Making the most of Riga metropolitan area can boost wellbeing and economic growth in Latvia

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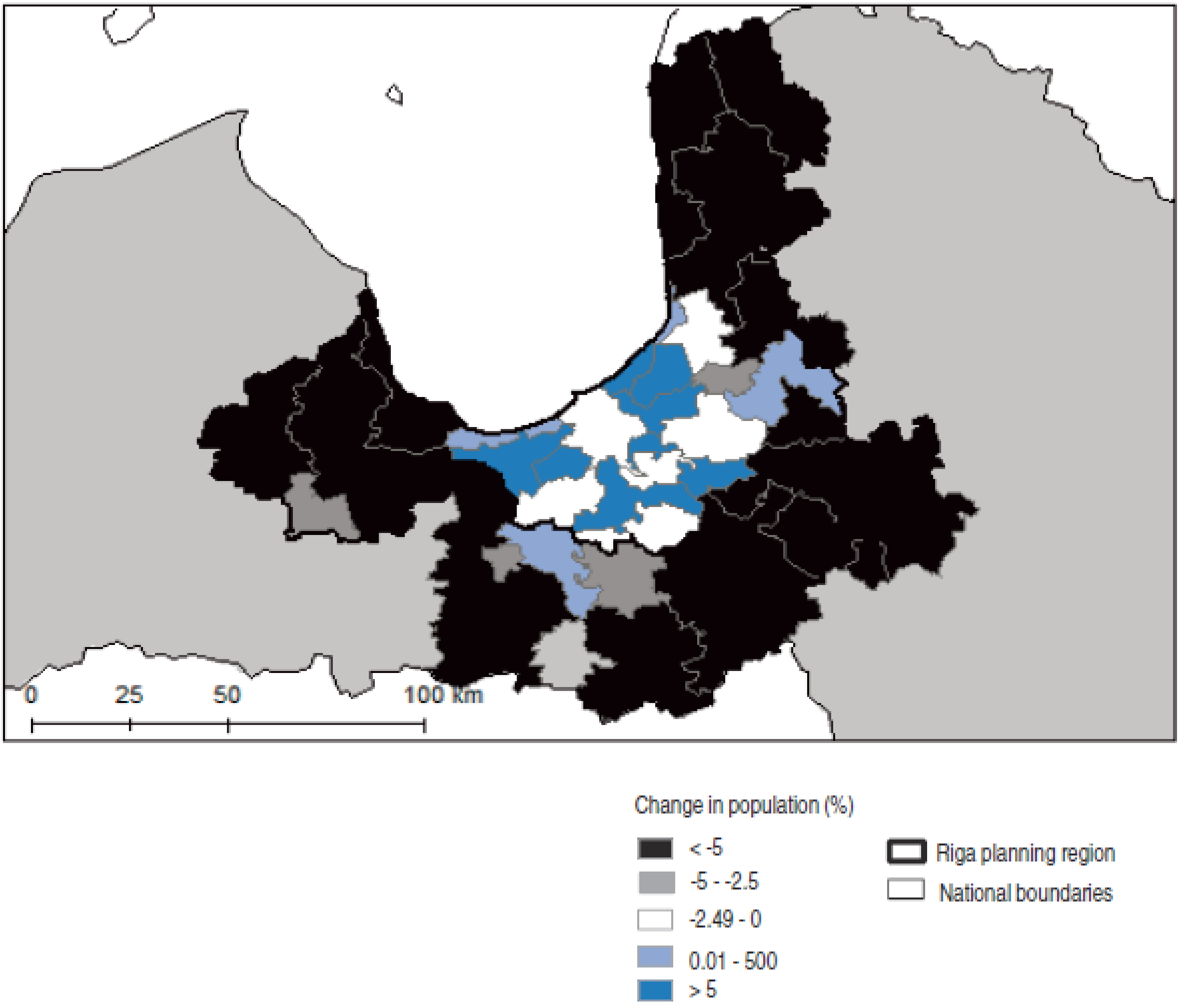
Located at the centre of the Baltic States, Latvia's capital city Riga and its surrounding municipalities are a strategically important logistic centre with access to markets in Europe and Russia. It is the largest city in the Baltic States and the third largest in the Region of the Baltic Sea.The city and its surrounding municipalities are not only home to more than half of the Latvian population but also contribute about 69% to national GDP. Better urban policies improve the quality of life for a large share of the population, boost economic performance by making the area more attractive, and can help retain young people who have emigrated from Latvia in large numbers, as argued in the *2017 Economic Survey of Latvia* (OECD, 2017).

The city of Riga has lost inhabitants mostly to surrounding suburban municipalities in commuting distance, resulting in urban sprawl. Urban sprawl is driven by low density developments. It can give rise to socio-economic, transport, infrastructure and environmental concerns, with negative effects on economic performance and quality of life. Urban sprawl therefore increasingly contributes to congested roads and environmental pollution. For instance, between 2000 and 2010 the number of private vehicles in Riga increased by 60%, whereas the flow of incoming vehicles from surrounding areas of Riga doubled.

Figure 2.8. **Population has declined in many municipalities but has grown in municipalities surrounding Riga**

Population growth, 2010-15



Note: Only municipalities that are part of the Riga planning region or the Riga agglomeration are depicted.
Source: OECD calculations based on RDIM (2016), Regional development indicators (*www.raim.gov.lv*).

Urban sprawl is driven by middle to high income households, contributing to a concentration of households with similar socio-economic status in neigbourhoods. Residential segregation can result in unequal access to quality education. Residential segregation in Riga is still lower than in other European capital cities but has been increasing. Latvia’s fiscal framework incentivises municipalities to follow a strategy that maximises their revenues by individually adjusting their spatial planning. This is because high income households generate more local tax revenues. Municipalities may lack incentives to provide amenities that might attract lower income households, such as social housing. While there is redistribution of tax revenue across municipalities, it only offsets a small part of the revenue differences.

To reap the benefits that come with urban agglomeration, Riga city and the surrounding municipalities need better co-ordination and joint strategic planning. The appropriate scale of such metropolitan governance needs to match daily mobility patterns of residents and ensure good co-ordination not only across local but also regional and national governments as well as across policy sectors (OECD, 2015a). Across the OECD, good metropolitan governance has shown to be linked to higher productivity, durably higher wages and better quality of life (Ahrend et al., 2014; OECD, 2015b). For example, residents' satisfaction with public transport in metropolitan areas with a dedicated transport authority is higher and air pollution is lower. Metropolitan areas without tailor-made governance arrangements have experienced an increase in urban sprawl, whereas those with a metropolitan authority densified.

References

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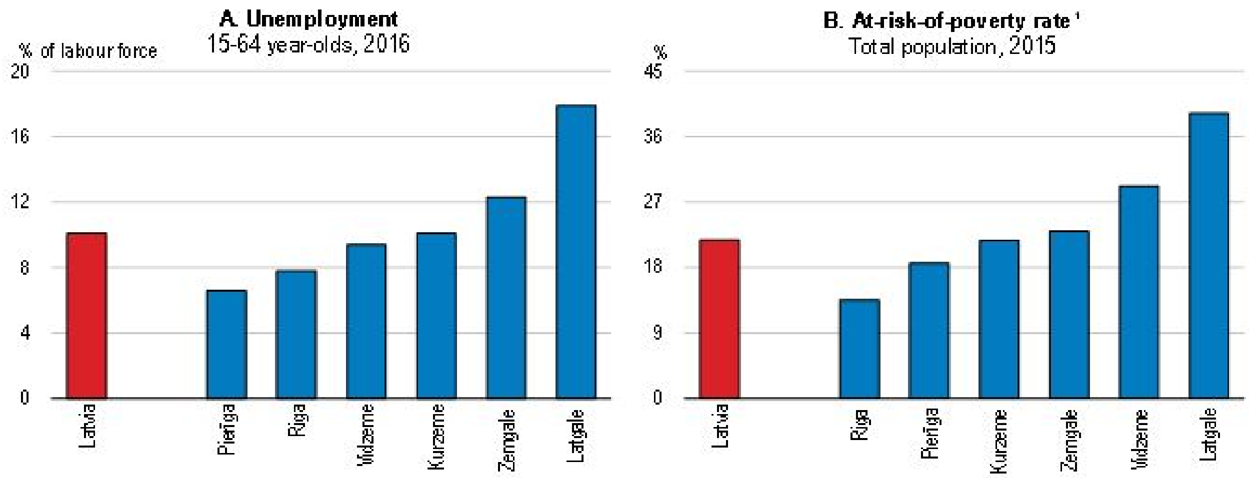
Boosting economic opportunities and wellbeing in Latvia: why housing matters

by Andrés Fuentes Hutfilter, Germany-Latvia Desk, OECD Economics Department

Unemployment is still above 8% in Latvia and contributes to poverty, in part because many unemployed have been without a job for an extended period of time. High unemployment and poverty are concentrated in some regions (Figure 1).

Figure 1: Poverty is high in regions with high unemployment rates



1. Share of population with disposable income below 60% of median household income.

Source: Central Statistical Bureau of Latvia.

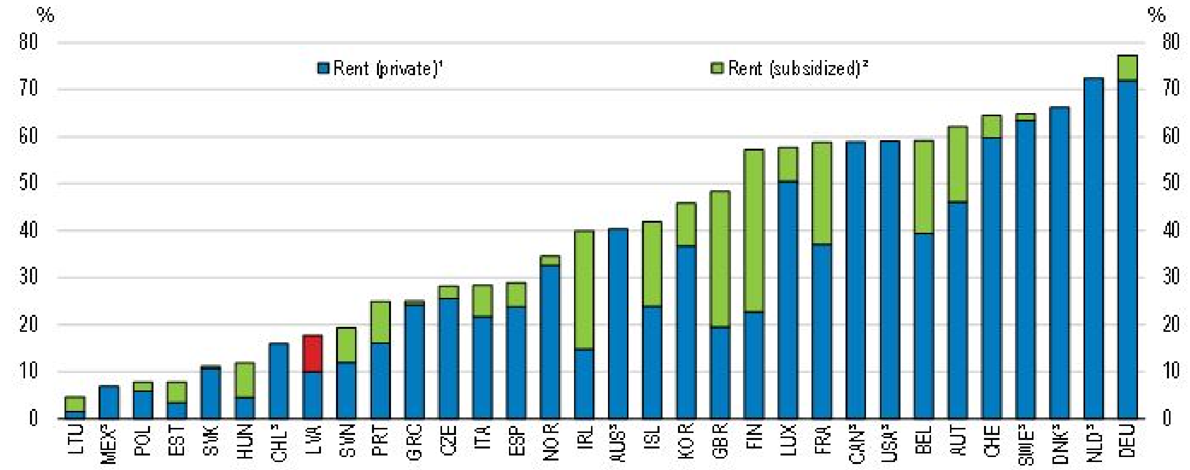
Housing policies shape residential mobility and can encourage workers' movement to jobs (Andrews et al, 2011). The 2017 *Economic Survey of Latvia* therefore argues that good housing policies help reduce unemployment in high-unemployment areas. By helping workers find better jobs, they can also boost productivity and wages. Housing policies are particularly relevant for young people since they have a naturally higher propensity to move. Good housing policies could also encourage young people to seek opportunities in Latvia rather than emigrate.

Affordable quality housing is also important for wellbeing. Overcrowded housing is widespread among low- and middle-income households in Latvia. The share of households’ housing spending in total expenditure (26%) is high, and higher than in other countries with similar income level, such as Estonia. Policies are therefore needed to make quality, affordable housing available in neighbourhoods which are well connected to employment opportunities.

Few households rent their homes, even among low-income households (Figure 2). Home owners from high-unemployment areas are likely to find it difficult to afford buying housing in areas with good employment opportunities, where house prices are likely to be higher. There is little development of new housing for rent. Legal uncertainty and long legal procedures hold back the development of the private rented housing market. Reducing tax evasion and fostering long-term lease contracts could also make contracts more reliable and make rented housing more attractive for tenants. Several OECD countries have also successfully expanded affordable housing by requiring private developers to allocate a proportion of the dwellings as affordable units (Salvi del Pero et al., 2016).

Figure 2: Few low-income households rent their homes

Share of rental housing, low-income households, 2014 or latest year



Note: Low-income households with income in the bottom quintile of the net income distribution. For Chile, Mexico, Korea and the United States, gross income is used due to data limitations.

1. Share of households renting their dwelling at market prices on the private rental market.
2. Share of households renting their dwelling at reduced market prices.
3. Data on tenants renting at private include tenants renting at subsidized for Australia, Canada, Chile, Denmark, Mexico, the Netherlands and the United States. For Sweden, data on tenants renting at subsidized are not capturing the full extent of coverage due to data limitations.

Source: OECD (2016), *OECD Affordable Housing Database*, Table HM1.3.3, December *(http://www.oecd.org/social/affordable-housing-database.htm)*.

Social housing is scarce and waiting lists are long, especially in the Riga area, where unemployment is low and good jobs more abundant. Government spending on social housing and on cash housing benefits for low-income households is low. Support only covers a small share of the low and middle income population. More funding for low-cost rented housing in areas of expanding employment would boost employment and lower poverty. An eligible person can only apply for assistance in the municipality where she resides, limiting labour and residential mobility. A nation-wide register that allowed eligible persons to apply for social housing where they expect better job opportunities could support residential mobility.

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Insight from the OECD Household Dashboard: Why household incomes don't always track changes in GDP

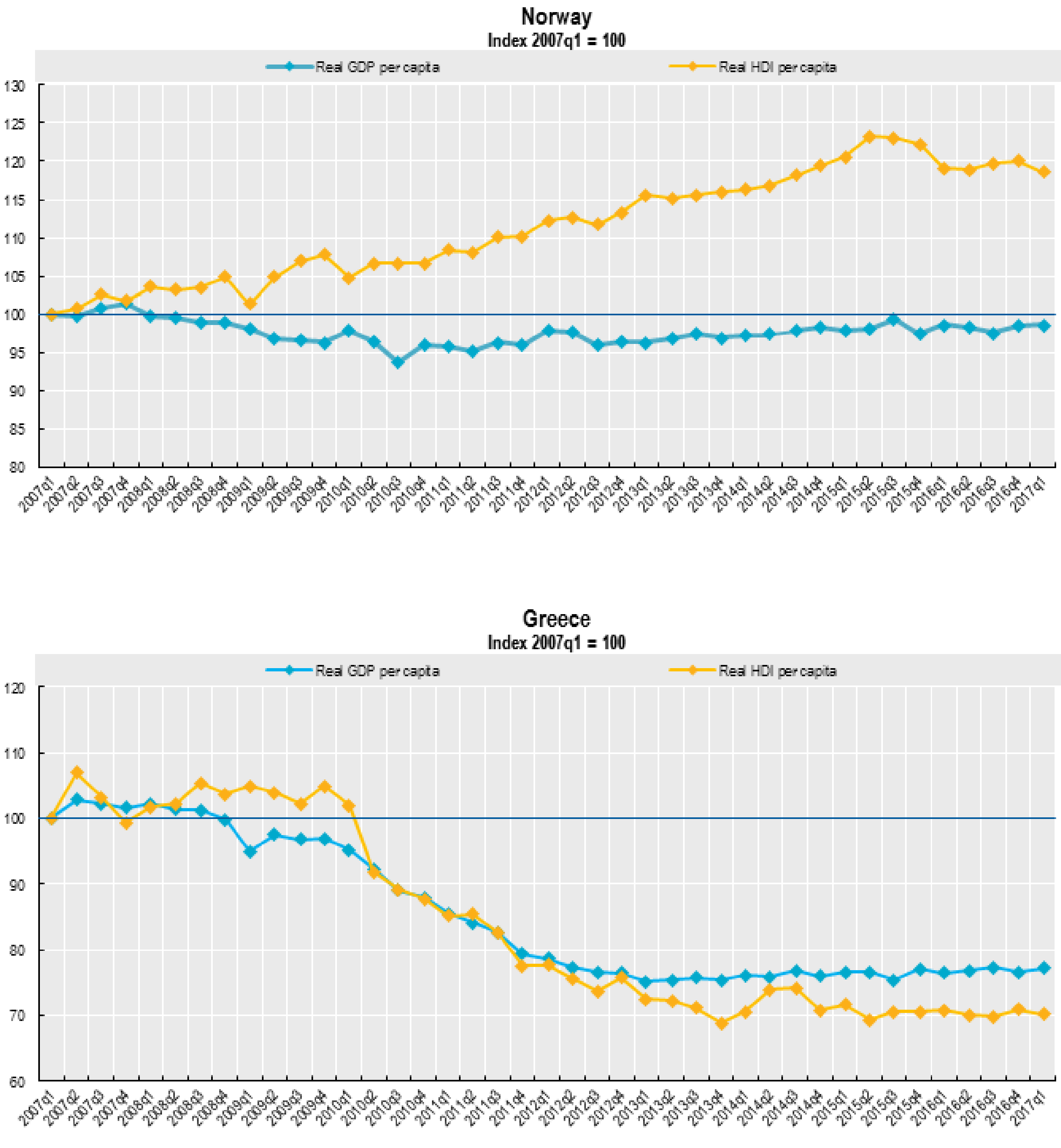
By Jennifer Ribarsky, Head of Sectoral and National Accounts, OECD Statistics Directorate

A key indicator of households' material conditions, or economic well-being, is per capita household income, after deducting taxes and social contributions and including social benefits. It provides a better gauge than gross domestic product (GDP) of the resources households have at their disposal to buy goods and services or save for the future.

Over the very long term the average annual growth rates of the two statistics tend to be similar, since the incomes earned by households account for a large share of the total income generated through production in the economy, as recorded by GDP. However, over shorter time periods, especially during severe economic recessions or rapid expansions, trends in household disposable income and GDP may differ significantly. Many factors can contribute to such a divergence; for instance, changes in the government’s policies related to taxes or social benefits, or in how companies allocate their earnings between dividends, retained earnings and compensation of employees.

To see these factors in action, let’s look at recent data for Norway and Greece. Figure 1 shows how GDP and household income have evolved there since the first quarter of 2007, right before the start of the global financial crisis. The figure shows that in the crisis years 2008-2009, GDP per capita was falling in both countries, though faster in Greece. However, government intervention – though a reduced budget surplus in Norway and an increased deficit in Greece – cushioned households from the negative effects of the economic contraction.

Figure 1. Real GDP and household disposable income per capita



Starting from 2010, the picture in the two countries becomes very different. With Greece’s fiscal deficit hitting 15% of GDP in 2009, the European sovereign debt crisis and a deep and prolonged recession, the government ended its support to household income. This retrenchment in government spending, as well as the substantial falls in compensation of employees and self-employed income, meant that household incomes in

Greece began falling precipitously in 2010. Even though Greece's per capita GDP has started to recover slightly in recent quarters, household disposable incomes today remain near their lowest levels since the precipitous decline.

Norwegian households have been in a much more favourable position. As a resource rich country, Norway's revenue from the oil and gas sector has for years resulted in large government surpluses that were channelled into a sovereign wealth fund. The Norwegian government continued to sustain household incomes after 2010 by reducing the surplus saved into the fund. However, government intervention was not the primary driver of the longer term Norwegian trend of household income growth outpacing GDP. Since 2007 the share of company earnings going to compensation of employees has increased, and the share going to dividends or retained earnings has declined. Rising employee compensation is thus the main reason for Norwegian household incomes growing 20% more than real GDP per capita since just before the crisis, though the gap has narrowed slightly in the last two years.

To see how households are doing in other OECD countries, visit our dashboard on households' economic well-being **which contains a range of household indicators and has recently been updated to include data through Q1 2017.**

Further reading:

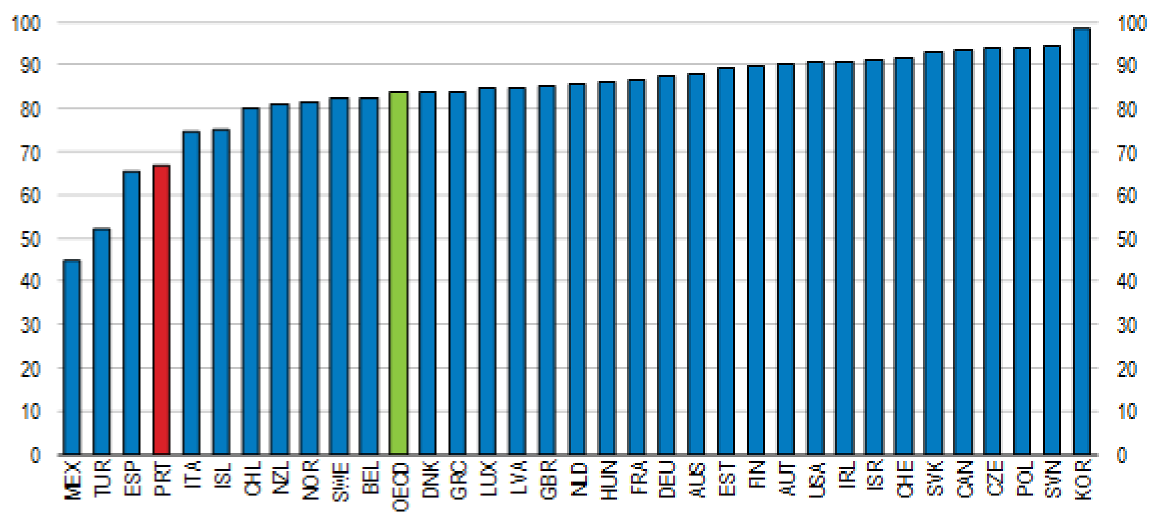
Ribarsky, J., C. Kang and E. Bolton (2016), "The drivers of differences between growth in GDP and household adjusted disposable income in OECD countries", *OECD Statistics Working Papers*, No. 2016/06, OECD Publishing, Paris.

Raising skills holds the key to higher living standards and well-being in Portugal

by Sonia Araujo, Country Studies Branch, OECD Economics Department

For each hour worked Portugal produces about half of the output produced in the United States. A historic legacy of very low education attainment is partly to blame for Portugal's lower productivity. However, education attainment remains low even for those who have left the education system not so long ago. At 65%, the share of young adults (aged 25-34 years old) who have completed upper secondary education is still the third lowest in the OECD (Figure 1).

Figure 1. 25-34 year-olds having completed at least upper secondary education
2015, Per cent



1. The OECD aggregate is an unweighted average; Latvia is included and Japan excluded (no data available).
Source: OECD (2016), "Educational attainment and labour-force status", *OECD Education Statistics* (database).

Low levels of skills are not only an obstacle to higher material living standards, but also affect the well-being of Portugal's citizens and stand in the way of reducing income inequality, one of Europe's highest, as education is often a pre-requisite for higher job quality and learning opportunities.

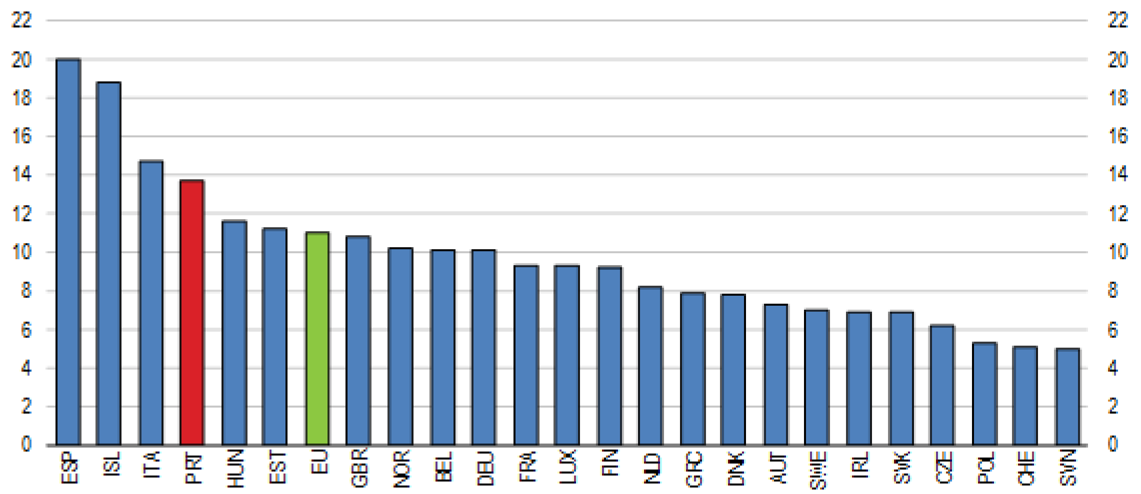
What are the priorities to enhance skills in Portugal?

As discussed in the 2017 OECD Survey of Portugal, the top priority is to raise the skills of the adult population that has left the education system but will stay in the labour market for long. The challenge for Portugal is to find strategies to engage the low skilled, which are much less likely to receive training than the highly qualified young adults. Although this is not a problem unique to Portugal, other countries have managed to attract more low-skilled workers into training by raising awareness of existing training opportunities and by offering opportunities of recognition of skills acquired beyond formal education. Another area for further improvement is to define clear labour market performance indicators against which to check the success of training programs. Monitoring performance and policy evaluation is underdeveloped in Portugal and improvement in these areas would allow focusing resources on those programmes that really make a difference for labour market outcomes of low skilled adults.

Second, the education system needs to do more to reduce Portugal's early school leaving rate, one of the highest in Europe (Figure 2), and a major reason behind the low qualifications of young adults. One of the drivers of early school leaving is grade repetition, an ingrained practice in the Portuguese education system to resolve student learning difficulties. By age 15, around one third of Portuguese students have repeated a year at least once. International experience shows that grade repetition is an ineffective way of supporting underperforming students. In Portugal, grade repetition is a stronger predictor of additional repetitions along the education system. It also exacerbates inequalities, as half of the students coming from disadvantaged backgrounds are likely to repeat a grade, in stark contrast with the OECD average of 20%. Finding alternatives to grade repetition and strengthening learning opportunities of students from disadvantaged backgrounds is a priority to improve the overall level of skills. The [economic survey of Portugal]() recommends re-focusing resources on primary and pre-primary education, detecting and providing early individualised support of students at risk, strengthening teacher training and exposure to best working practices, creating incentives to attract the most experienced teachers and principals to disadvantaged schools and taking account of students' profiles and specific needs when allocating resources across schools.

Figure 2. Student early school leaving rate is high

Percentage of the population aged 18 to 24 having attained at most lower secondary education and not being involved in further education or training[1]



1. The early school leaving rate for Spain covers "school drop outs".

Source: Eurostat (2016), "Youth education and training", *Eurostat Database* and European Commission (2014), "Overview of Europe 2020 Targets", http://ec.europa.eu/europe2020/targets/national-targets/index_en.htm.

Third, the vocational education and training (VET) system needs a comprehensive evaluation. The VET system has developed quite fast in the past decade, putting an end to Portugal's strong bias towards academically-orientated programmes. However, two systems co-exist in parallel, and the courses run by the Ministry of Labour have a stronger dual nature than the VET courses organised by the Ministry of Education. The government should unify the different VET systems by establishing a single dual VET system with strong work-based learning in companies. VET is also provided by several private training entities, risking overlaps and inefficiencies in the use of resources. The capacity to monitor training quality and labour market outcomes of VET students also needs to be strengthened. The authorities should regularly compile performance indicators and use them to streamline the VET offer and improve training quality.

References

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