

LETTLAND

ILZE VIŅKELE,
MINISTER FOR WELFARE OF
THE REPUBLIC OF LATVIA

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The Latvian Social System: Accomplishments and Future Challenges

V. DIKLI FORUM "SOCIAL MARKET ECONOMY"

Ladies and Gentlemen,

The good news that the Latvian economy is beginning to recover has been overshadowed by the fact that in 2011 we had the second largest proportion of poor people in the European Union. Our society is endangered by problems of inequality and poverty, which may halt our economic growth.

As OECD experts point out, inequality is the result of several components and, next to social policies, education, taxation, regional development and healthcare policies are of equal importance. Purposeful cooperation among ministries in the political and official domain has hardly been at a high level in Latvia. I believe, however, that political will and time can change this and good sign is that some initiatives have already been implemented.

Tonight I would like to talk about particular instruments for closing the inequality gap from the socio-political point of view. This involves the Latvian social insurance system as a cornerstone of social security, the system of social assistance that provides short-term support in the case of an individual crisis as well as social services.

When Latvia regained its independence twenty years ago, it had to build a new social security system. At its foundation we put mandatory social insurance based on the encompassing model, which is recognized by contemporary researchers as a successful instrument for reducing social inequality. The Latvian system of social in-

urance requires the participation of each and every person by making payments toward his or her future pension, as well as cover risks of illness, maternity or unemployment. At the same time, each participant in the system takes part in forming a social security net for people who, as a result or the change in the political-economic system, have not been able to make payments. I would like to remind you that, as we restored Latvia's independence, we assumed care of people who didn't have time to accrue personal guarantees in the new social insurance system. These people have worked conscientiously all their lives, they have raised and educated us, and it is the duty of the society to provide them with pensions.

Our social insurance system has been deliberately formed to include all employees, independent of their income level. The greater the number of system participants, the greater the social budget, including the amount of financing to be divided in a solidary manner. Because of the budgetary surplus formed before the crisis, during it we could still pay social benefits and pensions, even though the number of recipients had skyrocketed and payments into the system had heavily dropped.

Today I can say with certainty that the encompassing model chosen has withstood trials by fire and water, that is, the crisis of 2009. The Latvian population had accrued about 1.5 billion euro within the system and the social budget, as opposed to the na-

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tional budget, could meet the risks that had set in.

International research shows that a social insurance system that includes the better off creates both a greater understanding about social security as such and a need for solidarity to the poorer members of the society as well as motivates an individual to increase his or her abilities in the labour market. At the same time, the encompassing model has been recognized as the most successful of all models in terms of reducing inequality, especially among the older generation. Proof is provided by countries such as Finland, Sweden and Norway, which introduced this model in the 1960s. Today these are the countries with the lowest inequality and poverty indicators in Europe.

During all independence period, the state has also been building a social assistance system whose purpose is to provide immediate support to people facing short-term difficulties. At this time, which could be named as post-economic-and-financial-crisis but which has yet to mark the end of the social crisis, we have to admit that social benefits and services have not yet been effectively adjusted to the new needs of the population. The crisis has also given rise new problems in our everyday life, for instance, the dependence of some individuals on social assistance, which requires other, more complex solutions. Why is change in this area not happening fast enough?

Human needs are varied, therefore the responsibility for providing help cannot fall to a single institution: it has to be co-ordinated and multifaceted. A purposeful and clever interplay of local governments, trade unions, employers, ministries, separate individuals and other participants is necessary.

It is common knowledge that the social security systems, functioning as they are at least since the end of the Second World War, are most effective in the old democracies. Latvia is only half-way there, and the understanding in our society about the interaction among all policies has yet to mature. The longer the democratic tradition in a country, the higher developed is its non-

governmental sector. The more developed it is, the more unite the society and the broader the representation of its interests. These non-governmental institutions help the society develop an understanding of the need for solidarity and civic responsibility. They represent a variety of interests and are capable of functioning independently of political forces and assume the role of overseeing various processes. Let me mention just one example from my everyday life: in the work of the State Social Insurance Agency, a society-based supervision council would be of great help, so that the politicians would not use the social insurance system before an election to manipulate the largest and most easily influenced electorate. Non-governmental institutions balance out the needs of different groups and prevent the politicians from giving in to temptations of populism.

We must admit that in this post-crisis period, the number of social problems has not decreased. On the threshold of the next twenty years of our democracy, we cannot afford to act half-heartedly. First, we have to increase the number of the participants in the social insurance system, thus increasing its revenue. This should be accomplished by developing the labour market, reforming the education system, educating employees, improving labour force taxation policies and certainly by enhancing each and every individual's understanding of the need for active participation in the social insurance system. Second, politicians must promote society's confidence in the social insurance system by showing that help in situation of unforeseen circumstances and solidarity with those members of the society that do not benefit from direct forms of protection depend on payments into the system. Third, we must ensure targeted social assistance to people who need it and develop the market of social services that would promote people finding work and integrating in society.

I look forward to constructive and fruitful discussions in the next few days and would like to thank the representatives of the Adenauer Foundation for encouraging such a discussion which there certainly hasn't

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been enough in our public space. Inequality and poverty can have a fundamental impact on our own and our children's future, preventing Latvian society from being truly free, creative and self-confident. I am certain that we will find the right solutions together and believe that everyone – from politicians to journalists and general public – will assume responsibility in dealing with this problem.

Thank you for your attention.