



European Pillar of Social Rights and Social Harmonization in the Eyes of Latvian Stakeholders

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A stakeholder seminar on the Pillar of Social Rights and Social Harmonization was held on November 10, 2016 in Riga, Latvia, and this policy brief summarizes the key issues discussed and the conclusions reached.

The views and opinions expressed here reflect the author(s) point of view and are not necessarily shared by the Nordic Council of Ministers, CASE Network, or BICEPS.

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Introduction

The core values of the European Union (EU) include social democracy and strengthening the principles of the welfare state. The liberalization, deregulation, and privatization reforms of the early 1990s through “shock therapy” had catastrophic effects on the former Soviet countries.¹ During the last decade, central and eastern Europe has learned that market liberalization alone is not sufficient to ensure the sustainability of society, as evidenced by the mass migration of central and eastern Europeans to western Europe.² With the aim of creating a common European market, it became evident that sustainable human capital depends on a strong civil society and democratic public governance.

The vast economic differences between countries in Europe have been acknowledged by the EU through its interest in economic and social convergence as a core part of European economic integration. The Treaty of Lisbon set the path for cohesion, aiming to reduce economic and social disparities between the countries and regions of the EU and to accelerate economic and social development in the less-developed regions.

Social development, in contrast to the shock therapy of laissez-faire capitalism, includes the promotion of employment and social protection. Based on the concept of freedom, equality, and solidarity, it includes the right to fair and just working conditions, social security, social assistance, and equality between men and women.

The European Social Model is a theoretical construct, while the European Pillar of Social Rights consists of legal documents and recommendations. A greater similarity of welfare models in Europe could be achieved through the Pillar of Social Rights by aligning the legal frameworks of EU Member States. This would also support labor mobility.

The Treaty of the EU established the European Employment Strategy (EES), which aims to create more and better jobs in the EU and constitutes a part of the Europe 2020 growth strategy. The EU’s role in social policy is such that the EU should provide a framework that reconciles openness and mobility with domestic social cohesion, supports national welfare states on a systemic level in select key functions, and guides the substantive development of national welfare states by indicating general social standards and objectives and organizing mutual learning processes, while leaving the ways and means to the Member States.

However, inequality in society, as evidenced by the recent political developments in the UK, France, Italy, the Netherlands, and the US, is fueling populism and xenophobia.

We are not living to serve the economy. Both economic and social welfare systems serve us as a society, but each in a different way. It is difficult to prioritize the economy over solving social problems. This dilemma likely has more than two sides—in addition to the economy of today and social security of today, there is a third element, the economy in the future. If we consider the economy in the future, solving social security today is crucial.

The Pillar of Social Rights and the plans for social harmonization require additional funds, and countries with lower productivity cannot afford to increase their minimum wages in line with their western neighbors or provide a higher level of social services. While social harmonization requires additional financing, its provision by other countries is subject to long-term sustainability. However,

¹ Ther, P. & Hughes-Kreutzmuller, C., 2016. *Europe since 1989 : a history*, Princeton, NJ: Princeton University Press

² *ibid*

it may be feasible that some social services in the EU are provided centrally and directly to EU citizens.

The aim of this policy brief is to summarize the opinions and concerns of local stakeholders given during a seminar on the future activities towards social harmonization and the European Pillar of Social Rights.³ The topics, which were raised during the meeting, were divided into several categories presented as subchapters below.

The social situation in Latvia and social rights "acquis"

Political trends and aims towards unity in the EU

Stakeholders from the Foreign Ministry commented on the current political trends—the recent Brexit vote and the US presidential elections—and stated that these trends demonstrate a global decline of center-left forces and an increasing conservative xenophobic populism. They note that given the current political mood, it is of critical importance to preserve the unity of the EU.

Populism rides on inequality. Social harmonization is an attempt to address this inequality, which is linked to the EU's unified market issues and the consequences of globalization. The development of joint values in the EU has helped to decrease inequality; however, a frustrated xenophobic populism is looking to place blame for these problems, both real and imagined. Unfortunately, efforts to increase productivity and competitiveness do not have the scope to fully address the social challenges and problems of a middle class that feels squeezed.

Social harmonization is commendable, because it seeks to address inequality. However, the world is changing, and digitalization influences working patterns and requirements and increases fragmentation. Previous traditional organizational structures are no longer able to provide adequate social protection or to reach all working people. Even though unemployment indicators are improving, populism has created a false nostalgia for the past—with fewer challenges, a slower pace, and easier to understand issues of “the good old days.” Adult education to teach contemporary digital tools to seniors within a more fluid work environment is one of the solutions. Productivity improvement opportunities are possible with support from EU Structural Funds. Hence, we return to the start point—convergence.

Employment and the minimum wage

According to Eurostat data, the employment rate for the working aged population in the Baltic States is higher than the EU average, except during the financial crisis from 2009-2012. In Latvia and Lithuania, the employment rate in recent years has been very similar, while in Estonia, the employment rate during 2008-2015 was higher than in its Baltic neighbors and higher than the EU average, dropping below the EU average only around 2010.

Meanwhile, the monetary poverty level has stabilized, reaching a similar level in the three Baltic States; however, the poverty level in general is higher than the Eurozone average (19 states).

Monetary policy within the EU is well integrated, but economic and social policies remain national. Regarding social convergence, wealthier countries are not likely to agree to decrease their social expenditures, and less wealthy countries cannot yet afford such high social expenditures.

³ A stakeholder seminar on the Pillar of Social Rights and Social Harmonization was held on November 10, 2016 in Riga, Latvia, and this policy brief summarizes the key issues discussed and the conclusions reached.

Convergence depends on economic possibilities, including how much is available to be spent on social protections.

The minimum wage is one of the EU's central social harmonization issues (specifically regarding posted workers) and often corresponds to income levels in a country. Country income levels are average wages or productivity measures. If minimum wages are compared to average wages, then the situation in the Baltic States is similar to that of the EU in general—the minimum wage is about 40% of the average wage. According to Eurostat data, compared to Latvia and Lithuania, Estonia has a higher nominal minimum wage (EUR 430 per month in 2016, compared to EUR 370 in Latvia and EUR 360 in Lithuania), but the minimum wage is a lower percentage of the average wage, at about 36% in Estonia, as compared with 44% in Latvia and 46% in Lithuania. It would not be feasible to increase the minimum wage to the nominal level of wealthy countries, because productivity levels in wealthier countries are higher.

Trade unions

During the discussion, stakeholders commented that trade unions are not very strong in Latvia, because industry in Latvia consists of many small firms in different sectors, and there are very few large companies with strong, experienced trade unions, likely due to a lack of market economy trade union traditions. Many trade unions are only now developing and learning from their international partners and, thus, do not have strong contributing comments regarding the social harmonization initiative and are instead relying on internationally signed treaties.

Impact of globalization as competition

From the point of view of several policymakers, globalization as competition is inescapable. New trends bring new forms of organizations, which are linked to digitalization and broader opportunities to do business outside of one organization, country, or location. In any country in Europe, it is difficult to tell which companies are purely local—working only for the local market. Similarly, there are foreign companies employing local staff and companies based in Latvia employing workers outside Latvia. Latvia is expanding into the global market, but through narrow and specific product niches with high responsiveness requirements. Investors are typically not interested in social welfare issues. Policymakers should be supporting everyone and helping businesses to increase competitiveness—this generates an overall gain to society. This approach is consistent with the idea of social harmonization.

With the crowdsourcing of work and workers contracted for different projects by several firms, there is now a greater risk for the individual worker. It is clear that there will be fewer low qualification jobs in the future and that more tertiary education is needed. Therefore, some stakeholders commented that the Baltic States and eastern and central Europe can no longer rely on lower production costs due to cheaper labor. The main sources of competitiveness and productivity are workers with required knowledge and skills (human capital) and not cheap labor. Education contributes to human capital, and education itself is experiencing international competition as well. A basic task for EU policymakers should be to understand how the future may look and what the future requirements might be.

Welfare models

Eurozone countries have very different social welfare models. Nordic countries have high levels social protection that are supported through high tax rates. Their approaches are based on universal welfare benefits and social services, with benefits linked to residency, income, and tax contributions.

The social welfare models of the Baltic States and central and eastern European countries offer limited social benefits and are traditionally based on state-level centralized social welfare expenses and a high level of involvement from family members in providing social support, care, and social services. In the Baltic States, the role of trade unions is limited and fragmented, because there are no traditionally strong trade unions; therefore, the collective agreement system has limitations and is also not strong.

The role of the welfare state in the EU has increased over the past few decades, leading to the development of social welfare and an increase in the range of social benefits and provision of social services. The EU approach is directed towards strengthening the motivation of people to participate in the labor market. Another trend in the EU has been the increase of investments in strengthening employability—encouraging employment for women, developing family friendly social services, and promoting the prevailing two-income family model. Supporting employment for women is linked with the development of childcare and elder-care services. Promoting employment also increases the need for good quality healthcare (both prevention and treatment). Another trend in the EU has been towards discontinuing early retirement schemes and replacing them with policies to encourage a longer working life.

Welfare system challenges in Latvia

Social welfare system challenges in Latvia include the need to improve access to healthcare, to lessen income inequality, and to fight poverty, as well as to improve and develop social services and to offer better solutions for housing. Regarding the topics specifically discussed in the Social Rights Pillar, Latvian stakeholders note that improvements are required in the pension system to address adequacy versus sustainability. They also note that improvements are required regarding gender equality and equal pay, because the income of women also influences pensions. Furthermore, women's income is strongly influenced by the availability of long-term social care support, which also needs development.

Legal considerations of the Social Rights Pillar in light of international treaties

Examining the Social Rights Pillar from a legal point of view, it is not yet clear what legal tools will be available to resolve social issues, such as the minimum wage, as several aspects of this issue are already bound by various social rights documents and conventions, which have regulating powers. Will the Social Rights Pillar be another document addressing the same questions?

The future of work and the welfare system

A stakeholder from the academic field noted that the economy cannot be positioned against social problems, and that it is not possible to determine which area is more important: the economy or social welfare. It was stated that they are not comparable, because they are both serving us as humans, each area in its different way.

We are not living to serve the economy. The economy feeds us and provides us with clothing and addresses other necessities. The economy and social welfare is for us to be able to live. Only the situation of unemployment is causing us to come up with various schemes, but that is an internal matter.

The topic of the social model has been talked about since long ago and now the discussion on the social model is called the Social Rights Pillar and it is a good initiative and discussion is important, because it is contributing to the search for a solution.

The need to reformulate the Social Rights Pillar

Meanwhile, life is changing, and traditional formulations no longer reflect the system's initial purpose. Even the present formulation of the three concepts of the Pillar are likely to need to be reformulated to fit the present reality, because the stated meanings are quite traditional, including that they should be ready to serve future changes based on trends.

1. Pillar of equal opportunities.

The structure of the economy in Latvia is changing. It is becoming more service-oriented and centered on small and medium enterprises (SMEs) rather than on large industrial production enterprises. This has had consequences on Latvia's institutional framework. Depending on its industrial structure, a country may have different interests and a different investment allocation strategy. The labor market is no longer as it traditionally was. Many people freely choose the amount they would like to earn, the number of jobs they would like to perform, and the hours, location, and circumstances of their employment. The challenge for policymakers is how to develop and measure a minimum wage in this evolving work environment. How should the question of working conditions be approached if one works from home or in another location of their choosing? In co-working situations, who is responsible for selecting working conditions? Similarly, in a flexible work environment, with several employers (clients) or with assignment-based work, trade unions are difficult to organize, and unified collective agreements are not suitable. Social dialogue is essential, but will likely take a different form.

2. Pillar of fair and acceptable working conditions.

Stakeholders believe that this pillar should take into consideration the notion that encouraging changes to work arrangements is said to increase freedom, ease family life, and create a better work-life balance, but that it has new challenges. People are more difficult to reach to provide social guarantees and the employee or contractor becomes practically invisible.

If the aim is to increase employability in this flexible category, then which industries should be selected, what skills will be required, and what results can be expected? Changes to the work environment make the world more uncertain. Employee and employer relationships become more flexible, less secure, and have fewer liabilities.

3. Pillar of social welfare system.

What is really meant by social welfare? Is it the possibilities for social welfare that we have in our country, such as pensions or child benefits, or are we looking at labor mobility and the labor market? Welfare financing is a type of spending where the economy is the provider and the social system is the user; therefore, it is tempting to want to spend less—this is the main cause of the contradictions. A country's budget deficit is controlled and regulated by Brussels, but social problems are each country's own problem. Brexit and the recent US elections show that a country's instinct for self-preservation is strong, if not always visible or obvious.

How not to increase taxes but achieve higher social security under existing social expenditures?

Compared to average social spending levels in the EU, social spending in the Baltic States is lower; the situation is similar in central and eastern European Member States. However, it is important to note that the EU has higher social welfare spending than OECD countries. High social spending corresponds to high taxes, but high income taxes have a negative effect on the economy, as compared to, for example, a real estate tax. The growth rate in the EU is slower than that of the OECD average, and the unemployment rate is higher than that of the OECD average.

A social security improvement strategy could be directed towards improvements in the quality and effectiveness of the existing level of social expenditures in order to avoid significant tax increases. Structural unemployment could be addressed through education and the provision of training. There are various tools to encourage active employment and to increase participation in the workforce despite the decreasing “demographic dividend.” A rapid increase in the minimum wage should be avoided. For example, in Latgale, the poorest region of Latvia, this had a negative influence and led to an overall decrease in employment. It was noted that the labor taxation burden could be eased to encourage growth.

One stakeholder provided a comment related to trade unions: it is pleasing to hear that cheap labor is no longer talked about in Latvia as an asset. The middle class in Latvia is about 25% of the population, while in Denmark it is about 49%. Work forms are changing—it is a reality—but forms of social dialogue are changing as quickly; therefore, discussion on this is needed and welcomed.

EU common market interests and convergence

Considering the recent political events, it is more important than ever to create social unity in Europe. The EU has very clear responsibility levels concerning its activity areas. EU collective interests concern the EU’s unified market, but labor and social policies are the responsibility of Member States. Member States have held lengthy discussions to understand the social situation in each Member State and to develop a collective opinion for the EU. As a result, common goals were drawn, guidelines were created, indicators were set, and monitoring instruments were introduced. Over time, Eurozone Member States are becoming more and more alike. The terms for unemployment benefits are now more comparable, including for the long-term unemployed. For example, salary setting questions are delegated to enterprises, and companies are using common employment contracts to comply with labor laws. While the trends are similar, the social welfare systems in Member States are different, and it is not clear whether these systems should be aligned. Also, over time, the questions concerning the necessity for aligning these systems are changing.

The Social Rights Pillar initiative is multidimensional—it is not clear whether the convergence of national social security systems would improve the welfare of each Member State or how convergence would affect the EU’s unified market. Each Member State has its own institutions and system for social security, which were created over a period of many years and depend on the country’s industrialization processes or regional relationships as well as the way decisions are made in each Member State. Furthermore, there are moral risks concerning convergence—for example, in the case where one country must pay or make fund transfers to another country. It is also important to consider the level of trust in the individual social security systems of different countries. Even within Member States, there is not always trust in the social security system (for example, when one region must support another region).

There are also concerns regarding financing, because for central and eastern European Member States, it is difficult to provide the same level of social security as the western European Member States due to differing levels of competitiveness and productivity. However, the EU is already

offering financing from several sources. It is also not easy to use best practice examples, because if something works in one country, there is no guarantee that it will work in another. Separate elements might be good, but they are always part of a broader system, working together with the other elements of the system.

Societies at similar economic levels can choose different solutions, as evidenced by OECD and EU countries. The EU has consciously chosen to develop towards a social market economy, which includes universal benefits and aspects of solidarity. Overall, the developments and understanding in EU Member States are similar, but questions remain concerning financing and trust. Even if social harmonization activities and politically sensitive decision-making powers would be delegated to the EU, would it increase mutual trust or would it fuel stronger debates regarding the sovereignty of individual Member States? Do Member States require intervention concerning social matters? How will Member States interpret these interventions (i.e. will it create unreasonably high expectations because financial abilities and the process of convergence has significant limitations)? Perhaps it will be sufficient to simply set the targets to achieve a harmonization of systems.

Social harmonization policy

The social harmonization policy and European Pillar of Social Rights aim to address social problems and social differences among EU countries, although they are not addressing the same issues.

Economic development and dealing with social problems juxtaposed as a chicken and egg situation

According to one Latvian stakeholder, the question concerning social problems is similar to a chicken and egg situation. Often economic development is put first—“let’s get economic stability, and then we can deal with social problems, because they are a cost.” Or, must economic and social problems be addressed in parallel? Social harmonization addresses the same question, which created the Cohesion policy. Does it need to be a new policy, or maybe it simply needs to be better executed? There is still substantial work to be completed under the Cohesion Policy to achieve its aims. Meanwhile, its support from the EU’s Structural Funds is decreasing.

It was noted that the social harmonization policy describes the interests of several western countries. To ensure that mutual interests are included, Latvian national discussion is perceived as very important, or even crucial. It was also suggested that in order to capture as many aspects as possible, it is essential to involve all types of experts in discussions, because, for example, policymakers without NGOs would not be able to know everything.

Regarding the Pillar of Social Rights, it was commented that this document did not address the important theme of the disabled. Another issue that was not addressed was the situation where the main household earner works in one country while his or her family and children live in another country. However, with this new policy, new agreements to cover related social problems becomes possible. Addressing social problems on the European level would help to decrease Euroskepticism.

Solidarity financing aspects of the Social Rights Pillar

Regarding the Pillar of Social Rights, the aim of the policy is not entirely clear; although, it is a good step towards lessening Euroskepticism. This document could be interpreted in such a way as to mean that the EU is preparing to offer more centralized services, such as defense or other not yet existing services, directly to its citizens. The social harmonization policy is aimed at the resolving

the differences between EU countries, especially during economic downturns, which are not avoidable. The social harmonization policy addresses the Eurozone, which suggests the presence of fiscal policy, although social problems are present in all EU countries. The economic cycles of countries do not necessarily correspond and collective activities to avoid shocks are a clear aim of the document. However, solidarity might mean that wealthier countries must financially support less wealthy countries, and that is not politically or financially sustainable.

If the aims of the new policy are to create centralized services and a centralized support fund to EU citizens, then it follows that countries should expect to receive from the fund as much as they have paid into it. However, the fund would also be influenced by certain conditional criteria, such as which country under what triggers would deem a country eligible for support, as well as what would be the amount and duration of support. For example, if we consider that structural unemployment in Latvia is typically 11% and typically 5% in Country A, and if structural unemployment decreased to 10% in Latvia, but increased to 6% in Country A, would Latvia then be required to pay financial support to Country A, even though the unemployment rate in Latvia is higher? Thresholds and triggers would also be influenced by the flexibility of the labor market, which is set by local legislation. The Pillar of Social Rights should encourage the elasticity of the labor market.

Democracy means solidarity, but legislation could be passed specifically in each country, and centralized funding means more delegating to the Commission and, hence, more bureaucracy. To have greater solidarity, differences between countries cannot be too large. Cohesion is a precondition. One stakeholder added that it is peculiar that Latvia, based on its current trend of positive annual GDP growth, could catch up with the average EU GDP per capita only by 2046.

Conclusions and recommendations

The basis of the Social Rights Pillar is much more complex than simply xenophobic populism, as was mentioned earlier. There were serious social problems even before Brexit and the US presidential election. The policy of the UK Social Democrats has not failed. On the contrary, the failed policy was pseudo social democracy, with rights interpreted as segregated types of rights, where some rights are more important than others. This is not a time of crisis for socio democratic rights; in fact, it is quite the opposite.

Social harmonization and European Pillar of Social Rights are not simply another set of documents. The idea behind it is important and will only succeed if all parties become involved in the discussion. For example, there have been many discussions on the unresolved topic of family relationships, with parents working in one country and their children living and attending school in another (the home country). To change the situation would require changes in international agreements. Now, with the Pillar, the possibility of change is much more realistic.

Regarding the Cohesion Policy, rules have shown that its implementation was problematic. It means that there is something wrong with the Cohesion Policy rules, and that seeking another solution offers another opportunity.

Traditionally, strong trade unions provide solutions to difficult labor questions; however, if trade unions, for objective reasons, are weak or underdeveloped, as is the case in Latvia and other central and eastern European countries, traditional social dialogue is not feasible. Then the need to create new institutions appears and this requires additional social innovation initiatives in order to find a solution. In Latvia, as 90% of people work in SMEs, it is difficult to form strong trade unions because the workforce is very fragmented.

There were also ideas suggesting direct public benefits paid from a centralized EU fund to its citizens. The fund would be managed by Brussels with the aim of increasing solidarity and sustainability. This idea has potential, especially because the differences in social indicators could be resolved similarly to how the Eurozone is structured—through voluntary membership and, therefore, unified criteria.

The chicken and egg approach to the question about social harmonization versus convergence and the economy versus social welfare is too narrow. The question has more than two sides—in addition to the economy today and social security today, there is a third element, the economy in the future. If we consider the future economy, social security today is crucial.

It was commented that Brussels could provide labor market forecasts as a public benefit to help inform EU citizens about the anticipated skill requirements in the future, because, for example, in countries like Latvia, it is beyond the knowledge of the domestic situation if businesses are so linked internationally. Access to the Internet improves rights and equality. Some domestic situations, despite working systems, such as pensions, have problems and the Pillar could help to break out of negative inertia.

The Pillar of Social Rights can help to improve the socio-economic situation in Latvia. Since joining the EU in 2004, Latvia is now much closer to average EU indicators. However, the comment that Latvia's GDP per capita could reach the average EU GDP per capita only in 2046 was discouraging.

The reason for new policy initiatives is the result of the realization that fiscal policy itself cannot satisfy the different needs of people today in different countries and in the future. With an attempt to seek solutions for the social dimension, there is hope to find more answers to present needs, and yes, our lives are in the center of our activities and lives are primary. The aim of the Pillar is to seek the best result and the scope of this document will depend on further developments and further public consultations.