

OVERVIEW OF CHANGES IN PUBLIC ADMINISTRATIONS OF LATVIA AND ESTONIA PROVOKED BY ECONOMIC CRISIS

Iveta Baltiņa
Riga Technical University, Latvia

Abstract

The concept of sustainable development has many facets, all of them related in various ways to the current and future quality of human life. The core of the notion is the idea of an overall improvement of the living conditions of the society compatible with the needs of future generations. In this respect reforms performed in public administrations should encourage development of sustainable development principles first of all in the public institutions with future perspective in transformation of these principles in future policies. As we all now economic crisis has provoked changes in the public sector. Necessity to reduce budget expenses has led to situation with cut of number of public employees in different countries. It is clearly evident that financial crisis has encouraged European Governments to foster Public Administrations reforms during last two years. The purpose of this paper is to provide overview of changes in public administrations of Latvia and Estonia provoked by economic crisis and to look on the human resources management aspect, to understand whether actions taken are facilitating development of sustainable public administration.

Key words: sustainable human resources management, financial crisis, public administration.

Introduction

Salvador Parrado and Elke Löffler assure that in the current financial crisis of the public sector throughout EU Member Countries, sustainability has become the single most important issue for policymakers and public managers. Clearly, sustainability of public policy will also stay on the agenda of public administration for some years to come [1]. It is evident that sustainable development concept and definition is mainly focused on the results of policies implemented by public administration. There is not much empirical evidence on the sustainability of public administration as a resource. Therefore this paper analyses some economic development aspects of relatively small neighbour countries Latvia and Estonia in the period of economic crises, decisions taken by Latvian and Estonian governments and the current consequences in the light of historical decisions. This article shows that budget cuts and fiscal consolidation has caused human resource turnover in state administration institutions. This has facilitated to pay attention to several human resource management (HRM) instruments ensuring sustainability concept in public administration HRM policy. This article is based on empirical study of sustainable development concept and review of several economic development indicators of Latvia and Estonia.

1. Sustainable development concept in HRM

The concept of sustainable development has received growing recognition, but it is a new

idea for many employers in the context of human resources management. For most, this concept remains abstract and theoretical, because of the broad definition. There are over 100 definitions of sustainability and sustainable development, but the best known is the World Commission on Environment and Development's. This suggests that development is sustainable where it "meets the needs of the present without compromising the ability of future generations to meet their own needs". This concept is investigated in a broader sense looking more on environmental aspect of sustainable development rather on human capital. Also Daniel J. Fiorino argues that a major deficiency in commonly used definitions of sustainability is the narrow way in which the political/social dimension is treated. The social imperative is defined narrowly as a matter of social equity and fairness rather than as a broader one of just and effective governance [2].

For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future [3]. It is evident that we can't treat human resource management aspect differently in public administration and business because those responsible for results are human beings. According to Strandberg sustainable human resource management is the contribution HRM can make to sustainable development [3]. So when thinking

of sustainable development concept in public administration and human resource management we shall look how public policy planning and measurement can be coinciding with human resource planning and development.

J. B. Miner and D. P. Crane assure that human resource planning and policies have crucial role in overall institution strategy consequently in sustainable development in all areas [4]. Talented, satisfied and motivated people are critical to ensuring business grows to its full potential. That's why it is so important during challenging and uncertain times for the public administration continue to build employee engagement. It is clear that highly engaged employees are more productive in their roles, which clearly results in improved business performance. There are variety of means how employees can be engaged, including: developing their skills, having a clear set of values, undertaking worthwhile community activities and having an objective appraisal system that recognises achievement and encourages development. According to *Louis Taylo* there are two major aspects for investigation in human resources development. First, organizations can only succeed in the long-term if they recruit and motivate people who are able to respond to and shape the challenges of the future. These are the individuals with the capacity to create competitive advantages from the opportunities presented by changing environment and who possess the ability to build and influence long lasting and effective partnerships. Second, all organisations should recognize that employees are motivated by a complex mix of factors. These include financial rewards and promotion and peer recognition.

It should be noted that not many researchers have paid systemic attention to the link between sustainability as a concept and HR related research or HRM. One of those who has studied this is Ina Ehnert doing a conceptual and exploratory analysis of sustainable human resource management aspect [6]. She emphasises that in corporate practice, topics related to social dimension of sustainability have emerged increasingly in recent years. Key topics are recruiting and retaining top talent, developing critical competencies, motivation incentives for exceptional performance, employability, lifelong learning, demographic trends, aging workforces, employee health, safety, quality of life, work-life balance, justice, ethics, CSR. She also reviews that historically, sustainability emerged in situations of

crisis when at least one of the following topics turned out to be of importance:

- economic, natural, or social resources were scarce;
- side and feedback effects threatened long - term exploitation of these resources [6].

2. Overview of economic development of Latvia and Estonia during the economic crisis

In order to successfully implement reforms, public administrations must strike the right balance between the daily business of delivering policies, programmes and services, and carrying out its strategic function of anticipating needs, prioritizing responses, and preparing and improving itself to meet those needs more efficiently and effectively, based on a full understanding of its strengths and weaknesses.

Since re-independence in 1991, and prior to the global financial and economic crisis, both countries Estonia and Latvia enjoyed one of the most dynamic periods of economic growth among transition countries. Estonia and Latvia enjoyed the fastest growth amongst OECD and CEE countries between 1996 and 2007, with an average annual rate of real GDP growth of 7,5% – far above the CEE average of 4,8% and over twice the OECD average of 3,6%. Economic development of both countries since 2000 has gone through two stages: steady economic growth (2000-2007) and impact and response to the global financial and economic crisis (2008-2010) [7].

Estonia and Latvia are very small countries compared to EU and OECD member countries in terms of both GDP and population. In 2008, Estonia was the second-smallest OECD economy with a GDP of USD 29 billion. In terms of its demographic size, Estonia is the third-smallest OECD country with a population of 1.34 million in 2009. Estonia in all main characteristics is smaller than Latvia [see Table 1].

Table 1. Basic Statistics of Estonia and Latvia, 2009
[7, 8]

	Estonia	Latvia
Area (km ²)	46 227	64 589
Population (1 000)	1 324	2 249
GDP, current prices (million EUR)	13 861	18 845

Source: Statistical data base of Latvia. Estonia: *Towards a Single Government Approach*. OECD Public Governance Reviews. 2011. [www.csb.gov.lv].

The main characteristics of economic development shows that Estonia even with smaller economy than Latvia is much better dealing with challenges provoked by economic crisis.

Today, Estonia and Latvia faces the impact of the crisis together with other challenges threatening fiscal sustainability, including demographic decline and regional disparities. Over time, both Baltic countries will need to continue to take advantage of its small size to remain strategically agile and to make the most of its national assets. This requires a public administration that is fit-for-purpose in terms of implementing the government’s policy agenda in most effective way.

In the end of 2008, as the global financial and economic crisis spread to the real economy, and in response to an expanding fiscal gap, the both government revised the 2009 budget. Even if Estonians had two supplementary budgets and a budgetary amendment representing 9,3% of GDP in 2009, previously ensured strategic and long term thinking in public expenditure management supported for Estonia “soft landing” comparing to Latvia.

To ensure cut of budget deficit in Latvia, since 2008 budget consolidation estimate 16,6% of GDP, of which approximately 6,6% of GDP represents revenue side and 10% expenditure side (see table 2).

Table 2. Fiscal consolidation % of GDP (2008-2010), Latvia [9]

Year	Revenue	Expenditure	Total
2008	n/a	0,5	0,50
2009	2,8	6,7	9,50
2010	2,1	1,9	4,00
2011	1,7	2,8	2,60
Total	6,6%	10,0%	16,6%

In comparison with Latvia Estonia concerned one-half expenditure. In 2009 Estonian government had the ambition to reduce public expenditure by 5% and improve the overall public balance position by over 9% of GDP. One of the measures included was a 10,6% cut in operational expenditure by the central government.

This was mainly ensured by long term public funds management within the period from 2002 to 2007, when Estonia ran a public budget surplus for five consecutive years, accumulating assets amounting to approximately 10% of GDP. As a result of weak long term planning and the recession, the Latvian government was forced to rapidly accumulate debt. To deal with sequences

of recession with a world-historical drop in GDP of more than 25 percent Latvian government was forced to apply for financial assistance to international financial organizations. In December 2008, an agreement was reached to provide multilateral financial assistance to Latvia with an overall amount of €7,5 billion. This caused increase in Latvia’s debt ratio comparing to debt ratio decline between 2004 and 2007 from just 7,9 percent of GDP in 2007 to 39,1 in 2010. Even this was not the worst scenario projected by IMF at 74 percent of GDP for the year 2010 it was much worse in comparison with Estonia where gross government debt as percent of GDP in 2010 was 6,7% of GDP.

Beside this Estonian public expenditure as a percentage of GDP is in the lower range compared to Latvia, however, Estonia’s public expenditure in 2009 was a little bit higher than Latvia’s (see Fig. 1). In both countries public expenditure has increased by almost 10% reaching highest point in 2009 when both countries experienced highest decline of GDP.

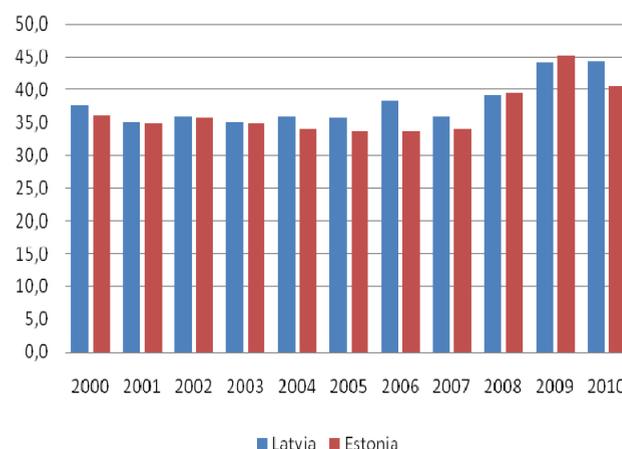


Fig. 1. Public expenditure as a % of GDP [10]

Source: Eurostat. Total general government expenditure % of GDP.

Therefore overview of economic development of Latvia and Estonia before and during the economic crisis shows that country with a long-term public finance policy with budget surplus ensuring better economic development and that long term needs and perspectives are taken into account. Even if public expenditure exceeds 40% of GDP in last two years (see Figure 1) it is evident that economic crisis lead to adjustments in the public sector in both countries.

3. Consequences of reforms in public administration

Governments were forced to perform public administration reforms by reducing number of institutions, cutting wages in public sector as well as reducing administrative costs. Even if Estonian economic situation was not as worse as Latvian number of civil servants were declined by 5,5% from 2008-2010. The size of the public service, in terms of numbers of officials, dropped by 3,5% between 2008 and 2009, with the strongest reductions taking place in ministries (-16,9%) and in county governments (-11%). In Latvia this scenario was even worth. In 2010 in state budget institutions in average were employed 62,9 thousand people, this is 25,4% less than in 2008 and 11,4% less than in 2009. Nevertheless Estonia's public service is 4,5% of general employment, compared to 8,3% in Latvia.

Public employees were also forced to suffer from cut of personnel costs. In Estonia series of overlapping budgetary measures first to freeze and then to cut personnel costs began in April 2008, with the decision to freeze pay in 2009 and 2010. The overall impact is that the total pay bill in 2010 is 15% below that of 2008. However, in contrast to Latvia, in Estonia individual ministries and agencies could choose their own means of cutting personnel costs. In Latvia situation was much worse. The government agreed to cut pay by 15% in 2009, although with protection for the lower paid. The large number of those whose pay was protected meant that the impact of the cuts was less than planned and in June 2009 a second round of cuts was adopted, cutting pay by 20% for the higher paid and by 15% for the lower paid; many bonuses were abolished and there was widespread use of unpaid leave. As part of the package agreed with the IMF, the government has introduced a single remuneration system for those in central and local government institutions, which cut pay in 2010 by an average of 5% compared with 2009 [11].

During the period of economic crisis in Latvia salaries of public employees were reduced approximately by 27,7% between 2008 and 2010. This has caused consequences.

Since beginning of 2011 approximately 10% of employed in central government institutions has left public administration. This tendency is going to grow up. Current situation in Latvian labour market shows that layers working in state

institutions earn 53% of equal performance in private sector. Persons leaving public administration are those with experience in the sector for more than 5 years. The reasons for leaving public administration are different, but in most cases it is not only the question of salary. People are overloaded; they don't feel satisfaction with their results [12]. Pay strategies influence employee behaviour and consequent performance, but are not the only ones who influence employee motivation. One of those would be the role of satisfaction and motivation of public employees producing results [4].

Situation in Estonian state administration is not so worthwhile, since much more strategic driven HRM is foreseen. The proportion of officials who left in 2010 was highest in ministries (9,8%). Number of the proportion of state administrative agency officials whose length of service exceeded 10 years also characterise that human resource management in Estonian state administration is much more driven to sustainable development in HRM than Latvians. In Estonian state administration number of officials whose length of service exceeded 10 years reached 54,2% in 2010 in comparison to 11% in Latvian state administration [12, 13]. Nevertheless survey of the situation in personnel management conducted in 2010 among heads of administrative in Estonia come to conclusion that strategic personnel management has yet to become the recognised, systematic approach:

- different areas of personnel management have been developed unevenly: recognising, motivating and rewarding employees, planning careers and personnel and evaluating performance need the greatest attention;
- there is no common 'best practice' in personnel management nor a system for evaluating performance which would provide a basis for comparing the level of personnel management, including the effectiveness and performance of actions [12].

Leaving of experienced staff and lack of performance based motivation system raises question on sustainability of both public administrations in terms of long-term human resources and effectiveness of state institutions. Therefore in both countries HRM policy instruments encouraging improvements in performance measurement and assessment should be introduced. This would facilitate development of sustainability in

HRM in public administration as well as improve effectiveness and efficiency of state institutions.

Conclusions

According to Nickols, managing change has at least two meanings [14]. The first one refers to the making of changes in planned and systematic fashion. The second meaning refers to the response to change over which the organisation exercises little or no control, for example economic crisis and political upheavals [14]. It is evident that changes in Latvian and Estonian public administrations have been reactive to solve short term problems. This assures conclusions of several empirical studies that concept of sustainability emerged in situations of economic crisis, since decisions taken to solve economic discrepancies are primarily oriented on budget cuts and fiscal consolidation.

Efficient, effective, accountable and transparent public administration can boost legitimacy, trust and commitment to the economic and political reform agendas, as well as improve the quality of policy design and implementation. However, public sector reforms are often complex, unpopular, contested and risky. They require time to produce results and prove their benefit. The combination of prioritising economic objectives on the one hand, and the ability of a limited number of individuals to exercise quite a bit of influence – “personalism” – on the other, may have created circumstances in which public administration needs are unrecognised and under-valued in terms of providing immediate political payoff.

Therefore the overview of actions taken during the economic crisis between 2008 and 2010 suggests that undertaking administrative reforms, particularly on HR issues, is not the main concern of government per se: reforming the public service is a vehicle to respond to financial demands. Current situation proves that actions taken during economic crisis to reduce number of public employees and cut of personnel costs were not facilitating development of sustainable public administration. Statistics shows that Estonian state administration is much more driven to sustainable development in HRM than Latvians. Nevertheless the positive conclusion for both countries is that changes in public administrations of Latvia and Estonia provoked by economic crisis has encouraged both governments

to look on human resource policy in public administration more strategically, planning and introducing HRM instruments facilitating development of sustainability in HRM in public administration.

Reference

1. Parrado, S., Löffler, E. *Towards Sustainable Public Administration*. Final Report. Madrid. June 2010. [www.eupan.eu. accessed January 2012. http://www.eupan.eu/files/repository/Final_Report_on_Measuring_Sustainability.pdf].
2. Fiorino, D. *Sustainability as a Conceptual Focus for Public Administration*. Public Administration Review American University. 2010. [online-library.wiley.com. accessed January 2012. online-library.wiley.com/doi/10.1111/j.1540-6210.2010.02249.x/pdf].
3. Strandberg, C. *The Role of Human Resource Management in Corporate Social Responsibility*. Strandberg Consulting. May 2009. [www.corostrandberg.com, accessed January 2012].
4. Miner, J. Crane, D. *Human Resource Management, The Strategic Perspective*. Harper Collins College Publishers. 1995. p. 712.
5. Taylo, L. *Human Resource: Critical for Sustainable Development*. Vietnam Business Forum. August 2011. [www.vccinews.com].
6. Ehnert, I. *Sustainable Human Resource Management: A Conceptual and Exploratory Analysis*. Physica-Verlag Heidelberg. August 2009. 289 p.
7. OECD *Estonia: Towards a Single Government Approach*. OECD Public Governance Reviews. OECD Publishing. 2011. [<http://dx.doi.org/10.1787/9789264104860-en>. accessed December 2011].
8. *Statistical data base of Latvia*. [www.csb.gov.lv. accessed December 2011]
9. Ministry of Finance, *Latvia. Fiscal consolidation % of GDP (2008-2010)*. [www.fm.gov.lv. accessed December 2011].
10. Eurostat. *Total general government expenditure % of GDP*. [<http://epp.eurostat.ec.europa.eu>. accessed January 2012].
11. EPSU. *The wrong target – how governments are making public sector workers pay for the crisis*. Labour Research Department.
12. Upište, E. *Cilvēkresursi kā garants valsts pārvaldes pakalpojumu kvalitātei*. Konference Labāks regulējums efektīvai pārvaldībai un partnerībai. 1-2 decembris 2011 gada. [www.mk.gov.lv].
13. The Ministry of Finance of the Republic of Estonia. *Public Service Yearbook 2010*. Tallinn 2011. [www.avalikteenistus.ee].
14. Nickols, F. *Change Management 101: a premier*. 2006. [<http://home.att.net/~nickols/change.htm>].