

# The consequences of austerity in Latvia

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18 October 2012

Latvia has been praised by numerous institutions and the media as a role model for the success of austerity policies. They celebrate the "resurrection" of the country and have praised the right-wing government in Riga. Christine Lagarde, the director of the International Monetary Fund (IMF), named the Baltic state as a showcase for tackling the economic crisis and described the government's policies as a "success story" which "can be an inspiration to other European statesmen."

In fact, the Latvian population is paying a high price for this "success story". Living conditions have become so unbearable that ten percent of the working population has quit the country since 2008. Within just the last two years the population has shrunk from 2.2 to 2 million. Even this development is cynically exploited by the government which seeks to put a positive spin and declares in its economic statistics that the unemployment rate has fallen.

Latvia was hit hard by the international economic crisis of 2008. Following boom years in 2006 and 2007, during which direct investment from Europe grew by up to 30 percent, the economy spiralled into decline. Latvian gross domestic product fell within two years by 25 percent and the country was only rescued from bankruptcy by funds from the IMF.

Under pressure from the IMF the government led by premier Vladis Dombrovskis decided to impose draconian austerity measures, slash jobs, cut wages and devalue the national currency, the Lat.

Dombrovskis worked closely with the Swedish economist Anders Aslund. In the early 1990s Aslund was an adviser to the governments of Russia, Ukraine and Kyrgyzstan. He is a self-proclaimed advocate of the type of "shock therapy" policies which had disastrous

consequences for populations across Eastern Europe following the collapse of the Soviet Union and the eastern bloc at the start of the 1990s.

The Dombrovskis government slashed wages in the public sector by between 30-50 percent while increasing income tax from 23 to 26 percent and VAT from 18 to 21 percent. It closed about half of the 56 hospitals in the country, including Latvia's largest hospital with 650 beds, Rigas Prima Slimnca. The country's already minimal pensions were cut even further.

The average monthly salary currently stands at around 600 euros per month and the minimum wage is just 280 euros, although rents in the capital city, Riga, are comparable with those in Western European capitals. Food prices are similar to those in Germany.

Widespread poverty has not only led to high levels of emigration, but also a low birth rate. This means Latvia is aging much faster than elsewhere in Europe, according to demographer Ilmars Mezs.

Given the low wages, many professional sectors now lack trained workers with many young and educated Latvians moving abroad.

The Austrian *Standard* quoted 18-year-old Yeva who wants to move to Austria after her school education ends: "Of course I want at some time to make good money and not just remain stuck at a subsistence level". When asked why such a young person sought to leave the country, she replied bluntly: "I hate life here in Latvia."

The social decline in Latvia is also reflected in other spheres. The country now has one of the highest suicide rates in Europe. Although there are no official statistics, estimates point to an increase of 15 percent in the last

three years.

One tragedy to hit the headlines in Latvia was the case of a ten-year-old boy who was sent home by his mother, who had emigrated abroad. Back in his homeland he committed suicide.

There has also been a significant increase in petty theft, robbery and violent crime. The number of alcoholics has also grown significantly.

The Latvian government has attempted to counter criticism of its anti-social policies by referring to the supposedly good economic data for the country. "It was our only option in this situation. Otherwise we would not be doing so well", was the comment by Arvils Aseradens, advisor to the Ministry of Social Affairs, and former manager of the daily *Diena* newspaper.

The unemployment rate this year dropped by almost 20 percent to 11 percent and the annual GDP growth rate is between three and six percent, but the population has not felt any benefits from this "recovery".

Mihails Hazan, professor of economics at the University of Latvia, contradicts the official line that Latvia had overcome its problems by introducing rigid austerity policies. "There is absolutely nothing we can be proud of when we look back at the social development during the past three years," he said. "The economic growth rates seem positive at first glance, but you have to remember that we started from a very low base-line."

Even if current growth rates continue—which is unlikely—it would still take many years for Latvia to return to its economic performance in 2007. Dombrovskis's coalition government has been able to pursue its austerity measures in recent years largely unimpeded. The opposition parties in the Latvian Parliament argue basically for the same policy. The main opposition alliance, the Harmony Center, consists of several social democratic and "socialist" parties, which mainly represent the Russian-born elite in the country. Despite occasional criticism of the government they also argue for strict austerity measures, similar to those they imposed from 2006 to 2008, when they were part of the government.

The anger and despair so widespread in the population

finds no expression in official political life. The severe deterioration of living conditions has led to renewed protests. In early 2009, more than 10,000 demonstrated against the austerity measures of the government and in the months following there were a series of strikes and work stoppages in the public sector.

Dombrovskis has responded to these protests with a further shift to the right and is currently imposing his austerity measures in alliance with extreme right-wing forces, while at the same time deliberately stoking anti-Russian chauvinism.

After the 2010 elections he formed a coalition government with the ultra-right National Alliance. He said at the time that he saw no reason to "punish" the National Alliance for its extremist views.

Last month a monument was erected in Bauska to commemorate Latvian troops who had fought against the Soviet army during the Second World War. The units of the "Latvian Legion" were in fact affiliated to the notorious German Waffen-SS. When Moscow then criticised the monument as a "glorification of Nazism", Latvian official circles responded by declaring the statue to be a symbol of "freedom". The monument is now a site for commemorative events held by fascist groups of SS veterans.

Two years ago, a monument in honour of Karlis Ulmanis was erected in Piksas. In 1934 Ulmanis dissolved the Latvian Parliament, overturned the constitution, established an authoritarian regime and established close contacts with the Nazi regime in Germany. Political opponents were arrested and tortured under his rule. Once again the monument was defended by official political circles who argued that the commemoration of Ulmanis was a symbol of the "independence of Latvia in times of crisis."



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