Twenty years since declaring independence from the USSR

Austerity in Latvia: a warning to the international working class

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Twenty years ago today, on May 4, 1990, the governing council of the Soviet republic of Latvia declared independence from the USSR. It would be another 16 months before its secession from the Soviet Union was formalised, during which the Stalinist bureaucracy in Moscow attempted to maintain its rule by military force.

While national independence and capitalist restoration were presented by the emerging capitalist class—largely drawn from the old bureaucratic elite—as the only means of winning "freedom" and overcoming economic stagnation, 20 years later Latvia, like other ex-Soviet countries, faces economic ruin. Its population is subject to harsh austerity measures carried out by the national government in collusion with global finance capital.

The Latvian economy was hit hard by the economic crisis that erupted in the United States in 2008. The country was highly exposed to financial speculation, especially in real estate, and suffered from the massive withdrawal of finance capital from riskier areas of the world economy in 2008 and 2009. Latvia's economy shrank by 18 percent last year and is expected to contract by a further 4 percent by the end of 2010.

To pay for this crisis, the government in Riga, Latvia's capital, has pushed through some of the sharpest spending cuts implemented anywhere in the world. Since 2008, public sector wages in Latvia have fallen by 25 percent, with further reductions to come. Wages in the private sector have declined by up to 30 percent. The official unemployment rate stands at 23 percent, the highest in the European Union.

Retail sales shrunk by more than 30 percent in the final quarter of 2009 compared to the same period in 2008, an expression of the devastating impact of unemployment and wage cuts on living standards.

The combined 2009 and 2010 government budgets have reduced public spending by 9 percent of gross domestic product (GDP). This would be equivalent to the United States gutting public spending by $1.3 trillion.

The European Union (EU) and the International Monetary Fund (IMF) have dictated every step of the austerity measures in Latvia. The government in Riga is the local enforcer of decisions made in Brussels and Washington on behalf of global financial speculators.

Finance minister Einars Repse, of the right-wing New Era Party, has enthusiastically backed the slashing of state spending. Upon taking the finance post in March, Repse stated, "Tough measures require tough people to carry them out", and promised further "reforms" to shrink the deficit. Prime minister from 2002 to 2004, Repse recently attempted to impose a 30 percent reduction in state pensions, a move that was successfully challenged in the high court.

Due to the brutal cutbacks, Latvia's budget deficit has fallen from 12 percent of GDP in 2007-2008—the same fiscal deficit rate as Greece—to the current figure of 8 percent. However, the government and the international financial elite are demanding that figure drop to just 3 percent of GDP. This will be secured with further attacks on wages, benefits, pensions and public services.

In exchange for these measures, the EU, IMF, World Bank and neighbouring countries granted Latvia a combined €7.5 billion bailout—a vast amount relative to the size of the country, which has a population of just 2.2 million people.

When the bailout was announced in January 2009, the Latvian government was effectively unable to borrow on the open market, with financial institutions demanding a usurious 33 percent interest rate on overnight loans.

Much of the bailout money was directed straight to the banking sector, which is dominated by Scandinavian capital, especially from Sweden. It was used to recapitalise institutions in order to encourage interbank lending. The IMF-EU intervention is also credited with staving off a steep devaluation of the national currency, the lat, the prospect of which was further driving up interbank interest rates.

Any signs of opposition or hesitation regarding the implementation of austerity policies by the government in Riga were met with threats that the bailout money would be withheld. However, the IMF, EU and the banks found the ruling elite in Latvia very willing to carry out the devastating social cuts.

Faced with mass protests against austerity measures in

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January 2009, the Latvian coalition government responded by sending out riot police to face the demonstrators. At the same time, it committed itself to pressing ahead with the IMF-EU diktats. Subsequent changes in government personnel have made no difference to the fate of Latvia's workers.

The very financial predators whose speculation caused the global crisis—and who are now profiting from the bailouts and austerity measures against the working class—have praised Prime Minister Valdis Dombrovskis, also of the New Era Party. "His performance has been spectacular, at least from the perspective of an international investor," stated Yarkin Cebeci, an economist with JPMorgan Chase.

In February, rating firm Standard & Poor's raised Latvia's BB- credit rating to a still very weak BB. Moody's, another major credit rating company, warned that Latvia still had a high "susceptibility to event risk" and was "reliant upon a recovery in the regional economy and European banking system to avoid even deeper, more painful adjustment".

Many economic commentators have stated that, even with the deep cuts over the past 18 months, the Latvian economy may fall further into crisis as finance capital could still demand higher interest payments on loans, while betting against the country defaulting on its debt obligations. In other words, Latvia could experience the same fate that has befallen Greece and is currently hitting Portugal.

Despite the attempts to maintain the value of the lat, which is pegged to the euro, Repse and other leading figures in the Latvian elite appear to favour a deflationary policy to boost Latvia's exports. The devaluation of the lat would have even more devastating consequences for workers, increasing the cost of imports and devaluing savings.

The neighbouring economies of Estonia and Lithuania have fared little better, and a devaluation of the lat could force these countries to take their currencies off the euro peg, possibly initiating a chain reaction of competitive devaluations across the eastern EU member states.

The anti-working class measures imposed in Latvia have, according to the *Financial Times*, been "hailed as a role model for Greece" and other European countries. The Greek government has just announced further austerity measures in order to receive a €110 billion EU-IMF bailout.

Only two years ago, Latvia, with the other Baltic States, was hailed as the role model not of austerity, but of prosperity in eastern Europe. Because of its high growth rates, Latvia was deemed one of the so-called "Baltic Tigers." From 2006 to 2007, the country's economy grew by more than 10 percent, largely fueled by speculation on the real estate market in Riga. Latvia, and the neighbouring Baltic states that witnessed similar growth, was presented as proof of the success of the "free market" and the expansion of the EU.

However, these high growth rates were accompanied by increasingly precarious conditions for most workers in the region. Public services such as health care and social security, as well as educational facilities that had been built up in the post-war Soviet period, were starved of funds. With wages a fraction of the level found in western Europe and pricing rising sharply after the country joined the EU, hundreds of thousands of workers, especially tradesmen, nurses and doctors, left Latvia to find jobs elsewhere in the EU.

As occurred throughout the former Soviet sphere, the restoration of capitalism served as a means for the Stalinist bureaucracy to concretise its privileges by transforming itself into a layer of wealthy property owners. The newly formed capitalist class in Latvia, and elsewhere, used the creation of an independent state to establish a direct and subordinate relationship to global capital.

Twenty years ago, nationalist and pro-capitalist forces in Latvia and the other Baltic republics were able to take advantage of the crimes of Stalinism—including the mass deportations and executions that took place under Soviet rule in the 1940s, as well as the Russian chauvinism that accompanied the official Stalinist policy of building "socialism in one country"—to present Latvian independence as a progressive solution to national oppression.

The dire straits facing the working class in Latvia today prove that there was never any progressive content to the projects of national independence, capitalist restoration, or accession to the EU.

Workers in Latvia, the Baltic States and across the EU and former USSR face the same class enemies—the global financial aristocracy and their corrupt agents in government. All the official parties—conservative, social democratic or ex-Stalinist—are carrying out similar attacks on the living standards of the working class in order to prop up capitalism. In this they are aided and abetted by the trade unions and various ex-left organisations that, at times, spout radical-sounding phrases but are deeply hostile to a genuinely independent movement of the working class against the profit system and the existing political setup. In opposition to the national elites and the European Union of the banks, the workers of Latvia and Europe must unite in a struggle for socialist internationalism.

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