

„LATVIJAS ILGSPĒJĪGAS ATTĪSTĪBAS STRATĒGIJA LĪDZ
2030.GADAM”

PAMATZIŅOJUMA ĀRVALSTU EKSPERTU VĒRTĒJUMI

NOVEMBRIS, 2007

Izpildītājs:	SIA “Analītisko pētījumu un stratēģiju laboratorija” Ausekļa 1-12, Rīga, LV-1010	
	Darba grupas vadītājs	M.Phil.,PhD (Cantab.) Roberts Kļiis
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CONTENTS

BACKGROUND REVIEW BY HELEN SUTCH.....	3
MORE GENERAL COMMENTS	4
GOVERNANCE	7
POLITICAL AND GOVERNANCE SUSTAINABILITY	8
COOPERATION IS GOOD – BUT HOW TO PROMOTE IT?.....	10
CHOICES.....	10
BACKGROUND REVIEW BY BRUNO S. FREY	12
INTRODUCTION	12
SPECIFIC COMMENTS	13
INTRODUCTION	13
HAPPY PEOPLE IN A PROSPEROUS COUNTRY	14
SUSTAINABLE AND HEALTHY LIFESTYLE	14
CREATIVE, TOLERANT AND “YOUTHFUL” SOCIETY.	15
COOPERATION-BASED COMPETITIVENESS	16
THE STATE AS PARTNER IN FASTABILITY (?) AND ADAPTIVITY	16
BACKGROUND REVIEW BY INGUNA DOBRAJA	18
COMMENTS	18
THEMES	19
BACKGROUND REVIEW BY FABIAN ZULEEG	20
GENERAL COMMENTS.....	20
OVERVIEW	20
SELECTION OF ISSUES IN THE BACKGROUND REVIEW AND FOR THE STRATEGY	20
TRANSLATING THE FINDINGS FROM THE BACKGROUND REVIEW INTO THE STRATEGY	22
ANALYSIS AND CONCLUSIONS	23
SPECIFIC COMMENTS.....	24
ANSWERS TO THE KEY QUESTIONS POSED BY THE PEER REVIEW QUESTIONNAIRE	27
BACKGROUND REVIEW BY CALVIN TAYLOR.....	30
INTRODUCTION	30
OVERALL ASSESSMENT.....	30
ADDED VALUE.....	30
PERFORMANCE.....	31
SPATIAL DIMENSION.....	31
TRADITION V INNOVATION	31
SUSTAINABLE DEVELOPMENT.....	32
MOBILISATION OF ACTORS.....	32
OTHER THOUGHTS.....	32

BACKGROUND REVIEW BY HELEN SUTCH

November, 2007

The report has great strengths. It highlights some of the most important issues that will condition Latvia's sustainable development and explains them well. I commend the recognition that the principles of sustainable development need to be supported by society and that involvement of the public and public awareness campaigns need to be mounted. The point is clearly made that this is not just an exercise for technocrats.

In my view, however, there is one important gap in the scope of the report which I will note briefly first and come back to later. Governance does not appear among the main topics of the review. I quote (p7):

The values, habits principles of life and work, organizational structure of small groups, forms of cooperation and competition, social and cultural capital and institutional capacity to achieve long-term strategic goals – these are the main topics of the review.

Yet governance is fundamental to the rule of law, the legitimacy of the State and its ability to protect its population, the efficiency of markets, the way societies organize themselves, and the degree of toleration, cooperation and trust in society. Governance is critical to the quality and sustainability of all these dimensions, and must surely form part of any conceptualization of sustainable development. To clarify: these are not issues of "institutional capacity" if capacity is understood as skills and competence, though these are also necessary; and governance should not be seen as the preserve of the formal public sector either¹.

Thus the Introduction p4, raises expectations that are not fulfilled (my italics):

Involving the public would also highlight relevant issues in *national and local institutions*. It would, for example, shed light on information gaps which exists between government, on the one hand,

¹ As a working definition: governance is the *way* in which power or authority is obtained and exercised through institutions, where institutions are the "rules of the game." This leads to such questions as: "how transparently, openly, is power exercised? In a participatory fashion or in an hierarchical, authoritarian way? Effectively, in terms of delivering results? These and many other questions can be asked in relation to both public and private sector institutions, as well as about less formal groupings of people.

and citizens and social partners, on the other hand, resulting in clearer definitions from experts and civil servants.

While information is a good example to use, and it is commendable that the report introduces this early on, there are many other aspects of governance that are deeply important to citizens and social partners. Some of them come through obliquely in the thoughtful references to the denial of history and to the current cleavages, social exclusion and widespread distrust in Latvian society, but are not analyzed or pursued in terms of appropriate remedies. Sadly, chapter V is disappointing as a result.

As mentioned, I move on to other topics and will return to the subject of governance, and institutions and governance, later on.

MORE GENERAL COMMENTS

I support the intention to integrate all the elements within one strategy rather than prepare separate growth, transport or other strategies and try to meld them later. Even though different options, sequencing and critical paths may be explored, it would be dangerous to sacrifice any one of the key elements, or – in particular – appear to give countenance to the idea that a narrow growth strategy could be either desirable or viable. The report deals well with the potential tensions and even conflicts – especially in the short-term - between growth and quality of life objectives. It also refers to the synergies. Here, it could benefit from further elaboration. It would be good to explain rather more clearly that incorporating good governance and environmental factors will do more to assure the sustainability of growth than narrow growth objectives per se. This argument is evoked by the Stern report in regard to climate change, but the idea that good governance now of resources and assets, and investment now in sustainable practices, will be less costly than adjustment later has a broader application than climate change per se.

In this context it would be worth making explicit the trade-offs over time, as different generations have different interests, and even within a generation there can be a strong bias towards immediate gratification. The commercial world appears to be increasingly short-term in its approach, especially in countries where financing relies to a large extent on the stock market and is driven by quarterly figures. This elevates short-term gains over investments with a high return

in the longer-term. Similarly, Governments may not look beyond their short-term electability – although there are honorable exceptions. In general, however, benefits accruing to future generations are usually heavily discounted. Recognition of the incentives for short-term-ism, and the need to find acceptable and effective ways of counter-balancing them, will makes the discussion on sustainability all the more valuable and important.

One way to approach this discussion is to show that there are closer links between the present and the future than is sometimes assumed, such that choices made now have substantial implications for future viability. A concept that would be useful in this regard is that of hysteresis or path-dependence. It contrasts with the comparative statics theory in which the society or economy leaps from one equilibrium to another without being influenced by the way it gets there. Path dependence is essentially a recognition that the order and the way in which things are tackled can affect the outcome; and also that being in a particular state can be self-reinforcing. To me, this concept is implicit in the discussion of why not to go for growth first and worry about sustainability later, and could usefully be developed explicitly.

A good example is unemployment. Labor market research has shown that long-term unemployment is both demoralizing and stigmatizing, and often undermines health status. All these aspects mean that the long-term unemployed are less attractive to employers, and may become discouraged, in contrast to the recently unemployed. This results in a structural reduction in the labor force which constrains macroeconomic policy. The level of demand that previously could have elicited a non-inflationary response from the economy will be lower once long-term unemployment is entrenched. Thus policy-makers cannot freely “choose” unemployment now versus unemployment later, as if they were independently available. One will have consequences for the other. The same rate of unemployment based on widely dispersed short-term job loss will be less damaging to the macro-economy than permanent segmentation of the labor force. There are also clear implications for social exclusion and immigration policy.

Applications of the path dependence analysis for Latvian society today range beyond unemployment in itself – such as the marginalization of the old, the social and employment cleavage between those of Latvian and Russian heritage, the visible inequality of income and wealth (the example of numbers of Mercedes per head in Latvia and Denmark, compared with their levels of income per head, is telling.) These features are likely to be self-perpetuating and self-

reinforcing unless explicitly tackled. And, in general, it is cheaper and more efficient to tackle them before they become even more deeply entrenched as they tend to be irreversible, or reversible only with great effort and expense. And of course it is also more humane to prevent than to rescue, and easier to moderate inequality than rein it back once it becomes extreme.

In particular, the continuation of marked inequalities of economic, social and cultural capital is likely to be self-reinforcing. These inequalities entrench a privileged elite who are likely to have easier access to policy-makers and therefore a disproportionate and undemocratic impact on policy outcomes, and who also have the ability to amass wealth and invest in ways that will shape the future development of the economy – possibly in the interests of a narrow few rather than the great majority. This is another example of path dependence.

I should add that I am not advocating total equality, but rather the avoidance of extreme inequalities which cross-country experience indicates are corrosive for society. What is most important is an adequate standard of living for all and the ability for all to participate in society, take an informed position on issues, and make their voices heard. Democracy depends on equal access to education and health, and adequate income in order to function. In addition, in order to protect the democratic process, most societies attempt to safeguard the integrity of Parliament and of policy-making by rules on gifts, and constraints on privileged access (back to governance).

The discussion of history, stigmatization and social exclusion is well done, and the idea of transforming the past into a creative resource is a noble one. This will be challenging for all concerned but enormously worthwhile if the society is to develop in a sustainable way. To be inclusive and complete, the historical account will need to include the life and murder of the Jews of Latvia². While this may still be painful for some to acknowledge, there are encouraging signs: I have noticed that Latvian scholars are now re-examining the past. This can only be healthy if the society is to come to terms with its past and find an inclusive way forward that can acknowledge the contribution of the Jewish people.

² Some years ago, I noticed that the memorial stones at Rumbula commemorated the dead as Latvian freedom fighters. There was no reference to the wholesale extermination on that site of all the Jewish population of Latvia including children. This strikes me as another example of the denial of history and stigmatization that the report describes. It would be good to know that this is no longer the case.

GOVERNANCE

As mentioned at the outset, the main lack in the report, and it is an important one, is attention to good governance and how it could be made sustainable. Good governance relies on good institutions of various kinds, both inside and outside the State, yet the few references made treat it as a technocratic responsibility of the executive - a very incomplete notion of the State's role in safeguarding civil liberties, equality before the law, and democracy.

As with civil liberties, equality before the law, and democracy, development of good and sustainable_institutions should be a goal in itself. It is also important because it is necessary to achieve overall economic, social and environmental sustainability. In the second, instrumental sense, it is critical to understand and manage institutions in order to find viable pathways and measures that will deliver the sustainable development objectives. I understand that the role of this document is not to provide specific solutions, nor even precisely to define strategic goals, but to create a basis for discussion that will converge on the strategic goals. However, the approach frequently recommended in the report of "promoting cooperation" is unlikely to be credible without more attention to the institutional underpinnings that would be needed to achieve it. This is particularly so in an environment dominated by low trust - which the report explains very well.

Related to this: corruption and crime reduce trust and will condition the ability to achieve a sustainable and harmonious nation. Yet these words do not occur in the report. Governance and "good governance" are mentioned a few times, but in restricted senses: for instance the first refers to the UK, the others to the pace of the policy planning process and the technical responsibilities of the executive, and to the absence of trust in government in Latvia. The last reference is the most relevant. Trust is key to sustainable good governance and social inclusion as well as to efficient markets. The report explains the historical and current reasons for lack of trust, but does not tackle the governance reforms that could help to restore trust and create a reliable and predictable framework for markets.

A clarification on the word "institutions". Many people use this word to refer to organizations, but it is helpful for our purposes to use the word "institutions" in the sense established by North, of the rules and norms that influence or determine people's behavior, and hence shape outcomes. Institutions can be formal or informal. Formal institutions are official laws and regulations. But if

there is little tradition of respect for the State (as in Latvia), weak compliance with the law, and/or a compromised judicial sector, the rule of law will be undermined, and informal institutions will be a powerful influence in determining outcomes.

Informal institutions are private interests and motivations, customs, traditions, loyalties to the family or the group, which can even include criminal and Mafia networks.

This is a concept that would be very helpful to you in the sections referring to denial of history, social isolation, and also in the consideration of how to legislate and motivate change³.

Thus, if we want people's behavior to change – whether in favor of a green environment, healthy lifestyles, social cohesion or any of the other good objectives the paper proposes – it is first important to understand what kinds of rules drive that behavior. The answer helps to identify the measures that will effectively reach those objectives, and the vested interests that may need to be managed; and also to map out the sequencing and management of change. Institutions tend to grow slowly, which must be taken into account when setting out the critical path.

My comments on institutions above make the instrumental case for the importance of institutions – that is, that good institutions are needed in order to achieve the higher objectives of sustainable development and that at the same time, one need to understand and manage the “bad” ones. Yet the non-instrumental case for good institutions – the case for institutions as an end in themselves - is if anything more important.

Good institutions, both formal and informal, are critical to a sustainable, well-governed state.

POLITICAL AND GOVERNANCE SUSTAINABILITY

The chapter on the State as a Partner in Fastability and Adaptivity does not carry forward the concept of social inclusion that was well-developed in earlier chapters. As the report makes clear, Latvia starts with an unpropitious social structure, stigmatization of certain groups by others, and marked inequalities of income and wealth and between the generations. If people are to feel

³ There is at the same time a substantial overlap with the concept of organizations, as institutions tend to be mapped on to organizations. Each organization operates with its own set of rules. An organization can be robust and effective at what it does, but this does not necessarily mean it is operating according to the rule of law, or that its output is socially desirable. In clientelist states, a client can be accountable to a patron, but that does not mean that the patron's objectives are honest or are in the public interest. Institutions are the rules by which people govern themselves, and it is the *real* rules of the game that count, for good or ill.

socially included, what are the implications for the way politics is conducted and for governance? My feeling is that the report needs to pay more attention to the political sustainability of Latvia and Latvian development. Perhaps the authors share the Latvian distrust of state institutions that is documented in the report and therefore find it hard to see them as part of the solution.

In the political process, people need representatives they can trust to carry out good policies in the public interest, and not to serve personal and elite interests. They need to be able to join political parties that are stable around specific policy platforms, so the development of mature political parties is also part of it. People need to be consulted about the policy and services they want to see, and able to participate in debate, for which they also need to be well-informed. All these things have implications for the way society is governed. For instance, a sustainable state explains and communicates about what it is doing and why, and reports back to the people afterwards. At the same time, citizens must be sufficiently educated and able to participate. Thus a regular, accurate supply of information and mechanisms to provide transparency are needed also.

The executive needs to be accountable, directly to the electorate at the time of elections, but also to a range of institutions: for instance, the Parliament and the State Audit Office. The judiciary needs to be able to exercise credible constraint on power should abuses appear. For credibility, it needs to be above suspicion in all its dealings.

In parallel, the media (the fourth estate) need to investigate and explain issues, report accurately, stimulate debate, and not to be captured by private interests. (I recall that it was possible to pay for favorable news items – is this still the case?). Citizens need to exercise scrutiny over the actions of government and the efficient and fair delivery of services.

All these elements contribute to the development of a reliable, informative and open State which provides the environment in which trust and cooperation can develop. Political sustainability depends on people having confidence in their government, their civil liberties, and their institutions; in, for instance, knowing that they are indeed equal before the law, and can rely on a fair and independent judiciary. People who have confidence in the fairness and impartiality of the law can afford to be more relaxed in their dealings with others. This is an important development objective in itself, as well as an essential element in order to deliver the other objectives. Without trustworthy

institutions, cooperation is unlikely to develop, and all other efforts at sustainable development are likely to founder.

COOPERATION IS GOOD – BUT HOW TO PROMOTE IT?

As mentioned above, the report's description of low trust communicates well but the remedy put forward for this, as well as for a number of other problems, is simply to "promote cooperation". It is hard to disagree but also hard to see what will bring this about. People need incentives to cooperate. The report would benefit from a discussion of the kinds of incentives that could be deployed and that would be appropriate in different contexts. These range from socio-cultural signals as to the social superiority of a green or healthy lifestyle; to subsidies (e.g. to install solar or wind power); to taxation; to regulation; to prohibition of certain types of behavior, such as behavior that is socially or environmentally damaging (hate speech, pollution) or behavior that abuses power or is corrupt; to market instruments (as are adumbrated in the discussion of Latvia's advantage as a carbon sink). Such a discussion would help to make clear that there is a range of instruments that could be used to change incentives depending on what would be most efficient and acceptable in any particular context.

Similar points could be made elsewhere in the chapter, including "It is necessary to ensure trust" (p39 (4)), and with reference to the way to move the strategy forward. "It is necessary to mobilize political support and to ensure a high level of coordination..." (p41). These are valid as far as they go – and the diagnosis of low political trust is excellent - but there is too much exhortation in the remedies invoked. They generally leave out motivation and incentives – which are key to changing attitudes..

CHOICES

At the beginning of chapter 5, three choices are set out which also warrant some comment. I extract the section for ease of reference:

- 1) The choice between active intervention and the risk of large investment, on one hand, and the so-called "wait-and-see" policy which may result in potentially even greater losses in the long-term, on the other hand.;

- 2) The choice between development which is reactive to external challenges or a proactive approach in ensuring international and domestic competitiveness;
- 3) The choice between an elitist, relatively closed approach or an open and partnership-based approach towards ensuring public benefits.

On 1, it is hard to see why active intervention need result in large investments. Policies will surely be the leading factor, and will determine the choice of public versus private investments. Meanwhile “wait and see” is not really a choice. Governments never sit on their hands, and if the choice has been made to have a sustainable development strategy – that alone entails that something will happen. The real choices are in the decisions on policy priorities, the weighing of different ways of implementing policy, and the kinds of efforts made to share and debate these choices openly. Similar points could be made about 2 and 3.

Where PPP is concerned, the paragraph on p40 is not entirely clear. If it means greater cooperation with civil society that is positive, though one still wants to ensure that civil service organizations are accountable for what they do and the money they receive. If public-private business partnerships are intended, it would be helpful to make clear that experience across the world has been mixed to say the least. These can be hard to make work. The difficulty of writing sufficiently complete contracts, of apportioning risk fairly, of holding private sector partners to cost ceilings and to account, have resulted in a number of unfortunate outcomes in which public subsidies have mounted while investment in the facility declined. Public safety has sometimes been compromised. Some caution would be warranted here. As the State usually has access to cheaper funds than the private sector, it could be more useful to focus on the technical and managerial expertise needed, rather than the financing.

And a final word on the old. As well as social integration and integration in the labor market, there will need to be adequate social benefit provision. Particularly in societies where some groups are relatively disadvantaged in the labor market, it is not enough to rely on earnings-related pension schemes for them in old age.

BACKGROUND REVIEW BY BRUNO S. FREY*

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October 2007

INTRODUCTION

This is a very good and most useful background review which provides an excellent starting point to formulate a forward looking strategy for Latvia's future development.

I understand my task not to praise the existing Review but to suggest some further ideas and propose changes. Therefore this Comment does not dwell with the many strong points of the Background Review. However, I want to emphasize that most parts of the Review are well taken and a great starting point to shape Latvia's future.

In order to be as concrete and hopefully contribute to a further improvement of the Strategy, I address my comments to specific sections and pages of the Review. I expect that this approach is the most helpful one for the forthcoming process.

Nevertheless, I wish to mention five general topics where I think that the Review could go further, or take a somewhat different position. They will also be reflected in the specific comments below:

(1) In my view, the Review emphasizes somewhat too little the social discourse process which a modern development strategy should promote. Instead, it leans somewhat too much in the direction of social planning.

(2) The comparative advantage of Latvia could be considered more carefully. It lies in its smallness which has great advantages in a rapidly changing world because it allows quicker adaptation.

(3) The potential of an intelligent tax policy to reach the goals of sustainability and development could be more extensively discussed. Such a tax policy allows Latvia to support creativity and to fight environmental problems in a forceful way.

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(4) The role of an adequate government structure to shape policy could be discussed more. In particular, the Review could dwell more on the central role of local decision-making for a modern, democratic society.

(5) It seems to me that tourism could be given a somewhat more important role as a creative and forward-looking economic sector.

SPECIFIC COMMENTS

INTRODUCTION

p. 4: It is absolutely crucial to involve the public, as is correctly mentioned. The report should be looked at as part of an ongoing discussion process rather than a step towards a final plan. It could go further by formulating more extensively and precisely how the involvement of the citizens and various groups in Latvia's society could proceed, i.e. the discourse process should become an integral part of the development strategy.

p. 5 (top): Opinion polls are useful but a too passive instrument to involve the citizens in the discourse process. More important than developing indicators is to activate the views of the population involving both their hopes and fears about the future.

p. 6 (top): Economic growth measured by Gross National Product is not a "clearly quantitative concept" because it measures the marginal utility of the products to the consumers through equilibrium prices.

It is correct to state that innovation and creativity not only support economic growth but that economic growth in turn facilitates creativeness and innovation.

p. 6 (middle): Sustainable development does not only require collaboration but, more importantly, adequate governmental institutions such as democracy and political decentralization.

p. 6 (bottom): If a development strategy is considered to be an ongoing general discourse process, a limit of 23 years does not make much sense to me.

p. 7 (bottom): This sounds to me a little too much in the spirit of an old-fashioned social planning orientation which is, of course, not intended by the Review.

p. 9: It should perhaps be made clearer that “proactive governance” does not mean more intervention of the state in society but rather an enabling role.

HAPPY PEOPLE IN A PROSPEROUS COUNTRY

p. 10, Figure 1: The title should read life satisfaction.

p. 11 (1): Life satisfaction can be further increased by more and new forms of democracy such as direct political participation rights by the citizens via referenda and initiatives, as well as by political decentralization. Direct democratic elements are best first introduced at the local level.

SUSTAINABLE AND HEALTHY LIFESTYLE

p. 12: The reduction of carbon dioxide and the introduction of alternative energy sources can be achieved in an efficient and equitable way by introducing economic incentive instruments which have proved to work extremely well in other countries to fight negative external effects. These instruments should definitely be introduced. In contrast, efforts to change people’s consumption behaviour have proved to be difficult to achieve and have led to little.

p. 13 and 14 (1): The extensive discussion of climate change as a global public good sounds nice and corresponds certainly to what people want to hear. However, Latvia is a small country and has little, if any, effect on global climate change. Exactly because it is a global public good, if Latvia abstains from any further pollution the global climate change will not be affected at all if all the other nations proceed as they now do. This does not mean that Latvia should not contribute to the effort to improve our natural environment but only that it should see its limitations as a small country.

The emphasis in Latvia’s environmental policy should, in my view, be addressed to local environmental problems immediately affecting the population’s welfare such as noise, pollution affecting health and visibility etc.

p. 16: To state that consumers should turn to “environmental-friendly and atmosphere friendly consumption” is well thought but it remains open how to achieve this. The same applies to

“environmental-friendly technologies”. I propose that the Review here concretely suggests economic incentive instruments to overcome the negative (local) external effects.

p. 16 (3): China is perhaps not a very good example for a successful environmental policy, at least so far. Air pollution is a terrible problem not only in Beijing but also in many other Chinese cities.

p. 17 (middle): I find the arguments somewhat too much in the direction of preaching. Environmental economics has shown that appealing to the environmental morale of the population has little, if any effect. To engage “popular persons” may have some effect but it must be expected to be quite small (even assuming that such persons can be found). In any case, it does not seem to me to be a sustainable approach, in contrast to the introduction of environmental taxes.

p. 18 (4): I believe it is quite effective to relate excessive alcohol to bad health (including sex problems); to consume less alcohol automatically becomes part of a more refined lifestyle when per capita income rises further.

CREATIVE, TOLERANT AND “YOUTHFUL” SOCIETY.

p. 20 (bottom): The state is not the best actor to promote specific R&D investments because government officials and politicians have neither the means nor the capabilities to predict what investments will be successful in the future. The experience in a great many countries teaches us that this is not a successful approach.

Rather, the government should enable and promote R&D investments by private actors. This can be achieved by lowering taxes on such investments and by reducing bureaucratic burdens. (This policy could well be added to the second paragraph on p. 21).

p. 21-24 (2): Relating creativity to culture and to education is crucially important and could be emphasized even more. The idea that the Soviet past should be used as a creative resource is well taken indeed, and the arguments adduced are strong. Perhaps one could add that this also means that one can learn from this past of how not to do certain things.

p. 25 and 26: Integration among ethnicities and generations is extremely important for the case of Latvia, as is well spelled out. But I advise not to present the figures on “ethnic composition” of the Latvian population because these statistics are not only doubtful but should also be overcome in the future.

That there are many aliens living in Latvia is normal for a small country and should not be a great concern.

p. 27 (top): It should be emphasized that Latvia is a net brain donor because it is good that young Latvians spend part of their lives in foreign countries (gross brain export) as long as the conditions in Latvia can be made attractive enough for them to return later in life.

COOPERATION-BASED COMPETITIVENESS

p. 28 (1): It would be good to have some indication of how social capital can be raised. Important factors in my view are good governance consisting of efficient public services, extensive political participation rights of the citizens and shifting as many tasks as possible to the local level.

p. 29: An effective way to “create new technologies” is to offer favourable tax conditions for individuals and firms to engage in this task.

p. 32: It may make sense to orientate Latvia more towards Asian countries but it is not clear to me what the comparative advantage of Latvia is in this regard.

p. 33: The discussion of global climate change is rather repetitive and I therefore propose to drop it here.

p. 34: If consumption goods producing negative external effects are indeed more highly taxed (think e.g. of cars with high exhaustion levels, and producing much noise), then Latvian companies automatically receive an incentive to promote environmental-friendly consumption.

p. 35 and 36: The emphasis on cities, public transportation and regional infrastructure, and tourism is well taken. It might be added that the necessary government expenditures can be financed by appropriate taxes on environmentally damaging activities.

THE STATE AS PARTNER IN SUSTAINABILITY (?) AND ADAPTIVITY

p. 36: I am afraid that the first paragraph is phrased somewhat too much in an old-fashioned “planning jargon”. What matters is that the government promotes a desirable future development by supporting a corresponding discourse process, not to plan it in a technocratic manner.

p. 37 (1): I believe that this section overestimates the possibilities of using a state planning approach which conflicts with the major goals, in particular creativity.

p. 37 (bottom): This is again repetitive and could be deleted.

p. 38 (3): It would be good to spell out what comparative advantage Latvia has to strengthen relations with Asian countries.

p. 39- 41 (4): The ideas promoted - which I fully share – would be even more useful if it was suggested how they can be achieved. As above, I favour increased political participation rights and strengthened local decision-making power.

p. 41 (5): While politicians should obviously be engaged in the process, the Review should make even more clear that a top-down approach should be evaded and that a successful development strategy must involve the citizens and their groups in an ongoing discourse process

BACKGROUND REVIEW BY INGUNA DOBRAJA*

October 2007

First of all many thanks for inviting me to peer review the Latvia's Long-term Sustainable Development Strategy. I would like to congratulate you and the team for taking on this challenging task. I read the draft with a great interest and I have to admit that I enjoyed the reading, mainly because this draft strategic document for Latvia differs from everything I have read before.

I also understand that this background material has intentionally left out several development areas, which will be addressed in the later versions of the LSDS.

Therefore, I believe that at this stage my comments are mainly for brainstorming purposes and as such should be considered.

COMMENTS

Structure of the document. Overall the storyline for this version of the strategy is clear and flows well. My only comment relates to the climate change topic – it is kind of scattered throughout the document and seems to capture slightly excessive attention.

Issues addressed and possible additional areas (I will use most of the Questions for Peer Reviewers to reflect my comments)

Overall assessment. The draft was helpful to understand the current environment and main societal trends in Latvia. There is a lot of interesting and relevant informative material, including extensive research material on Latvia specific issues. At the same time, the draft did not present a clear picture of the policy making process at national level. I believe that, to some extent, I am familiar with the policy making process in Latvia, but for an outside expert the “real story” might be difficult to grasp.

The performance. Most of the countries I have been working with face similar problems in designing strategic development documents. The most difficult issue almost always is the integration of the strategies into the medium term budget framework and monitoring and evaluation of outcomes of any strategic intervention.

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THEMES

Integration of Spatial Dimension. I would suggest having a separate section in the document that will cover regional aspects. No doubt, regional development, and urbanization in particular, play very significant role in Latvia's development, and, although, it is a cross-cutting issue and to some extent will appear in every theme, the importance of it might be better revealed in a separate chapter. Riga with its significance (and, hopefully, spillover effects) in the country's overall development might deserve a sub-chapter.

Traditional vs Innovative Aspects of economy. One issue to consider is that high-tech or innovative sectors are not always synonymous with high value added, high wages or rapid growth. For Latvia it might make sense to look at the "traditional" economies and help them to increase competitiveness and value added. At least, some balance between high tech/non-high tech needs to be considered.

Sustainable Development. Strategy should include or should be followed by a very clear implementation framework and it needs to be embedded in a multi –year budget process supporting the sustainable development strategy. It should also have a clear monitoring and evaluation mechanism that will assess results and outcomes instead of outputs.

Mobilization of all actors. Taking into account the significance of local governments, I did not find reference to what extent **the participation and role of local governments have been /will be reflected.**

Additions. Just a few ideas: Capital spending/large investments and their effect on sustainable development including PPP at the state and municipal level (capital expenditures in Latvia have increased from about 3% of GDP in 2004 to about 5% of GDP in 2005-2006 with further increases foreseen); Savings mentality vs. spending mentality both at the state and individual's level; employment policies, especially those aiming to retain aging population in the labor market; education and its outcomes measured in employability and relevance to the innovative business environment (labor market demand).

BACKGROUND REVIEW BY FABIAN ZULEEG

GENERAL COMMENTS

OVERVIEW

Overall, the background review covers important issues which need to be considered in relation to Latvia's sustainable development (SD) strategy. The key questions which need to be addressed now are:

- a. How does the background review dovetail with the wider evidence base which will influence the SD strategy?
- b. Where does the background review focus on background evidence and where does it draw conclusions and makes recommendations for the strategy?
- c. How and in what structure will the review feed into the strategy?

SELECTION OF ISSUES IN THE BACKGROUND REVIEW AND FOR THE STRATEGY

The background review has clearly focused on a small selection of issues, on the basis of these being especially pertinent for Latvia and also to avoid duplication of work which has been done elsewhere. The factors listed in the background review are relevant to a future sustainable development strategy but it would also be helpful if the context is set out, i.e. what other sources of analysis and strategy/policy will feed into the SD strategy and why these specific issues have been selected for the background review.

For the SD strategy, it will be important to decide how broad the focus is going to be. In general SD strategies tend to fall into two categories – either they focus mainly on sustainability issues, with a specific emphasis on the environmental elements, or they attempt to address the issue of sustainable growth, covering economic, social and environmental issues. In part this depends on whether the strategy forms part of a wider range of strategy documents, where, for example, innovation, macroeconomic issues, skills or competitiveness are addressed in other strategy

documents. If these issues are covered elsewhere, it would be useful to make the read-across more explicit.

In my view, the key issues which need to be addressed for future SD in Latvia, whether in the SD strategy or elsewhere, include the following broad topics:

- Resource supply – energy (incl. nuclear), raw materials, food
- Resource efficiency – using less to generate more
- Human capital /education, training & skills
- Labour market – efficiency and integration
- Out migration/circular migration
- Innovation, research and the knowledge economy
- Macro-economic and financial stability, debt and external balance
- Climate change/CO2 emissions
- Globalisation – trade and investment/ Single Market
- Demographics
- Economic growth/ income growth
- Income distribution and poverty
- Spatial integration (urban-rural, regional)/community development
- Real estate and housing
- Cohesion, anti-discrimination and integration (e.g. non-Latvian speakers)
- Lifestyles and health
- Pollution and waste (households and firms)
- Quality of life
- Transport and connectivity

- Availability of external support/aid and its implementation
- Sectoral issues: agriculture/forestry/fishing, manufacturing, services, financial services, 'green' goods and services, energy, tourism, construction, creative and knowledge industries
- Entrepreneurial activity, start-ups, availability of risk capital
- Business environment and bureaucracy
- Taxation, public spending, social security, social safety net
- Intergenerational equity and pensions
- Efficiency and effectiveness of the public sector
- Productivity and competitiveness, domestic investment
- New technologies – nanotech, ICT, biofuels, renewables, etc.

TRANSLATING THE FINDINGS FROM THE BACKGROUND REVIEW INTO THE STRATEGY

To be able to use the findings of the background review most effectively in the development of the strategy, it would be useful to be clear what aspects of the strategy they will inform. Within the SD strategy, it would be useful to distinguish between:

- Vision – the long term vision for Latvia;
- Aims and objectives – what the strategy aims to deliver;
- Internal drivers – trends within Latvia which will influence future SD;
- External drivers – European and international trends which will influence Latvian SD;
- Policy options and instruments – available levers which the Latvian government has at its disposal; and
- Process: Specifying how the strategy was drawn up (including consultation), the underlying evidence base which has informed the strategy and how and by whom the strategy will be implemented – e.g. monitoring and evaluation, benchmarking and indicators. It should also specify timing, M&E mechanisms and when it will be reviewed and updated.

At the same time, the strategy should explore which factors refer to economic, environmental or social aspects of SD and whether there are significant trade-offs between them which need to be taken into account, including budget constraints.

ANALYSIS AND CONCLUSIONS

It would be useful to see more specific data for Latvia and a more in depth analysis of Latvian trends if the data is available. Reference to key data / statistics should underpin the rationale for the strategy. Some of the analysis could refer to EU countries for 'rule-of-thumb' comparisons. For example, the ex ante evaluations and the Operational Programme for European Structural Funds do a thorough socio-economic and environmental analysis to underpin the programme which is similar to an SD strategy so there might be useful analysis there which was prepared for the 2007-13 period.

At times, the review could draw a clearer distinction between evidence and analysis on the one hand vs. normative recommendations and aspirations on the other. For example, attaining a high degree of income equality is an aspiration, whereas how people value inequality is the evidence. It might be useful to make it clear in the structure where the evidence is presented and at which point conclusions are drawn.

Most of the conclusions the background paper draws will provide a sound basis for the development of the Sustainable Development (SD) strategy. However, I am not sure whether cooperation instead of competition is a sound conclusion – I think this issue needs to be explored a bit further. To provide Latvia with a sustainable, competitive economy, being exposed to competition within Latvia, the EU and beyond is critical, in my view. The strategy needs to focus on how Latvia will address competition. Cooperation might well be a strategic approach to achieving this in some areas (e.g. for example in terms of regional transport links) but this is actually based on increasing Latvia's competitiveness. The distinction needs to be drawn between the means and the end.

SPECIFIC COMMENTS

- The paper differentiates between growth and sustainability. This needs to be worded carefully as economic growth is one component of sustainable development. I also think it is important to be clear about cause and effect – while I agree that growth/material wealth by itself is not sufficient to increase people’s utility, it is nevertheless a very important contributor to Quality of Life (QoL) and happiness.
- QoL is highlighted, seemingly replacing economic growth (p. 8) – I would see this as a recommendation rather than following directly from the research. I would also see QoL as one component of sustainable growth, with economic growth remaining a very important component as well.
- Co-operation vs. Competition – I think this does not explore the usefulness of competition, for example in driving down prices and increasing competitiveness. I think that a statement that cooperation is better than competition needs to be carefully underpinned by evidence. In my view, competition is crucial for SD, see for example the role competition plays in driving forward innovation:
http://www.epc.eu/TEWN/pdf/659840296_Cultivating%20a%20market%20for%20innovation%20in%20Europe.pdf
- I am not sure that the term fastability works – maybe speed or responsiveness are better words?
- I am not sure that I agree with the detailed analysis on happiness – I think income is a necessary component in happiness albeit not sufficient in itself. In the analysis, I would not rely on data on China as it is very difficult to verify and it also doesn’t take changing income distribution into account. The level of \$10k is somewhat arbitrary – and additional happiness can come from what people value at whatever income (e.g. democracy or equality). I would suggest that Layard’s analysis would be helpful: <http://cep.lse.ac.uk/layard/> Also, the analysis for Latvia does not really address the distribution issue – while the overall level of income might approach \$10k, this is not going to be uniform.

- To encourage sustainable behaviours (in terms of lifestyles and environment), I would expect that economic instruments feature a lot more prominently – for example, in terms of taxes on externalities and the use of price and market mechanisms.
- The source of the required investment to reduce CO₂ – 1% of GDP – is not mentioned. (p.15)
- I am not sure what is meant by research-related activities using large amounts of energy? (p. 15)
- In the comments on the consumer society (p.17), the text comes across as being quite judgemental. In general, consumption increases and changes as income increases. Consumption patterns are also influenced by culture, global trends and by incentives (e.g. the growth of the ecological / 'green' consumption). Consumption behaviour can be directed towards more sustainability, for example with an emphasis on services rather than consumer goods but I find it hard to see that the fundamental desire of people towards more consumption can be changed.
- The key issue to increase cohesion is to encourage integration into the labour market – work is the key route out of poverty and also to address demographics – see for example http://www.epc.eu/TEWN/pdf/558808413_How%20to%20grow%20old%20without%20going%20obust.pdf
- When the international comparison is made (p.19), I think it is important to emphasise that the EU is failing to generate the growth and jobs needed, as outlined in the Lisbon Agenda. While creativity and innovation is important, there also needs to be the link to the outcomes in terms of jobs and growth.
- On p.20, it is important to specify how the state can effectively encourage private R&D.
- On p. 23, in the analysis it is important to set the comparable student statistics in relation to age groups in the different countries. I am also not clear what the rest of the information on students signifies in this context.
- I am not sure that I can see a direct link between creativity and a more tolerant society.
- The issues around history are important but the key for the SD strategy is to assess what needs to be done to address future SD issues.

- The data on aliens and ethnic identities (p.25) seems somewhat confusing, it might be easier to present this as diagrams/tables.
- The demographics issue mentioned on p. 26 is an issue which will influence all aspects of SD profoundly. I think it should be much more prominent throughout the review. Equally, on p. 31 the impact of ageing needs to be reflected horizontally.
- P. 27 – On migration, there is a need to analyse out-migration (e.g. remittances from abroad, “brain drain”?) and circular migration. Also, how can Latvia attract high value in migrants, i.e. where is Latvia’s competitive advantage in attracting human capital?
- The analysis of in-migration needs to take into account the dynamics of migration, i.e. bringing in new people can increase work, income and growth for everyone as there is no fixed ‘lump of labour’. But the point about ensuring that the infrastructure is there to integrate in-migrants is valid.
- On p.29 about salaries and productivity – if salaries grow faster than productivity (labor productivity?), I would not conclude that that this is driving growth. In essence, there is redistribution between different groups in the population but the overall value of the goods and services which are being produced has not necessarily increased.
- P. 30 - I think the point the Economist is making needs to be interpreted carefully - companies will seek patents as part of competitive behavior but this does not mean that this is necessarily anti-innovation.
- P. 32 – Getting ready for Asian economies is important but the EU is going to continue being the much more important economic partner in the next decades (equally this needs to be reflected on p.38). Also, the relationship with Russia (and Belarus) needs to be addressed.
- P. 34-35 – could maybe benefit from more analysis of the rural situation. I am not sure all people currently moving to the countryside are retired? Even if they are, there is potential to explore how retired people’s consumption can be used to boost local economies.
- P. 39 – I think it is important to make it clear that it is not for government to attempt to plan the economy or external economic relations – the key role for government is to provide a framework for the private sector in which companies make the investment , trade and employment decisions, and for public sector efficiencies in supporting this.

- P.39 ff – In relation to the distrust of state, I am not sure that the solution is to try to channel policy through others e.g. NGOs. In general, they do not have the tools to address all the key issues and they are also not democratically accountable. Building up confidence in the state, through for example strict standards of behavior in public life, might be more sustainable in the long term.
- In terms of the overall conclusions, I am not sure whether creativity means the same as innovation? If there is a significant difference or perceived similarity?, it would be helpful to define this clearly at the outset.

ANSWERS TO THE KEY QUESTIONS POSED BY THE PEER REVIEW QUESTIONNAIRE

Added value

- In terms of the strategic context, as noted above, the aim of the review seems to be to pick out a number of selective issues rather than providing a comprehensive overview
- From the review, it is not really clear to me what the national policy-making process is.
- The review contains a few generic passages which could apply to many countries – I think some of the issues could relate more directly to the Latvian situation if that data exists

Performance

- Very hard to make the comparison to countries of similar backgrounds – to assess this I would need to see the totality of work which is going on or which has already taken place in terms of economic, social and environmental analysis and strategies. For example, is there an economic strategy or a lifelong learning and skills strategy which will complement this?

Integration of the spatial dimension

- I think there is a more general need to decide whether there are specific cross-cutting themes which should be taken into account throughout the review – the spatial dimension might be one of them but I am not sure it should be of primary importance in a small country

- Issues such as demographic trends and workless households might be more important in terms of social cohesion
- When the spatial dimension is discussed, there is a need to link transport and accessibility closely to the analysis but transport should also feature more widely.

Traditional vs. Innovative economy

- For me the key question should be where future jobs and added value will come from and, in light of global competition, I find it difficult to see a sustainable industry sector built on low wages. Latvia needs to prepare for structural change and the impact of globalisation so future economic value generation is crucial, which will be focused in the knowledge economy.

Sustainability vs. SD

- I am not sure what this distinction is specifically about – is this about economic growth vs. the environment?
- I think SD should address all three issues (economic, social and environment) and needs to be considered holistically so growth and sustainability belong together.
- Where ever possible, the analysis should identify win-win situations - but there is also a need to make hard decisions on trade-offs between them. I think this lies at the heart of what the strategy should be about

Common objectives

- It is hard to say at this stage as the background review has focused on a selected number of issues so currently it is missing some elements – see additions in paragraph 17 below.
- To address the challenges Latvia faces, the strategy will have to cover a broad range of issues as economic, social and environmental issues cover the majority of policies for which government is responsible

Mobilisation of actors

- From the background review, it is not really clear to me this whether this has been achieved, but in general I think the key is for government to take ownership
- In my experience, involving stakeholders is critical but it is equally important to bring all government actors together . The strategy needs to emphasise the importance of joint action – at government levels and on the ground.

Additions

- See my comments above, especially paragraphs 4, 7 and 10 f) j) q) s) v)
- The key economic issue which needs to be analysed, with reference to specific Latvian evidence, is what Latvia's comparative advantage will be in future and how the government and other stakeholders can contribute to this.

Future development

- See my comments above – especially paragraphs 5 and 6
- It would be helpful if factual background is separated clearly from analysis/conclusions and strategy/normative recommendations
- There are a number of examples of SD strategies from other areas (or broader strategies) which might provide useful ideas. Examples which could be looked at include:

UK

<http://www.sustainable-development.gov.uk/publications/index.htm>

Scotland

<http://www.scotland.gov.uk/Publications/2005/12/1493902/39032>

FEDS and background analysis – a broader economic strategy and background analysis

<http://www.scotland.gov.uk/Publications/2004/09/19872/42430>

<http://www.scotland.gov.uk/Publications/2004/09/19882/42504>

Wales

<http://new.wales.gov.uk/topics/sustainabledevelopment/publications/startlivedifferently/?lang=en>

<http://new.wales.gov.uk/sedc/publications/susdevactionplan/plane.pdf?lang=en>

Germany (in German)

http://www.bundesregierung.de/nsc_true/Content/DE/_Anlagen/perspektiven-fuer-deutschland-kurzfassung.templateld=raw.property=publicationFile.pdf/perspektiven-fuer-deutschland-kurzfassung

European Union

http://ec.europa.eu/sustainable/sds2001/index_en.htm

http://europa.eu/eur-lex/en/com/cnc/2001/com2001_0264en01.pdf

BACKGROUND REVIEW BY CALVIN TAYLOR

University of Leeds

20 December 2007

INTRODUCTION

The purpose of these notes is to summarise my response to the Background Review Material. These are organised according to the list of questions identified by the review authors.

OVERALL ASSESSMENT

ADDED VALUE

The Background Review provides a clear view of the process by which the strategy will be developed; the national context within which it is to be developed (especially the 'cultural' context) and a clear delineation of the policy choices (as they are currently envisaged).

The Background Review provides a grounding within which the global sustainability agenda will impact upon and be incorporated into Latvia's economic and social development. However, in doing so I think the Review needs to check that it is conceptualising the challenges in a manner that is both accurate in presentation and manageable in terms of potential policy action and impact. I can illustrate this with an example. The Review poses the traditional apparent contradiction between the imperatives of growth (to provide jobs, export revenues, desired levels of consumption, etc.) and sustainability (renewability, environmental conservation, healthy lifestyles and consumption patterns, etc.). This is interestingly placed within the national context of post-Soviet consumption aspirations (especially among the young) and the problem of Latvia's brain-drain (linked to the previous point). The issue of sustainable levels of consumption is a global problem in which all countries have a responsibility but in terms of relative contributions to the scale of the problem, Latvia must only be responsible for a tiny fraction of the overall problem. Latvia cannot account but for a very small proportion of the world's affluent consumption. What I can imagine is that this provides Latvia with an opportunity to use this Strategy to become a beacon of good practice in environmentally and socially sustainable growth and development. The statements on page 14 point towards this possibility. This both helps to get the scale of the problem into realistic focus and identifies an aspiration that Latvia might be able to work with.

PERFORMANCE

A comparator group of companies would be very advantageous – both in providing a benchmark that Latvia could intelligently use to assess its own position and progress whilst at the same time possibly providing an additional source of ideas that might be useful in the Latvia context. Without conducting a similar scoping exercise in other countries it is difficult to identify a suitable comparator group but it should be possible to identify countries where these issues are being discussed and where ideas are being put into practice. Similarly, how Latvia is conceptualised within a system of global competition also needs careful and appropriate presentation. In this context, Latvia's position within the EU is perhaps under-stated in the Background material.

SPATIAL DIMENSION

From the Background Review, it is clear that there is both a general spatial dimension (urban/rural; local/regional/national) to thinking about sustainability but also a specific spatial issue linked to the cultural dimension. The general issues could feature within each chapter, where appropriate, but the specific issue needs to feature within the chapter on creativity and innovation where there is a special relationship between urban scale, cultural and creative assets and the ability to exploit their synergies (more on this in the next section). The role of cities in Latvia might need special attention.

TRADITION V INNOVATION

The Background Review is absolutely correct to acknowledge that the creativity agenda has a possible special affinity with sustainability and clearly goes beyond a simple growth role for the creative industries (although it is possible that Latvia may have scope for developing its CIs beyond their current relatively low capacity). The transformational role of creativity, in the context of more traditional industrial activity should be explored. Especially within a European context, creativity is now more linked to industrial and business development and in thinking about economic resources. This requires a more expansive understanding of the structure of possible links between creative activities and traditional industrial activity. A good example around Europe is to be found in textiles and light engineering both of which are activities benefiting from an interaction with creativity.

The Review is correct to stress the crucial role of education in expanding the impact of creativity on the economy. It might also be added that Higher Education has a new role to play in this conceptualisation of a 'creative economy'. The growth of scientific research across a wide range of activities also needs a robust, complementary strategy of knowledge transfer (or perhaps more

appropriately, 'knowledge exchange') that allows productive interaction between university research and the wider public interest in economic and business development. The Review might also consider how to intensify the collaboration between creativity and Higher Education. This could also take in thinking about creativity and entrepreneurship.

The Review alludes to Florida's ideas about the special role of cities in promoting creativity and benefiting from the influx of 'creatives' (in terms of innovation, tolerance and diversity, etc.). Given the ethnic composition of Latvian society, the ideas of the 'inter-cultural city' might be worth exploring. This goes beyond Florida to think about how identity is re-conceptualised creatively. The recent publications by the Comedia group on this topic might be a valuable resource (<http://www.interculturalcity.com/home.htm>).

SUSTAINABLE DEVELOPMENT

It seems to me that the Background Review poses the important questions about growth and sustainability. However, as Europe especially begins to think about how growth and sustainability can be mutually reinforcing – sustainable technologies as a business and economic opportunity, for example, we may need to move quickly beyond models that posit an opposition between these two imperatives.

MOBILISATION OF ACTORS

My main observation concerns the Background Review as a public document. At present the document presumes quite a high level of knowledge that may be difficult for lay audiences to access. A slimmer document that posed a series of questions and invited audiences to explore some of the Review approaches might be worth considering.

OTHER THOUGHTS

I think the document would benefit from some simple graphical representations of the economic composition of the Latvian economy, perhaps with a trend graph showing the relative value of the main industrial sectors over time. I think this would help to make some of the more abstract propositions of the document concerning the potential role of creativity, etc. more legible.

The key for me is to continue to check that the challenges being acknowledged are real, manageable and addressable. The Strategy must keep realistic expectations in sight throughout.

