

Human capital as the key to economic development



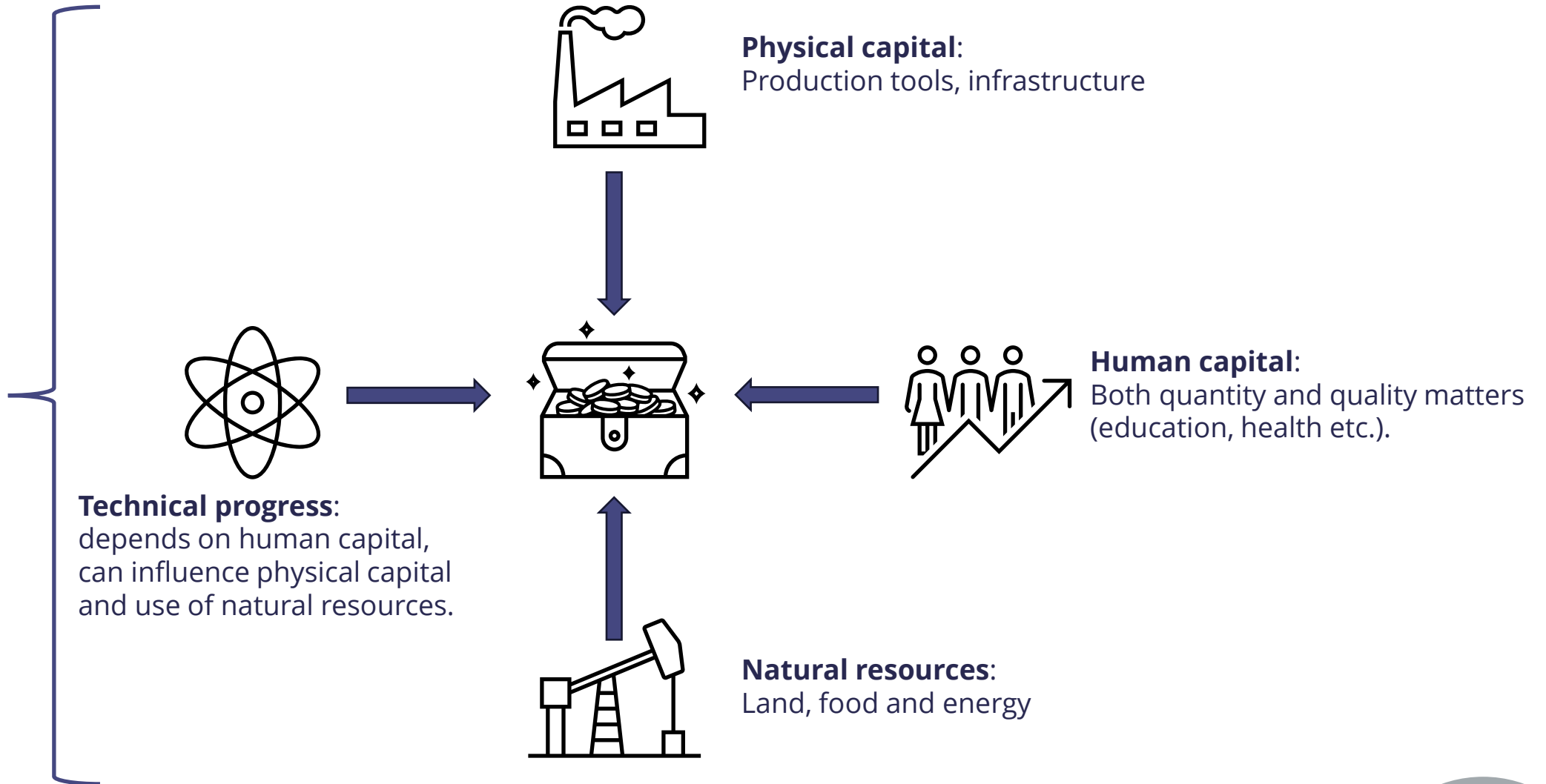
Dr. Oļegs Krasnopjorovs

Conference «Human Capital As Key For Economic Growth»
01.11.2023.

Human capital is one of the key drivers of economic development

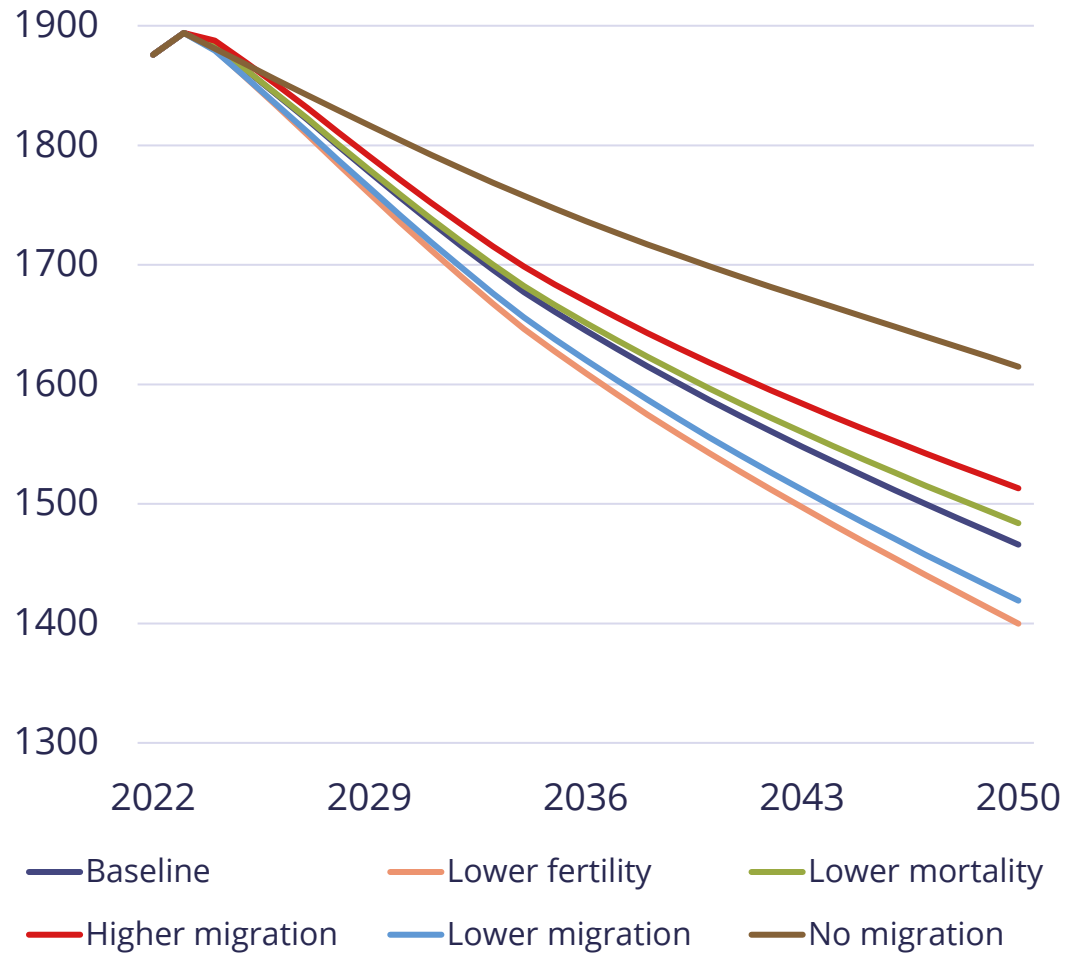
Favourable business environment:

public and private institutions etc.

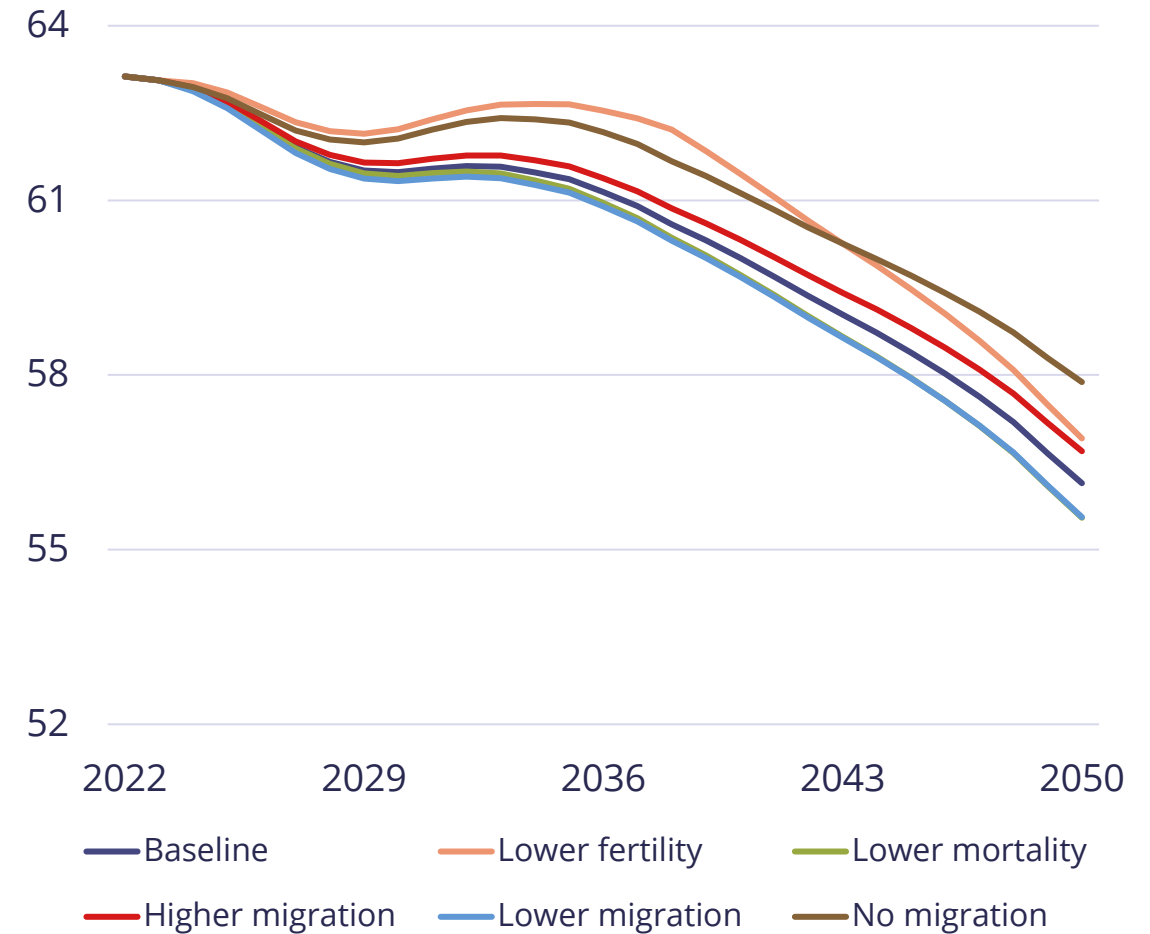


The quantity of human capital in Latvia is likely to decrease further according to all scenarios

Total population (thousand)

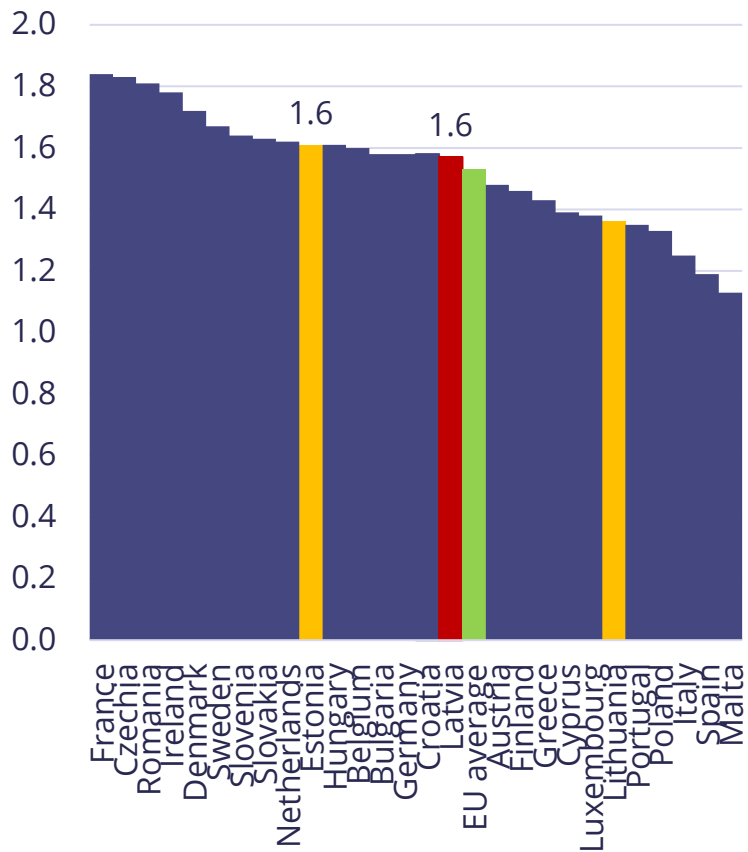


Share of working age population (%; age 15-64)

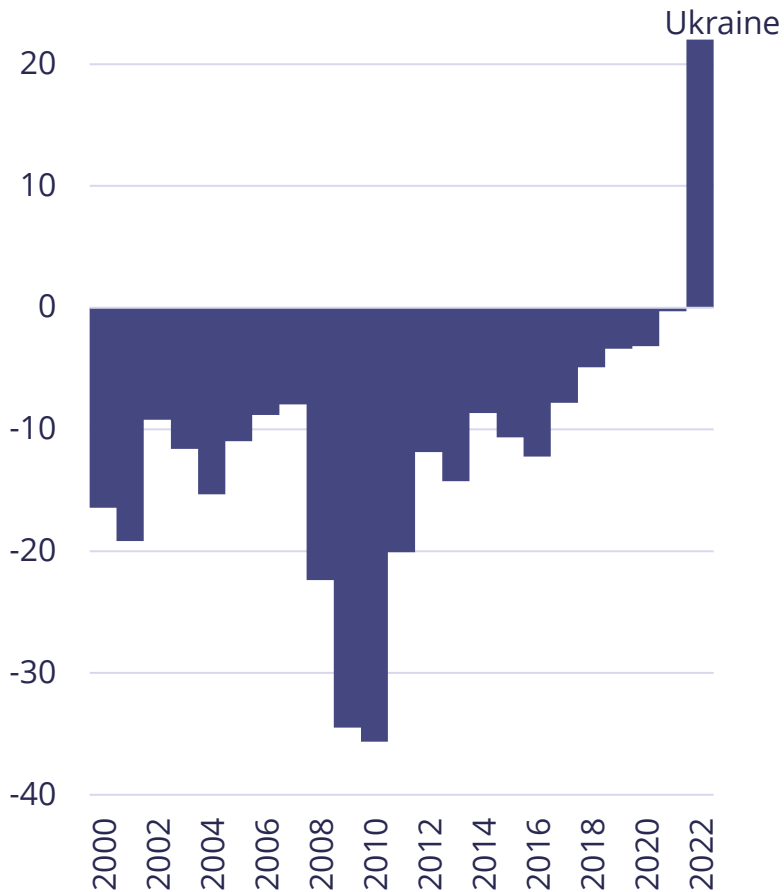


Combating excess mortality is the most promising tool to stop depopulation trend (as fertility rate is close to the EU average and net migration is near zero)

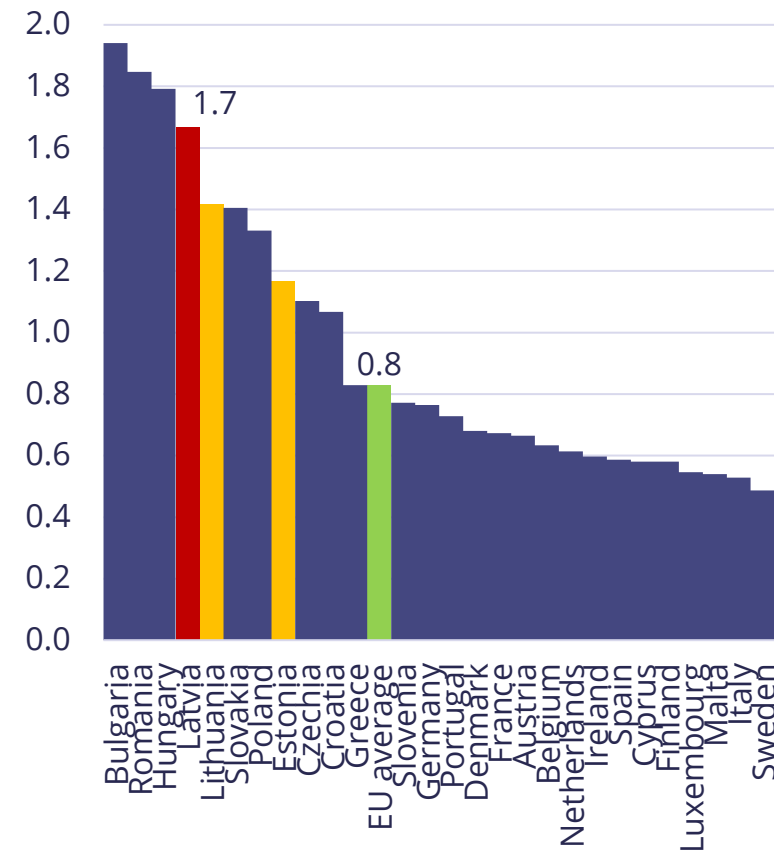
Fertility rate in the EU countries
(in 2022)



Net migration in Latvia
(thousand)



Probability of dying at the age of 60
across the EU countries (in 2022)



Excess mortality has a non-negligible impact on the economy. Substantial gains, if Latvian healthcare system would have improved already in the beginning of 2000-ties

Population

4 000

Number of saved
lives every year

60 000

Latvian population today
would be larger by this
amount

Employment

40 000

there would be more
employees

Economic growth (GDP)

0.2% every year

faster economic growth
rate would be achieved

4%

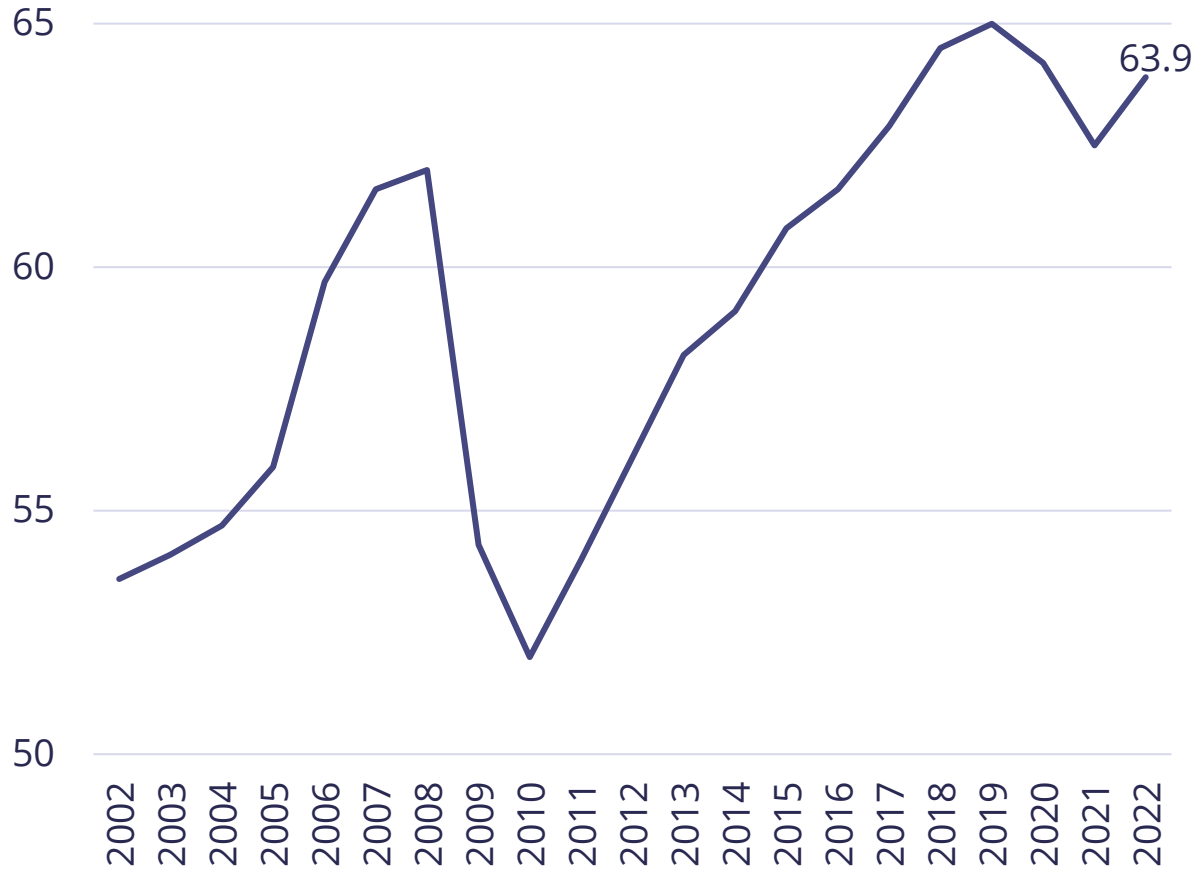
bigger GDP in Latvia
would be

Macroeconomic impact assessment of excess mortality in Latvia is based on comparison of mortality rates for each cohort (until age 65) between Latvia and a group of 6 peer countries (Belgium, Denmark, Germany, France, Netherlands, UK) over 2002-2019 (before Covid-19 pandemics).

Are we using available human capital efficiently? Employment rate in Latvia is close to a record high level and higher than in most EU countries

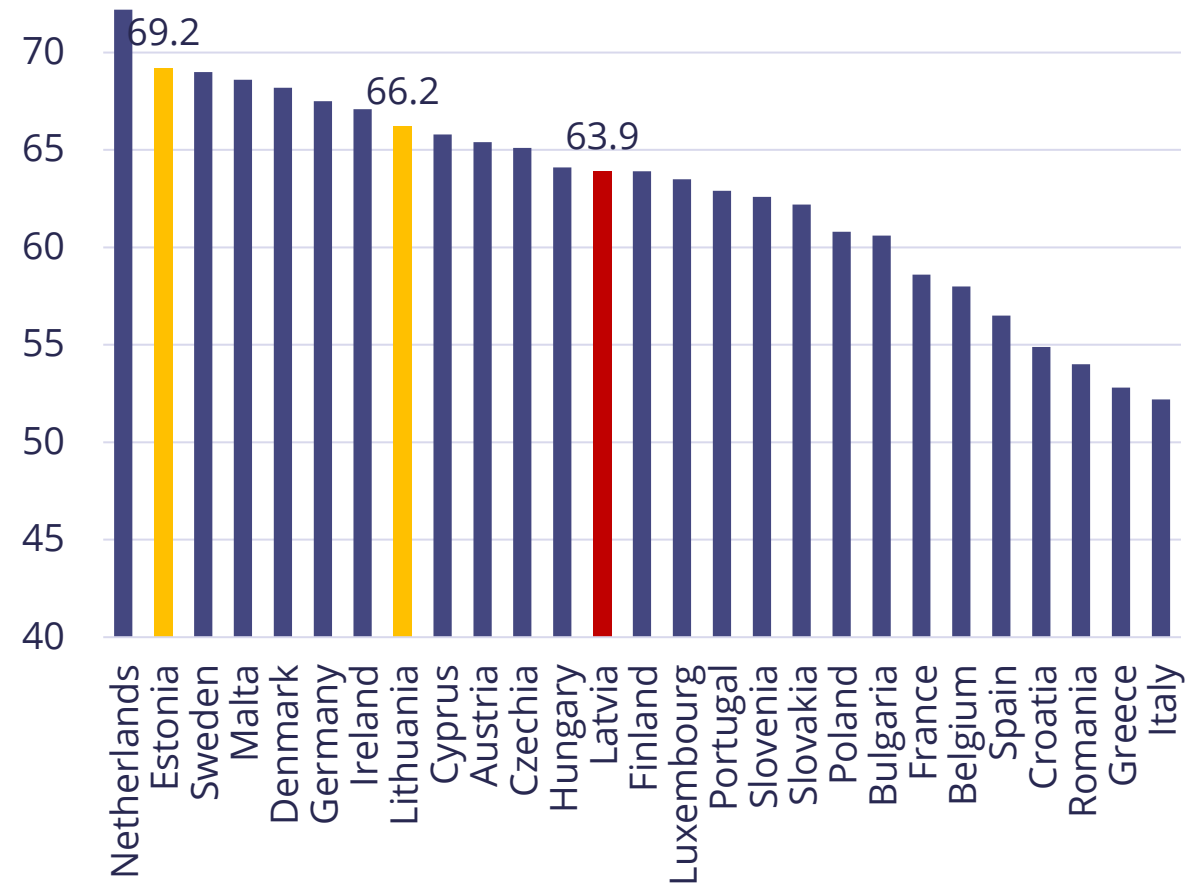
Employment rate in Latvia

(%; age 15-74)



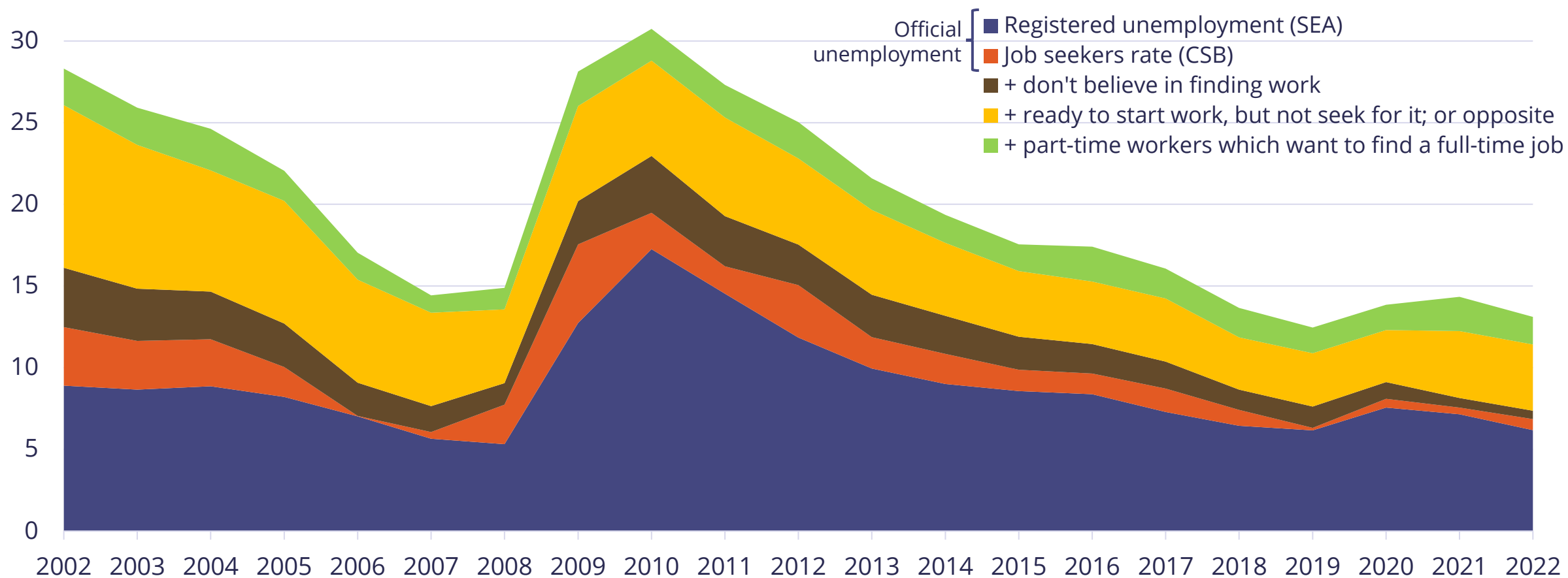
Employment rate in the European Union countries in 2022

(%; age 15-74)



Official and broad unemployment measures are close to historical minimums as well

Official and broad unemployment measures (% of economically active population)



However, internal labour reserves are still substantial and must be activated

Internal labour reserves in Latvia
(thousand; in 2022)

Age	Men	Women
15-19	12.9	13.5
20-24	4.3	4.7
25-29	1.7	2.0
30-34	2.8	1.5
35-39	1.2	
40-44	2.3	2.1
45-49	4.7	2.5
50-54	6.0	0.5
55-59	5.5	0.5
60-64	3.9	
Total	45.4	27.4
	72.8	

Youth:

Low prevalence of professional education and apprenticeships.

Upper-middle-aged men:

Outdated professional skills, low digital skills, low prevalence of lifelong learning, Deterioration of health condition.

→ ~7% of economically active population

Internal labour reserves represent additional employment if the employment rate in the respective age groups reach the average level of the EU6 countries.. EU6 countries are Germany, Denmark, Netherlands, Ireland, Sweden, Estonia.

Source: author's calculations based on Eurostat data. For methodology see: Krasnopjorovs Olegs (2019). «Anatomy of labour reserves in the Baltic countries: a snapshot 15 years after the EU accession». Latvijas Banka Discussion Paper #2/2019. https://datnes.latvijasbanka.lv/papers/discussion/dp_2_2019-en.pdf

Aim to activate internal labour reserves is ambitious, but real

Latvian upper-middle-aged men in 2022 (thousand)

Men	Total population	Employed	Internal labour reserves	Number of non-employed decreases by:
45-49	61.5	50.9	4.7	44%
50-54	60.9	47.8	6.0	46%
55-59	58.1	43.3	5.5	37%
60-64	58.5	36.3	3.9	17%

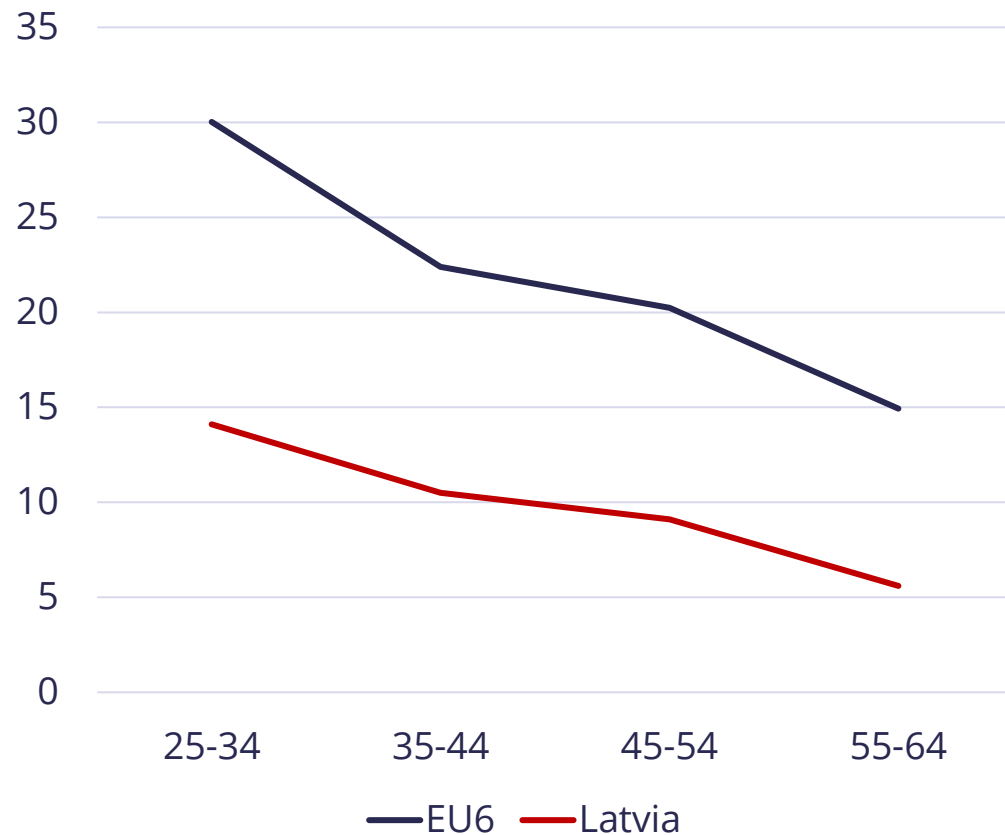
Latvian young men in 2022 (thousand)

Men	Total population	Employed	Internal labour reserves	Number of non-employed decreases by:
15-19	48.8	3.5	12.9	29%
20-24	42.3	25.1	4.3	25%

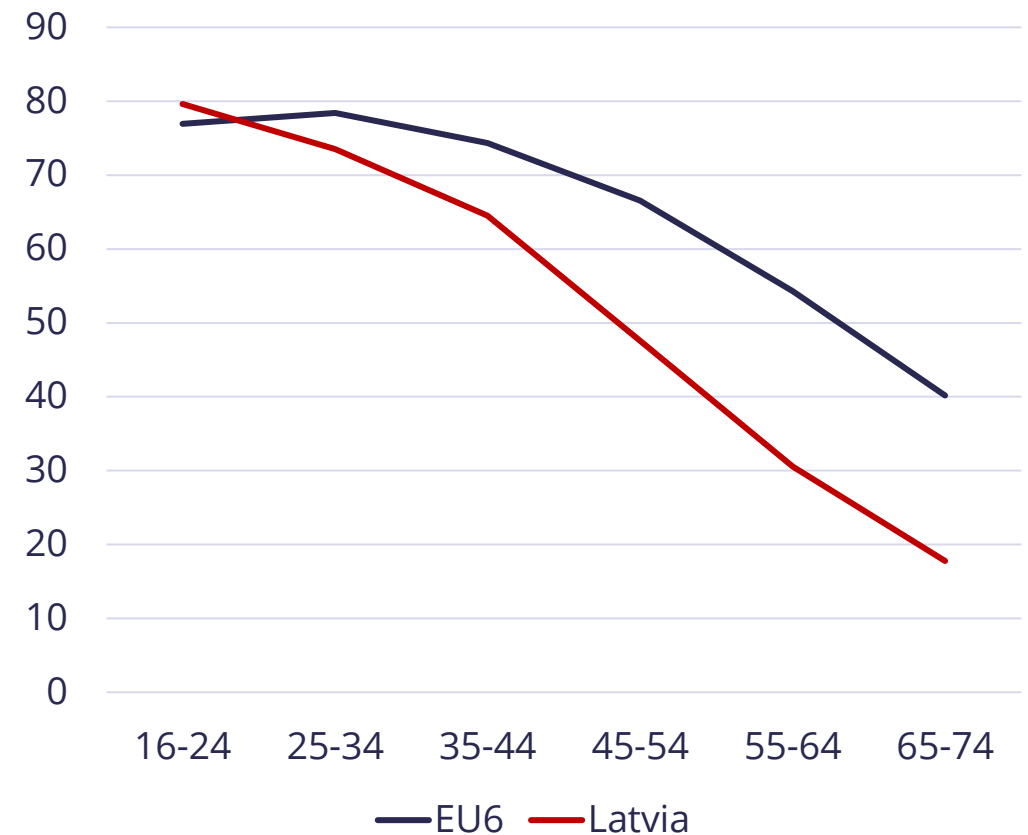
Internal labour reserves represent additional employment if the employment rate in the respective age groups reach the average level of the EU6 countries. EU6 countries are Germany, Denmark, Netherlands, Ireland, Sweden, Estonia.

Latvian adults have less involvement in lifelong learning and lower digital skills than in high employment countries (EU6)

Participated in education or training in the last 4 weeks
(% of population; in 2022)



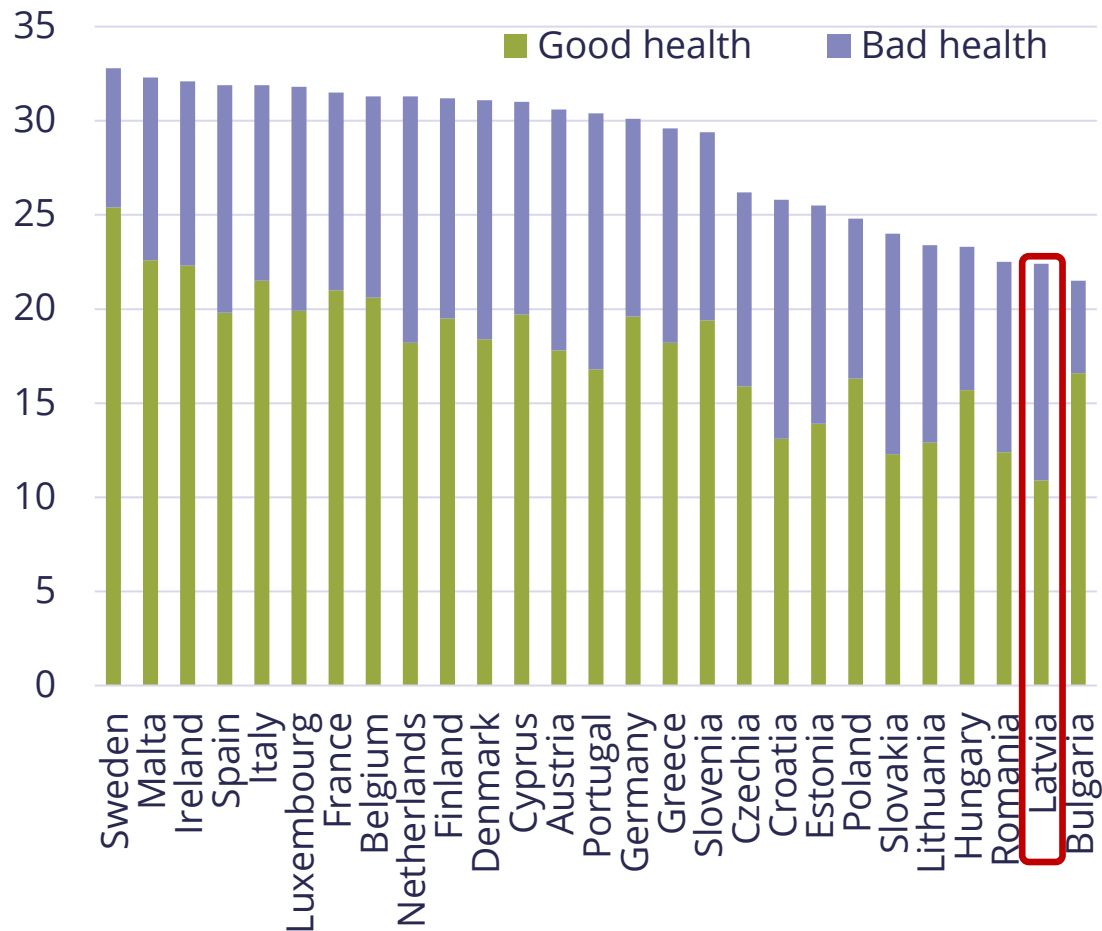
Population with digital skills at least at the basic level
(% of population; in 2021)



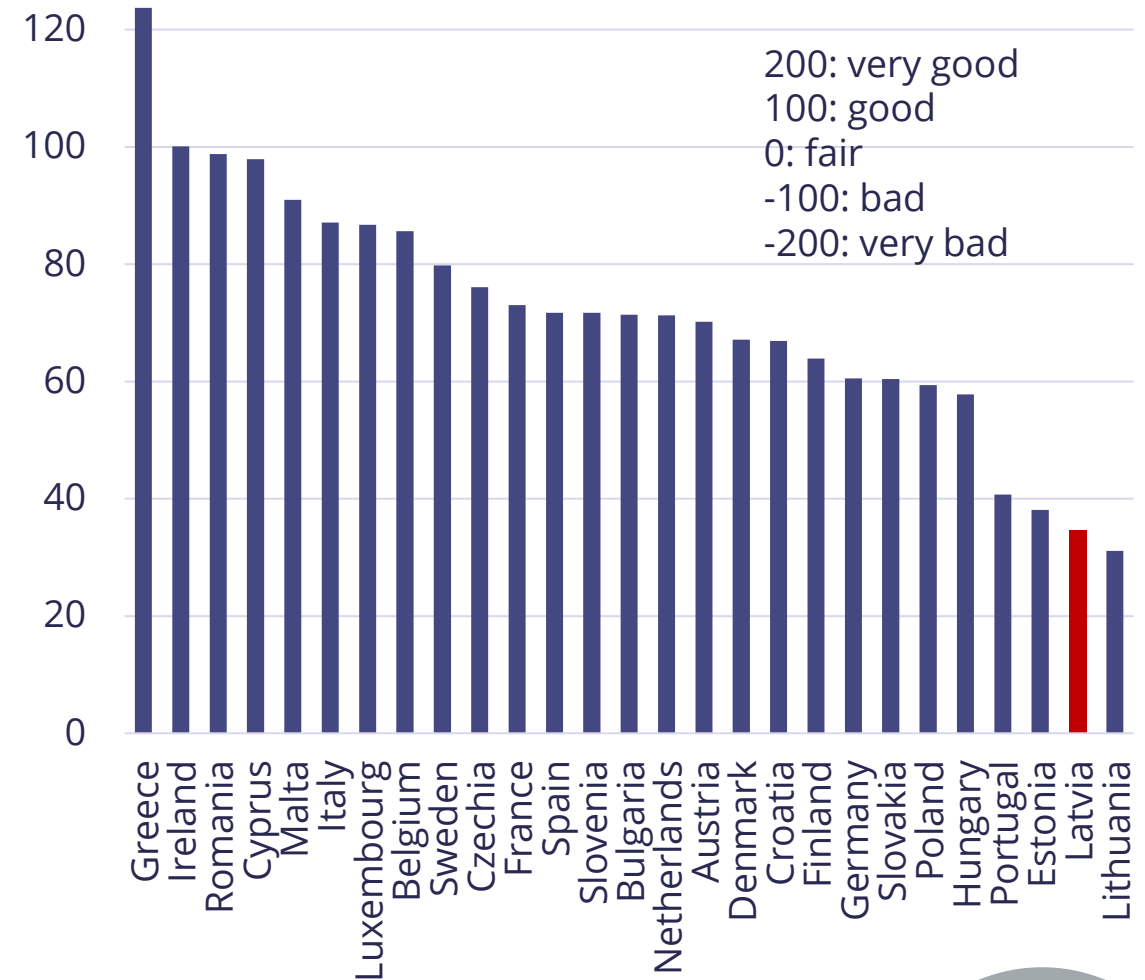
EU6 countries are Germany, Denmark, Netherlands, Ireland, Sweden, Estonia.

Raising the retirement age is not a panacea if employment is hindered by health problems

Life expectancy of 50 years old men (in 2021)

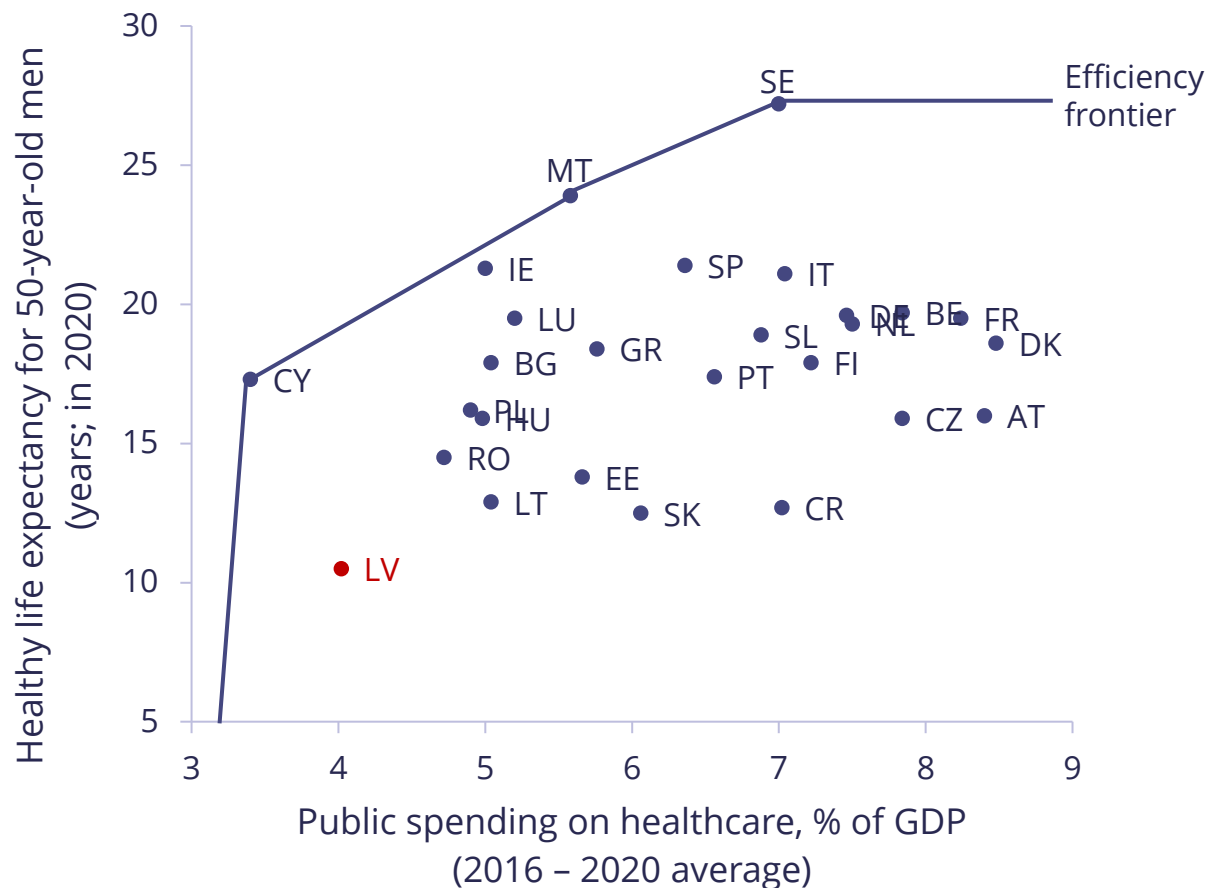


Health status self-assessment of men aged 45-64 (index; in 2021)

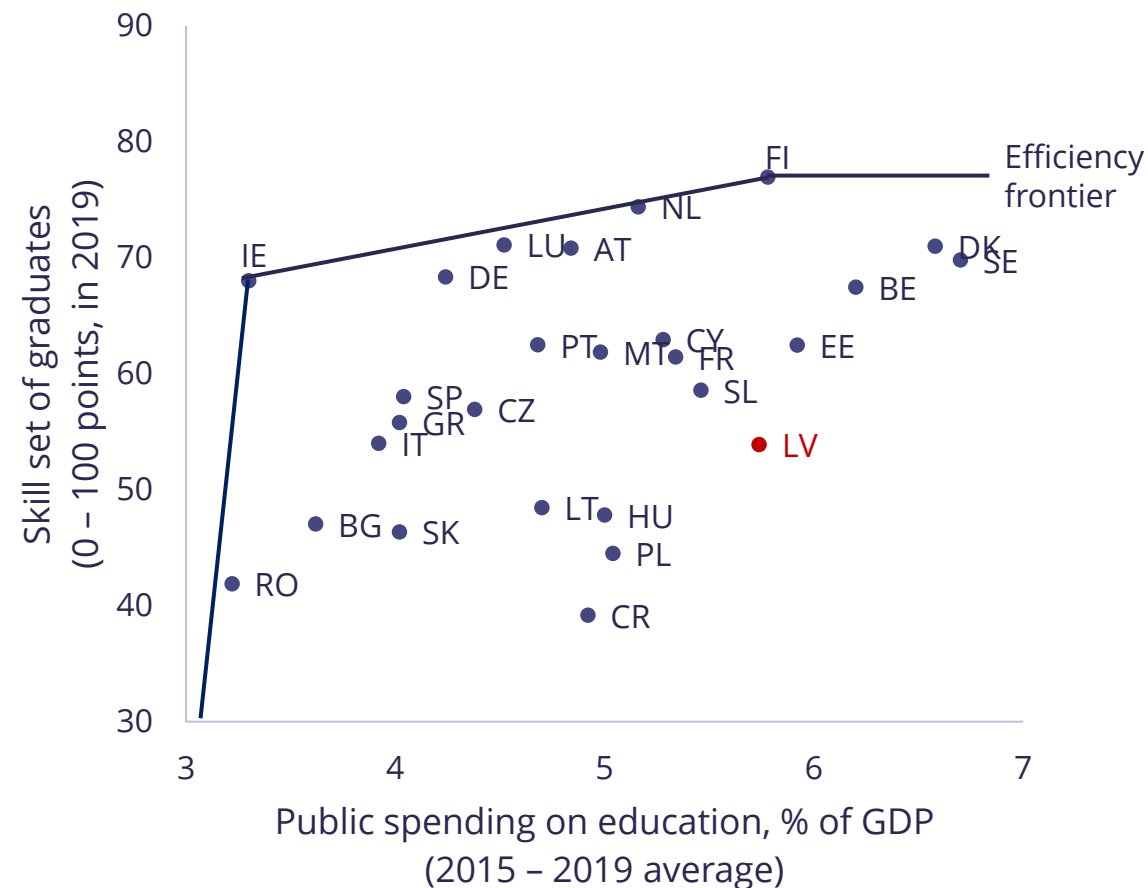


Modest education and healthcare quality outcomes may be related not only to lower public spending, but also to lower system efficiency

Public spending on healthcare and healthy life expectancy



Public spending on education and skill set of graduates

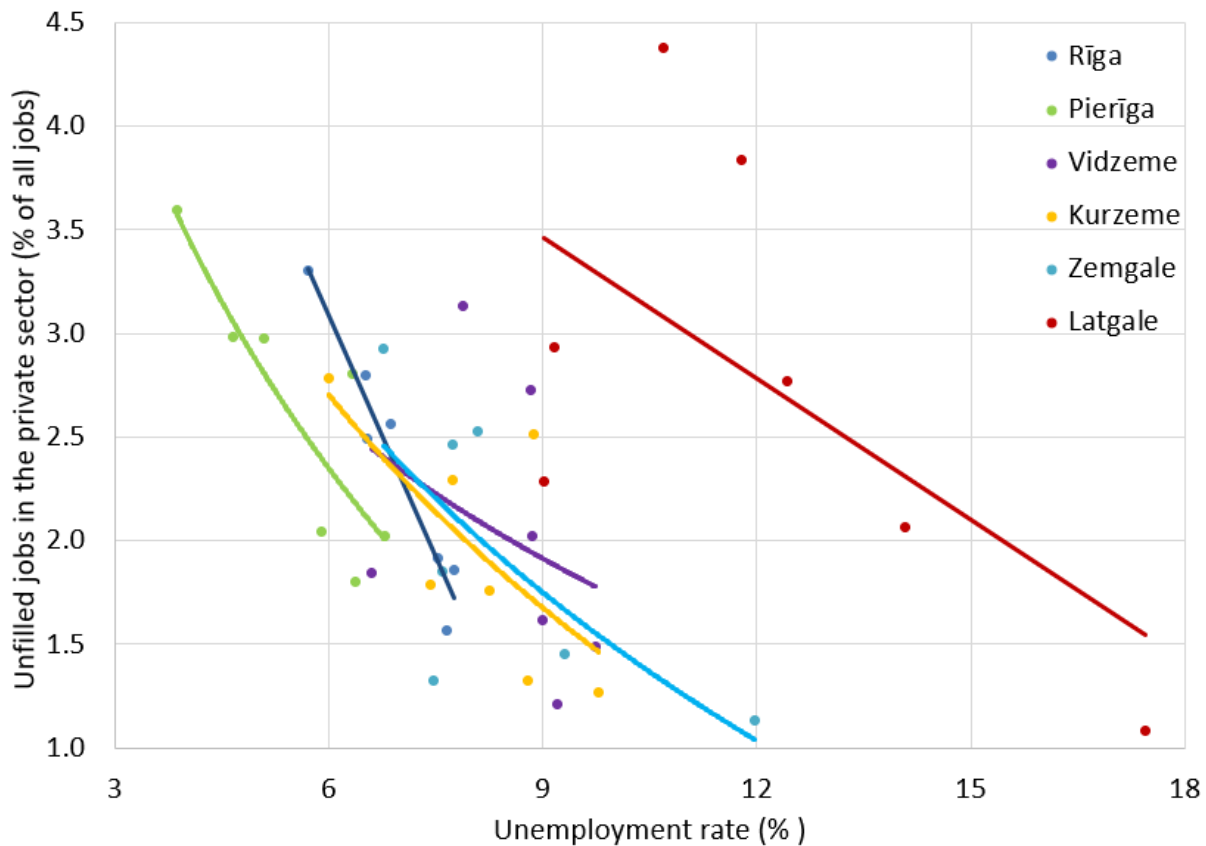


Country sample: European Union countries.

Source: Eurostat and Global Competitiveness index data, author's calculations.

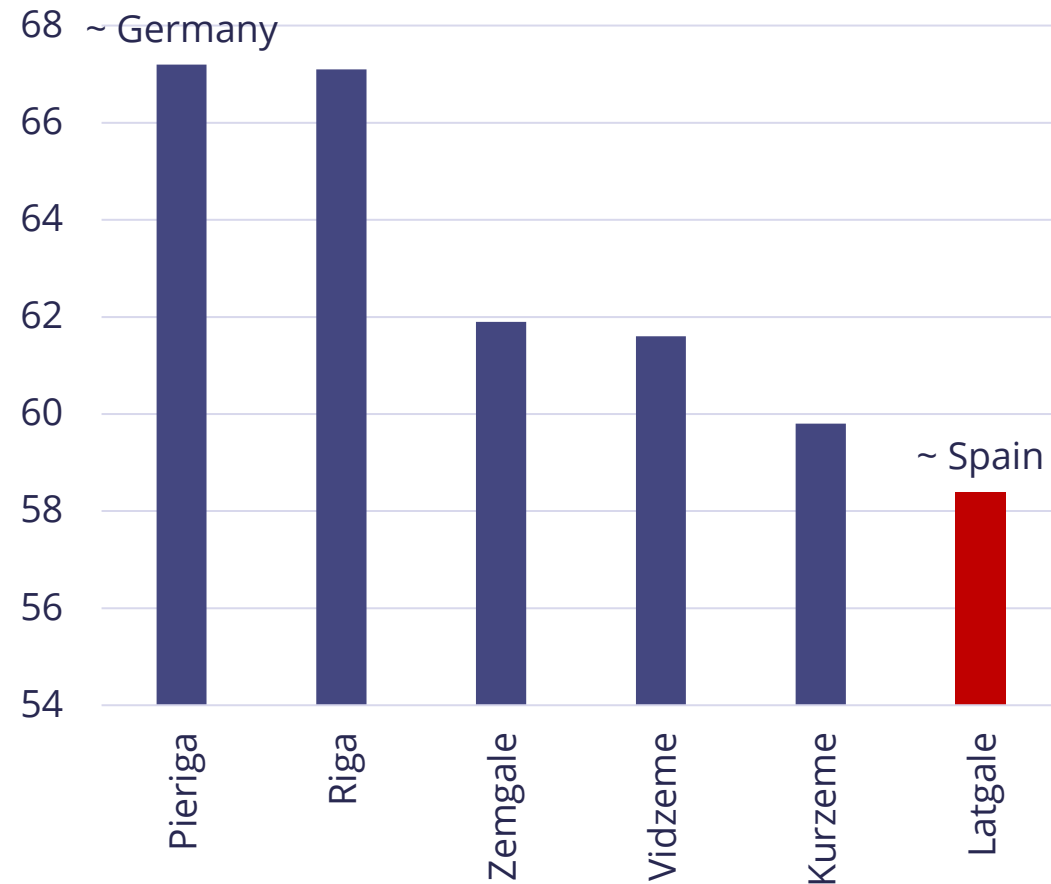
Labour market regional differences are still wide

Beveridge curve in Latvian regions (over 2016 – 2022)



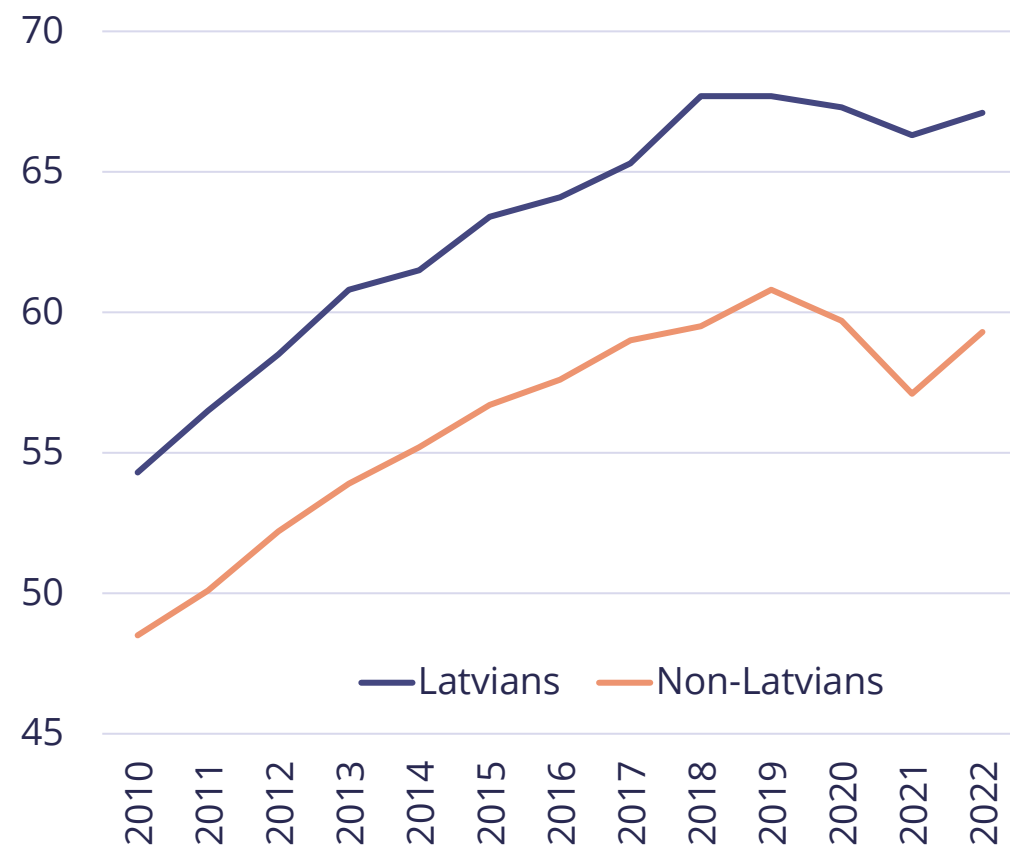
=> Latgale region has the least efficient labour market.

Employment rate (%; age 15-74; in 2022)

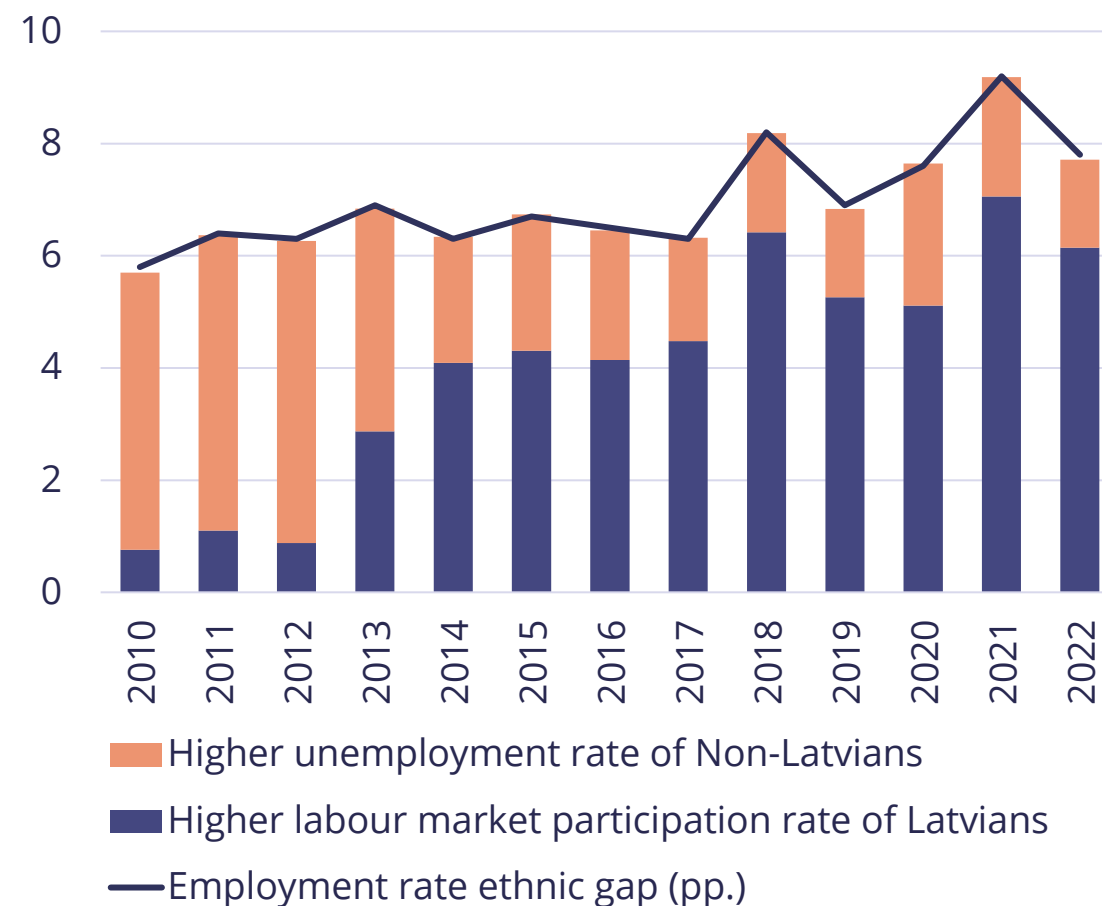


Employment ethnic differences are still persistent

Employment rate (%) (age 15-74)

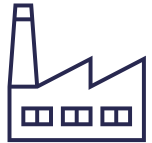


Employment rate ethnic gap decomposition (percentage points)

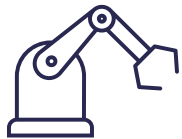


Economic growth is a tool to improve human capital, not the other way around?

Old economic paradigm



Country is like a big factory which main aim is to maximize output (economic growth rate).



People are like machine tools, subject to depreciation.



Just as machine tools should be replaced to maximize output, people can also be "written off" at age 65 or even less.



Population ageing and labour shortage slows down the economic growth rate.

New economic paradigm



Economic output serves people, not the other way around.



The size of the economy (economic growth rate) is just a tool to improve the quality of life.



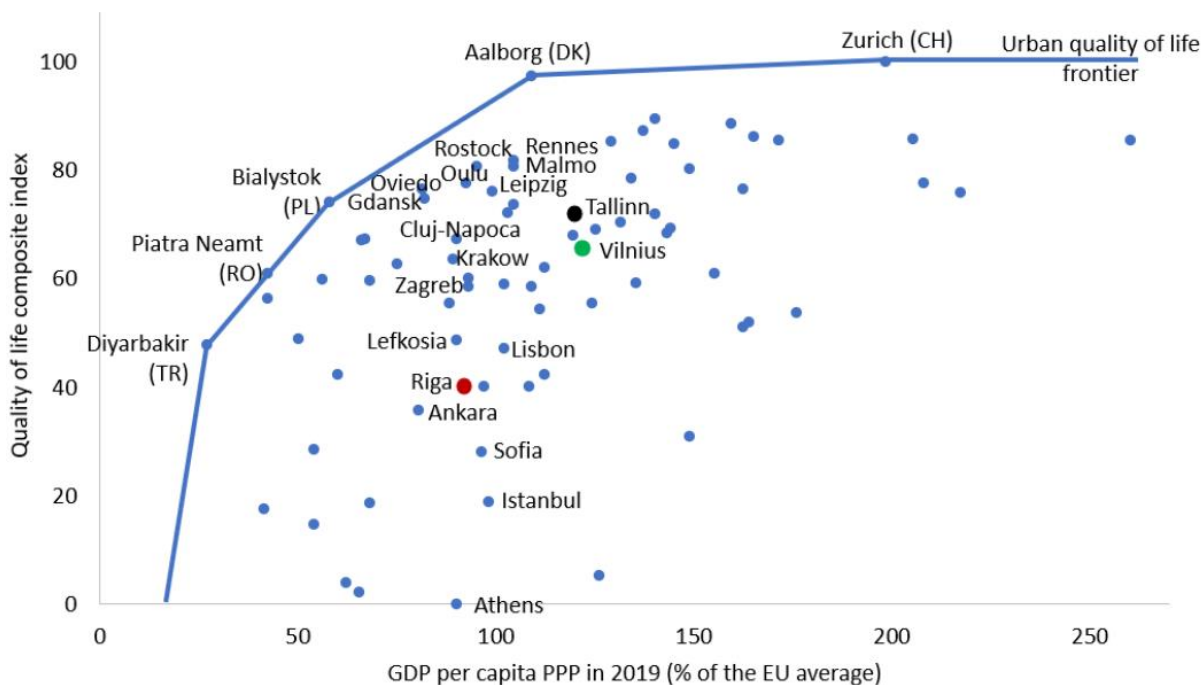
Population ageing is an important achievement of human civilization, meaning longer and healthier lives (=broader opportunities for self-realization) for each of us.



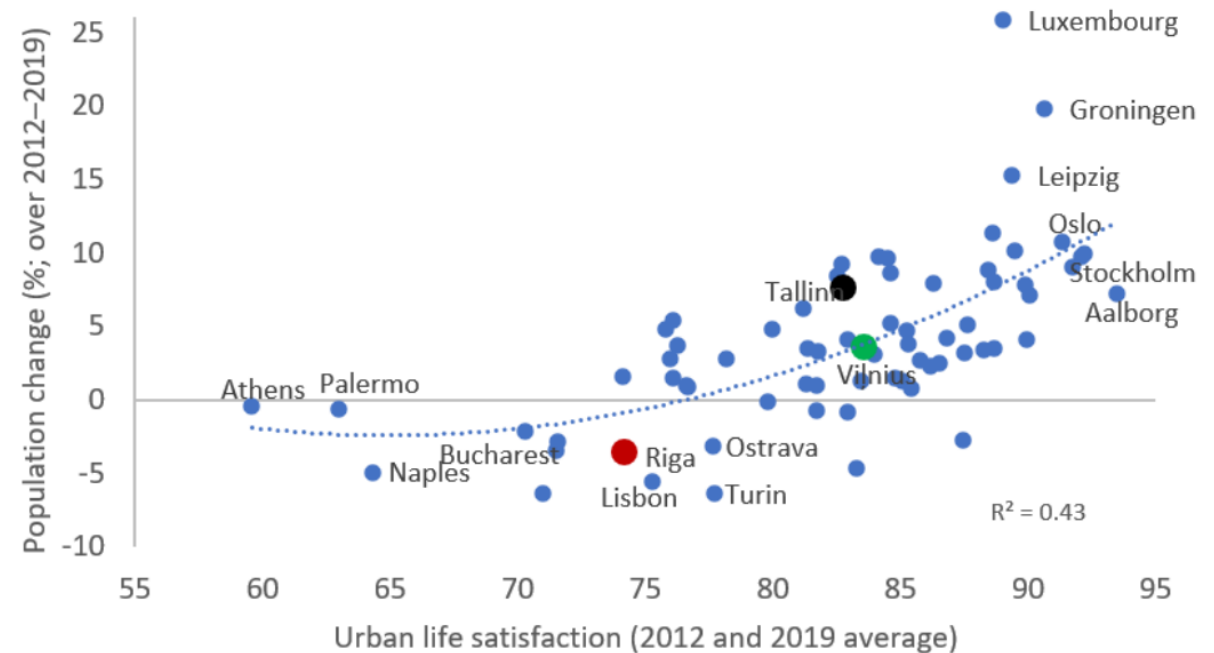
Moderate labour shortage encourage technical progress and therefore also productivity and wage growth. It is an opportunity to activate internal labour reserves and return migration.

Perceived quality of life in Riga does not yet lead to mass immigration of highly qualified and creative people

Gross Domestic Product per capita and quality of life satisfaction in European cities (in 2019)



Urban life satisfaction and population change in the European cities



The quality of life index reflects several dimensions from the European Commission 2019 survey: safety, trust in people around, environmental pollution, infrastructure, governance, public transport, good place to live for different population groups. 0: worst score among European cities; 100: best score.

Takeaways

Human capital is one of the key drivers of economic growth.
But perhaps economic growth is just a tool to improve the human capital.

Latvian population is likely to ↓ further over the medium term.
The most promising tool to stop this trend is to decrease excess mortality
(4 thousand lives saved and ↑ GDP growth rate by 0.2 pp. every year).

Despite unemployment rate is near its historical low, internal labour reserves are still substantial and must be activated: young people, upper-middle aged men; regional and ethnic differentials.

Modest human capital quality (education, healthcare) outcomes reflect both low public spending and low system efficiency.

Only high-qualified immigration would raise living standards in the country, but currently perceived quality of life in Riga city does not yet lead to mass immigration of highly qualified and creative people.