

# *The Individual, the Private Sector, and the State: A Common Responsibility for the Development of the Labour Market*

## *Introduction*

Changes in the labour market and unemployment have already been analyzed as obstacles to human development in previous **Reports**. This year's **Report** pays particular attention to the qualitative aspects of labour and the preconditions that would promote the development and improvement of individual employability and the more effective use of the labour force's potential. This chapter examines the links between the educational system and the labour market, as well as the social partnership between employers, employees, and the state. Therefore, this chapter examines two sets of issues. First, it analyzes the extent to which the individual is prepared to adapt to the demands of the labour market, and whether today's employers and employees are behaving in the interests of both the labour market and of sustainable human development. The second set of issues is tied to institutional reforms, which are necessary to guarantee the balanced development of the labour market and co-operation between various social partners.

Currently, the labour market in Latvia is unbalanced in a number of ways. Long working hours for those who are employed contrast with limited opportunities to find a job for those who are not. There are inequalities in access to employment between men and women, between regions, and between those who speak Latvian and those who do not. The low level of wages does not correspond to the heavy demands of work. There is a mismatch between employers' demand for skilled employees, their current availability, and the educational system's capacity to produce skilled employees for the professions that are promising and in high demand. There is also a contradiction between the growing market pressure for a mo-

bile labour force and the inability of many employed people to be "mobile" both in their jobs and their careers. Modern economies are dynamic, but stable and secure employment, as well as decent working conditions, understandably remain very important to people.

Two challenges face the Latvian labour market. On the one hand, the transition to a market economy requires serious structural and institutional reforms, which are common to all the countries in transition. On the other hand, the Latvian economy, labour market, and educational system must adapt to the increasingly rapid process of globalization.

The chapter analyzes not only the structure of the labour market, but also work-related values and changes in the forms and types of employment. In today's increasingly competitive environment organizations are becoming unstable, and this has an impact on the way people work: they work more and more, often managing more than one job, changing jobs, and moving from regular employment into short-term project-type work. In these circumstances employment is no longer long-term and secure, but instead it often becomes fragmented. Today's way of working provides not only ways in which to prove oneself, but also creates insecurity and stress. Risk has become part of working. This means that people must constantly keep themselves in top form in order to retain their competitive edge in the labour market. As the following shows, this often happens at the expense of one's health, family, and free time, in reality narrowing and even damaging other important opportunities in life. The remuneration for this work is often low, and even if money can be made, this does not always compensate for personal losses. All of these contradictions, if they are not limited and balanced, can become obstacles to human development.

## Box 3.1

### ***The Impact of the Russian Crisis on Latvia's Labour Market: The Case of Salacgrīva***

**Before the Crisis:** 3,675 people lived in Salacgrīva at the beginning of 1998. The official unemployment rate was very low: in August 1997 only 17 of the town's 1,991 economically active inhabitants were without work. Such favourable employment conditions were the result of a flourishing business environment and the activities of the local port. The Brivais Vilnis cannery employed 950 workers, while the Salacgrīva – 95 cannery and port services company employed around 550. More than 300 people commuted from nearby towns and cities – even from Riga – making this small town a net importer of labour. In 1997 Brivais Vilnis produced 55 million cans of fish, which were mostly exported to Russia. The company's turnover reached 13 million lats, of which 2 million were paid in taxes, while profit amounted to 1 million lats.

**After the Crisis:** In November 1998 canned fish exports dropped dramatically because of the Russian crisis. 670 Salacgrīva residents and 180 people from the surrounding area became unemployed. Salacgrīva-95 switched to working one shift and more than half of its workers (255 people) were laid off. "This is the most difficult decision that we have ever made. Our workers were our greatest asset, we learned so much from them," admitted the company's general director. "The fishermen who are still working with us and supplying us with fish don't know whether the plant will be able to settle its accounts in such a complicated situation, but at the moment it is their only chance to keep working." Brivais Vilnis laid off almost 800 workers. The company is certified, allowing it to export to the West, and it has received

orders, but they are not very large. The management hopes to settle its accounts with its employees in the near future, paying them their wages for September. The workers have been given the option of receiving their pay in kind – as canned or fresh fish. The enterprise's accounts have been frozen and creditors are collecting all the present income. Impress Metal Packing, a can producer, has also fallen on hard times. Its director believes that there is little hope of starting production again in the near future. The crisis in the fishing industry is also beginning to affect the town's services and trade. It even affects the farmers, who had been supplying the canneries with alder wood for their smokehouses. The town's utility services feel threatened, because they do not know if the companies will be able to pay for their services.

The laid-off workers are in shock, and in many families both husband and wife have become unemployed. People who had put their trust in the continued growth of their companies are starting to realize that they will not be able to make the payments on the goods they purchased on credit. To save fifteen lats, parents are taking their children out of kindergarten. The city government has begun handing out additional free lunches for schoolchildren. For now there are only fifteen places in the retraining courses for the unemployed. Men have a better chance of finding other work. The older residents of Salacgrīva are telling the young people to be calm. We are resilient, they say. The sea has made us tough. We have survived all sorts of times, and we will survive this too.

Until now, labour market reorganization has been understood mainly in terms of institutional reform, and society's attention has not been focused on the *qualitative aspects of labour* – the responsibilities of employers, of educational institutions, and of employees themselves. Issues concerning the quality of work and of the work force have been left in the shadow of macroeconomic reform. Therefore many employed people as well as job seekers do not understand what is taking place in the labour market, how it is developing, and how this applies to them as they shape their own personal employability. As a result, a significant part of society continues to link its economic failures and aspirations with state economic policy and does not want to take the initiative and responsibility for its own welfare, career, and ability to compete.

### ***Changes in the Labour Market***

At the beginning of the nineties the rapid fall in production and the structural changes in the national economy placed significant pressure on the labour market. The number of people who had lost their job or were unable to find employment rose significantly. As a result the number of job seekers among the economically active population, the level of poverty, and the extent of social exclusion all remain high. A survey by the Latvian Employers' Confederation showed that the labour market may change even more in the near future as demand for workers in the agricultural and industrial sectors falls (due to the modernization of production) while demand in the service industries and construction sector grows.

In the coming years the situation in the labour

market could be aggravated by the development of new technologies on a global scale and the limited financial potential for Latvia's businesses to take advantage of these developments to increase their own competitive advantage. If this does take place, Latvia is threatened by long-term technological backwardness (see Chapter 4). As Latvia has liberalized trade with the EU countries and joined the World Trade Organization, local industries are faced with increased competition. As a result, some sectors of Latvia's economy may no longer be competitive, and many people could lose their jobs. The instability of the global economy and, in particular, the economic crisis in Russia also affect both employers and employees in Latvia negatively.

According to Central Statistical Bureau data, 49% of Latvia's permanent residents were economically active in 1997, and 85% of that number were employed. It should be pointed out that since the beginning of the nineties the number of people who are economically active has decreased considerably, by almost 200,000 (from 1,416,300 in 1990 to 1,217,500 in 1997) (see Figure 3.1). The proportion of economically active people in the population has also fallen. 34% of the labour force was employed in the public sector in 1997. In the last few years the structure of the labour force has changed as the number of employees decreased (by seven thousand) and the number of self-employed people increased. Thus, in November 1995 37,200 men and 20,300 women were self-employed, but the number of self-employed men had risen to 53,200 and the number of women to 43,900 by November 1997. During this time the unpaid employment of family members and relatives also increased (from 46,600 in 1995 to 59,700 in 1997).

Pay in the private sector is higher than in the public sector. The situation is similar to that in other countries: by paying higher wages the private sector can always attract workers and choose them from a larger applicant pool. In organizations dependent for funding on the state budget pay increases are entirely dependent upon the size of the state budget. These budgetary organizations are now planning the wider implementation of an "equal wages for equal work" policy. This trend is reflected in several documents adopted by the government in 1998 and is in line with EU directives and the Conventions of the International Labour Organization.

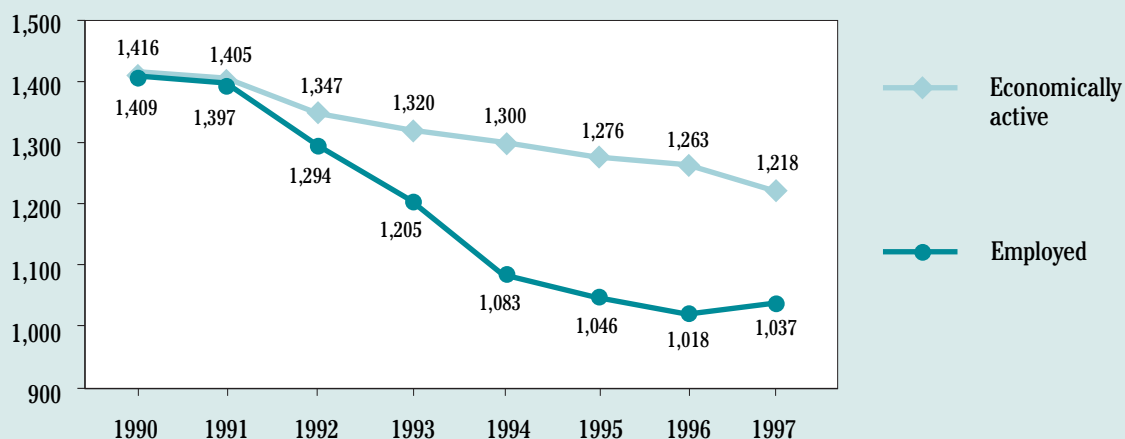
An examination of labour relations reveals examples of discrimination, most often on the basis of gender and age. This is particularly noticeable in hiring practices. Newspaper, radio, and TV advertisements of vacant jobs often state that only men or only women need apply, regardless of the applicant's qualifications or other criteria necessary to fulfill the job requirements. Advertisements with specific age limits, stating, for example, that people over 35 need not apply, are also common. In an attempt to address this problem, amendments have been drafted to Latvian labour legislation. Leading media are also for the most part trying to limit the publication of this type of advertisement.

### *Work as a Value*

As various surveys show, the majority of Latvia's population tends to identify with traditional Western

*Figure 3.1*

**Changes in the Number of Economically Active People and in the Number of People Employed, 1990 – 1997**



cultural values. Nevertheless, the Soviet system has strongly influenced the values of many people. Latvia's economic and institutional structure has been transformed over the past ten years, but society's values, as already analyzed in the previous chapter, have been much slower to change, and the values associated with work correspond poorly to present economic realities. The younger generation is actively and successfully entering the labour market. They are able to adapt to the demands of business, compensating their lack of experience and established social networks with their dynamic behaviour and readiness to improve their skills.

Not only the technologies of the Soviet period, but also the work habits and values learned under socialism have proven to be ill-suited to the demands of modern markets. People are not always capable of critically evaluating the reasons why many enterprises are being closed down or why workers have been made redundant. Even today a significant portion of society blames their companies' inability to compete in the market economy on national economic policy rather than on the inability of the company or its workers to adapt to market demands and withstand the pressures of competition. The results of various surveys show that respondents most often see improvements in the economy as dependent on the government's macroeconomic policies (most often understood as an active policy of protectionism). Microeconomic issues, such as the role of entrepreneurship in the economy, efficient production, workers' skills, motivation, innovation, product quality and design, are not accorded the importance they deserve.

Paternalistic interpretations of economic proc-

esses are widespread in society and could have a dangerous effect on the course of the transition period. They create favourable conditions for a statist economy and a corresponding political system with authoritarian tendencies, while providing few incentives for economic actors to deal with problems themselves, as far as their means and abilities allow.

Sociological surveys show that the population of Latvia places more importance on the value of work than do Western respondents, even though for both groups family and work are the most important values in their lives. For the Latvian population friends, acquaintances, and leisure rank lower on the scale of values (Figure 3.2).

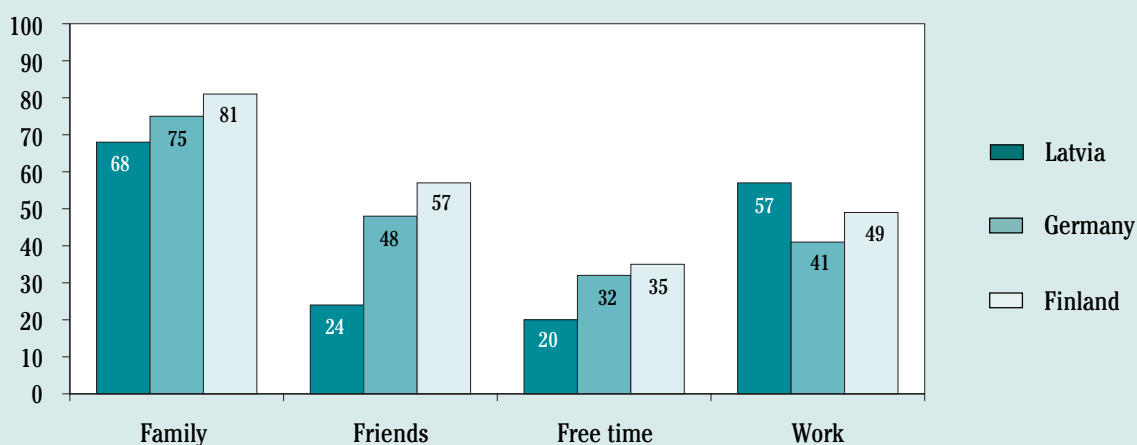
This orientation toward "the working life" is characteristic of countries that have not attained a high level of welfare, where individuals are primarily concerned with satisfying their basic material needs, subordinating other social aspects of their lives to this primary goal. Surveys show that Latvia's inhabitants feel the social value of their work. This feeling is in marked contrast to their evaluation of the low wages they receive for their work. This is a serious source of dissatisfaction with the situation regarding work.

As the labour market becomes more dynamic, people's careers become increasingly important in their lives. Soviet ideology denied that a career could be a value worth striving for. It did not fit well with the dominant system of collectivist values and was considered a sign of wanting to stand out. The practice of changing jobs was criticized and obstructed in all sorts of ways, and society developed a negative attitude toward "careers." People's curricula vitae were seldom based upon their own personal competencies and abili-

Figure 3.2

### Work and Other Values

Responses to the question: "Which of the following are of great importance in your life?" (percentage of all respondents)



ties, but depended on their political reliability and on whether they were members of the Communist Party.

According to the survey “Democracy in Eastern and Central European Countries” (1998), the situation has changed in the past few years and most people are now willing to discuss careers without their former prejudices. Nevertheless, career development opportunities are still not among the most important factors influencing one’s choice of a job (see Figure 3.3).

Almost every fourth respondent says that recently his career has been developing successfully. Only half as many see their career as developing unsuccessfully. When asked to state their reasons for changing jobs, the most common responses include the opportunity to work at a better job somewhere else, unsatisfactory working conditions and low salary, or the desire to start up one’s own business. Only 15% of respondents report the liquidation of their company as the reason for changing jobs. Factors which were rated most important for a successful career included a good education, followed by diligence and hard work, personal contacts, and access to capital. Less frequently mentioned factors included a willingness to take risks, ethnic background, family status, and political affiliation (see Figure 3.4).

### *Working Hours*

According to the Central Statistical Bureau’s Labour Force Survey, 10% of the labour force spends an average of 9 to 11 hours every day working at their main job, while 12% work an average of 11 or

more hours daily. In other words, every fifth worker works overtime at their principal job. These numbers are particularly high among employers, the self-employed, and among those who work without pay in their own families. 5% have taken on another job, but 6% are looking for additional work. The number of hours that people spend on these other jobs is rather large: an average of 18 hours per week. The Central Statistical Bureau’s survey included the question whether people would be willing to work more hours if that would increase their earnings. While the majority of people did not want to change their working hours, the percentage of people who would be willing to work longer hours for higher pay was also significant – 33%. Only 5% wanted to work less.

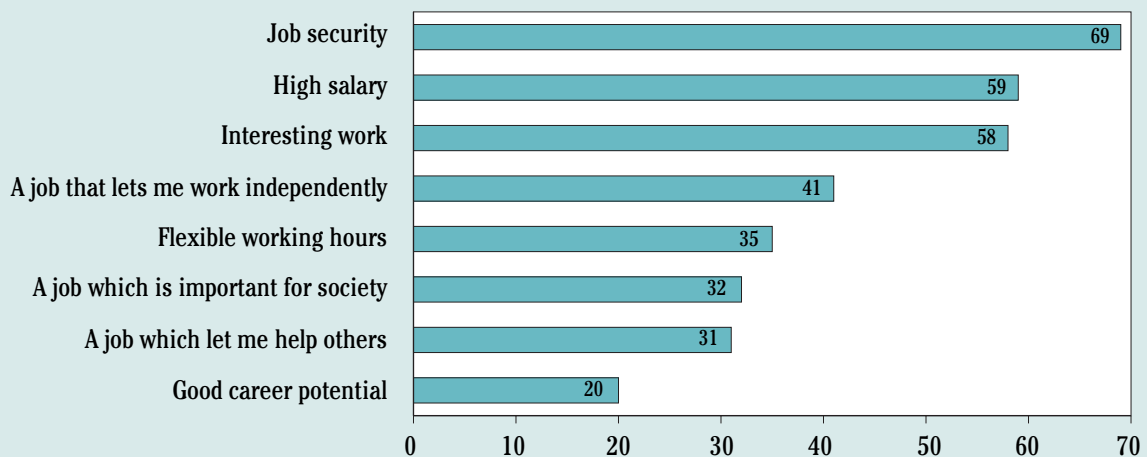
On the other hand, 13% of the labour force is working only part-time. Moreover, 63% of these people are working part-time involuntarily, either because this was the only available work (66%) or because of decisions by management (25%). This type of mandatory part-time work is most widespread in agriculture, forestry, the processing industries, and trade.

As shown by the CSB and the Institute of Economics time budget surveys, working people have very high total workloads. This is particularly true of families with children of preschool age. As a result, the opportunities for employed people to spend time with their families and children are rather limited. For example, women aged 20 to 29 devote an average of 70 minutes a day to child care (physical care, supervision, engaging in activities with children, or taking them to activities), while women aged 30 to 39 spend an average of 40 minutes per day on child care. Men from this age group devote an average of

*Figure 3.3*

#### ***The Value of Work***

*Responses to the question: “Considering work in general, how important are each of the following characteristics of work for you?” (percentage of all respondents)*



24 minutes per day to children.

On average employed men spend less than three minutes per day on personal education, while women average four minutes. These, however, are only averages. According to the survey data, people living in rural regions do not spend any time at all on personal education.

Sociological surveys show that many workplaces are currently characterized by insecurity and stress. The insecurity employed people feel on the labour market is shown well by Figure 3.5. One out of every five employed people feels that there is a good chance that within a year they may lose their job, while one in three consider this a serious possibility.

Fearing they may lose their job and their livelihood, a large proportion of employees overwork themselves and do not devote sufficient time to their health and their children. Many do not have time for improving their skills or for personal education. Businesspeople also work long hours. By making management overly centralized and concentrating decision making in their own hands, they frequently find themselves with too little time.

A result of long hours and job insecurity is stress – 37% of those surveyed feel that work is often a source of stress, 34% reported work-related stress from time to time, while 31% stated that work never caused them stress. All in all one can conclude that because of long working hours a large number of both employers and employees are not able to devote sufficient attention to their children, their education, and their health. This contradicts the principles of sustainable human development, particularly because the predominant opinion within the labour force is

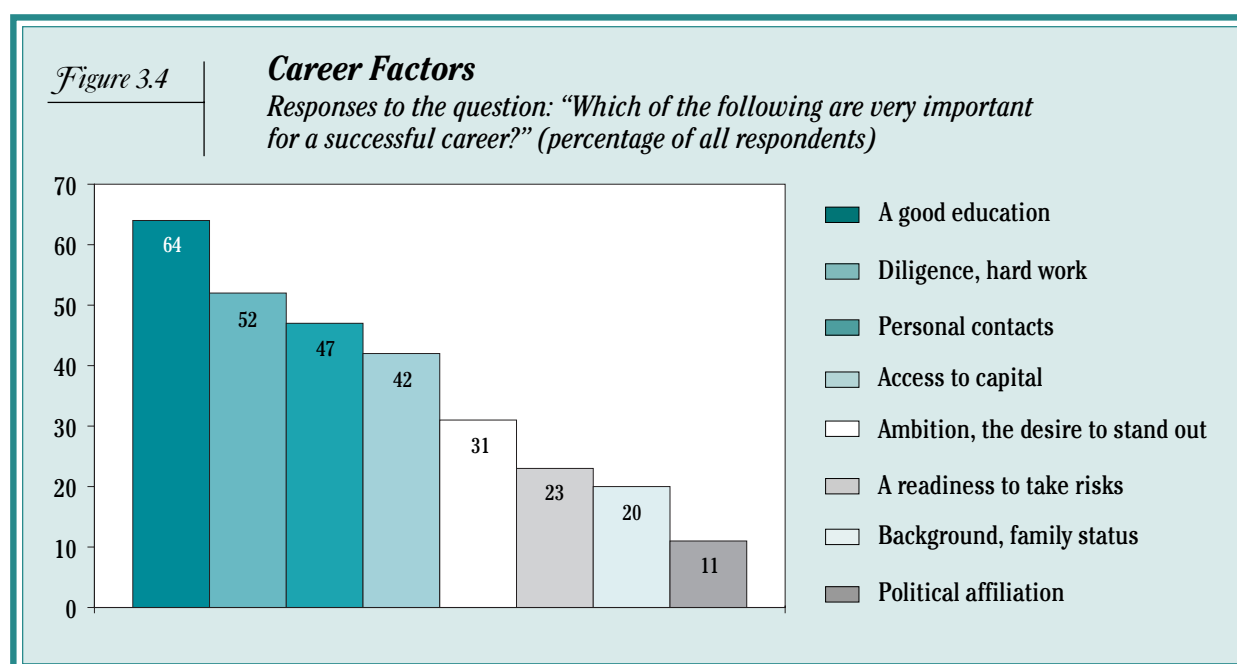
that family and leisure should receive more attention.

The long working hours of the labour force also shed light on other contradictions of the labour market: while some people are working a great deal for a relatively small wage, a significant portion of the economically active population is currently seeking work. Moreover, a very large proportion of this group has been unemployed for a long time. This indicates that a large number of people of working age are unable to adapt even to the current demands of the labour market. Therefore, in order to achieve balanced human development, employment policies need to promote activities which are not only geared towards creating jobs and promoting employability, but also aimed at improving the working conditions of current employees and reducing job-related stress.

### *Promoting Employability*

The experience of many countries shows that the professional education system plays a very important role in promoting employability. This system can prepare young people to be ready for technological and economic changes. The professional education system must give young people the skills necessary for the labour market.

In Latvia, one can obtain a secondary professional education at vocational school, crafts school, or at an institution of secondary specialized education. Latvia has a relatively wide network of small professional schools encompassing every district in Latvia except Balvi. A secondary level professional



education can be obtained in approximately 320 trades and specialities. 87% of the pupils attending these schools are between 15 and 19, and in Latvia 24% of this age group gets their education at these schools. 72% of those accepted to these schools have a primary school education, while 17% have also completed high school. In the 1997/1998 school year a total of 80% of those who applied to these schools were accepted. Most of the students study in the day programme. Currently 92% of these schools are run by the national government, 5% by local governments, and only 3% are privately run.

As was already pointed out in **Latvia Human Development Report 1996**, the professional education system is still divided up between various ministries. An effective three-way co-operation mechanism has yet to be developed between representatives of employee interests, committees representing various trades or sectors of the labour market, and educators. The narrow specialization characteristic of professional education programmes becomes an obstacle for graduates who enter the labour market, because they have difficulty changing their specialization according to market demand. The main weakness of the current system is that it gives no guarantee of a quality education. There are many professional schools with small numbers of students, obsolete equipment, and outdated teaching methods. It is difficult to attract young, qualified teachers to these schools, and it is a waste of resources to keep these institutions going.

The development of the labour market is negatively affected by the fact that many young people leave school without having gained a full professional education or a diploma. As a result, their employability

and career opportunities are limited. Statistics for 1997 show that 56% of those finishing ninth grade that year went on to high school, 26% went on to vocational schools, 14% to institutions of secondary specialized education, and 4% did not continue their studies. In their turn 63% of those finishing twelfth grade went on to higher education, 6% to vocational schools, 7% to institutions of secondary specialized education, and 24% did not continue their studies. This means that more than one-third of these young people (counting those who dropped out or were expelled from school) are not obtaining any sort of professional education. Young people who have not obtained an education find it difficult to enter the labour market, as they lack the necessary knowledge and skills. An analysis of the unemployment rolls also shows that the majority of the unemployed has only a high-school education without any professional qualifications.

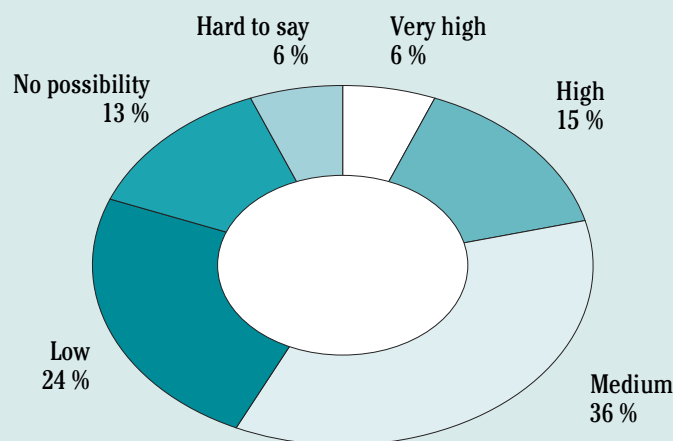
In the period from 1991 to 1997 the number of students who got an education from vocational or specialized schools decreased significantly. 9,700 students graduated from institutions of secondary specialized education in 1991. By 1998 the number was down to 4,000. The number of students graduating from vocational schools during this period decreased from 18,000 to 7,700 (see Figure 3.6). In the past years there has been a significant increase in the number of students in programmes focusing on business, service trades, transportation, and communications, while the number of students specializing in farming and forestry has fallen.

Every year many students are expelled or drop out of school before completing their studies. Between September 1996 and September 1997 this happened to 13.3% of vocational school students and 11.7% of

*Figure 3.5*

**Employees Rate Their Chances of Losing Their Job**

Responses to the question: "How great is the possibility that you may lose your job within the next year?" (percentage of all respondents)



students from institutions of secondary specialized education. This happens most often in the first year of school. In vocational schools, 54% of those who were expelled or dropped out were first-year students, while in institutions of secondary specialized education the figure was 51%. The fact that more than 50% of these students are in their first-year indicates that many of them made a mistake from the very start in choosing a profession.

The Career Counselling Center is working in the field of professional orientation and counselling, advising students and unemployed people on questions of education and career choice. This centre also develops programmes and co-ordinates activities having to do with professional orientation. The Career Counselling Center is active in Rīga and five other cities: Daugavpils, Liepāja, Līvāni, Rēzekne and Valmiera. The centre has a mobile advisory group that travels to rural schools to provide consultations. The centre plans to expand beyond the five regional branches and establish consultative departments in every district in Latvia.

One indicator of the quality of professional education is the employment rate of graduates. Of all the students of vocational schools and institutions of secondary specialized education who graduated between 1993 and 1997, 36% are currently unemployed, 34% are employed in a different occupation and only 30% are actually working in the profession for which they trained. Those who are employed in their chosen profession are mainly graduates of transport and communications programmes (55% of all transport and communications graduates), while graduates of programmes preparing salespeople are the most likely

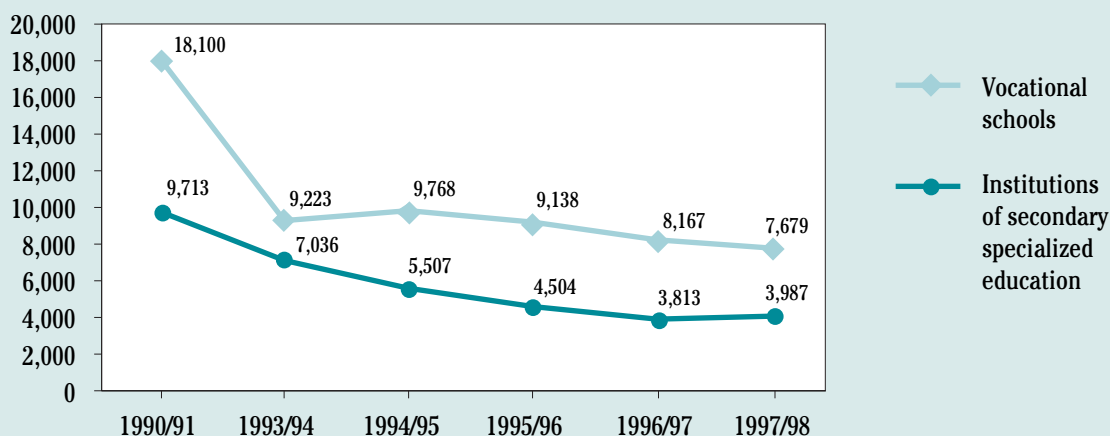
to be unemployed (62%). The fact that a large proportion of graduates are not employed in their chosen profession or are unemployed points to failings in the professional education programmes. They should diversify by providing broader programmes and training in a wider range of skills useful in the labour market. This would increase the employability of their graduates.

Unfortunately, official statistics do not reflect the practical difficulties that befall many vocational school graduates who are unable to find work in their own specialty or elsewhere. In comparison with 1996, the number of professional education graduates officially registered as unemployed has significantly decreased. However, one of the main reasons for this decline is the January 1997 amendment to the Law on Mandatory Social Insurance for the Unemployed. According to this amendment, people who are not covered by the social insurance system are not entitled to unemployment benefits, and this includes graduates of professional training schools. Graduates of vocational schools and institutions of secondary specialized education who cannot find work are not allowed to register as unemployed, which is discriminatory and points to the state's lack of concern for the problem of unemployment among young people.

Young people's employability should be developed by getting business more involved in professional education. Professional educational institutions should co-operate more with business associations – the Employers' Confederation, the Latvian Chamber of Commerce and Industry, The Latvian Chamber of Craftsmanship and various other associations. This could be done by involving employers in the development of

Figure 3.6

### *Number of Graduates of Vocational Schools and Institutions of Secondary Specialized Education*



Box 3.2

### **The Career Counselling Center**

The Career Counselling Center advises students, helps them gain an understanding of their own interests and skills, acquaints young people with the requirements of and the opportunities offered by vocational education. The centre's goal is to encourage students to make educational and professional choices for themselves. Every year the centre has the capacity to consult approximately 14% of all the students finishing grades nine and twelve. Others making use of the centre's counselling services include vocational students, university students, the currently employed, and unemployed job seekers.

In 1997 the Career Counselling Center assisted 7,000 people leaving school and 2,407 unemployed people. However, that is not enough to make up a comprehensive policy for promoting professional orientation. Currently only 86 of every 100 students leaving school receive professional career counselling, despite the fact that such services should be available at least once, free of charge, to every graduate.

educational standards. Over the past few years various employers have participated in the development of educational programmes, in the final examination process, and in the accreditation of professional education programmes. In order to guarantee uniform standards of certification, the establishment of practical training and examination centres has begun. Nonetheless, this co-operation between schools and employers is still weak, as there are no formal regulations governing employer involvement in programme development, certification, or in final examinations. For now relations between schools and businesspeople are based mainly on personal contacts.

Some of the main problems for professional education schools are their inability to guarantee quality practical training for students, a lack of equipment on which to train them, as well as a shortage of qualified instructors. Therefore schools try to establish a dialogue with employers who would be willing and able to provide students with practical training in potential places of employment. Some employers are ready to organize training at their companies. This is already taking place in many professions, for example, with waiters, cooks, construction workers, and automobile mechanics.

At the moment businesspeople who are willing

to support professional training receive nothing in return. In order to promote the employability of young people, legislation should be introduced providing employers with tax breaks for supporting professional education.

Higher education plays an important role in the development of employability. State investment in the development of higher education must be evaluated critically. Funding per student in Latvia is on average six to seven times less than in OECD countries. In 1997 the funding for higher education from the state budget was only 22.6 million lats or 0.74% of GDP. This proportion is clearly insufficient to give students a modern education and attract young specialists to the teaching profession (see Box 3.3). The contribution of private capital to the funding of higher education in Latvia is small (and the situation is similar for science and research – see Box 4.4). In 1995 private funding made up only 8% of total funding for higher education (compared to a figure between 15 and 20% in Ireland and Spain, 46% in the USA, and 60% in Japan).

In 1997 there were 264 university students per 10,000 inhabitants in Latvia. Young people's interest in a university education has grown considerably over the past years. The number of students grew from 37,500 in 1993/94 to 64,700 in the 1997/98 school year. The majors which students choose have also changed significantly. Increasingly students want to study social sciences and humanities – economics, business management, law, psychology, international relations, and foreign languages. They also show considerable interest in sociology, political science, and tourism management. On the other hand, many formerly popular programmes in the natural sciences and engineering are attracting fewer and fewer applicants.

The government-initiated reform of higher education and science has not managed to solve several very serious problems in the system of higher education. The essence of these problems is the inadequate and uneven quality of education and the sector's inability to react to the pressures for growth created by young people's desire to study. As a result more and more new institutes of higher education are being founded and the old universities are expanding without effective internal reform. The market is coming into higher education more rapidly than higher education can raise its standards. At the end of 1998 there were fourteen private institutions of higher learning in Latvia, but only four of them are accredited. Many of them use Russian as the language of instruction, and young Russians who do not know Latvian well enough to enroll in the state universities attend these private institutions. Their quality is often open to question. The government has ignored these prob-

lems, but many teachers are happy to earn money on the side by lecturing at these institutions.

Many schools and universities are attempting to expand programmes that charge fees. In the 1996/97 academic year 44% of students were paying for their education themselves. However, tuition fees do not guarantee quality and the product many students receive for a fee is just as bad as what the students sitting next to them get for government money. Moreover, programmes charging fees are generally the relatively less expensive humanitarian programmes, which cost less to teach because they do not entail expensive research or laboratories.

Even though government financing for higher education is insufficient, universities must also assume a share of the responsibility for their inability to invigorate their teaching staffs and modernize their programmes, as well as for the slow pace of university reform. Universities administer their budget subsidies, tuition fees, and real estate autonomously, but this income is not always channeled into improving the quality of education.

Decisions about the number of students to accept into various programmes of study are made by the universities themselves in reaction to the social prestige of a given programme. This is a flaw in the university system, because these decisions are more likely to be influenced by young people's desires than by choices made on the basis of good professional orientation and an understanding of trends in the national economy and the labour market. The most important task of today's university system is to prepare specialists and scientists who can be competitive in the European Union and in the global context by offering them, in an optimally short period of time, the education and internationally recognized qualifications that are necessary in the labour market and that also reflect their own value system and interests. This goal has been achieved only in part.

### *Enhancing Employability*

The present educational level of Latvia's population (30% of the population has a primary education or less, while 24% has a general high-school education) does not correspond to the level of skills that are necessary in a market economy. Latvia's geopolitical situation and its limited supply of raw materials and energy mean that the education and skills of its population will be the decisive factors in determining the country's competitiveness. Therefore, the population must be provided with lifelong educational opportunities and the chance to either improve their skills or gain new ones over the course of their working life.

#### *Box 3.3*

### ***Aging University Academic Staff***

Approximately half of the academic staff of Latvian universities have doctorates or habilitated doctorates, which is a high number even by Western standards. However, the development of higher education could be held back by two serious problems: the aging of the academic community and the discrepancy between professors' academic specialties and the prospective future needs of Latvia's economy. In 1998 the number of university lecturers over 60 was 17 to 19% more than in 1997. Almost half of all professors (55%) are older than 60. Moreover, 32% of professors are older than 65, and according to the Law on Universities, they cannot hold an elected university chair. Only about 10% of associate and full professors are younger than 40. The comparable figure in Denmark is 50%.

An evaluation of the results of the TEMPUS programme shows that the situation is critical. Analyzing 230 professorships from all of Latvia's universities, it can be seen that 65% of them are aimed at narrow segments of the natural sciences and of engineering, are not related to the needs of the labour market or to developing economic trends, and do not promote the renewal of university academic staff.

An increasing number of employers support this position because their business strategy depends on the skills of their employees. In a survey conducted by the Employers' Confederation and the Latvian Chamber of Commerce and Industry, employers said they need employees with both a solid theoretical background and practical skills. Employers expect their employees to be able to carry out their responsibilities with precision, to know how to use the equipment and technology necessary for their jobs, and to be able to make independent decisions within their area of responsibility. A large number of employers felt that, apart from good technical skills, employees must also have good communication skills. Employers also expect new employees to be computer literate. The demand for employees who know foreign languages is increasing. The first and most important foreign language mentioned is English, with Russian mentioned as the second most necessary language.

Another survey of businesspeople (see Chapter 4) confirms these findings and also points to the support employers need. What employers want most is assistance in educating their employees about taxation, legislation, accounting, marketing, and financial man-

agement. Less often employers mention the need for help in teaching their employees computer skills, new technologies, business planning, and import/export issues.

Employers' wishes correspond to weak points in the educational system – a lack of qualified foreign language teachers, insufficient numbers of computers in schools, lack of access to the Internet, and a lack of information technology instructors. Employer involvement in professional education is especially noticeable when contrasted with the weak involvement from the other side – from employees, even when they are involved in trade unions or professional organizations.

In 1997 funding for adult education surpassed 6 million lats. Participant fees and contributions from businesses made up 59% of this sum, 34% came from the state budget, and 3% from local governments. Approximately 120,100 people or almost 10% of the economically active population completed adult education courses. More than half of those people participated in programmes that improve employability. The most commonly sought after programmes were for raising professional qualifications. These included training and retraining for the unemployed and were attended by 22% of adult education students. 13% improved their knowledge of economics, 11% – languages, 6.8% – computer skills, 5.4% – law.

Data from the Central Statistical Bureau's research on the labour force show that 54% of those who graduated from an institution of secondary special-

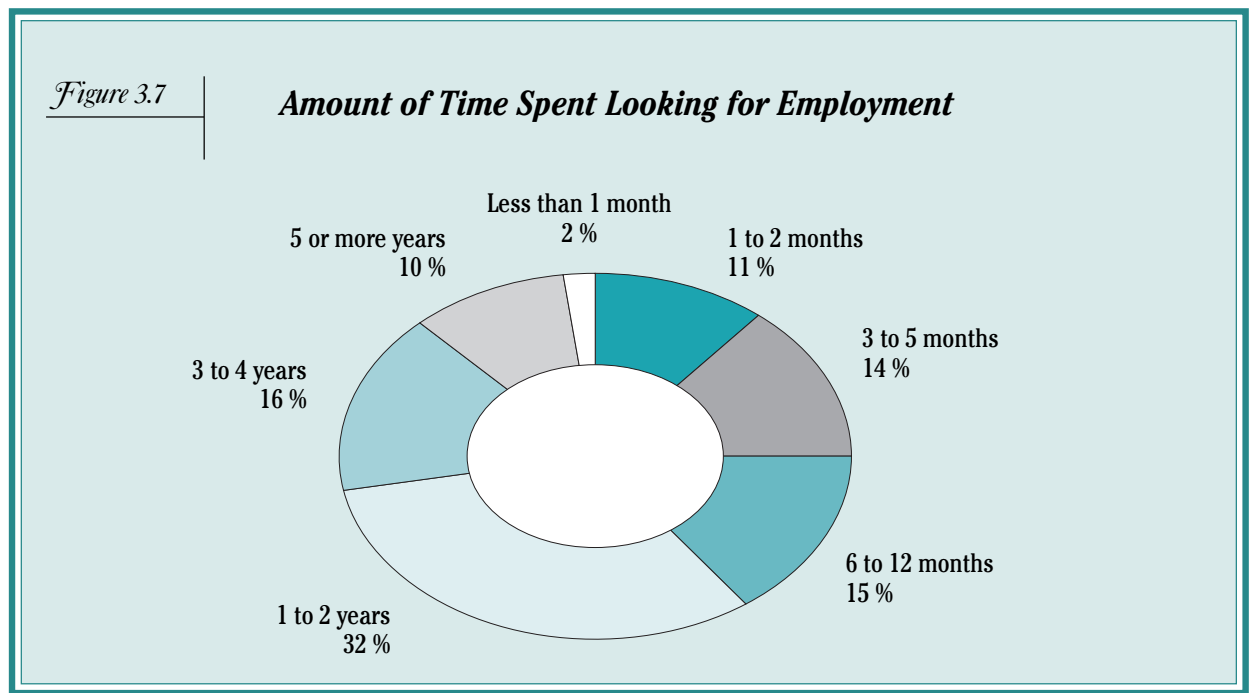
ized education or a vocational school in the last five years have attended further training courses. One-third of all graduates surveyed needed to attend courses in their own field of specialization, almost 20% required additional language skills, and another 20% needed additional computer skills.

Nonetheless, as in other parts of the educational system, the supply of adult education programmes still does not match the demands of the dynamically developing labour market or the educational needs of the population. Adult education is not available to more vulnerable groups of the population and to groups at social risk, as these people are not capable of paying for it. The adult education courses on offer in rural regions do not correspond to what residents want. Without sufficient participation from local governments it will be difficult to find competent organizers and instructors for adult education courses or to provide adult education centres with the necessary equipment and technology.

### *More Effective Use of the Labour Force's Potential*

In 1997, 14.8% of the economically active population of Latvia were unemployed job seekers.<sup>1</sup> Research shows that one in four job seekers has been

<sup>1</sup> Job seekers are people 15 years or older who during the week when the survey takes place are not employed anywhere and are not on a leave of absence, have actively sought work during the previous four weeks, and who are prepared to start work immediately (within the following two weeks) if they find a job.



## Box 3.4

*The State Employment Service*

The objective of the State Employment Service (SES) is to organize training courses for the unemployed and to help them find work. The work of SES was analyzed in the 1995 **Report**. Since then SES has been quite successful in carrying out active employment policies. In 1997, SES sent 8,000 unemployed people (9% of the total number of unemployed) to be retrained or to improve their skills. Unemployed people aged 20 to 40 are most likely to be interested in establishing or improving their professional qualifications. In 1998 SES announced a tender for institutions that could offer training courses for the unemployed, as a result of which 71 educational institutions were chosen. An example of successful cooperation between SES and employers is the organization of training courses for the unemployed on the basis of employer requests. For example, in the first nine months of 1998 garment sewers were trained for a

number of sewing enterprises and salespeople were trained for work in stores.

SES employees who work with the unemployed have concluded that people who have been unsuccessfully looking for work for a long time lose interest and motivation. To help them regain confidence in their skills and future, SES created Job Seekers Clubs, which provide psychological and legal assistance to people who have been looking for a job for a long time. The activities organized by the Job Seekers Clubs have been very popular among the unemployed (they were attended by 3,500 unemployed people in the first half of 1998). Activities organized by the Job Seekers Club are free of charge. Many unemployed people cannot attend events organized by the Job Seekers Clubs because of the cost of transportation from their home to the place where the event is being held. This is also an obstacle to finding a job

unable to find work for three or more years, and 31% has been unable to find work for one to two years. The CSB survey shows that the average length of time that the surveyed job seekers have been out of work is twenty months. In November 1997 more than half of all job seekers had been looking for work for more than twelve months (see Figure 3.7). These long periods of job seeking indicate that a certain part of the population is slow to adapt to the demands of the labour market and to learn new skills and that job seekers are not mobile.

The competitive advantage of certain demographic groups within the labour market is highlighted by the number of people within these groups who are looking for work. In 1997 almost 38,000 job seekers were young people between 15 and 24, that is, one in five job seekers in Latvia was a young person. While job seekers make up between 11 and 15% of other age groups, in the 15 to 19 age group they account for more than one-third. The fact that 45% of job seekers have no work experience underlines the difficulties involved with entering the labour market.

77,000 people seeking work in 1997 had no previous experience. 12,600 of them are without work after graduation or after having left school. This indicates that the education system and the labour market are not in balance.

Comparing economically active people with different levels of education, it can be seen that those with either a university or a secondary professional education make up a smaller proportion of job seekers. According to the results of labour force research, the proportion of job seekers is particularly high in cities. Latvia's eastern regions have the most unfavourable labour market situation of all the rural areas (see Map 3.1). More than half of all job seekers with work experience lost their jobs due to the liquidation of their place of work or to employee layoffs.

Although Latvia does not have a high number of registered unemployed people, the fact that in 1997 only one-third of the 91,300 registered unemployed people received unemployment benefits must be critically examined.<sup>2</sup> The percentage of women (59%) and young people among the unemployed is fairly high.

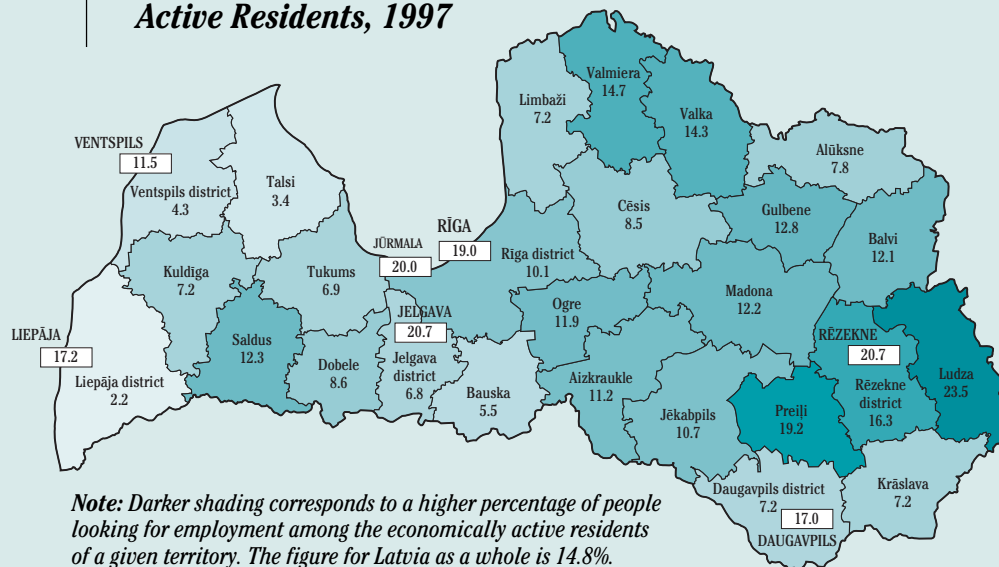
<sup>2</sup> Unemployed status is granted to those individuals who:

- are citizens of the Republic of Latvia or those with permanent resident status
- are of legal working age
- are capable of working
- for reasons beyond their control are not receiving wages or other income in excess of the minimum wage
- are not engaged in business
- are seeking work
- are registered with the State Employment Service
- check in at the State Employment Service at least once a month

Many job seekers do not register with the State Employment Service not because they have found work but because their eligibility for unemployment benefits has expired.

Map 3.1

**People Looking for Employment as a Percentage of All Economically Active Residents, 1997**



Moreover, as already mentioned, a significant number of young people cannot register as unemployed.

The results of the labour force survey show that the main ways people look for work include registering at the State Employment Service (27%), reading job advertisements (24%) and through family and friends (22%). A significant number of job seekers have directly approached prospective employers (15%) or have turned to private services for assistance (8%). Few job seekers place their own advertisements in the newspaper, attempt to set up their own company, or start working on their own.

With the help of the State Employment Service, 8,324 job seekers found work in the first eight months of 1998. That is 12% of the unemployed people registered with SES during this period. Job seekers are directed only to those employers who have registered job vacancies with SES. Unfortunately, SES does not have data on whether employees who have found a job with the assistance of SES remain at these jobs and for how long.

At present, forty-seven companies have received a licence from the Ministry of Welfare to help people find work in Latvia, and four have received a licence to help people find work abroad. However, there is no information on how many people have found work with the help of these organizations. The mass media play a relatively large role in spreading information about available jobs. As shown in a survey of the unemployed, the mass media rate second only to recommendations from friends and acquaintances as a means of finding work. Nonetheless, the unemployed have also sometimes been disappointed by job offers

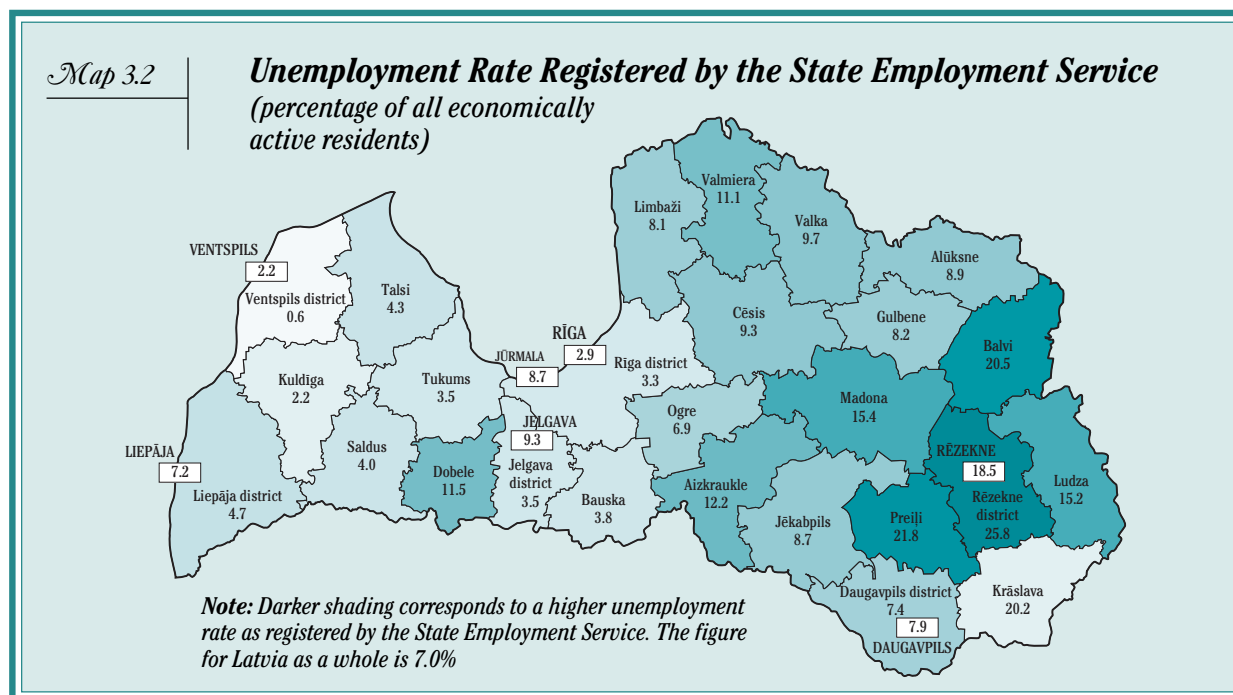
found in the mass media because they have become victims of fraud.

An analysis of the factors which have helped people find work leads to the conclusion that presently there is insufficient co-operation between employers and the State Employment Service. Employers often advertise jobs in the mass media without informing SES, despite the fact that they are obliged to do so by law. This is because employers wish to recruit their employees from the qualified specialists who are already employed, as opposed to hiring the unemployed. It would be useful to organize meetings between employer associations and SES more often, in order to discuss how to expedite the process of bringing together employers and potential employees and how to facilitate employers' searches for qualified employees.

Both the large number of job seekers and the length of time they have been without work lead to the conclusion that national employment policy in Latvia needs to be more active and to take advantage of the experience of other European countries.

### *The Development of Social Dialogue*

Immediately after the reestablishment of independence, many people, including politicians, did not trust the institutions of the former regime, including those which in a democracy and a market economy could fulfill important social functions. Labour unions underwent significant changes during this period,



losing many of their former privileges and property. Membership decreased rapidly. In the initial phases of the transition period labour union activities were ineffective and workers withdrew their support, even though at the time their need for protection was great. Even now, trust in the labour unions is not high (see Figure 3.8).

Currently approximately 30% of all employed people belong to a labour union. Thanks to regular membership fees, labour unions are able to support a staff whose responsibilities include maintaining contacts with members, society, employers, and government agencies. After the merger of twenty-four sectoral labour unions in 1990, the Free Trade Union Confederation of Latvia is currently the largest trade organization with 258,000 members and 3,354 local chapters.

For their part, after the forms of property and the legal status of companies became diversified, employers gradually began to organize as well. With the material and moral support of employer organizations in other countries, they created their own employer associations. The largest employer organizations include the Employers' Confederation of Latvia (uniting companies employing 458,000 people) and the Latvian Chamber of Commerce and Industry (see the analysis in Chapter 4). On average, the population trusts employers more than it trusts labour unions, and almost half of the population trusts businesspeople to a greater or lesser extent.

The Employers' Confederation and the Free Trade Union Confederation of Latvia engage in cooperation, and these organizations are the official

employer and employee representatives in the Three-way Consultative Council of Employers, the State, and Labour Unions. The Free Trade Union Confederation and the Employers' Confederation have signed a general agreement on social partnership, which includes the provision that every year the two sides will come to an agreement on the minimum monthly wage, using the inflation rate as a point of reference. The times and procedures for periodic discussions are also regulated.

Collective agreements are also the result of two-way consultations. Many collective agreements were signed at the beginning of the nineties, particularly in large industrial enterprises. However, in the course of time employees' demands for collective agreements diminished, even though they have a legal right to ask for such an agreement. According to the data for 1997, 1,355 collective agreements, covering 212,058 workers, were in force in Latvia at that time. Collective agreements are usually signed in enterprises where there is a labour union. In enterprises where labour is not organized, workers do not take advantage of their right to demand a collective agreement. As a survey of small and medium-sized enterprises by the University of Latvia Institute of Philosophy and Sociology revealed, only 15% of employers surveyed have signed such collective agreements, 9% plan to sign them in the future, while 65% of the businesspeople surveyed have not signed and do not plan to sign such an agreement. This points to the fact that in many enterprises there is no process for harmonizing the interests of workers and employers. This contradicts the principles of human develop-

ment, as it creates a situation where employees can be deprived of their rights.

One of the most important problems in this area is the resolution of individual and collective labour disputes. Individual labour disputes are supposed to be reviewed either by the courts or by specially constituted labour dispute review commissions, but no procedures have been worked out for the resolution of collective labour disputes. This must be done as soon as possible. It is true that in 1998, as the result of social dialogue, a law on strikes was passed. Thus the last resort of collective labour disputes became regulated by law. Nonetheless, "less serious" disputes also require some sort of regulation. A survey conducted by Baltic Data House shows that human rights are most often violated in the area of employment, which indicates that there are serious problems in employer-employee relations. However, much could be accomplished not only by legislation, but also by the improvement of industrial relations, especially through principled and democratic dialogue and harmonization of interests.

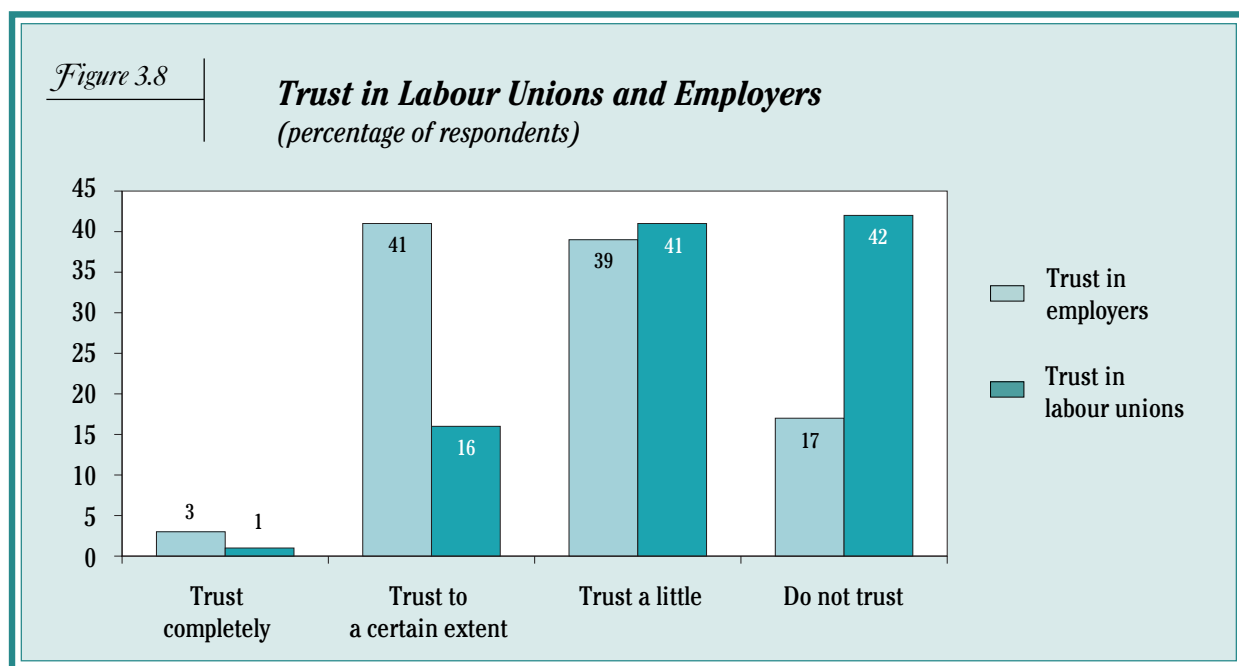
In practice current legislation does not motivate employers to establish labour dispute commissions in companies with fewer than 15 people working on a contract basis. Such small enterprises make up 75% of all the companies in Latvia. Thus, employees at small enterprises are the most vulnerable, and unfortunately, this includes the majority of the labour force. It is also the case that often workers themselves do not take the initiative in making labour dispute commissions part of an enterprise's institutional framework. Thus Latvia is failing to fulfill its international obligations under the human rights documents to

which it is a signatory. These agreements stipulate that independent institutions should be created for reviewing disputes. Often the members of labour dispute commissions, fearing a negative response from the employer, purposely do not satisfy the rightful demands of employees.

The courts are overburdened, so plaintiffs often have to wait three months or even a year before their labour complaint is heard. During this time the person is often without income and cannot hire a lawyer. On the other hand, the delays in hearing these cases significantly increase the total back pay received by a plaintiff who has been illegally dismissed and then reinstated by the court. Thus, employers also suffer losses because of the slow and overloaded court system.

The number of cases related to issues of labour law has increased over the past three years. For example, complaints related to wage issues increased from 1,206 in 1995 to 1,785 in 1997. In this situation there is a definite need for an institution that could review disputes before they reach the courts or that could deal with labour dispute arbitration itself (a labour court or a labour commission). This is especially important given that Latvian judges have not specialized in labour disputes and many people have psychological and financial barriers that prevent them from turning to the courts. The State Labour Inspectorate, which received 1,166 complaints in 1997 and 702 complaints in the first half of 1998, cannot deal with many of these issues because they fall under the jurisdiction of the courts.

The situation described above highlights a number of complex problems that can be addressed



only with the support of society as a whole and with the active involvement of employee and employer organizations in the search for an optimal solution. The most significant problems include reducing unemployment, strengthening employer and employee organizations, raising the prestige of labour unions, and promoting their active involvement in defending workers' rights. The fulfillment of contractual obligations and the quality of labour relations must also be monitored. A Labour Code should be drafted and Labour Courts should be established.

The labour unions in Latvia have been aware of these problems for some time and are working to develop solutions. Thus they retain the opportunity to get involved in the decision-making process, to attract new members, and to reclaim old ones who up to now had been put off by the labour unions' inability to modernize and to fight for employee rights under new circumstances. The new model and social role of the labour unions seems to be more effective: labour unions work not only to reach their traditional goals through collective bargaining, but also try to achieve wider influence on the formation of economic and social policy at the national level and to secure a presence in an ever larger number of enterprises.

A critical observer of social dialogue might ask whether any of the agreements have actually been implemented and whether we are not simply observing a pretense of co-operation. The three-way and two-way talks adopt many important decisions that are worthy of being carried out. There have also been many "gentlemen's agreements," which have achieved nothing more than a handshake. Nonetheless, it must be concluded that any decision reached by way of compromise is a step in the direction of social peace and justice, which is also the long-term goal of social dialogue.

### *Recommendations for the Promotion of Social Dialogue and Employment*

In order to develop active employment policies, research should be conducted on potential scenarios for the development of the labour market and the factors influencing this development. The effectiveness of current employment-related activities and the obstacles preventing employees from moving into the labour market must be evaluated. The employment policies of European Union countries should be studied and the mechanisms of employment policy improved, based upon examples of best practices.

In order to promote the development of the labour market, government agencies, local govern-

ments, educational and non-governmental organizations must help people understand labour market trends, microeconomic issues, and the role that employee skills and motivation play in the development of the national economy. At all levels of the educational system young people must be taught to understand the preconditions for professional and career development. The educational system must promote the development of employability related to market demands, and young people must learn how to adapt to the changing demands of the labour market. Initiative and the motivation to learn on one's own must be cultivated in the younger generation.

Society should pay more attention not only to the problem of increasing employment and decreasing unemployment, but also to maintaining a balance between work and the time devoted to family, health, and education. More attention should also be paid to the qualitative aspects of labour and employment – job safety, improving working conditions, sufficient wages, and the principles of fairness in employer-employee relations. These are important questions for sustainable human development.

From the perspective of labour market development, the fact that a large number of young people complete their schooling without having gained a professional education must be critically evaluated. This keeps them from fully developing their employability. The state should ensure that schoolchildren are not denied an education because of their material circumstances. The number of young people who do not obtain a professional education and the percentage of young people who are expelled from school before graduation should be reduced. In order to promote the attainment of this goal, Latvia should develop a professional-orientation policy and graduates should be provided with the opportunity to receive professional consultations free of charge. Information on professional-education institutions and training programmes needs to be made available to students free of charge.

The administrative system and structure of professional education should be put in order. The fragmentation of the system of professional education and the lack of co-ordination between its various parts and levels should be eliminated. Professional-education programmes must be adapted to the demands of the labour market. Teaching methods and the mechanisms for evaluating teaching quality must be enhanced. The state must ensure the modernization of professional education and of the equipment used by schools of professional education. By introducing various incentives, businesses should be encouraged to participate in and contribute to the modernization of the professional schools and the practical education of their pupils. Pupils should be given the op-

portunity to pursue their practical education at potential places of employment and at technologically advanced companies.

The state should establish stricter control over the quality of higher education to prevent the system from producing negligently prepared specialists. Improvements in the quality of higher education can only take place in tandem with university reform. Academic staffs should attract and promote young and talented people who are able to combine research with teaching. The state should find more financial resources for training graduate students. Those young specialists who have studied and obtained their degrees at Western universities during the nineties should be recruited into Latvian universities. The state and the private sector could establish a joint fund for the purpose of reversing the "brain drain" from Latvia.

Adult education should be made available to everyone, including rural residents, the disadvantaged, and the socially vulnerable. People's efforts to continue their education must be supported. Compensation must be made available to businesspeople who support adult education centres and training courses.

Active employment policies specifically targeted at the integration of the long-term unemployed into the labour market should be planned and implemented. Special programmes should be prepared that are aimed at the unemployed from risk groups and at helping young people get their start in the world of work. Those graduates of schools of professional education who are unable to find work after completing their studies should once again be given the right to receive unemployment benefits. Employers' trust in the State Employment Service must be promoted through the introduction of joint projects and initiatives.

Social dialogue must continue to be improved at the local, sectoral, and enterprise levels. All major

professions should strive to establish professional associations. Society should be better informed about the goals and progress of social dialogue in Latvia.

Co-operation should be promoted between the educational system on the one hand and employers and labour unions on the other. Information on employee's rights should be disseminated through the mass media. Employers' and employees' level of legal knowledge should be raised. Legal regulations concerning the resolution of labour disputes, including regulations on the speed of this process, should correspond to the norms defined in international agreements.

On their own, market mechanisms do not guarantee social justice. To ensure this justice, the state should intervene to strengthen social dialogue between employers and employees.

To promote the traditions of industrial democracy, the media should provide more information on workers' rights and on the three-way co-operation between employers, employees, and the government.

From a human development perspective it is extremely important to eradicate illegal employment in which there are no guarantees of workers' rights. The State Labour Inspectorate, the State Employment Service, and the National Human Rights Office, together with labour unions and employers' organizations, should present concrete recommendations on how to limit illegal employment.

Labour legislation should be adopted that incorporates all the norms necessary to ensure equality in the relationship between employers and employees and that conforms to international legal norms. An institution for resolving labour disputes such as a Labour Court or a Commission for Labour Disputes should be established.