

THE ROLE OF HIGHER EDUCATION IN FORMATION THE SELF-EMPLOYMENT ECONOMY - CASE OF LATVIA

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Abstract

There is a scarce of literature which describes the correlation between level of education and self-employment. Therefore paper highlights the cross-link between the individual decision taken in favour of the self-employment and the educational attainment, thereby increasing his/her welfare. The aim of the article is to examine the role of higher education in transition to self-employment economy in the case of Latvia. Therefore one of the key objective of the paper is to establish the factors that define education and a type of employment in the aspect of raising welfare, thus special attention is paid to wage and structure of income in Latvia. For the analysis of the labour market, the authors used a snapshot method in three periods in which all actual job offers on the websites of CV-online, the State Employment Agency, and Working Day were viewed. In total 2109 job announcements were analysed, and 1044 of them were selected to a further analysis since they corresponded to the criterion that higher education is a requirement.

Key words: higher education, self-employment, welfare, labour market

JEL Code: I30, J24, I23

Introduction

Nowadays we refer that qualification, skills and education is the basis of ensuring the competitiveness in all levels – individual, micro, and macro. This is relatively new approach. Therefore the first part of the paper describes the provision of welfare as a factor of education acquisition and selection of self-employment. Mainly focusing on individual willingness to improve his/her welfare and education as the tool to implement it. Second part examines the factors that foster the self-employment economy in Latvia. Therefore the preconditions for transition to self-employment economy in the aspect of income and education are defined and data from the study of actual job offers in the aspect of higher education specialties in Latvia which was developed by the authors are analysed.

1 Provision of welfare as a factor of education acquisition and selection of a type of self-employment

The early approaches to the importance of education for the development are shown in the book “An Inquiry into the Nature and Causes of the Wealth of Nations” (A.Smith, 1776) - the main functions of State as the following: 1) defense of society, 2) expense of justice, 3) “erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to the great society” (expense of the institutions for the education included). A little bit different approach for classical political economy was developed by J.C.L.S. de Sismondi (1827) where the aim is an educated population which can grow wealth of the nation.

The interest in the education will receive a new dimension only by German historical school when it will be necessary to develop the idea of factors influencing national economy: A.Wagner (1835 – 1917) was showing the inevitable growth of public expenditures in industrially developed countries because of growth of urbanization. The need for collective goods such as education and infrastructure are rising and it's only the State who can finance it.

In academic sector there is no one common approach of social policy and welfare measurement, therefore authors of the article based on J.H.Westover (2012) mentions the following ones which are relevant to the topic: a) Liberal approach (main characteristics: 1) free market; 2) minimized State intervention); b) Conservative approach (main characteristics: 1) minimized State intervention; 2) social protection in the case of failure); c) Social democratic approach (main characteristics: 1) full employment; 2) equality). (Westover, 2012, pp. 506).”

All three regimes are described in details by B.Šavriņa and I.Kalnmeiere in 2007 (Šavriņa B., Kalnmeiere I.,2007) If the liberal approach is favoring the market and is taking guarantees of minimal welfare for the most affected social status by the financing the private funds of social insurance. This is the model which is imposed on the countries of Central and Eastern Europe after they regain the market economy in 90's. In this model the State is seen as “a State-minima” (certain degree of State's intervention is possible). In this way the founder of Welfare State conception A.C.Pigou in his book “Wealth and Welfare” (Pigou, 1912) is showing that a certain contradiction exists if we are seeing the private economic interest and the collective economic interest (social costs of economic activity). By educating himself, the individual may not perceive the value to himself as being as great as the value for the society. P.Samuelson is developing the idea of Pigou in his “Economics” (Samuelson, 1948) with the

factors which are motivating the State to intervene. Thus, one of the principal functions of State is to finance these collective goods. Samuelson is notifying that the long-term analysis of costs should be done where we could see the private and collective costs and benefits.

During the 80's M.Friedman, A.Laffer, P.Rosanvallon are showing that the Welfare State is creating its own opposite: 1) social security payments, if they are excessive, are increasing the costs, especially labour costs and in this way they are promoting layoffs and raise of unemployment, 2) excessive social security payments diminish the level of revenue and they are lowering initiative for the labour force to work, one part of them preferring to stay inactive. This is especially true if the low level of remuneration is not so far from the social allocations in the case of unemployment.

An extreme approach is proposed by F.Hayek, saying that the market only can propose the realization of interests for individuals and for civilization with the main instrument – the price. The salaries should be totally flexible (the trade unions are only breaking equilibrium of the remunerations). Only the market can ensure the freedom for individuals. From this the idea of equity for the access to social goods is developed by J.Rawls: equality of chance to emerge.

Provision of the welfare level of an individual depends on employment that results in gaining income thus it can be considered that satisfaction with the chosen work place and conditions is one of the factors that fosters the welfare level (Westover, 2012). If we are developing this idea with a freedom to make choice (in Hayek's and Rawls's sense), in the frame of market economy, the authors of this article would like to add that: 1) incorrect decision about the education can be the main aspect for the reduced income, 2) the growing dissatisfaction with the job in the case of a wrong choice and, if the individual would like to change the profession, the growth of costs for this new education, 3) forced advertisements and the lack of information can create an inadequate picture of education program and profession, 4) the monopolistic situation of the institutions of higher education or professional education in several regions by the supply of their study programs are not presenting a real choice for the individual, 5) unequal starting positions for possibilities to choose a study program from a financial point of view.

Therefore two questions that should be answered are significant: 1) what makes the demand for higher education –students, private or public sector (Johnes, 1990)); 2) what is the result of the obtained education. A willingness of an individual to ensure corresponding welfare level facilitates demand for higher education since the studying process allows gaining and developing new skills and knowledge that are necessary in the labour market

(Peel and Inkson, 2004). Authors of the paper indicates that this tendency leads to increasing problems in higher education: 1) vulgarization of higher education; 2) overeducation (the obtained education does not reflect in raising productivity (Spence, 1973)).

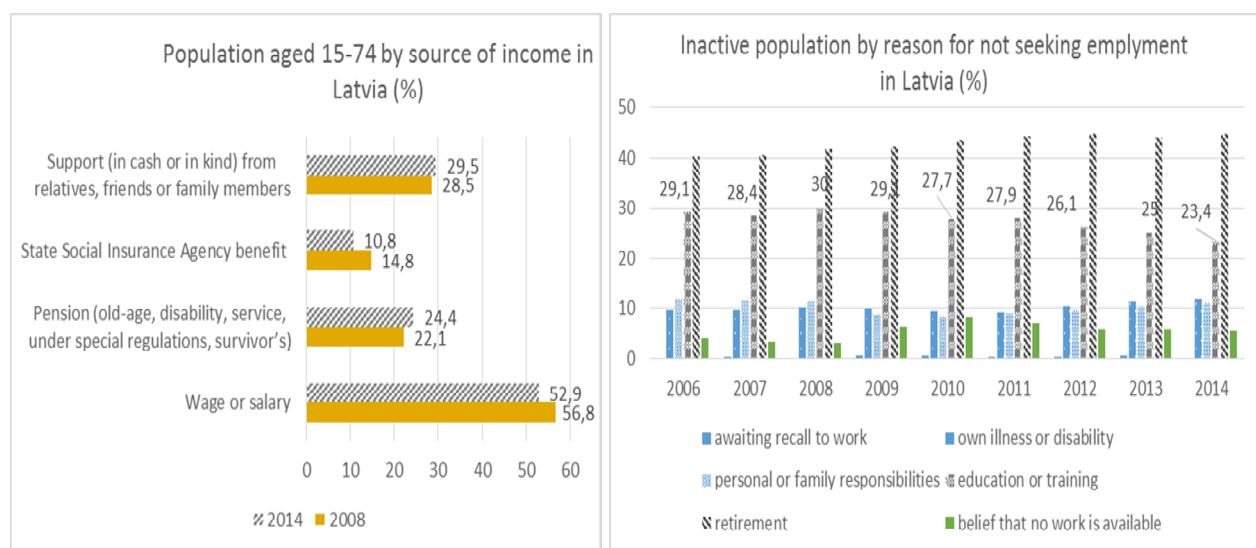
2 Factors that foster the self-employment economy: case of Latvia

There are subjective and objective factors which have an influence on individual's decision to become a self-employer. Subjective factors: 1) education; 2) marital status; 3) tradition; 4) individual characteristics. Objective factors: 1) economic policy (tax policy); 2) business environment; 3) wage level (minimal wage: 360 euro/month – average wage: 777 euro/month, (Statistical Bureau of Latvia, 2015)).

2.1 Preconditions for transition to self-employment economy in the aspect of source of income and education

When analysing the financial assets in the possession of the residents (Figure 1, left), it can be said that wage dominates as the main source of income, yet a major part is affected by support from relatives, friends, or family members constituting 28.5% during the global crisis in 2008 and 29.5% in 2014 as well. Thus the authors point at problematic issues of the welfare level of an individual. Taking into account statistics of the average wage, it can be said that satisfaction of an individual with his/her job will be determined by an increase in the wage.

Fig. 1: Population aged 15-74 by source of income in Latvia and Inactive population by reason for not seeking employment in Latvia



Source: authors designed, data from Statistical Bureau of Latvia (Employment and Unemployment 2015)

Analysing inactive residents after a reason of not searching for a job (Figure 1, right), it can be concluded that acquisition of education is a significant factor of why an individual does not position him/her in the active labour market. Therefore it can be said that education is considered a major criterion in the labour market. The authors specify that a decrease starting in 2006 (29.1%) in comparison to 2014 (23.4%) should not be assessed as a decrease in the role of education but it should be evaluated based on the deteriorating demographic situation. Furthermore, the following relatively high indicators should also be taken into account: “illness, injury, disability”, as well as “personal or family circumstances”. It can be concluded that long-term unemployment is a risk factor to finding a new job since continuous qualification raising and awareness of the situation ensured by employment are needed in the changing conditions of the market. Therefore self-employment after unemployment in a longer term can be considered as an opportunity to increase the welfare level. Still the mentioned aspect, namely, that being not aware of the new market situation can have a negative impact on the successful implementation of the self-employed status, should also be taken into account. Therefore the authors highlight that self-employment could be implemented more successfully by individuals with a higher qualification who in addition have operated in the relevant field.

When analysing the employment statistics, the main conclusion is that in Latvia, the status of an employee dominates – the lowest indicator 88.3% was in 2006 (Central Statistical Bureau, 2015), still the change dynamics is not significant. A key aspect is an analysis of the self-employment tendencies; an important question is caused by 2006 and 2007, when growth pace of GDP in comparison to the previous year was respectively 12.2% and 10.0% (Central Statistical Bureau, 2015) and 2008 when the drop of GDP in comparison with the previous year was 4.2%. Thus it should be asked why do the indicators of the self-employment reduced if the self-employment can be considered as an alternative option to the status of an employee when the economy is developing and ability of purchasing is growing. When analysing the data in the context of the economic situation, it can be concluded that the self-employment is chosen as an option when the economy is shrinking, namely in 2008 and 2009 (Central Statistical Bureau, 2015) the increase is +0.6%; thus it can be said that the self-employment as a type of employment is chosen when a welfare level needs to be preserved and not as an opportunity of increasing thereof during the economic development.

It can be concluded that self-employment in Latvia is chosen in two opposite situations: 1) when there is hopelessness to stay as employee; 2) when an individual see possibilities to develop his/her business. The obstacles to become a self-employer are: 1)

weak state support – it is more secure to stay as employee; 2) no access of initial capital; 3) gap in knowledge of the market; 4) traditions.

From Schumpeterian point of view (Schumpeter, 1912), the entrepreneur is one of the main forces promoting economic development. The spirit of entrepreneur is an element which forces economic growth. For this reason the traditions of enterprises are extremely important. In the case of Central and Eastern European countries, the traditions of private enterprises and family businesses were interrupted after the Second World War because these countries were forced into a system of planned economy in which the development of private entrepreneurship was artificially blocked. In the case of Baltic States, and Latvia in particular, the necessity to restore the traditions of family businesses and private ownership and entrepreneurship in general are related to the processes of the restitution of a national State. Through the means of denationalization (the return of property such as enterprise, farm, land, building to the previous owners or their descendants) it is necessary to rectitude the education of start-up, economic and management knowledge to create this new generation of entrepreneurs (Šavriņa, 2013). The demand of such education is rising because of few age-generations involved in this process – not only the age groups coming to the universities just after the secondary schools but the formation of entrepreneurs from other age groups are the target audience.

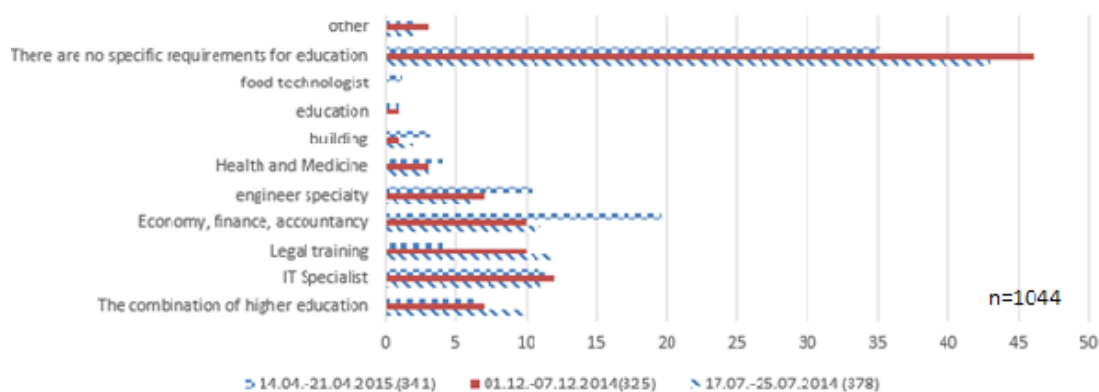
With regard to the previously analysed statistics, new question occurs – how an individual can raise his/her welfare level reducing dependence on support of friends, family, and relatives, which is assessed as high in opinion of the authors. To analyse the potential structure of the self-employment, the authors analysed the actual job offers.

2.2. Study of actual job offers in the aspect of higher education specialities in Latvia: data analysis

For the analysis of the labour market, the authors used a snapshot method in a number of periods of time – 17.07.-25.07.2014 (I); 01.12.-07.12.2014 (II); 14.04.-21.04.2015 (III). In these periods of time, all actual job offers on the websites of CV-online, the State Employment Agency, and Working Day were viewed. In total 2109 job announcements were analysed, and 1044 of them were selected to a further analysis since they corresponded to the criterion that higher education is a requirement. Thus it could be concluded that higher education is a requirement in 51.71% of cases.

The study results reflected in Figure 2 demonstrate that also the mentioned fact, namely that demand for higher education is mainly formed by students thus ensuring their positions in the labour market and fostering an increase in welfare, is approved. The results show that higher education is necessary for competing in the labour market. In the analysed periods of time – I – 43%, II – 46%, III – 35% cases show a requirement for higher education specifying completed higher education, and in opinion of the authors these cases point at ability of an individual, self-discipline to obtain new skills meaning that specialisation takes place at a company being an important aspect to creators of the higher education demand. Thus it can be said that higher education has a function of a filter and signal (Spence, 1973).

Fig. 2: Study of actual job offers in the aspect of higher education specialties, Latvia



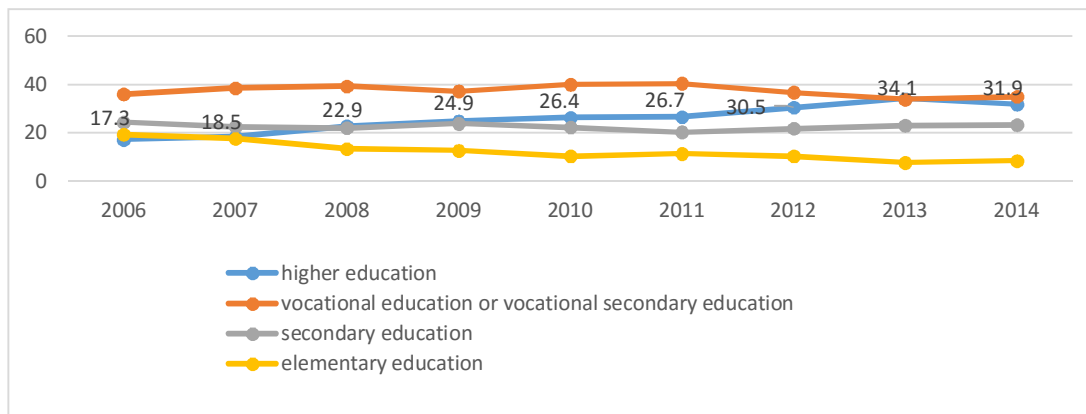
Source: results from the study made by the authors of the paper

After analysing the data, the main conclusion is that in all the examined periods of time, the main directions remain unchanged, namely: 1) there is a stable demand for specialists in the IT sector, I– 11%, II– 12%, III– 11%; 2) economics, finances, accountancy, I– 11%, II– 10%, III– 20%; 3) education of law, I – 12%, II– 10%, III– 4%; 4) engineering/technical education, I– 6%, II– 7%, III– 10%. At the same time, a tendency of a combination of higher education in job announcements remains unchanged, namely I – 10%, II– 7%, III– 7%, thus an employer points at attraction of complex and multi-profile specialists who can work in several fields. Attraction of such individuals indicates the things mentioned above that the productivity question is significant in the private sector; therefore an employee should be able to fulfil various different duties that allow reducing the number of employees, still at the same time the wage can be increased but not to the extent of the wage of two employees.

Based on the analysis of the actual job announcements and the fact that there were 39.9% of population aged 30-34 with obtained higher education in Latvia (Eurostat, 2015), it can be said that higher education is a basic requirement for competitiveness of an individual in the labour market. Therefore establishment of a company, as well as acquisition of the status of self-employed can be considered as an alternative option in the situation when the offer of the labour market is not corresponding for an employee. Based on study, authors of the paper conclude that there is potential for Latvia to move to self-employment economy in global scale. The main reasons are the following: 1) the level of income in Latvia is lower compared to EU-15, so it can be argued that it is more competitive, 2) IT, economics & finance specialties as themselves are orientated for global markets, 3) high language skills: 1) 2 foreign languages – 46.1%; 2) three – 13.1%. (Eurostat, 2015), 4) insufficient, small-scale economy of Latvia leads to EU/global thinking for employers.

With consideration of the specific features of the article, establishment of factors for transition to the self-employment economy in the aspect of higher education examines the structure of the self-employed based on the acquired education.

Fig. 3: Self-employed statistics by level of education (% of the economically active population in Latvia)



Source: authors designed, data from Statistical Bureau of Latvia (Employment and Unemployment, 2015)

It should be concluded that from 2006 to 2014 (Figure 3), the status of the self-employed is mainly implemented by individuals that have obtained vocational and secondary vocational education thus increasing their welfare level since the study of the actual job announcements demonstrates that higher education has been one of the key criteria to successfully compete in the labour market and obtain a position of a highly qualified specialist; furthermore the vocational education is oriented towards service provision, thus the

self-employment as a type of employment is a suitable way of increasing the welfare level when compared to the status of an employee.

Still data in Figure 3 shows another significant tendency, namely, starting from 2006, there is an increase in the number of the self-employed persons that have higher education, while the number of those having elementary and general education is reducing. Thus it can be concluded that the education level is a significant factor that affects a decision on transition from a standard employment to self-employment.

This is approved also by Williams and Horodnic who state that the number of highly educated individuals who choose the status of self-employed is growing for the last tens of years (Williams and Horodnic, 2015, pp 227). The authors say that it is wrong to think that implementation of the status of self-employed is unambiguously a way to get out of poverty. Implementation of the self-employment still needs both an initial capital and a sales market of one's product/service. Thus it is important to analyse the state support to business promotion in the aspect of self-employment.

Conclusion

Based on the analysed data, the authors conclude that there is a potential in Latvia to move to the self-employment economy: 1) in Latvia self-employment reduced by 2008 when a rapid economy development was observed thus showing that an employer was able to ensure the competitive wage to an employee, while during the economy decline, self-employment was considered as an alternative option for preserving the welfare level since employers reduced both the wage and number of employees; 2) a tendency of the self-employment as a type of employment shows that products/services with high value added are offered since the self-employment among highly education individuals is implemented with an aim to raise the welfare; 3) the results of the topical labour market study demonstrate that higher education is one of the key criteria that defines competitiveness of an individual in the labour market, and at the same time it is a financial burden to an employer if an employee does not justify productivity that was foreseen based on the obtained education; 4) low welfare level when compared to the EU Member States, besides mobility of an individual is considered as one of the advantages of this type of employment that in circumstances of globalisation allows offering their services abroad.

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