years in another member state. The Citizens Directive is the main legislative instrument covering free movement.

Nowadays, free movement is about much more than the internal market. It is central to the notion of European citizenship and social cohesion among member states. In no way does this diminish the central economic importance of the free movement of labour, which remains essential for the fulfilment of the EU’s ambitions in a globalised economy, as laid down in the EU 2020 strategy.

European economies have all witnessed ongoing structural change relating to the growing importance of services and the decreasing importance of agriculture and manufacturing.

This economic transformation has profoundly altered the situation in the labour market, with the most important labour demand now being for qualified persons in service industries.

The process of globalisation has further transformed company production cycles and led directly to the outsourcing of products and services, and more broadly to deregulation and the expansion of free trade. One outcome of globalisation has been the increased fluidity of jobs and activities between countries to the extent that it is now on a larger scale than was ever previously the case. As such, labour mobility has also become more common and variations in employment levels between countries can be considerable.

The European Union addresses cross-border labour mobility in several ways and has introduced incentives for e.g. the recognition of foreign Professional qualifications and the improvement of public employment services in order to facilitate cross-border labour mobility. The European Social Fund (ESF) regulations mention labour mobility as part of its Lifelong Learning Policy. Between 2000 and 2006, one third of the ESF programmes addressed labour mobility issues (including geographic and occupational mobility) (European Commission, 2010).

The Europe 2020 Strategy prioritises smart, sustainable and inclusive growth while highlighting the “high employment economy” as fundamentally important in achieving social and territorial cohesion. One of the headline targets states: “75% of the population aged 20-64 should be employed by 2020”. In order to increase employment rates, the Europe 2020 Strategy calls for the “promotion of labour mobility across Europe” which is followed-up by related flagship initiatives such as “Youth on the move” and “An agenda for new skills and jobs”. The flagship initiatives are designed to help increase labour participation through targeted education and the development of specific skills in order to enable people (especially young people) to either enter or remain with the labour market (European Commission, 2010).

In April 2012, the European Commission presented its current “employment package” in order to respond to the financial crisis and the unemployment situation in Europe. It urges the Member States to strengthen their employment policy and presents some key areas for reform. Among other things, the employment package emphasises the need to invest in skills in order to address mismatches in Europe’s labour markets. Creating a genuine EU labour market is one of the main objectives of the employment package with improving labour mobility and matching jobs with job-seekers being highlighted measures. Furthermore, the current employment package introduces several changes to EURES – The European Job Mobility Portal<sup>7</sup>.

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<sup>7</sup> EURES is a cooperation network between the European Commission, the Public Employment Services of the EEA countries and other organisations. EURES implements the labour market policy goals of the European Union by providing information, advice and job-matching services not only to workers and employers but also to citizens who want to move and work abroad.

## ▪ Challenges of labour mobility in the Central Baltic region

### *Central Baltic Sea Region and its population*

The Central Baltic Sea region is the cross-border cooperation area covering regions from Estonia, Latvia, Finland and Sweden located at the Baltic Sea.

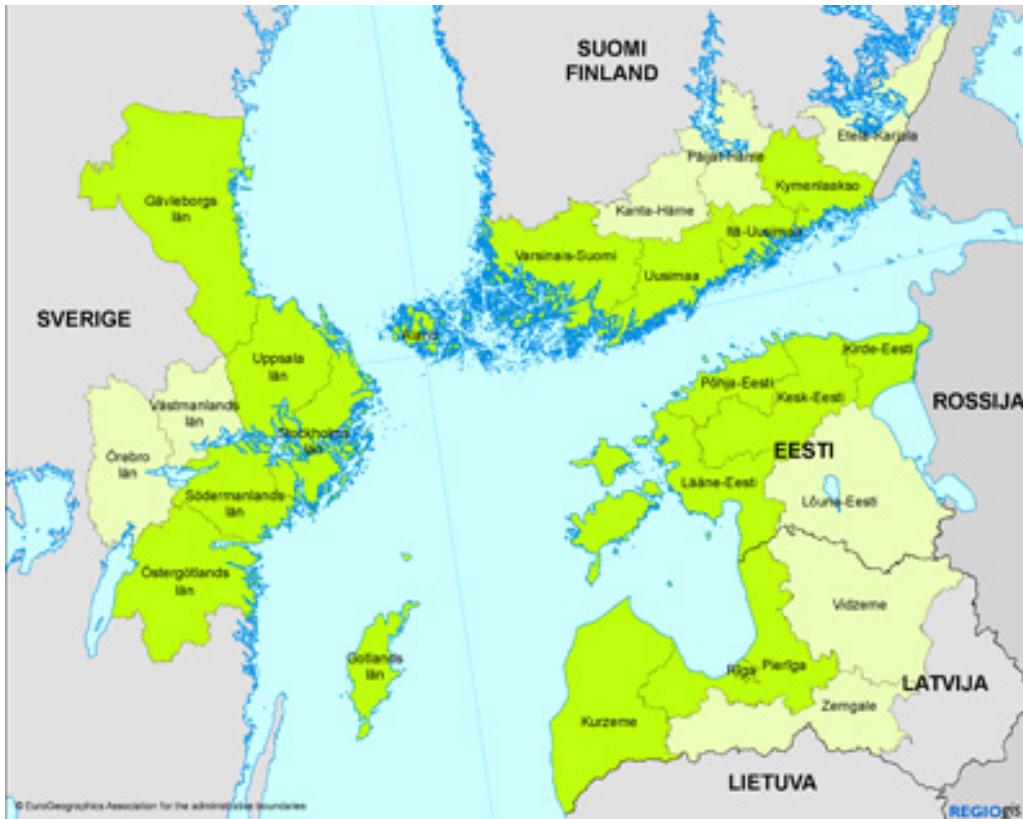


Figure 3. **The Central Baltic Region**

Source: European Commission, DG Regio

The Central Baltic countries have rather different backgrounds in terms of migration and their foreign populations. In Sweden the first large immigration flows between the 1950s and 1970s were mostly related to rising labour demand in the country's growing industrial sector with the migrants coming mostly from other European countries but particularly from Finland. In the 1980s and 1990s the share of refugees and family migrants increased exponentially in Sweden. The inflow of migrants led to a situation where 15-20% of the Swedish population now has a foreign background. In 2012 immigration to Sweden was around 103 000 persons. The largest foreign groups are people from Finland, Iraq and Poland. In Finland the share of foreign population has historically been low. Until the 1980s, Finland experienced net emigration especially to Sweden. While the share of foreigners as a percentage of the entire population has increased steadily since 1990, it is still considerably lower than in other Northern or Central European countries. During the last two decades the number of foreign citizens in Finland increased from 26 000 to

156 000. Approximately 300 000 people in Finland, or 5% of the total population, have a foreign background (foreign born, speaking a foreign mother language, or having foreign citizenship) (Tanner, 2011; Kahila *et al.*, 2013, p. 24-28).

According to Statistics Estonia (2013) almost 70% of the population in Estonia is ethnic Estonian. The share of ethnic Russians is 25% while the share of other former USSR minorities, mostly from the Ukraine and Belarus, is around 3-4%. Only 2% of the population belongs to other nationalities or comes from other countries. In 2011 Estonia lost about 2500 inhabitants due to negative net migration: over 6200 persons emigrated from Estonia mostly to Finland, the UK and to other Central European countries. At the same time about 3700 people immigrated to Estonia. The immigrants were mostly return-migrants from Finland, Russia and the Ukraine. From the perspective of return migration it is interesting to note that Estonia has the highest share of population with experience of working abroad in Europe (Kahila *et al.*, 2013, p. 24-28).

According to the Latvian population census, 62% of the population in Latvia was ethnic Latvian in 2011 (Statistics Latvia, 2013). The share of ethnic Russians is 27%, Byelorussians 3% and Ukrainians 2%. The share of foreign population both measured by the country of birth or by citizenship is around 14%. Emigration from Latvia has become a major national challenge as the working age population is decreasing. It is also notable that due to emigration, the ethnic Latvians' share of the population is decreasing over time. The main countries of origin of people immigrating to Latvia are Russia and Belarus (Kahila *et al.*, 2013, p. 24-28).

### *Migration trends in the Central Baltic Sea region*

The flow of international migrants to Finland and Sweden has increased year on year in recent decades but it still remains rather low compared to the Western and Southern European countries. At the same time in Estonia and Latvia, the 2004 EU enlargement resulted in a substantial increase in cross-border labour mobility although this was dominated by migration primarily to Western Europe and the Nordic Countries (VASAB, 2010; Kahila *et al.*, 2013, p. 24-28).

During the last decade the main migration flows in the Central Baltic region have changed markedly. In 2004 (when Estonia and Latvia became EU Member States) Sweden was one of three Member States (along with the UK and Ireland) that did not impose limits on labour mobility from the new Member States. Finland (together with a number of other European countries) removed restrictions concerning workers from the new Member States in 2006. EU enlargement and the free movement of EU citizens have had a major effect on migration flows, precipitating increased emigration from Estonia and Latvia. The impact of EU enlargement on Finland and Sweden has however been rather modest. While for instance the UK and Ireland have experienced significant migration flows from the new Members States, Finland and Sweden have experienced only minor migration flows from these countries.

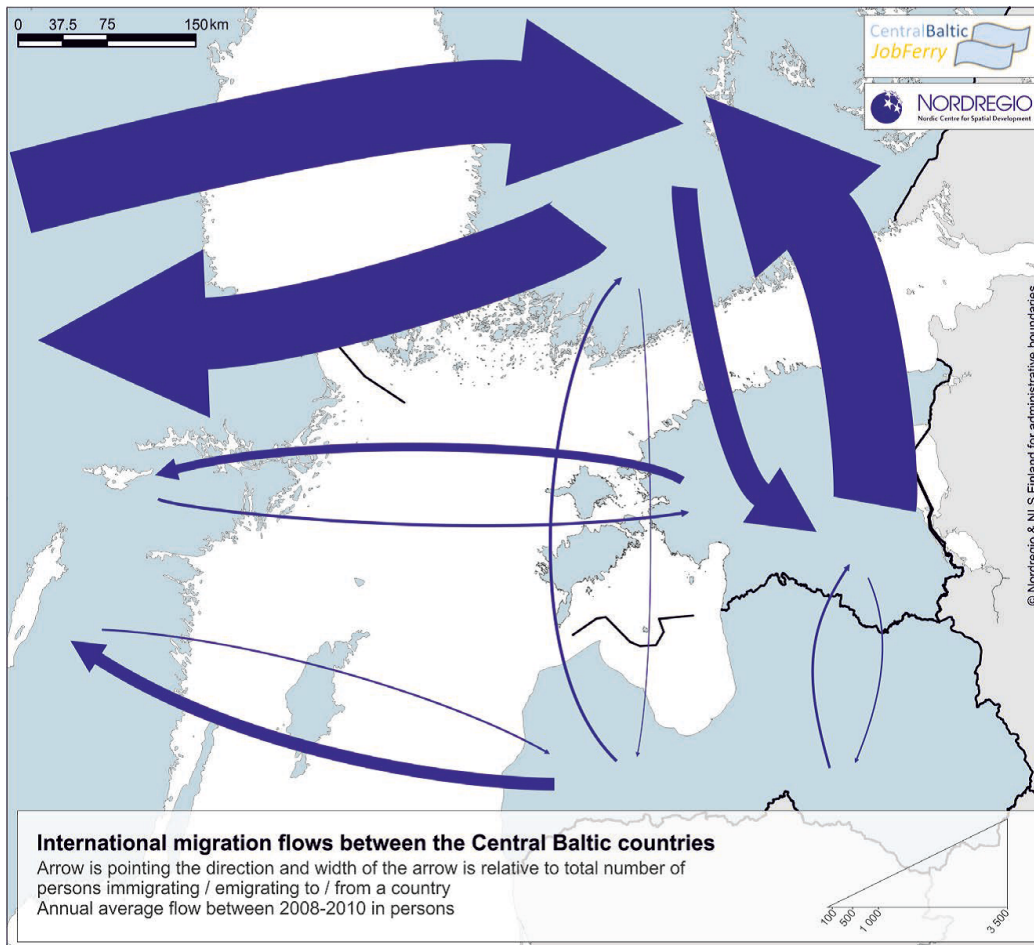


Figure 4. International migration flows between the Central Baltic Sea region countries

Source: Nordregio

One important reason for this is that in Finland and Sweden trade unions retain significant industrial power and political influence. For instance, in Sweden they oblige foreign companies (e.g. in the construction sector) to pay foreign (e.g. Latvian) workers Swedish salary rates. Migration flows increased between Finland and Estonia due to the introduction of the EU's free movement rules. In 2000 about 10 000 Estonian citizens lived in Finland. This number had increased to 17 000 when Finland granted free access to the labour market for workers from the new Member States, and by 2012 almost 40 000 Estonian citizens lived in Finland. The number of Estonian citizens in Sweden is much lower, however the number increased from 2 200 persons in 2004 to 4000 persons in 2012. Although the number of Latvians living in Finland (1300) and in Sweden (4500) is relatively low, the migration flows show the same pattern (Kahila *et al.*, 2013, p. 24-29).

### ▪ Labour migration trends, main obstacles and challenges

The most extensive and active labour migration within the Central Baltic region takes place between Finland and Sweden, where the exchange of professionals can be observed in sectors such as health care, education, information technology and communications, construction, metallurgy, chemical industry, as well as professionals from other sectors, including chefs, hairdressers, and engineers. In addition, relatively

high labour migration can be observed from Estonia to Finland – in 2010, around 28,000 Estonian commuters worked in Finland in these aforementioned sectors, as well as in agriculture, transportation, security, catering and other sectors. Largest communities of Latvian migrants are located in United Kingdom, Ireland, Germany, Norway, and also Sweden. Latvian migrant workers are working in different sectors, including the field of intellectual work and occupations with higher qualification requirements, as well as in professions with lower qualification requirements and as unqualified workers.

Taking into account large population and, thus, labour force emigration from Latvia between 2006 and 2009, the labour mobility, including the cross-border labour market, has been a lively discussed topic, which means that all actors of the labour market (employers, employees, industrial associations, public authorities) are well aware of this situation and its related challenges. In this regard, the Latvian State Employment Agency and EURES managers in Latvia are the most influential actors dealing with the cross-border labour mobility in terms of information dissemination and consulting.

Many lasting partnerships and co-operations have already been established in the cross-labour market, in particular, in lower qualified professions. For instance, in the wood working industry, there is a good cooperation among educational institutions (Ogre State Technical School) and the wood working industry companies in Latvia, Sweden and Finland. The Ogre State Technical School educates and prepares wood working industry professionals according to specific needs of employers.

Furthermore, the Latvian Chamber of Commerce and Industry works closely together with international partners, including the ones from Central Baltic Region countries, thus it is having an impact on the cross-border labour market.

However, on the overall there are no national policies developed with regard to the labour force mobility, except of the Latvian Diaspora Re-emigration Support Plan . The Plan to support re-emigration measures for 2013-2016 provides specific activities and funding. The proposed measures include a two-way exchange of labour market information where employers can inform citizens living abroad about job opportunities. The plan covers all regions of Latvia to provide information and consultations on various matters related to moving to Latvia, ensuring availability of labour market information and attracting highly qualified labour force. The plan also aims at helping those who want to learn Latvian or improve their language skills, as well as stipulates cooperation with the Latvian Diaspora.

Immigration, including the labour mobility within EU countries, has been high thus contributing to a number of negative consequences to the Latvian socio-economic situation over the recent years. However, considerable labour mobility barriers still exist, including both social and economic, and those related to culture and family traditions. This study showed that the main mobility obstacles are lack of knowledge of a language used in the country of destination, traditions and family circumstances that keep people at home despite poor socio-economic conditions, uncertainty about safety and social conditions in the country of destination, as well as a lack of information. As for the latter, the lack of information, it should be pointed out that public institutions and organizations dealing with the labour market issues have stressed that the information on job opportunities and conditions abroad is publicly available, which was also confirmed by the study. However, obstacles to the labour mobility in this case are related to a structure of the

provided information. That is to say that the necessary information is needed in a user-defined and a structured way, which in many cases, taking into account individual needs of job seekers, can be very different:

- Different levels of wages and living standards (socio-economic, including tax differences, bureaucracy),
- Disparities of working conditions and qualification requirements,
- Infrastructure barriers, such as Estonia to Latvia and Finland,
- Different classification systems of the professions according to which job seekers are classified by sectors and occupations, but not by their skills and abilities.

The results of interviews showed that opinions about the major obstacles to the cross-border labour mobility of Latvia (both, in terms of outgoing and incoming labour force) vary significantly among institutions, however, the most often mentioned obstacles are:

- Lack of language skills: not many Latvians in the working age, in particularly, with lower professional qualifications know English and to a much lesser extent other foreign languages, e.g., Scandinavian languages. This creates a major obstacle for communication, including finding information about job opportunities abroad. On the other hand, there are a lot of examples in the UK and Ireland, where guest workers without the necessary language skills have a chance to get only lower qualification jobs. As for the incoming labour force, it has been verified by the literature research, as well as during the interviews, that a person needs a good Latvian and in many times also a good Russian language skills to work in Latvia, which in addition to Latvia's challenging socio-economic environment, is another obstacle for immigrants.
- Economic disparities: On the employees' part, this obstacle is related to lower quality of life in Latvia which does not attract people from other EU countries to Latvia.
- Low average salary in Latvia in comparison with other EU countries.
- Lower quality of life in Latvia in comparison with other EU countries.
- Tax system disparities, in particularly, labour taxes: This obstacle mainly concerns employers rather than employees and in many cases is closely related to other obstacles mentioned in this list (heavy bureaucracy and lack of knowledge concerning the social system and tax regulations).
- Heavy bureaucracy: An obstacle that mainly concerns employers who want to hire a non-citizen from abroad. The vacancy for a particular job must be announced at the State Employment Agency a month prior to the recruitment and also the application together with related documents must be submitted to the Latvian Immigration and Citizenship Department. In addition, the minimum wage that must be paid to foreign worker in Latvia according to the national legislation is regulated in such a way that in some cases it can be higher than for local workers employed at the same position.
- Lack of knowledge and information about formalities (bureaucracy): Public institutions are pointing out that the information is freely available about job opportunities and conditions abroad, which was also confirmed by the study.

However, as mentioned earlier, the obstacles to the labour mobility in this case are related to a structure of the available information, i.e., the necessary information is needed in a user-defined and structured way, which in many cases, taking into account the individual needs of job seekers, is very different.

- **Corruption:** Some interviewees mentioned the perception of corruption within government institutions and among employers. It is an obstacle for foreign employers wanting to open a company or its branch in Latvia and the employees wanting to come for employment in Latvia.
- **Lack of interest:** Some interviewees mentioned that many Latvian citizens do not have an interest to work abroad, despite the poor socio-economic conditions at home.
- **Different qualification requirements:** In many cases, educational and professional qualifications are not easily recognized. As a result, people would have to accept lower qualified jobs that they are used to do at their home country.

The interviewees were also asked about advantages of Latvia and its labour market that would be attractive for labour force from neighbouring regions. The advantages that were mentioned most often are the following:

- **Smaller population density than in other EU countries:** The rhythm of life thus might seem to be calmer. Along with Latvia's green environment and historically cultural heritage, Latvia is attractive for foreign employers and employees.
- **Lower labour cost:** Although growing, several sectors of economy still enjoy lower labour costs than other EU countries
- **Opportunities for development:** There are sectors in the labour market in Latvia that are less developed than in other EU countries, so the local development opportunities might be attractive for incoming employers.
- **Medical sector:** Achievements and developments in the medical sector might be attractive for incoming health care specialists.
- **Climate and local geography:** Latvia's seaside and beaches are attractive not only for tourist, but also for business and property investment.
- **Green country:** Latvia is ranked as the world's second greenest country. Latvia's richness lies within its resources, such as biological diversity, water and air.

### Questions:

1. How the free movement of labour can help to solve unemployment problems in the EU?
2. What are the main labour migration trends in the Central Baltic Region and what are the main obstacles to labour mobility in this region?
3. What are the advantages of Latvia and its labour market that could be attractive for labour force from neighbouring regions?

## 6. Labour Market in Latvia

According to the Latvian Central Statistical Bureau, Latvia's population in 2012 was approximately 2.04 million. The most populated region of Latvia is the Riga region, together with its adjacent territory (estimated at around 1.02 million). Other regions of Latvia are quite equally populated.

Around 10-20% of the total labour force (approximately 200,000 people) has emigrated from Latvia between 2007 and 2011 in order to seek employment abroad. At the moment, large Latvian communities abroad are located in the United Kingdom, Ireland, Germany, Norway, and Sweden. Remittances from Latvians living and working abroad constitute around 2% of Latvia's GDP. According to *Eurostat*, in the next 50 years, the population in Latvia will decrease to 1.6 million. More specifically, the working population in Latvia is also steadily shrinking. In addition, birth rates are increasing too slowly, and an aging population is becoming an important factor for the economic development of Latvia in the future.

Latvia has an open economy in which the labour market is generally ruled by the laws of supply and demand, and regulated by the government; thus, the main actors are the employers, the employees and the government, namely state institutions responsible for employment.

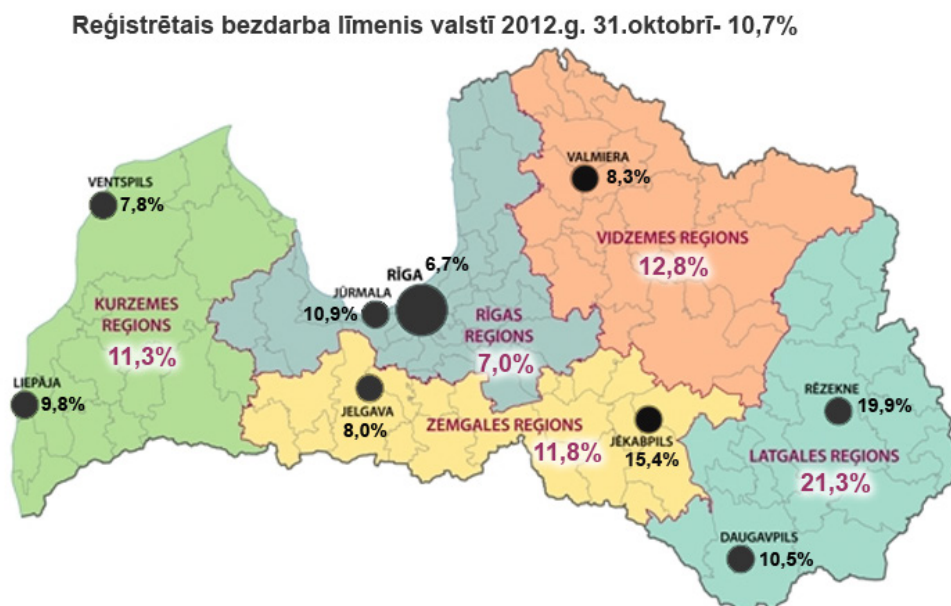


Figure 2. Unemployment rate in Latvia as of 31.10.2012

Source: State Employment Agency, Latvia

The average employment rate in Latvia is 54%. The highest employment rate is in the Riga region, 57,1%, while in other regions the employment rate varies from 48,9% in the Latgale region to 52,9% in the Vidzeme region. Furthermore, regarding the unemployment rate, it is the lowest in Riga (6,7%) and the Riga region (7,0%). In other

EU Central Baltic programme's regions and adjacent territories, the unemployment rate is 11%-12% on average, while in the Latgale region the unemployment rate is as high as 21,3% (See Figure 2).

According to the breakdown by economic sectors, most of people are employed in whole-sale and retail trade (61%) , repair (14,6%), manufacturing (14,4%) and education (10%). After strong negative effects of the global economic crisis that hit Latvia between 2008 and 2010, the situation in the labour market is gradually improving, along with gradually increasing economic activity. The labour market reached its lowest point during the first quarter of 2010 when the number of employed people decreased to 916,000, and unemployment rate reached 20,5%. By the end of 2011, the registered unemployment rate was 11,5% and the situation in the labour market continued to improve reaching 9,9% in the middle of 2013. According to the data of State Employment Agency's it was the first time after the economic crisis that the number of unemployed has dropped to below 100,000. Nevertheless, unemployment remains a challenge in the short term.

The competitiveness of Latvia's manufacturing sector is based mainly on a relatively cheap labour and low total costs. Due to the increase of labour costs and prices between 2006 and 2007, these advantages to a great extent were lost. Between 2008 and 2010, Latvian economy witnessed a significant decrease of the overall demand and strict budget limitations together with decrease of overall level of wages, including, considerably reduction of wages in the public sector, that led to a decrease of prices in the domestic market, thus, partly improving the competitiveness of Latvian producers. Currently, this impact has been reduced and wages have started to increase again. It should be taken into consideration that, under the condition of free movement of labour, it will be not possible to continuously maintain low wages in the Latvia in the long-term; therefore, a corresponding productivity increase and an increased diversity of exported products will play a crucial role, allowing Latvia to compete in the international markets more successfully. Unfortunately, many foreign investment projects in Latvia have been lost due to the still unsolved issues, for instance, the lack of industrial land lots, infrastructure, territorial planning, as well as the lack of qualified labour force ([Ministry of Economics of the Republic of Latvia, 2011](#)).

While discussing the immigration situation in Latvia, it should be noted that other countries' nationals have mainly been employed in the construction sector, in which during the pre-crisis period there was a rapid growth in demand for workers. There is a labour shortage in high-level managers, such as members of boards, chairman of boards, directors and heads (mainly in foreign companies established in Latvia), as well as in professions that require a specific skill and work experience, such as cooks, dentists, and ICT specialists. Due to the economic slowdown, a demand for the labour force from other countries is falling. According to the national jurisdiction, employers may employ a non-EU national only if an appropriate employee in Latvia cannot be found . Foreigners may legally work in Latvia only with a work permit. Foreigners may work with an employment contract or on the basis of another civil legal contract or by being a self-employed person in Latvia. According to the State Employment Agency of Latvia, the number of approved work permits has decreased substantially, from 3113 in 2007 to 420 in 2010. The Office of Citizenship and Migration Affairs may issue a work permit to a foreigner in the form of a visa, a residence permit, or an asylum seekers identity document ([Ministry of Welfare of the Republic of Latvia, 2011](#)).

Due to low wages, Latvia is not very attractive for guest workers from third countries (non-EU member states). Citizens of these countries may be employed if they have a residence permit or a visa with a work permit. The largest numbers of officially registered guest workers come from the CIS countries: Russia, Ukraine and Belarus (Baltic Export, 2012). However, in the light of Ukrainian crisis the immigration situation in Latvia may change in the near future.

It should be noted that, overall, the economic activity of the population continues to decrease, which is largely due to negative demographic tendencies.

The decrease of employment related to the economic downturn (2008-2010) affected almost all sectors. The number of employed people has increased in almost all sectors as the employment resumed growth in 2010 and 2011. A slight decrease was observed in manufacturing sector, such as the industries of electric power, gas supply, heat supply and air conditioning, water supply and waste management. During the first quarter of 2010 to the third quarter of 2011, the highest increase in the number of employed people was observed in the agriculture, forestry, and fishery sector (the number has increased by 19,000), as well as in construction (by 15,000). In 2012 and 2013, the growth may be slower mainly due to the world debt crisis that started in late 2011. Therefore, the demand of labour in Latvia can be expected without any significant changes.

The Government of Latvia should take into account that a relatively high unemployment rate will be the main challenge in the near future. No employment growth is expected in a medium-term that would allow reaching or exceeding the pre-crisis level, because the growth will be based on the increase in productivity. Therefore, certain population groups, in particular the youth and people who have a low level of education and qualification are likely to experience less of the improvement of the situation. It should also be taken into consideration that a balance between the labour demand and supply is influenced not only by labour education and skills but also by wages; therefore, vacancies may remain open even under high unemployment conditions (Ministry of Economics of the Republic of Latvia, 2011, p. 75).

## ▪ Main stakeholders

This chapter briefly describes the main tasks of the institutions and organizations that play an important role within the labour market in Latvia. These are the Ministry of Welfare, the Ministry of Economics, Free Trade Union Confederation, Employers' Confederation, State Employment Agency, the Ministry of Education and Science and others.

### **Ministry of Welfare of the Republic of Latvia**

The Ministry of Welfare is the leading institution of the state administration in the areas of labour, social security and gender equality. The mission of the Ministry of Welfare is to stabilize the condition of a person in the situations of social risk, to reduce the possibility that the social risk would occur by facilitating honest legal labour relationships, healthy and safe work conditions, gender equality, thus creating opportunities for everybody to secure a decent quality of life. The work of the Ministry of Welfare focuses on 4 directions:

- Compensation for the lost income and additional expenses in the case of a social risk;

- Financial support to the specific groups of population;
- Measures to secure and implement the social rights;
- Planning and supervision of the implementation of the policy in the welfare field.

### **Ministry of Economics of the Republic of Latvia**

The Ministry of Economics is the leading state administrative institution in the field of economic policy formation in Latvia. The aim of the Ministry of Economics is to bring the competitiveness of the national economy to the European level. Therefore, the Ministry promotes sustainable development of structurally and regionally balanced national economy. The Ministry is working closely with non-governmental organizations, representing the entrepreneurs and other social partners.

### **Free Trade Union Confederation of the Republic of Latvia**

Free Trade Union Confederation of Latvia (LBAS) is the biggest non-governmental organisation in Latvia. It coordinates the cooperation between 20 independent trade unions, represents and protects the interests of its members in national and international institutions, and implements a joint working programme. The main principle of operation is solidarity – joint coordinated actions of the affiliates. LBAS represents its members' interests and protects their rights in the socio economic field. Together with the government and Latvian Employers' Confederation, LBAS works in the National Tripartite Cooperation Council. LBAS observes the principles of social dialogue in cooperation with the social partners. LBAS participates in the elaboration of economic and social development programmes, in the evaluation of draft laws, in working groups on improvement of labour conditions, salaries, tariff policies, compulsory social insurance and social guaranties, healthcare as well as employment, vocational education and lifelong learning.

### **Employers' Confederation of the Republic of Latvia**

Employers' Confederation of Latvia (LDDK) is the biggest non-governmental organization representing the interests of employers. LDDK acts as a partner in socioeconomic negotiations with Saeima, the Cabinet of Ministers of Republic of Latvia and Free Trade Union Confederation of Latvia. LDDK unites 42 branch and regional associations and federations that take a significant place in Latvian economics, as well as enterprises that employ over 50 people. The members of LDDK employ at large 35% of employees in Latvia. Mission of LDDK is:

- To enhance effectiveness of entrepreneurship and employment development by taking into account the interests of society at large, to promote strengthening and development of Latvian employers and their organizations.
- To enhance the growth of Latvian employers, the development of enterprise culture and creation of favourable social conditions.
- To represent and protect economic, social and professional interests of its members in conformity with the Law on Employers' Organizations and Their Associations.
- To represent and defend its members' interests in relations with trade unions, state and municipal institutions, as well as international employers' organizations; To provide LDDK members with an opportunity to participate in discussion of issues of their interest at all government levels.

## **State Employment Agency of the Republic of Latvia**

State Employment Agency is a State administrative institution under the supervision of the Ministry of Welfare that implements State policies to decrease unemployment rate and the number of the unemployed, as well as to support program for job-seekers and persons under the risk of unemployment. Administration structure of the Agency's rendered services is formed by departments, 28 affiliates and 3 client service centres in Latvia.

## **EURES (European Job Mobility Portal) in Latvia**

EURES in Latvia is facilitated with State Employment Agency. EURES abbreviation stands for European Employment Services, which brings together the European Commission and the public employment services of the countries belonging to the European Union (and its Economic Area, including Lichtenstein, Iceland, Norway and Switzerland) since 1994. The mission of EURES is to support free movement of work-power in European countries. EURES tasks are:

- To support cross-border region job seekers and employers with information and advisory about possibilities of employment, and working and life conditions in European countries;
- To help employers to find the most suitable workers;

Latvia became a partner of EURES after joining European Union. Both the job seekers and the employers benefit from this partnership. Within this information network, everybody will find information about vacancies, working and life conditions in Latvia and other European countries on Internet. Those job seekers, who have no access to Internet, or will need consultation, are welcome at our EURES advisors. Advisors will consult you and help to find entire necessary information.

## **Ministry of Education and Science of the Republic of Latvia**

The Ministry of Education and Science is the leading state institution in the field of education and science, as well as in the fields of sports and official language policy. The Ministry is responsible for the development of draft legislative acts regulating the relevant fields and draft policy planning documents, supervision of the implementation of the policy in the state administration institutions, agencies subordinated to the Ministry and capital companies, where the Ministry is a shareholder. The Ministry ensures the development and the implementation of a policy in the responsible fields, promoting sustainable growth of welfare of the citizens of Latvia as educated, healthy, physically and mentally developed personalities and integrity of the society of Latvia. The Ministry strengthens and ensures access to information by the public, explanation of the adopted resolutions and link with the society by means of implementing the best practice of the administration process and transparent principles of operation of the state administration. The Ministry is implementing its goal by means of the Ministry operational programs.

## **National Centre for Education of the Republic of Latvia**

National Centre for Education (NCE) is a public institution directly subordinated to the Minister of Education and Science. NCE primary functions are:

- To develop curriculum for pre-school, basic and general secondary education and vocational education; (NCE develops subject standards and sample teaching-learning programs);

- To provide united development of national examinations in basic education, general secondary education and vocational education;
- To coordinate development of textbooks in accordance with national standards for general and vocational education;
- To coordinate support system for learners with special needs;
- To coordinate hobby education system and implement support activities for development of learners' personalities and talents;
- To organize Latvian School Youth Song and Dance Celebration;
- To coordinate teacher continuing professional development activities;
- To organize state language proficiency testing.

The main authorities in regulation of Latvian labour market are Ministry of Economics and Ministry of Welfare. In 2011, Ministry of Economics has developed an informative report on the projections of labour demand and supply in the medium term, indicating main challenges of Latvian labour market in upcoming years until 2016 and also providing several recommendations (Ministry of Economics of the Republic of Latvia, 2011). An important role is given also to social partners, e.g., Free Trade Union Confederation, Employer's Confederation and many others. National Employment Agency and EURES, European Employment Service, are assisting and supporting national employment policy. However, no specific labour market development plans in the context of labour mobility are on the agenda today

### ▪ Estimating of labour demand and supply

Latvia's small economy and consequently its small labour market can be rather easily influenced and may be exposed to statistically significant changes caused by relatively slight changes of external factors, such as changes in investment flows or the opening of a new factory. Furthermore, according to the recent study conducted by the Latvian Ministry of Welfare (2012), 67% of all work places in Latvia are located in the Riga region with 50% of the Latvian population who are of working age while the rest are scattered in other regions: for example the central part of Latvia (Vidzeme) contains 7%. A situation has emerged in which large regions of Latvia have low rates of economic development, but at the same time the capital city of Riga with unemployment rate of 7.7% is actually experiencing labour shortage. Thus, Riga and the Riga region "absorb" labour force from other regions, which causes a huge risk for the sustainable regional development in Latvia.

Differences in requirements between employers and employees exist in all regions and they affect mainly wages and working conditions. Currently, taking into account the unemployment rate in many sectors, where the labour supply exceeds the demand, such as in marketing, sales, and to a lesser extent in the textile industry, a situation has emerged, where there is both a large number of vacancies in the sector and a large number of job seekers. This situation allows employers to select the most advantageous option by choosing employees with higher qualification requirements and relatively poorer working conditions, as well as salary, which often are unsatisfying for employees. These differences often result in a relatively high staff turnover.

In information and communication technology sector, the situation is quite the opposite. The labour demand outweighs the supply. As a result, the employees can more freely negotiate working conditions and salary. Furthermore, in this case, there is a slight personnel rotation. Although it is more related to out-buy of specialists and better job offers to industry workers, including the specialists going for work abroad (i.e. labour migration).

### Key sectors and occupations

The structure of the national economy by a number of employed has changed due to the crisis between 2008 and 2010. Despite the increase in production volumes in tradable sectors, the share of the employed in these sectors has not significantly changed.

Growth rates returned to pre-crisis level in 2010 and were observed in all sectors of trade. In 2010, manufacturing increased by 16.5%, other industries (mining industry, pit management, electric energy, gas and heat supply, air-conditioning, water supply, sewage and waste management) by 6.2%, transport and storage sector by 5.6%, but agriculture and forestry by 2%. In addition, the trade, hotel and restaurant sector resumed growing in 2010, with a total annual growth of 3.1%.

In 2011, growth was observed in practically all sectors of the Latvian economy. It should be noted that on the overall construction volumes shrank by almost 60% during crisis, but it has been quite successful in reorienting to external markets during the crisis. In the third quarter of 2011, the volume of construction works performed by the Latvian builders outside Latvia exceeded the level of the third quarter of 2010 by nearly 50%. However, in comparison with the third quarter of 2008, the volume of construction works performed by the Latvian builders outside Latvia has increased more than six times (See Table 5).

Table 5. **Employed by Economic Sectors (aged 15-74)**

	Structure (%)			Changes (%)		
	2009	2010	2011	2009/2008	2010/2009	2011/2010
				<b>-12.2</b>	<b>-4.6</b>	<b>-16.3</b>
Agriculture and forestry	8.8	8.8	9.7	-2.1	-5.0	-7.1
Manufacturing	13.2	13.7	13.7	-21.6	-0.7	-22.1
Other industries	3.0	3.2	2.6	-7.3	1.0	-6.3
Construction	7.8	7.1	7.3	-39.9	-13.6	-48.1
Trade	19.1	19.0	18.8	-11.5	-4.8	-15.7
Transportation and storage	8.9	8.7	8.7	-9.0	-7.4	-15.7
Other commercial services	16.9	17.7	17.5	-0.8	-0.2	-1.0
Public services	22.3	21.8	21.7	-5.3	-6.6	-11.5

Source: Ministry of Economics of the Republic of Latvia

Gradual increase of economic activities positively impacts situation in labour market – employment increases and high unemployment caused by crisis decreases. At the same time some population groups, especially persons with low level of education and qualification, elderly persons, as well as youth, improvement of the situation feel weaker. In 2012 number of employed rose by 2.8% and on average comprised 885.6 thousand. In the 1st quarter of 2013 in total 898.3 thousand persons were employed, which is by 4.7% or approximately by 41 thousand more than in the 1st quarter of 2012. At the same time number of economically active persons has increased moderately (by 0.6%). Unemployment level in the 1st quarter of 2013 on average was 12.8%, which is less by 3.5 percentage points than a year ago. According to the data of State Employment Agency, at the beginning of 2013 registered unemployment level also continued to decrease, and at the end of May it reached the lowest level since February 2009 and comprised 9.9%. 97.8 thousand unemployed were registered, which is by 24.2 thousand less than in May 2012. The highest level of registered unemployment remained in Latgale region (20.2%), but the lowest – in Riga (6.1%). In April 2013, long-term unemployed (without job for a period of more than a year) constituted 41.1% of the total registered unemployed (see Ministry of Economics of the Republic of Latvia & Central Statistical Bureau of Latvia, 2013).

Since the middle of 2010, number of job vacancies registered in State Employment Agency is rising gradually. At the end of May 2013, in total 6,130 job vacancies were registered, which was by 40% more than a year ago, and that was the highest indicator since 2008. Comparatively high unemployment is still mainly related to cyclical factors however, features of structural unemployment are becoming more typical. Risk that part of current unemployed will not be able to find job in long-term still remains, because sectors, which recover faster from the crisis, are not the same where there was largest loss of jobs during the crisis (see Table 6) (Ministry of Economics of the Republic of Latvia & Central Statistical Bureau of Latvia, 2013).

Table 6. **Main indicators of employment and unemployment in age group 15-74 years**

Main indicators of employment and unemployment <i>in age group 15-74 years</i>			
	2011	2012	2013 Q1
in thousands			
Population	1,595.3	1,574.1	1,574.1
Economically active population	1,028.2	1,041.1	1,030.2
Employed persons	861.6	885.6	898.3
Unemployed persons	166.6	155.5	131.9
as per cent			
Economic activity rate	64.5	66.1	65.4
Employment rate	54.0	56.3	57.1
Unemployment rate	16.2	14.9	12.8

Source: *The National Economy of Latvia: Macroeconomic Review 2013* (Ministry of Economics of the Republic of Latvia, Central Statistical Bureau of Latvia, 2013)

According to statistical data analyses, literature review and the interviewees' viewpoints, sectors that have a high labour demand are the following:

- Business service sector, including sellers, sales managers, marketing specialists, as well as
- Information and communication technology sector, including programmers of a variety of programming languages, information systems analysts, testers, designers;
- Healthcare sector, including nurses, pharmacists, dentists, assistants, cosmetologists, masseurs;
- Hospitality and catering sector, including waiters, cooks, chiefs, bartenders.

There is also a considerable demand for professionals in the textile industry, including tailors; furniture technicians, in the machinery and metallurgy industries including welders, mechanics, and engineers, in the food industry, with a particular demand for confectioners, in the construction industry, including builders, plumbers. Similarly, professional service providers, such as hairdressers and electricians are at rather high demand in Riga and Riga region. Regional employment, however, has more specific labour demand breakdown by sectors of economy and even such factor as the gender may determine ones job opportunities. For example, in the Central part of Latvia (Vidzeme), women are more likely to find a job in sales, but among men the highest rate of employment is in the woodworking sector. Another characteristics of the Vidzeme region is a tendency to fill vacancies with the local labour force, while, for instance, in Kurzeme employers in certain sectors – metal processing and fish processing – are attracting foreign labour force from Ukraine, Russia and Belarus, which can be explained by cheaper labour costs, shortage of local specialists with relevant skills, as well as differences in requirements between employers and employees, including salary, working conditions and other work related aspects.

Regarding labour demand by particular sectors of economy, this is anticipated that the same sectors and industries will require more employees than from the labour market. A slight increase of labour demand can be expected in manufacturing, which is one of the top priorities for national economic development.

A list of the most demanded professions (see Annex 1) was built in two consecutive stages: 1) statistical and content analyses and 2) interviews. The first stage (statistical and content analyses) can also be divided into two phases – statistical data collection and analyses, and content analyses. The statistical data initially were collected from the most popular Latvian job search engines (see the reference list), identifying those professions which appeared as vacancies most often. For the first part of the statistical research also statistical data from the Latvian Central Statistical Bureau, State Employment Agency and EURES network was applied. After the first draft list of professions was established, the content analyses took place by reviewing reports and researches conducted by Ministry of Welfare, Ministry of Economics, State Employment Agency, Labour market associations and other related organizations on the Latvian labour market. In addition, other related sources, such as press articles were examined to verify and adjust the draft list of demanded professions targeting the cross border labour mobility. For instance, the first stage of statistical data collection showed that professions related to banking, financing, and insurance and accounting sector are of a quite high demand in Latvia

(quite many vacancies available); however, content analyses showed that vacancies of this sector are not at all relevant for the external labour mobility since they would be filled mainly with internal professionals rotating within this sector. Thus, this sector appeared irrelevant for labour mobility. This very conclusion about the banking, financing, and insurance and accounting sector employees was later also approved by national and sectoral experts during interviews.

The final stage of building the list of demanded professions included the verification of findings through interviews. For instance, among other questions during the interviews, the interviewees were also asked about the most demanded professions in the Latvian labour market. By the end of the interview, the interviewees were also asked to look at the draft list of demanded professions and give.

### **Future labour market needs**

Labour market forecasts for the period of time until 2016 have been developed in compliance with the economic development scenarios in Latvia. In 2011 and 2012, along with improvement of the situation in the national economy in general, positive changes have been observed in the labour market. Overall, in 2012 the number of employed people increased by 15,000 on average or 15% in comparison with 2011. Accordingly, the employment rate (between the age group of 15-74) in 2012 was around 56.5% on average, which increased by 1.3% as compared to 2011. The employment rate is likely to grow also over the coming years; however, this increase will be more moderate than the growth as the output will be based mainly on the increase of productivity.

The number of employed people is expected to increase annually by 1.6% on average until 2016. Despite a gradual increase, the number of employed in 2016 still will be below the pre-crisis level (2008). Yet, the employment rate in 2016 might reach the level of 2008 and be close to 63%. The unemployment rate will continue remaining rather high until 2014, at above 10%. However, the situation is going to change starting from 2015 when the economically active population will begin to decrease. The forecasted unemployment rate in 2015 will be about 9%, but in 2016, it will be reduced to 7-8% (Ministry of Economics of the Republic of Latvia, 2011, p. 77).

In 2011, the most rapid increase in labour demand by sectors of economy was observed in primary sectors, mainly in agriculture, forestry, as well as in construction and professional, scientific, and technical service sectors. However, the most considerable decrease has been experienced in arts, entertainment, and recreation sector, mining and quarrying sector, as well as in water supply and waste management sector.

In 2012, despite the slowdown of the economic development, a considerable contribution in the GDP was still determined by the export-oriented sectors (manufacturing, agriculture and forestry, transportation services). Overall, these tendencies reflected the corresponding labour demand as well. The number of employed people in construction is increased by 1.8%, but in the information and communication service sector by 2.6%. A considerable increase in labour demand was experienced in the transport and storage sector (by about 4%) and professional, scientific, and technical services sector (by 2.5%). The number of employed people in 2012 slightly decreased in the public service sector, as well as in the sectors of electricity, gas, heat and water supply, and waste management.

In a medium-term, by 2016, the most notable increase in the labour demand is expected in primary sectors, construction, as well as trade, accommodation, catering and other commercial service sectors. At the same time, the number of the employed people will continue to decrease in the public service sector as a result of the modernisation of the public service sector by making it more efficient, on the one hand, and of the decreasing demand for such services due to decreasing population, on the other hand.

Overall, the medium-term and long-term situations in the labour market will depend on the progress of several important factors. Main medium-term risks of the labour market are related to the growing uncertainty about further global economic development and the slowdown of a global economic growth that might greatly influence the future economic and the recovery of labour market in Latvia.

Yet, main long-term challenges of the labour market are mainly related to a gradual decrease in labour resources due to the ageing population and the decrease in the number of people entering the labour market. The number of working age population (between the age of 15 and 74) of Latvia is expected to decrease by more than 8% until 2020, in comparison 2010. At the same time, the demographic burden might increase by 21%.

### Questions:

1. Which factors influence the current labour market trends in Latvia?
2. What are the main stakeholders of the Latvian labour market and their roles?
3. Can we expect any labour shortages in the medium term and in which sectors?

## ▪ Main immigration and integration issues

In Latvia, the issue of immigration is a relatively new issue on the country's political agenda, Latvia's immigration policy might be considered as rather conservative. The immigration in Latvia is still comparatively low and integration of Roma people is not a major challenge, but we can identify the following most important areas where additional knowledge and expertise is required:

- Accessibility of the labour market and inclusion therein (including labour and residence permit producers, economic and social dependency on employer, shortage of social guarantees);
- The provision of and access to social services (including health care, education, housing and language lessons);
- The establishment and maintenance of social contacts and open social networks between different various groups in society;
- Discrimination prevention (particularly focused on racial, ethnic and religious discrimination, as well as institutional discrimination).

Integration issues have been very important since Latvia became independent in 1991. Latvia re-established its original citizenship laws and policies that allowed former citizens, before 1940, and their descendants to restore their citizenship, regardless of ethnicity. However, approximately 700,000 permanent residents (former Soviet citizens) were denied automatic acquisition of citizenship at that time. Migrants could be defined as asylum seekers, refugees, persons with alternative status and persons holding a residence permit who migrated to Latvia after 1991. There are distinctions between migrants and their descendants of the Soviet period and those migrants who settled in Latvia after its independence was regained. The Office of Citizenship and Migration Affairs (OCMA) is the main institution under the supervision of the Ministry of Interior dealing with migration and asylum seekers. It is responsible for the development and implementation of repatriation and asylum policy, defining the legal status of persons in the country, issue of identity documents and travel documents and maintenance of the Population Register. If a person wants to apply for a residence permit, s/he has to submit the necessary documents to the Office of Citizenship and Migration Affairs in Latvia, or any Latvian embassy and consular office abroad. The Latvian embassy or consular receives documents for residence permits and passes them to the Office of Citizenship and Migration Affairs which makes decisions on issuing and revoking residence permits. According to the citizenship law in Latvia, a non-citizen (in Latvian, nepilsonis) is «a person who, in accordance with the law (on the status of those former USSR citizens who do not have the citizenship of Latvia or that of any other State), has the right to a non-citizen passport issued by the Republic of Latvia». Non-citizens of Latvia are not covered by the official definition of aliens or immigrants. The term «alien» (immigrant) is defined as a person who is neither citizen, nor non-citizen of Latvia. As Latvia's population is decreasing, there could be some difficulties to preserve social welfare model and sustainable economic growth in the long run. Therefore, a possible solution is immigration. Currently the number of recent immigrants is small (Kovalenko et al., 2010), (see Figure 5 and Table 7).

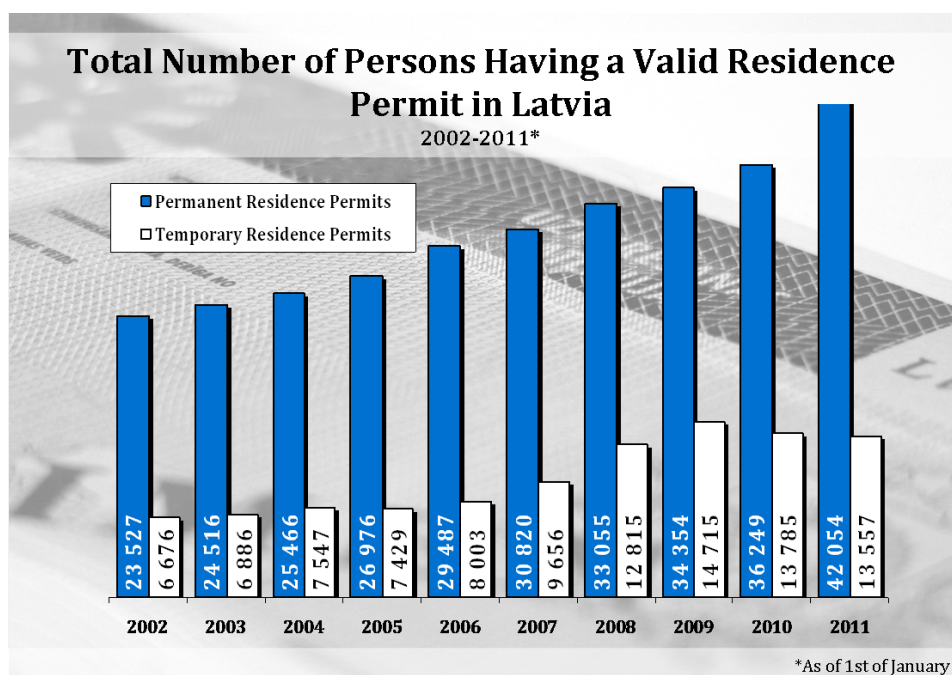


Figure 5. Total number of persons having valid residence permit 2002–2011

Source: The Office of Citizenship and Migration Affairs of Latvia

Table 7. International long-term migrants by age in Latvia 2007–2010

Source: Central Statistical Bureau of Latvia. IBG04

IBG04. INTERNATIONAL LONG-TERM MIGRANTS BY AGE					
	Immigration				
	Total				
	2007	2008	2009	2010	2011
Total	7,517	4,678	3,731	4,011	7,253
0 –4	381	331	227	293	597
5 –9	139	149	91	93	386
10 –14	147	104	63	137	277
15 –19	305	178	107	180	305
20 –24	983	562	500	252	785
25 –29	1,095	588	507	447	920
30 –34	844	541	407	393	795
35 –39	764	453	360	324	752
40 –44	639	394	276	334	611
45 –49	555	333	233	268	524
50 –54	406	290	180	200	398
55 –59	289	212	163	253	257
60 –64	213	194	179	260	230
65 –69	184	99	95	92	106
70 –74	179	106	113	151	123
75 –79	168	68	88	56	58
80+	226	76	142	278	129

The Immigration Law establishes a primary distinction between two types of permits: temporary residence permits, which are granted for different periods of time (from a maximum of six months to five years), and permanent residence permits. In addition to these two types of residence permits, the legislation recognizes the status of long term EC residents. This threefold permit system encompasses various types of immigration status: family reunification, study, training, research and work. Regarding immigration for work purposes, individuals may seek employment or self-employment. Guest workers are accepted into the Latvian labour force each year, however, there is no specific legislation regarding seasonal labour.

For historical reasons, immigration has always been a sensitive issue, and the national migration policy is quite hostile towards immigrants in Latvia: The fear of immigration still have a negative impact on political decision-making. The majority of Latvian population would prefer immigrants from neighbouring countries to immigrants from Africa and Asia; however, other social groups may be worried about the potential increase of the Russian-speaking population. Due to the restrictive immigration policies of the 1990s, recent immigrants make up some 1.6 % of the total population in Latvia. «The number of immigrants in Latvia is quite small compared to its neighbours and the immigrants find themselves in unfavourable condition where they are neither visitors nor residents (Rhodes, 2009).

Since Latvia joined the European Union (EU) in 2004, many Latvians have exercised one of the four freedoms of the EU – free movement of labour. 10-20% of labour force (depending on the source of information) or over 200 000 people have emigrated from Latvia 2007 -2011 looking for employment abroad. Population of Latvia during last two decades has decreased dramatically: minus 290 000 people from 1989 to 2000 (11%) and minus 309 000 people from 2000 to 2011 (13%). Together with low birth rates since early 1990's and high mortality the resulting shortage of labour is already now particularly felt in several labour market sectors (e.g. ICT, health care, sales, marketing), with companies seriously considering and some of them already importing workers from abroad. Migration experts also agree that economic and demographic trends force Latvia to have an open immigration policy (Indāns & Krūma, 2006), because enough labour force (in addition to capital and productivity) would allow the country to continue its impressive economic growth. Despite the fact that so many Latvians are migrants in other EU countries, the majority of Latvians are hostile to the so-called new immigrants – people who have come to Latvia. In 2003 Latvians had the most negative attitudes towards immigrants in the EU, with two thirds of the population opposing civil rights to legal migrants and one third favouring repatriation policies towards legal migrants<sup>8</sup>. According to a study conducted in 2004, Latvians fear that immigrants will create tensions between ethnic groups, cause unemployment and social dissatisfaction, and only one in five respondents would agree that immigrants would contribute to Latvia's economic development. The public resistance to liberal attitude towards immigration has been strong ever since – in 2012 Latvia ranked the very bottom,

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8 Data collected from the Eurobarometer Survey 2013 (source: European Monitoring Centre on Racism and Xenophobia (2005), *Majorities' Attitudes towards Migrants and Minorities: Key Findings from the Eurobarometer and the European Social Survey, Summary*, Vienna: EUMC.

33<sup>rd</sup> (31 points out of 100), of MIPEX – migrant integration policy index<sup>9</sup>, being slightly unfavourable for migrant integration.

Approximately one half of the population favours a strict immigration policy in comparison to only one in ten Latvians supporting a liberal immigration policy. Immigrants from Asia, the Eastern countries as well as the Commonwealth of Independent States' countries have been singled out as the least welcome (Indāns, 2004).

Overall discussions and the analysis of trade-offs between a restrictive and a liberal immigration policy revealed that – although some liberal ideas are supported – the majority is mainly concerned about the impact of immigration on the proportion of ethnic Latvians in Latvia's population, cultural values and national traditions. This goes in line also with other studies proving that the majority of Latvians are not tolerant to other nationalities and religions and that they are resistant to multicultural society (European Monitoring Centre on Racism and Xenophobia, 2005).

Analysing these patterns researchers have found that in general ethnic Latvians feel and act like "the endangered majority" and think that, "each nation should live in their homeland", which can be largely attributed to the consequences of Soviet migration policy (Šūpule *et al.*, 2004). This argument is further supported by the surveys showing that ethnic Latvians, in comparison to other nationalities living in Latvia, are more hostile towards the immigrants from the CIS countries (Indāns, 2004), which leads to a conclusion that Latvians worry about the possible increase of the Russian-speaking population in the country.

An additional explanation for the hostility towards immigrants might be the argument stating that general gains such as economic growth are perceived as less significant, in comparison to the possible losses for an individual, for example, losing a job to a migrant. In other words, the loss of one working place is a small cost in aggregate terms, but very large in individual terms, while the benefits of immigration (continued economic growth) are large in aggregate terms, but small in individual terms (Husz, 2002).

There are different formal conditions for immigrants to have access to the Latvian labour market which are based on the type of their residence permit, profession, as well as the length of their residence in the country. Furthermore, the spouses of foreigners holding temporary and permanent residence permits in Latvia enjoy relatively open access to the local labour market. A spouse, who is a temporary resident in Latvia, may receive a permit to work for any employer as long as the particular position has been locally advertised and vacant for one month.<sup>10</sup>

Another aspect that is very important in accessing the Latvian labour market is the knowledge of the Latvian language. As the government of Latvia is interested in reinforcing the Latvian language, it espoused a policy bringing challenges for immigrants to work in some areas if they lack a certain level of the proficiency in Latvian. The knowledge and level of the Latvian language of the immigrant should meet with the government requirements before they could be employed in certain positions that are regulated by the government. These positions include sensitive public areas like health, public safety,

<sup>9</sup> Migrant Integration Policy Index, available at: <http://www.mipex.eu/countries>

<sup>10</sup> The Cabinet of Ministers', Republic of Latvia, regulations Nr. 116 *Ārvalstnieku un bezvalstnieku nodarbināšanas kārtība Latvijā* [Procedure for employing foreigners and stateless persons in Latvia], in effect since 01.04.2000, with amendments prior to 07.08.2001.

virtue, etc. In the private sector, the employer makes the decision regarding the necessary level of the language before the immigrant can be employed (Kaša & Ķešāne, 2008).

As the recent immigration is very small and immigrant workers are rotating, Latvia lacks recent immigrant groups that are actively preserving their identities. As a result, the voice of recent migrant community and its importance are not so visible. However, the identity of Soviet era settlers, especially Russian-speaking group, is very strong; they have their own radio stations and newspapers as well as political parties in the parliament which associate themselves with the protection of the interests of the Russian-speakers in Latvia (Krūma & Indāns, 2010).

Integration of immigrants in Latvia is a politically sensitive issue. On the one hand, it is due to the negative emotions arising from the experience when Latvia was part of the USSR. On the other hand, globalization process and its implications create anxiety about ethnic existence of traditional Latvian culture. In the public and political space, immigrants are rarely discussed and politicians avoid recognizing the increasing importance of immigrants. In turn, the mass media perceives immigrants as guest workers, indicating that these people have arrived just to work for a short period of time and will leave afterwards (Kaša & Ķešāne, 2008).

Presently a serious obstacle to a partial liberalization of immigration policy puts Latvia at a disadvantage compared to other EU countries, which have benefits substantially from more liberal policies. Nowadays, the academic discourse in Latvia has started to raise awareness of the necessity to liberalize immigration policy, and the prospective positive effects and opportunities that such a policy change could yield. In the near future Latvia will have to rely on immigrants to sustain economic growth. On the other hand, there are other factors determining critical attitudes towards immigration, primarily concerns about the integration of the relevant part of *No-citizens* already living in the country.

The quality of immigration and integration policies in Latvia will be analysed in the context of EU regulations and labour market requirements. Informative and educative material about Latvia culture – as civic education courses, language courses - will also be developed in the field of immigrant integration.

### ▪ Roma people in Latvia

According to the statistics of the Population Register of the Office of Citizenship and Migration Affairs in Latvia (on the 1st July 2011) there are 8536 Roma living, which is 0,4% from total inhabitants of the Republic of Latvia. Most of Roma populations live in region Kurzeme and Zemgale while the cities with higher Roma concentration are Riga, Jelgava and Ventspils. Looking to the rural area the highest Roma percentage from total inhabitants rate is in the Talsi (1,22%), Dobeles (0,85%), Tukums (0,8%), Limbazi (0,68%). There are no localities or settlements inhabited either exclusively or predominantly by Roma in Latvia.

Roma is the only ethnic group in Latvia with a positive balance of birth rate even if in medium-term period the birth rate trend is steadily decreasing (Zankovska-Odina, 2009).

Information provided by the NGOs working with the Roma community indicates that the total number of Roma in Latvia in 2013 reached 13,000–15,000. According to Romani

leaders, many Roma are afraid of discrimination and therefore often they choose to indicate another ethnicity, such as Latvian, Russian or other (Latvian Centre for Human Rights and Ethnic Studies, 2003).

The majority of Roma (93.5%) are citizens of Latvia and speak Latvian fluently (66%). Roma in Latvia speak Romany and additionally either Latvian or Russian. There are also cultural differences between the Russian-speaking Roma called Xaladytka Roma who live in Latgale region close to the Russian border and the larger ethnic group Loftitke Roma – Latvian speaking Roma living in Kurzeme in the western part of Latvia (Apine, 2007).

Since independence, citizenship and proficiency in the Latvian language have been the two main concerns in the field of minority integration in the country. According to these two dimensions Roma represent a well-integrated minority, nevertheless, it is clear that in socio-economic terms they experience the greatest problems, while negative stereotyping of Roma is widespread in society. The most topical problems among Latvia's Roma are from one side the low educational level and early school drop-out, from the other, the low competitiveness in the labour market and high level of unemployment. Moreover, their situation is aggravated by the fact that most of them tend to live in regions where the lack of employment opportunities and basic infrastructure adds to their disadvantages. Regarding the education available information suggests that Roma's education opportunities in Latvia are still limited. Although specific data on educational achievement of pupils of different ethnic affiliation are not available, very few Roma children attend kindergartens, and many Roma parents are unaware of the fact the pre-school training of 5 to 6-year-old children has been made mandatory. In addition, there are also high rates of absenteeism among many of those officially registered at schools (Krastiņa *et al.*, 2005).

Regarding employment, there is a relevant proportion of Roma who report the absence of official job or employment within the shadow economy. Hence, employment levels among the Roma are extremely low, especially in terms of official and lasting job relations. In other terms, around 70% of the Roma in working age are not involved in the labour market, or are employed irregularly, thus their income is – in most instances – irregular as well. Research data from a few years ago shows that no more than 5-10% of Roma are employed officially and very few Roma are employed even unofficially (Latvian Centre for Human Rights and Ethnic Studies, 2003). In addition, according to research data, identification with this ethnic group in many instances becomes a reason for refusal of employment. In some case, people were compelled to migrate due to long-term unemployment and the situation has reportedly gotten worse with the current economic crisis. At the same time, the society negative stereotypes and prejudices towards the Roma community become the reason for discrimination of the Roma in the labour market (Latvia University of Agriculture *et al.* (eds.), 2007).

Roma having low incomes are entitled to receive healthcare. In practice this means that any person on a low income is entitled to receive state financed healthcare services free of charge. Nevertheless, the low level of education, lack of information and, possibly, other factors inherent in the Roma community may hinder them from receiving healthcare services.

During the period 2007-2009 the Government of the Republic of Latvia adopted a State Programme “Roma in Latvia”. Within the State Programme a special project “*Teacher’s Assistants of Roma Background*” was developed in 2007. The project was designed for the professional preparation of teacher’s assistants of Roma background in order to facilitate inclusion into school and pre-school educational institutions’ of Roma children.

The main objectives of the project were:

- to create opportunities for Roma community, particularly in education and labour fields;
- to improve the inclusiveness and multiculturalism of the Latvian education system;
- to tackle the segregation of Roma children in the education system and at early stages, to foster the inclusion within the education system;
- to increase active participation in school life for Roma children and their parents;
- to integrate teacher’s assistants of Roma background in educational institutions;
- to reduce negative stereotypes related to Roma at school and improve the knowledge of teachers and professional staff – as well as non-Roma children – about Roma culture, history and identity;
- to promote intercultural dialogue;
- to empower the capacity of Roma non-governmental organizations.

The project was implemented in several stages. At first, expert from the non-governmental organization “Center for Education Initiatives” – working with Roma issues since 2003 – elaborated educational training program suited for teacher’s assistants belonging to Roma community. Two training seminars were organized in the city of Jelgava: 19 teacher’s assistants of Roma background participated in the training from 16 cities of Latvia. In the second stage, the project was presented to school directors and educational experts who represent institutions where teacher’s assistants of Roma backgrounds started their practice. Main goal of this stage was to boost active participation in school life for Roma children and to enhance the consciousness among Roma families of the importance of education for the young generation (the project is more detailed described within the good case practices of the project).

### ▪ Youth unemployment in Latvia

Youth unemployment rates are generally much higher than unemployment rates for all ages. This appears to be the very case of Latvia where in the last years the employment rate steadily decreases while the youth unemployment sharply rose after the 2008 (see Figure 6 and Figure 7).

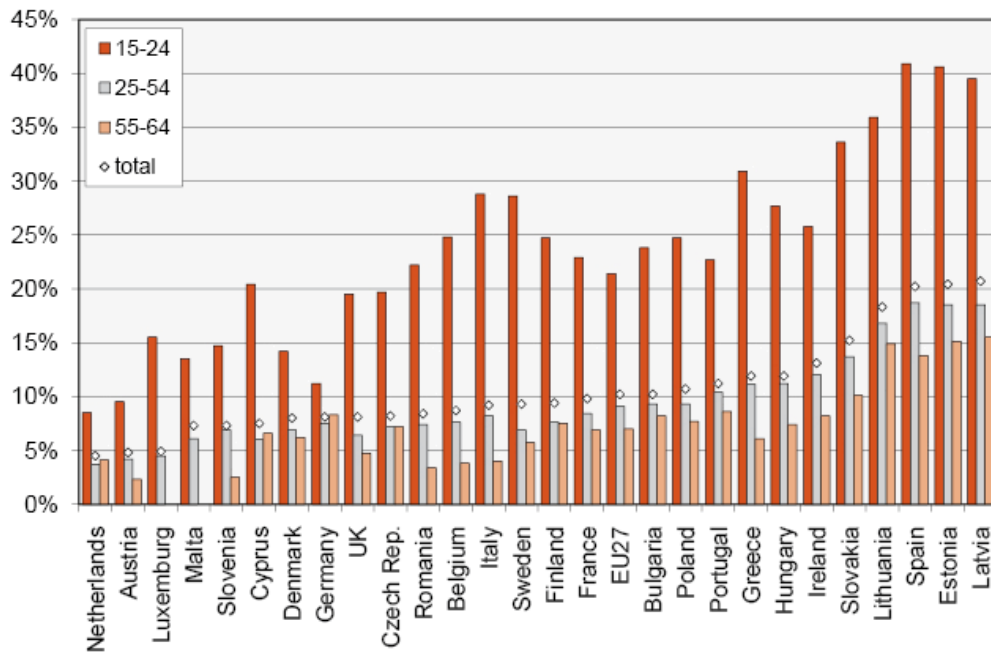


Figure 6. **Unemployment rates by age group compared to overall unemployment rates, 2010Q1**

Source: Eurostat

Young people has been one of the groups hardest hit by the economic downturn since they were amongst the first to lose their jobs as indirect result of the crisis. Certain social classes are more affected, for example low-skilled youth who show the highest unemployment rates and seem to be particularly exposed to unemployment in the current economic climate. This could be attributed to the collapse of many sectors – notably construction and retail – which in the economic boom years offered relatively high salaries to young people with low-skilled education.

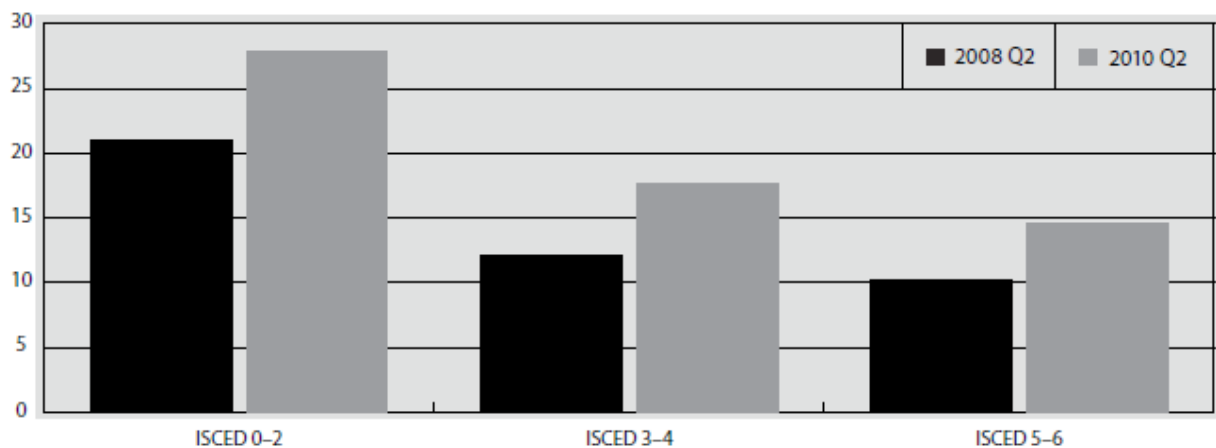


Figure 7. **Youth unemployment rates, % (15–24 age group), EU-27**

Source: Eurostat

According to Eurostat data, in the beginning of 2010, youth unemployment rate in Latvia comprised 40%, twice higher than EU average rate. Nevertheless, in the latest years a positive trend has to be underlined. Starting from the end of 2010, youth unemployment rate in Latvia lowered slightly to 32% (see Figure 8).

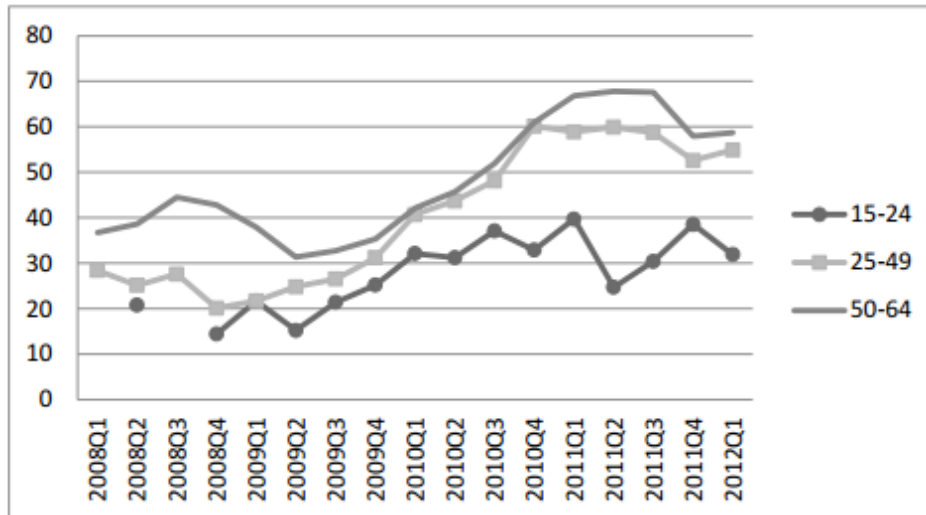


Figure 8. **The share of long-term unemployment by age group**

Source: European Employment Observatory Review (2012)

For youth the share of long-term unemployment increased from 14.4 % in fourth quarter of 2008 to 31.9 % in 2012 (first quarter). Hence, although the incidence of long-term unemployment among young people remains below than the older age groups, the long-term share of youth unemployment has grown fastest during the economic downturn.

Concerning unemployment benefits, in Latvia as in many other member states, there are no special allowances for young people. They are entitled with the same benefit of older age groups, what in reality it might mean that many young people has not right to unemployment benefit since they do not meet the timeline requirement.

Generally, the duration of the unemployment benefit depends on the social insurance record:

- for 1 to 9 years, the benefit is paid for 4 months;
- for 10 to 19 years, the benefit is paid for 6 months;
- for 20 or more years of social insurance record, the benefit is paid for 9 months.

Thus, Latvian unemployment and social assistance system is not particularly generous with the youngest generation. The initial replacement rate varies around the 50% of the latest salary and in any case, it may not last longer than 4 months.

In this framework, robust policy coordination at European level might make a real change for the relation among youth and employment. Public stakeholders, social partners and NGOs have the challenge to design and enforce targeted measures able to tackle youth unemployment.

The risk is that young people with low formal education will not manage to improve their skills through formal and informal learning getting caught in a kind of precariousness condition for much of their working life.

The consequences of the previous economic prosperity led a considerable number of young people to gain work experience in low qualified jobs without a proper education and/or qualifications. Afterwards, emigration problem becomes of much importance in times, when economic situation in a country was worsening.

According to various surveys number of young people in Latvia wanting to gain working experience abroad is rapidly growing. Over the recent years, a large scale migration to wealthier EU member states took place – youth often accepts employment in lower qualified jobs in the host countries, though there were signs of down-skilling, in the meaning that higher qualified people decide to undertake lower qualified jobs. The countries of most interest for young people working abroad were are Great Britain (35%), countries of Northern Europe (Norway 17%, Finland 15% and Sweden 10%), Germany (10%), Netherlands (10%) and Denmark (9%). Mostly viewed workplaces by sectors and groups of professions were: elementary occupations (34%), agriculture, forestry and fishing (skilled agriculture and fishery workers – 21%), skilled workers in transportation sector (10%), construction sector (builders – 10%), accommodation and food services (12%), and human health (nurses, doctors – 5%) (Ministry of Welfare of the Republic of Latvia, 2011).

Currently, targeted active labour market policy (ALMP) measures to promote youth employment are being implemented with the aim to provide opportunities to young unemployed for acquiring the first work experience and, simultaneously, to foster their long-term inclusion into the labour market. The inclusion schemes were firstly introduced in 2007 and in a second stage expanded significantly afterwards the economic downturn in 2008. Subsequently to the exponential growth of youth unemployment rate, policies were approved to transform the measures by focusing the resources to young unemployed.

Also, building a competitive education system is one of the main aims of Latvia. A competitive education system plays a key role in ensuring successful integration of young people into the labour market and fosters a full use of their potential for the benefit of the national economy.

The first concrete scheme to tackle the youth unemployment was launched during the 2010. Within the scheme “Work practices for young unemployed”, young unemployed may participate in six to twelve months-long work practice, receiving a monthly mobility allowance (around 171.00 EUR). In case the level of knowledge gained did not meet job requirements, the participant may also participate in a training programme in order to gain theoretical skills (Ministry of Welfare of the Republic of Latvia, 2011). During the first year of implementation nearly 2500 young people was involved in practical training involving more than 500 participating enterprises (Cabinet of Ministers of the Republic of Latvia, 2012). Later more national programmes were launched and EU support is being used for stimulating employment opportunities for young people and tackling its main challenges.

Starting from 2011, in harmony with the scheme launched during the previous year, the programme “Workplace for a young unemployed” was established with the aim to promote a long-term integration into the labour market for young people unemployed

for more than 6 months. In this scheme youth had the possibility to gain a working experience for up to 9 months, entering into employment agreement with an employer. Within the measure, the employer involved in the scheme will receive monthly wage subsidy for an employment of young worker (about 142.00 EUR for the first 6 months, around 71.00 EUR, for the next 3 months). In addition, an extra subsidy is determined for young unemployed with disability. Additional expenses are covered for supervisors' involvement, working place adaptation for persons with special needs, involvement of different experts, for instance social assistants.

Along with the above mentioned scheme, the inclusion programme "Youth workshops" was established with the goal to help young unemployed with low level of education or without any work experience to make a conscious decision about future education or job field. Within the measure, a young participant will have the possibility to try three professional areas in a vocational education institution: being engaged in each area for three weeks to get an insight in its specific nature. Also for this scheme a minimal monthly allowance is guarantee to participants (around 57.00 EUR, and 85.00 EUR, for young unemployed with disability).

During the next decade, Latvia along with all the member states will undertake the challenge to develop schemes and programmes capable to ensure the inclusion of young people within the labour market.

A brief cross analysis of the "Europe 2020" strategy and the Latvian priorities makes clear how this challenge will be undertake following mainly is three axis (Cabinet of Ministers of the Republic of Latvia, 2012):

**1. Improvement of lifelong learning system:**

- Offer vocational education programmes, enough flexible to be adaptable to the labour demand and capable to ensure to participants professional qualification in the framework of a single educational programme.
- Develop common European qualifications for common assessment, accumulation and transfer of knowledge, skills and competences.
- Recognize professional competences obtained outside the formal education system.
- Increase the competitiveness of labour force by raising the level of the general education ensuring renewal of skills in harmony with the innovations undergoing in the economy.

**2. Structural changes in vocational education:**

- Implementing the optimization and differentiation of vocational education institutions' network.
- Modernization of training equipment and improvement of infrastructure for implementation of vocational education programmes.
- Fostering development of vocational colleges and increase the link between education and labour market.
- Encourage entrepreneurship.

### 3. Modernization of higher education:

- Improve financing system of higher education, by introducing a result-oriented higher education and science financing model with the aim to ensure consolidation of higher education and scientific resources.
- Improving the quality of study programmes and their competitiveness, by carrying out the international evaluation of resource adequacy and labour sustainability.

It is clear as the fostering of the youth employment strictly involve evolution in the education system. In the best practices, improving the integration of youth in the labour market involve the implementation of integrated measures, which shall include education and traineeship specifically targeted to specific lack of qualification within the national labour market.

At the same time, it is realistic to underline how these policies are highly costly. In terms of *real politics*, policy makers should increase the share of public budget dedicated to education, what in times of austerity and liberalization of services earlier provide by the state, seems rationally unfeasible.

#### Questions:

1. What is the current immigration situation in Latvia and what are the main issues?
2. What are conditions for immigrants to have access to the Latvian labour market?
3. What are the main issues related to the integration of Roma people in the Latvian labour market and what solutions could be applied?
4. What are the main challenges for young people to enter the labour market and what solutions could be found?

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### Annex 1.

#### List of the most demanded professions by sectors in Latvian labour market

No.	Sector	Profession
1.	Health	Pharmacist
2.		Pharmacist assistant
3.		Nurse
4.		Dentist
5.		Doctor (e.g. Physiotherapist)
6.		Cosmetologist
7.		Masseur
8.	ICT (information and communication technology)	Test Analysts
9.		System Administrator
10.		Web designer
11.		Computer engineer
12.		.NET Developer (programmer)
13.		Java programmer
14.		Electronics specialist
15.		PHP programmer
16.		Data Entry operator
17.		IT specialist (other)
18.	Sales, trade, marketing	Seller (incl., shop assistant)
19.		Trade manager
20.		Sales representative
21.		Trade Consultant
22.	Communal Services	Cleaner
23.		Electrician, electrical engineer
24.	Catering	Cook, Chef-cook
25.		Waiter
26.		Bartender
27.		Head-waiters
28.	Wood-working industry	Woodworker
29.		Woodcutter
30.		Furniture
31.	Textile industry	Sewer
32.		Knitter
33.		Dressmaker
34.		Furniture carpenter

35.	Machine building and metal working	Welder
36.		Flame cutter
37.		Machine locksmiths
38.		Mechanics
39.		Mechanical engineer
40.	Other	Drivers
41.		Children's nurses
42.		Hairdresser
43.		Guards (security workers)
44.		Secretary
45.	Veterinary	Veterinarian
46.		Veterinary Technician
47.	Building and construction	Plumber
48.		Electrician, electrical engineer
49.		Constructor (builder)
50.	Food	Confectioner

## Annex 2

### Interviews` questions

The questions were structured and asked in accordance to competencies of the interviewed institution: Ministry of Welfare, Ministry of Economics, State Employment Agency (HQ and regional branches) and EURES, Free Trade Union Confederation of Latvia, Employers' Confederation of Latvia, Educational institutions, Social Services, Support Centres, City Councils, Latvian Chamber of Commerce and Industry, Latvia-Estonia Institute, Business incubator, Planning regions.

Interviews` questions for study about Labour Market and Labour Mobility in Latvia:

1. Do you think labour mobility among neighbouring countries is mutually beneficial economically, in particular in the area of Central Baltic region?
2. What do you think are the main short-term and long-term challenges and problems of labour mobility in Latvian?
3. What are the current trends in labour mobility among Estonia, Latvia, Finland and Sweden and which are the top sectors?
4. Language and cultural differences are the most typical obstacles for labour mobility. What are the legal restrictions, including administrative and other barriers and other reasons (differences in the tax system, social security, wages, qualifications recognition of qualification, the lack of knowledge, etc.) that prevent the entry of foreign labour in Latvia from neighbouring countries?
5. What obstacles do you think there are for Latvian job seekers to search and find a job in neighbouring countries, especially in professions with employees 'surplus'?
6. Does the government, or the Ministry [accordingly Ministry of Welfare and Ministry of Economics] or its subordinate authorities have any plans to reduce the labour mobility barriers for both incoming and outgoing employees?
7. What is the role of Latvian government and the one of the EU in reducing barriers for labour mobility between countries?
8. What activities in the framework of Latvian labour market and the employment is currently being carried out to enhance the incoming labour mobility, and what is the co-operation with Latvian employers within this issue? Which laws are regulating this process?
9. What advantages do you think Latvian labour market has to attract the labour force from neighbouring countries?
10. Do you find the current organizational structure of labour market and employment, including public administration institutions, is developed well enough for efficient labour mobility between countries?
11. How would you assess the role and performance of the Latvian State Employment Agency and the EURES in terms of enhancing labour mobility among neighbouring countries?

12. How would you assess the current system of information exchange between neighbouring countries about labour mobility and do you think it is sufficient?
13. What information do you think would be necessary for Latvian employers to look for employees from foreign countries?
14. What information do you think would be necessary for Latvian employees to search for and find employment in neighbouring countries?
15. How active and effective, in your opinion, is the Latvian employers and employees in labour market relationship with neighbouring countries?
16. In which sectors Latvian employers would not be interested or could not recruit employees from abroad (e.g. public authorities)?
17. What are the main challenges and problems in Latvian labour market currently?
18. In which sectors the demand for staff is the highest (in terms of number of vacancies and the need for qualified workforce)?
19. Do you think the expectations of employers and the needs of labour market, and the demanded professions might change in the next 2-3 years? How, why? Which sectors and occupations might face the increase of the labour demand, in which sectors the demand might fall, in which sectors it might emerge and which professions might extinct?
20. What are the most demanded professions currently? (Researchers have prepared a draft list of top 50 demanded professions according to the number of vacancies in job search engines).
21. Which sectors are the easiest to get a job (lower competition) in which professions?
22. In which industries and occupations the number of job seekers is the largest?
23. Is it safe to assume that in sectors with a very large number of job seekers there is an „employee’s surplus”? (This refers to next question – although there is a large number of job seekers in a particular occupation, maybe employers expect higher qualifications than the job seekers can offer).
24. Is there any (What are the) differences between the qualifications required by employers and offered by job seekers in the top demanded occupations?
25. From which sectors do you think the job seekers would be mostly interested in searching the employment in neighbouring countries?
26. In which industries and occupations do you think employers would be interested to recruit the labour force from abroad?
27. From which industries and occupations the job seekers and unemployed graduates do you think are currently the most active in the labour market relationship with neighbouring countries, meaning what type of professionals are leaving to work abroad?