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### TOWARDS SUSTAINABLE DEVELOPMENT: CHANGING THE MODEL OF SOCIAL POLICY IN LATVIA

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**Abstract.** The article presents an analytical overview of models of social policies in the context of their application to socio-economic system of Latvia. In the article, the history and peculiarities of the creation of integrated social policy of member states of the European Union, European social model as well as a system of Key Indicators characterizing the social policy of Latvia in the context of the European Integration are analyzed. The problems faced by Latvia in its socio-economic development and ways to overcome them are identified. The necessity of forming a new model of socio-economic policy in Latvia by the transition to a model of sustainable development is justified. Proposals to improve the social policy of Latvia by the transition to the model of sustainable development of the country are made.

**Keywords:** Latvia, social policy, models of social policy, social security, sustainable development of the state

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**JEL Classifications:** H5, I31, I38

#### 1. Introduction

At the end of the 20<sup>th</sup> century, in the developed countries of Europe and the world the influence of social factors has increased, since their impact on various sectors of the economy leads to a change in the structure of social needs, economic activities, social and moral values. These processes characterize transformation of the modern economy to socially oriented, the functioning centre of which become people, and as the main goal is set the welfare of society. However, certain approaches common for other countries are not always acceptable in Latvia, as well as their methods and techniques of management and support of socio-economic processes are not adaptable. Socially oriented market economy suggests substantial decision making of the government in solving social issues. This is due to the fact that market economy does not guarantee workers the right for labour and standard education, in addition, it does not ensure social protection for the people with disabilities, economically disadvantaged and pensioners. Therefore, it raises the need for government intervention in the sphere of income distribution using the method of social policy implementation. Social policy is carried out by means of social orientation of the economy, which means that its development provides social sustainability and social stability of the members of society while preserving human resources.

Relevance of the research on problems of improving the social policy in Latvia is due both to the objective re-

quirements of the present stage of global socio-economic development, as well as to the specifics of the current situation in Latvia, which requires taking decisions to ensure sustainable economic growth while achieving a higher level of welfare. The most important task of the state is to ensure a balance between economic efficiency and social justice, since such balance is a prerequisite for achieving sustainable economic development. In this connection, ensuring sustainable economic growth while improving living standards of population remains the main task of the state.

**The aim of research:** on the basis of the analysis of different models of social policy to justify the need for changes in the social policy of Latvia, and based on that to develop recommendations for the improvement of socio-economic processes in the country to ensure its sustainable development.

**Research tasks:**

1. On the basis of analysis of literature data to conduct a comparative analysis of different models of social policy and to describe the state of social policy in Latvia;
2. To justify the need for changing the model of social policy in Latvia in modern conditions;
3. Develop proposals for improving social policy in Latvia by the transition to a model of sustainable development.

The formulation of these tasks determined the object and subject of the research.

**The subject** of the research is structure, mechanisms and control means of the social sphere of society (social policy model) in the context of Latvia's development within the EU. **Object of research** - social policy in Latvia and its place in the strategy of sustainable development.

The ideas and concepts presented in classic and contemporary works of scientists on sustainable economic development, social policy, welfare, labor and social behavior form **theoretical basis** of this research.

**Research methodology.** The studies are based on the methodology of systems analysis, involving the structural-functional approach of allocating objects in the system of structural elements and defining their roles (functions) in the system. We used scientific methods, such as systemic and situational approach, structure and comparative analysis.

## 2. The Extent of the Development of Problem

Development issues of a model of effective social policies, and provision of reliable social protection of citizens have been tried to solve since the emergence of the first states. However, over the centuries, politicians and economists failed to reach a consensus on the nature, sources and level of social protection of all members of society. The works of many famous scientists of the past and present, such as J. Keynes (2004[1919]), A. Smith (1776), J. Stiglitz (2009; Stiglitz, Sen and Fitoussi, 2010), J. Midgley (Midgley and Tang, 2008; Midgley and Piachaud, 2013), J. Baker (1979), J. Dixon (1981), G. Pascall (1986), R. Pinker (1971), R.M. Titmuss (1974), F. Williams (1989), K. Bender (Bender, Kaltenborn and Pfeiderer, 2013). L. Erhard (1991), S. Fisher (Fisher, Dornbush and Shmalenzi, 1993, Caurkubule, Rubanovskis, 2014), are devoted to this issues. Modern approaches to the sustainable economic development of the country are also presented in studies by M. Tvaronavičienė (Tvaronavičienė, Ginevičius and Grybaitė, 2008), V. Grybaitė (Grybaitė and Tvaronavičienė, 2008; Grybaitė, 2011), V. Tvaronavičius (Tvaronavičius and Tvaronavičienė, 2008), S. Funar (Funar, Cureau & Ionescu, 2009), M. Burinskienė (Burinskienė and Rudzkienė, 2007), J. Raudeliūnienė (Raudeliūnienė, Tvaronavičienė and Dzemyda, 2014; Starineca, Voronchuk, 2015), R. Vasiliūnaitė (2014), E. Vosylius (Vosylius, Rakutis and Tvaronavičienė, 2013), E. Veduta (2004), G. Volkov (2009), E. Nekrasova (2012), R. Hasbulatov (1994 et al.).

### 3. Classifications of Models of Social Policy

The nature of the implementation of social policies in different countries and regions is defined by many parameters, including history, cultural traditions particularities of the economic development, political system, and others. Therewith, along with all differences and variability of conduction of social policy in different countries of the world, scientists attempted to distinguish social policy models and their classification. There are different classifications of models of social policy, but, anyway, the majority of them is based on the principles, which arise from the role and degree of the state's, civil society's and individual citizens' participation in the implementation of the social policy.

There are several methods in the classification of European countries' social policies' models.

According to the classification of models of social policy by the Swedish researcher G. Therborn on two criteria - the level of the social obligations of the state and the degree of their orientation to the labor market and the "full" employment, there are four categories of models of social policy in Western Europe (Smirnov and Sidorina, 2004):

- *The first* - the "strong", interventionist (according to the degree of direct state regulation of the social sphere). Social policy covers, to a greater or lesser extent, all segments of the population with a strong commitment to "full employment". Its content is not only compensatory, but also constructive. According to G. Therborn, this policy model was carried out in Sweden, Norway and Austria.
- *The second* - a "soft" state of well-being. Mainly compensatory maintaining of social policy. Social obligations of the state, especially with regard to financial support to low-income, low commitment to "full" employment. According to G. Therborn, such a policy was carried out in Belgium, Denmark and the Netherlands.
- *The third* - small-scale costs of the welfare state, focused on maintaining a "full" employment. According to G. Therborn, such a policy is typical for Switzerland.
- *The fourth* - social policy, the content-oriented market. Limited role of the welfare state and comparatively narrow limits of the social rights of citizens. Low commitment to "full" employment. According to Therborn, such a policy is common in the UK and Ireland. In the author's opinion, such policy is also inherent to Latvia.

One of the classifications of social policy management models was proposed by The English scientist H. Manning (Manning and Shaw, 2000). The unique feature of this typology is not so much of emphasis on the economic support of social policy as on the political system of management of social security and solving social problems. Manning distinguishes between the pluralistic model, the elite, the corporate model and the Marxist: *Pluralistic model* - the idea of it is that the political system is pluralistic. This means that it is open to external influence, and citizens, individually or in organized groups, have many opportunities to influence the formation and implementation of social policy. The fact that there is an elected political system means that the politicians have to take care of the interests of their constituents. They will receive feedback on the status of citizens of social enterprises and try to solve the pressing problems. In addition, a serious impact on the implementation of this model of social policy have so-called pressure groups: voluntary associations, churches, trade unions and business organizations, lobbying their interests in politics.

- *Elite's model* - this model is based on the fact that the world of elite (influential individuals and groups from certain circles with a common outlook) virtually determines the policy. In real life, it is very difficult for ordinary people to influence social policy. The world of people, who "conduct" policy, including social policy, is actually quite closed and protected against external influences. In this world, political networks are of importance, i. e. interaction via certain channels worked out for years; good offices usage etc. These "key players" in the main, have common ideas about the appropriate and reasonable social policy and about alternatives, which policy options may exist in certain circumstances. This is typical of the UK and partly in France. In the opinion of the author, such model is present also in Latvia, where more than 20 years the same political power ("elite") has been in charge, defining the basic principles and structure of social policy in the state.

- *Corporate model* – the point is that groups that form social policies appear less from integrated cultural elite rather than from several elites, born by the corporate structure of power in modern industrial societies. The existence of the three key corporate groups is supposed: *unions* representing the power and interests of working people; *the business community* and *the State* itself. There are distributed key power blocks between these three groups, which determine the form and the structure of the social policy. They trade with each other in constant discussions, determining wage levels, public spending on social and other services, the tax rate necessary to pay it all, and the kind of state intervention (provision, regulation, etc.). This is typical of many European countries, especially Germany and France. Such a model, despite its appeal, cannot be applied in Latvia, firstly, because of the weakness of trade unions, and, secondly, also due to the fact that the government is closely fused with the business community and in many cases is lobbying the interests of that community (eg, banking lobby in the Parliament).
- *Marxist model* – this model is based on the fact that social policy in a society is organized by the business community. Under this model, it is admitted that there is only one true elite, confirmed by the economic power. Manning considers this approach as Marxian, as the entire system of social policy in this case adapts to the interests of powerful economic groups. Considering that there are possible conflicts between the economically powerful groups such as trade unions, local and central governments that have interest in a particular area of social policy, this model argues that economic interests prevail.

Another approach to the classification of social policy models was proposed by the leading Western sociologist G. Esping-Andersen in his book “The Three Worlds of Welfare Capitalism” (1990). The scientist identifies three types of state, which actually represent basic models of modern social policies that now exist in the economically developed countries of the West. The following parameters were laid in the basis of the Esping-Andersen’s classification: the level of decommodification (Decommodification - weakening or elimination depending on the individual and group welfare by market forces); stratification of society, government intervention. Based on these parameters, the scientist emphasizes three types (modes) of the modern welfare state:

1. *Neo-liberal* (Anglo-American);
2. *Conservative-corporatist* (continental social market, the Franco-German);
3. *Social-Democratic* (Scandinavian, Swedish model of social policy).

**Table 1.** Model of modern social policy by G. Esping-Andersen

Characteristics	Neoliberal (Anglo-American):	Conservative-corporatist (continental, socio-market, the Franco-German)	Social Democratic (Scandinavian, Swedish model of social policy)
The level of decommodification	Low	high	high
The stratification of society	Strong	strong	weak
Form of government intervention	regulation of markets	direct provision of financial support and regulation of markets	Direct provision of financial support

Source: Pavroz, 2011

A significant factor that distinguishes national social state models from each other, is structure and combination of the most important institutions of social protection (mandatory social insurance, social assistance and public welfare), health care and education, the size of the resources allocated to their functioning, as well as the dominant role one of the institutions of social protection.

**Scandinavian model.** In a model of this type of social policy, a significant part of social expenditure is borne by the state, and the main channel of redistribution is the budget. The State takes the primary responsibility for the social welfare of its citizens and is a major producer of social services. Services (education, health, childcare and nursing, etc.) in the majority of cases are organized by municipalities. The system operates through redistribution (e.g., budget or social insurance funds), and the percent of social spending is very high. This model is in some extent embodied in the policies of such countries as Sweden, Finland, Denmark, Norway.

**Continental model.** In this model, the state, as a rule, is only responsible for the issue of social benefits to recipients, namely - social security, but does not organize social services. Here, budgetary contributions and premiums of the employee and the employer's social activities are approximately equal, and the main channels of redistribution are both public and private (but state-controlled) social-insurance funds. This model is followed in Germany, France, Italy, Austria, Belgium.

**Anglo - American model.** This model is characterized by minimal governmental involvement in the social sphere. Financial basis of social programs is compiled, primarily, of private savings and private insurance, but not the state budget. The state takes responsibility only for the preservation of the minimum income for all citizens and for the welfare of the least weak and the disadvantaged. However, it maximally stimulates the creation and development of various forms of non-state social insurance and social assistance in the society, as well as a variety of means and methods of producing and raising the citizens' income. However, it encourages creation and development of various forms of non-state social insurance and social assistance, as well as various means and ways for citizens to receive and increase their income. Such a model of the welfare state is typical to the United States, Great Britain, Ireland, Canada, Australia. In the opinion of the author, such model of social policy to a greater or lesser degree is typical also to Latvia.

This qualification of the models of social policy of the countries has its strengths and weaknesses. The strong point of the classification is macroeconomic and political ways of assessing the nature of social policy, the weak point – the evaluation methods are partly conventional.

In accordance with the classification of the EU Commission can consider another typology, in which, for all of dissimilarity are three main options:

1. The model of Bismarck
2. The Beveridge Model
3. The Swedish model

Significant factors that distinguish the social model of the state of each other, are (see. Table 2.):

- structure and configuration (combination), applied by institutes of household incomes;
- circle coverage system of compulsory social insurance, the level of dependency on the pensions and benefits from wages;
- the degree of redistribution of resources between the insured and the beneficiaries of pensions and benefits (Volgin, 2008).

**Table 2.** Comparative characteristics of social models of state

Characteristics	Model of Bismarck	Beveridge model	The Swedish model
The share of wages in GDP%	45%	55%	58%
Basic institutions of social protection	Compulsory social insurance - 75% of all resources for social protection; social assistance conditional - 15%; additional insurance - 10%	Social support - 35% of all resources; mandatory professional insurance - 35%; voluntary individual insurance - 30%	Compulsory social insurance - 60%; social assistance - 30%; voluntary individual insurance - 10%
The share of all costs for all types of social security, in% of GDP	30%	25%	32%
Transfers between groups with high and low income groups	Average (35%)	Minimum (25%)	High (40%)

Source: Volgin,2008

**Bismarck model.** The model is named after its founder, Chancellor Bismarck. This model is characterized by democratic governance and transparency of financial flows. Its basic characteristics:

- Purpose of compulsory social insurance is to preserve for the insured workers the living standards and quality of life, social status they have reached upon the occurrence of social risks. The premiums and benefits focused on the substitution of wages upon the occurrence of insured events, as well as for the provision of quality health care and rehabilitation services.
- Insurance load distribution between employees and employers on a parity basis, the size of pensions and benefits depends on the amount of wages, the value of insurance premiums and duration of insurance.
- Organization of Social Insurance for certain types of social risks in the form of mutual insurance associations, which play a key role is played by employers and employees. Their authorized representatives determine insurance rates, design policies to establish insurance, social and medical infrastructure, organize the management of the executive bodies (the insurer).
- The combination of universal and differentiated approach in determining the financial burden and insurance rates. Universal approach is expressed in the same for all categories of employee amount of deductions for social insurance. Differentiated approach means flexible tariffs to compensate for the costs associated with the various effects of social (professional) risks depending on the hazard or unsafe working conditions, and the condition (quality) of labor used.

**Beveridge model** (Beveridge William Henry (1879-1963) - English economist and statesman, a follower J.M.Keynes, strive to combine Keynesianism with liberal doctrine ). The characteristic features of this model:

- Three-level type of social protection, allocates to the State an obligation to provide basic guarantees of social protection to the entire population, with the employer - social (professional) insurance of employees (in which the employee receives partial participation), the employee - additional private insurance.
- Orientation of state social guarantees to the cost of living, additional professional insurance - by substitution (compensation) of earnings, additional voluntary personal insurance - for the implementation of the employees of their personal capacities for the benefit of their own social protection.
- Providing by the state three basic living conditions of the population - public health, equal opportunities for education of children to families with different incomes (child benefit) and the prevention of mass unemployment.

Beveridge believed, that family benefits and health services should be financed by state budget and other measures of social protection - due to contributions of the workers themselves and employers and government subsidies. In the author's opinion, such EU model of social policy is typical also to Latvia.

**The Swedish model.** The distinguishing features of this model:

- Social spending from general tax revenues, a progressive tax system (withdrawn up to 65% of high-income groups). The priority of the principles of equality and solidarity in the implementation of social policy. Proactive measures to prevent long-term unemployment.
- High level of accessibility and measures of social support.

The significant role of subsidies from the state budget to the system of compulsory social insurance explains the active role of the state in the functioning of the system, the activity of which is under strict government control.

#### **4. History and Characteristics of the Creation of Integrated Social Policy-Members of European Union**

The EU social models have significant differences. However, integration processes are taking place in the social sphere within states - members of the EU, have necessitated the creation of a new common (but not uniform) model of social policy - a pan-European, which would be alike in the concept of social policy in the different countries of the European Union. An important stage in the development of the social policy of the European Union was signing the 1997 Treaty of Amsterdam, which laid the foundation for the further strengthening of policy coordination between the member states and developing strategic installations of solving social problems within the Union. As a result of the signing the Treaty of Amsterdam, the Treaty establishing the European Community was amended with the section "Social policy, education, vocational training and youth", as well as

a new section “employment policy”. The tasks of social policy are amended with new ones, for example, anti-discrimination and integration of the excluded persons.

In November 1997 in Luxembourg a special meeting of the European Union on the problems of employment was held. New approach was approved during this meeting, which involved beginning of coordination of employment policies pursued by nation states. (Volgin, 2008). In March 2000, the European Council during the meeting in Lisbon set the task - for 10 years to create the most competitive and dynamic, based on high technologies, economy, capable of providing sustainable growth, development, social integration. The heads of 15 states expressed such intent. This is how the Lisbon Agenda or Lisbon strategy emerged.

In the framework of the guidelines of Lisbon Strategy the following objectives were set:

- Conduct social policies to economic growth;
- Economic growth, not contradicting the objective of preserving the environment.

During the meeting there were also formulated methods of open coordination (Open Method of Coordination), which was designed to help the countries - participants successfully develop their policies, leaving behind the European Commission’s coordinating role.

At the 2002 World Summit on Sustainable Development in Johannesburg, the European Council has set a goal - to make its policy of sustainable development emulated worldwide. Thus, the foundations of modern social policy were laid. After the proclamation of the goals of the Lisbon strategy, some experts rightly expressed bewilderment at the fact that in terms of perceived economic crisis, its authors promised to the population of EU Member States at the same time record rates of economic growth, full employment and maximum social justice. As subsequent events showed, this skepticism proved justified. The deteriorating economic situation in Europe has raised the question of the need to take serious action. At the end of 2004, when the European Union comprised already 25 countries, it has become apparent that the goals of the Lisbon strategy will not be achieved: too large a gap between planned results and the actual state of affairs in the European economy.

Slow progress in the implementation of the Lisbon strategy has led to its thorough revision. In the new edition of the Lisbon Strategy, approved by the European Council in December 2005, the fact that by 2010 the EU would become a superpower in no way inferior to the United States was not mentioned anymore. A significant role in this strategy was assigned to stimulate economic growth, increase employment and reduce unemployment. Coordinating the implementation of the Lisbon Strategy in Latvia by the Ministry of Economy, which in cooperation with line ministries, social partners and the parliament developed and on 15 October 2005 presented to the European Commission the Latvian National Lisbon Programme.

In 2008, the Committee on Employment and Social Affairs of the European Parliament proposed to strengthen the fight against poverty in member countries. It was proposed that the minimum wage would ensure social inclusion. This means that the mode of the minimum wage should be supported by state aid measures for social inclusion aspects of daily life such as rental housing, education, skills development throughout life, as well as assistance for farming. In the same year, at the spring session of the European Council were named the priorities of social policy: the eradication of child poverty, increasing working-age guarantee pension, eliminating disparities in health care. According to EU Commissioner for Employment, Social Affairs and Equal Opportunities Vladimir Spidla, the proclaimed policy of social protection and inclusion gave results: social cohesion, attracting more people to the labor market, providing government funding. However, the growth and job creation only do not automatically improve the lives of those members of society who live in the most adverse conditions. To ensure the full integration of less protected sectors of the population, a common policy for all member countries is necessary. In order to solve this problem together, it was scheduled to use the method of open coordination in the field of EU social policy.

The result of this method was improvement of mutual understanding and learning, creation of a system of a better control, concentration of necessary knowledge. (Ada van Krimpen, 2004). However, the strategy of ef-

fective socio-political and economic development of the European Union due to objective and a subjective reasons did not bring the expected results. The EU has entered a period of deep recession. Today the difference in various indicators determining competitiveness between EU countries is even more than in the year of adoption of the Lisbon Strategy. Gap with the US has increased. Most of the countries of the Union simply ignored the Lisbon strategy, they didn't consider its necessary to adapt their policies under the EU-wide imperatives. This conclusion was made by experts of the Centre for European Reform in February 2009. However, as it was mentioned in the report of the Committee on Employment and Social Affairs of the European Parliament (Parlement Européen commission de l'emploi et des affaires sociales. Rapport sur un modèle social européen pour l'avenir (2005/2248 (INI)), FINAL A6-0238 / 2006), Europe should not abandon its ambitious social policies, it should use its positive influence to economical rates and living standards.

- - Strengthen the efficiency of social policy;
- - Eliminate the „poverty traps“ and other blocks for employment;
- - Invest in development (education, prof. training), maintenance (health) and the mobilization of human resources (through active labor market policies);
- - Ensure that the financing of social policy that it contributes to employment and economic growth while maintaining the principle of mutual support and solidarity between generations.

## 5. European Social Model

According to the definition, adopted by the European Council in Barcelona in March 2002: “The European social model is based on economic performance, a high level of social protection, education and social dialogue.” (Smirnov and Sidorina, 2004). The social system in the EU consists of two levels: national and supranational. Activities of individual EU institutions at the supranational level continue to play the role of the superstructure, by contributing to the problems which in their scope and volume are beyond the power of the governments. Supranational social policy is carried out not only by the head of the EU institutions such as the European Council, the Council of the European Union, the European Parliament, the European Commission and the European Court of Justice, but also by relevant committees - Economic and Social Committee of Regions, as well as by specialized organizations - the Standing Committee on Employment, structural Funds, the European employment Service, the Mutual Information system on employment Policy.

To help address issues such as quality of life, improved health and safety, as well as the convergence of social systems of the the EU member states, legal regulation is mainly used, the purpose of which is the overall coordination of the social systems of all countries – the EU member states.

Thus, the mechanism of social protection of the EU is built on the principle of the division of roles and responsibilities between the different levels according to the principle of subsidiarity. This is the principle implying that the European Union does not interfere in the affairs of individual states, if Community action in this matter cannot be more efficient than the existing national, regional or local authorities (Bonoli, George and Taylor-Gooby, 2000). The main part of the European social policy is the method of open coordination, involving the exchange of best practices of EU member states. Regular meetings of the Ministers for Social Policy allow to share experiences and develop a common vision. The goal of an integrated European social policy is to improve working conditions and raise living standards, promote employment and equal opportunities, the mandatory minimum social protection of people.

## 6. Social protection of population

*Social protection system of Latvia's population is meant to mitigate the risks and meet the requirements related to unemployment, parental responsibility and duties, illness and disability, loss of a spouse or parent, old age, the difficulties of adequate housing provision and other social vulnerability conditions. Total expenditure on social protection in Latvia, as well as in the European Union, is calculated in accordance with the methodology of the European System of Integrated Social Protection Statistics ESSPROS. Over the features of social policy pursued in certain state and performance of social functions by it, is judged rather objectively by the analysis*



of its budgetary policy – the budgetary expenses in economically developed states, as a rule, are divided as follows: up to 10% go the maintenance of officials of a state administration and power structures, from 20 to 40% - on social needs of the population. The government's responsibility level of maintaining certain living standards of the deprived and most vulnerable social groups is an accepted indicator of social expenditure volume that is re presented by the proportion of GDP. According to the UN, the social expenditures of a normally developing country should not be less than 20% of the GDP. Thus the state with strong social policy doesn't allow the sharp differentiation of the income in society and by that promotes alignment of a standard of various social groups living. (Hramcov, 2010). The analysis of expenses structure of Latvian state budget since 2008 (the last before global financial and economic crisis) till 2012 shows that expenses on officials of a state administration, even in crisis years, despite persistent recommendations of European Commission on reduction of the budgetary expenses for crisis overcoming, did not decrease significantly and still exceed 10%, and in the sum with expenditures on defense both a public order and safety, exceed 20%. That is above the recommended norm twice. At the same time expenses on social needs of the population on the eve of crisis made up a minimum – 21,5%, and in the years of crisis were raised in connection with a global impoverishment of the population of Latvia.

**Table 3.** The expenditure structure of the consolidated budget of Latvia according to individual positions (%)

Year	Government	Defence	Public order	Education	Healthcare	Social protection	Culture
2008	13,6	3,5	5,0	20,2	8,1	21,5	4,0
2009	14,8	2,4	4,5	19,6	7,5	27,9	3,4
2010	13,4	2,0	4,4	16,7	7,2	33,8	2,9
2011	12,1	2,3	4,4	17,1	7,8	28,5	3,2
2012	13,3	2,1	4,5	16,6	7,8	28,2	3,5
2013	12,8	2,2	4,8	16,4	7,6	28,4	3,6
2014	13,2	2,1	4,9	16,7	7,4	29,1	3,4

Source: based on the data of Central Statistical Bureau, Ministry of Economics of the Republic of Latvia

At the same time, according to the UN, for normally developing state expenses on social needs have to make not less than 20% of gross domestic product.

**Table 4.** Expenditures of the consolidated budget of Latvia, % of GDP

Year	Government	Defence	Public order	Education	Healthcare	Social protection	Culture
2008	5,3	1,4	1,9	3,5	3,1	8,4	1,6
2009	6,4	1,0	1,9	8,4	3,2	12,0	1,5
2010	5,7	0,8	1,8	7,1	3,1	14,4	1,2
2011	4,7	0,9	1,7	6,6	3,0	11,0	1,3
2012	4,9	0,8	1,7	6,1	2,9	10,4	1,3
2013	4,7	0,8	1,8	6,0	2,8	10,4	1,3
2014	4,9	0,8	1,8	6,2	2,8	10,8	1,3

Source: based on the data of Central Statistical Bureau, Ministry of Economics of the Republic of Latvia

Statistical data of the Ministry of Economics of Latvia show that UN recommendations are ignored by Latvia, and, since 2011 when the prime minister of Latvia V. Dombrovskis declared that Latvia successfully overcame crisis, expenses on social protection of the population of Latvia are gradually cut, though, according to Eurostat, they are among the lowest in Europe. On average in EU in 2011, the European Union countries spent 29,1% of gross domestic product on social protection or on expenses to provide normal living conditions of the population in case of social risks and other problems. Thus, this indicator in various countries significantly

differs. Comparing to other European countries expenses on social protection of the population in the Baltic States are very low as well:

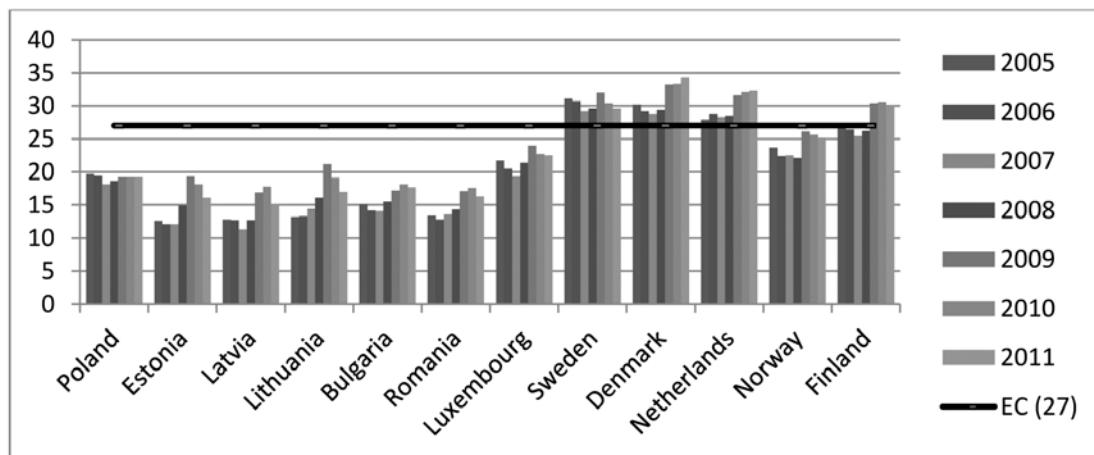


Fig.1. Expenditure on social protection (according to classification ESSPROS), % of GDP

Source: based on the Eurostat data

According to Eurostat, expenditures on social protection in Latvia in 2011 were among the lowest in the EU (15.1%), which is 2,7 % less than in 2010 when they constituted 17,8% out of GDP.

According to Eurostat, in 2011 Latvian expenses on the social protection, calculated according to ESSPROS methodology, were among the lowest in the EU (15.1% of gross domestic product) that is 2,7% less, than in 2010, when they made up 17,8% of gross domestic product. Latvia obviously concedes in social protection of the population to the Baltic neighbors: Estonia for these purposes allocates 16,1% of gross domestic product, Lithuania — 17,0%. Less than 20% of gross domestic product in 2011 was spent also by Romania - 16,3%, by Bulgaria - 17,7%, Slovakia - 18,2%, Malta — 18,9% and Poland — 19,2%. At the same time the highest expenses on social protection were in Denmark — 34,3% of gross domestic product, in France — 33,6% and in the Netherlands — 32,3%, Belgium - 30,4%, Greece - 30,2% and Finland - 30,0%. According to Eurostat, distinctions reflect the different standards of living, different social systems, demographic and economic situations in level of social expenses (Freecity, 2012).

With regard to Latvia, the premature reforming of its national economy has led not only to the poverty of vulnerable groups, such as elderly, disabled and multiple children families, but also to the fact that the human capital is losing its value, keeps being non-demanded, and does not serve as a catalyst for economic growth. This is the reason why the level of poverty and unemployment leads to not only to the decline in the living standards of the population, but also to the underutilization of economic strength and society's human capital formation. The rapid growth of unemployment, as well as the reduction in wages and pensions along with inflation led to the fact that thousands of people fell into the income of poverty. This situation shows the necessity to build a new economic model and to create the national development strategy, that would primary be focused on production development, social protection enhancement, and human capital maintenance, rather than on the reallocation of financial resources.

## 7. The necessity and starting conditions for transition to a model of sustainable development of the country

Transformation and socialization of modern economic systems lead to a deepening of the interconnection between the social indicators and their influence on both internal and external economic security of the state. The negligence of the specified regulations during the implementation of sustainable development may result in

failure of the reform implementation. Thus, the government's sustainable development strategy that is focused on the social progress enhancement should create new principles that not only could provide the population with a social protection floor, but also raise its social well-being. In the applied plan, the model of a sustainable development is a way of the organization and functioning of society, the state, economy on the principles of stability, providing the prevention and neutralization of external and internal threats. National strategy is the long-term program of stage-by-stage transition to the sustainable development, defining the concrete directions of transformations and kinds of activity on achievement of the strategic objectives, resources necessary for this purpose and mechanisms, a control system and coordination at local, regional, national and international levels. Sustainable development of the country is considered as an element of a sustainable development of the world community, and the national purposes - as realization of common goals and tasks, the principles and the directions of development stated in the Millennium Declaration (2000), the Universal declaration of human rights (1948), the Johannesburg declaration on a sustainable development (2002) and other documents of the UN, in specific conditions of Latvia. The main factors of sustainable development should be: human, scientific, production and innovation potential, natural resources and favorable geographical position of the country, and the main priorities - "high intelligence - innovations - welfare". The most important objectives of sustainable development of Latvia are the transition to innovative development, the implementation of system-wide changes. Scientists remind us that long-term European strategy of development until 2020 provides science funding in the amount of 3% of GDP, but Latvia intends to allocate for this purpose half the funds - 1.5% of GDP. Consequences of such a policy are already evident in the economy structure. (Delfi, 2012). The ability for Latvia to overcome this crisis is impossible without shifting the existing socio-economic policies and infrastructure of the Latvian national economy towards increasing the industrial and agricultural weight, as a basis for adding value and improving the performance of social infrastructure and societal development. This is needed to develop the concept of strategic development by defining priority sectors, which will be based on the economy of Latvia. The government's tactics, aimed at survival by consolidating the budget through reductions and cuts, must give way to thinking oriented towards future development.

In the long run, a strategy for state development based on public investment in social infrastructure and human resources is a prerequisite for the long-term socio-economic development of Latvia. Stratification of the society has significant influence on state and execution of social policies in Latvia. Therefore, social policy, in particular, social protection should be based on a differentiated approach to the various strata of the population. The model of socio-economic and political development, capable of providing citizens with decent living conditions, has yet to be created in Latvia with regard to such factors such: 1) demographic policy; 2) income differentiation between different segments of the population; 3) strengthening the role and importance of human resources.

## **8. Socio-political mechanisms of a sustainable development**

The most important factor of providing a sustainable development of society and human development are political and economic stability of society, effective social policy of the state, urged to create the necessary conditions providing worthy life of the population of the country.

Ensuring steady growth of level and quality of life of the population and creation of conditions for human development has to become a main goal of social policy of Latvia in long-term prospect.

To realize this goal, the main directions of social policy should be (Caurkubule, 2013):

- creation of conditions and opportunities to all able-bodied citizens to earn means for satisfaction with their and their family requirements;
- ensuring real employment of the population by creation of new and preservations of available workplaces at the vital and perspective enterprises, including in the private sector of economy;
- consistent increase in the level of wages as the main source of income of the population and a major incentive of labor activity of wage workers through increased productivity and economic efficiency in all sectors of the economy, the growth of the investment potential of the population;

- strengthening legal protection of employees' rights to work and fair pay; reducing the tax burden on payroll entities of all forms of property that will contribute to the creation of new jobs, legalization of shadow incomes, development of social partnership at all levels of government;
- increase of the real incomes by raising real wages in line with productivity growth and GDP growth;
- formation of the middle class as a factor in the stabilization of society based on the considerable growth of monetary incomes and reducing poverty;
- the fight against poverty through the reduction of the poverty level in the country. That objective realization can be possible on the basis of economic growth and rising living standards, especially the working population;
- improving social protection of indigents, based on optimization programs providing assistance and strengthening targeting assistance to rationalize the system of benefits, improve social services, etc;
- improving the living standards of pensioners through increased levels of pensions, as well as improvement of the pension system by creating a stable, financially sustainable pension system that satisfies the principles of social justice, capable to resist to future demographic changes;
- achievement of social justice in the society, which is one of the basic needs of the individual. Bundle of Latvian society on national, social and cultural and economic reasons prevent strengthening of statehood. The main segments of society diverge farther on value orientations, on wealth, lifestyle patterns and norms of behavior, etc. Therefore, social consolidation is a necessary condition for the consolidation of democratic institutions and the consistent development of civil society. For social cohesion and strengthening the state, according to scientists, the following conditions are necessary: 1) selection of the goal of strategic development of the country, which would have the potential for consolidation and would be able to unite the efforts of various strata of society; 2) creation of a new social order governing the behavior of the main social actors in the context of the strategic goals of the state. Creation of a legal and institutional mechanisms to ensure such coordination - the basis of the sustainable development strategy of the state.

To achieve the goals set it is necessary (Caurkubule, 2010):

- To review the employment policy by directing main efforts of the state to create new jobs by improving the legislation in the field of business, tax policy and social policy;
- In this case, the forecast of labor resources balance should be linked to short-term and long-term trends of economic development of the country, and designed not only by type of activity, but also by region;
- In order to solve problems associated with unfavorable demographic situation in the future (aging workforce and low birth rates, as well as low levels of education and non-conformity to requirements of the labor market) it is necessary to develop a long-term migration strategy, including migration, emigration and integration aspects;
- To revise the education policy in order to direct funding to training of specialists needed by society on the basis of the forecast of labor resources balance in the labor market of Latvia;
- To introduce the institution of personal public accountability of decision-makers, to give up actually used today, officials of the principle of immunity for the decisions that will allow some residents to restore confidence in the system of government in general.

## Conclusions

Social policy models of Western Europe are the object of attention, careful analysis, and sometimes criticism. The basic principles on which they are based are social justice, social security, social cohesion, economic competitiveness. It should be recognized that there is not a single, clearly defined concept of European social policy, and social integration in the European Union lags behind economic integration. Principles of social models in Western Europe allow them to build a system based on the organization of society, which would outline the tasks of each of the social partners.

In the future, the EU social model should be a system that integrates the best aspects of each national system, without prejudice to the national characteristics and conditions and should be unified in terms of minimum living standards of the population of the European Union. Sustainability of socio-economical development of the country is incorporated in the system of support of national development sustainability. The concept of sustainability of socio economic development has to be based on taking into account a variety of factors, including the main element – growth of efficiency of economy as a guarantee of social stability. Provision of

decent living standards and economic prosperity of citizens is a goal of any modern country.

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