

SUMMARY:

Latvia's development since the complete reestablishment of independence from the Soviet Union has been unexpectedly successful. Latvia and the other Baltic States have joined the Western rich

countries' clubs, NATO and the EU. So, if things have seemingly gone so well, what are the roots of the political disaffection that has led Latvia to hold its second parliamentary elections in the space of less than a year?

This report points out the causes of political discontent in a distorted privatization process. Pauls Raudseps describes this process, often done in an ad hoc and intensely politicized manner, as something that benefited a small group of oligarchs at the expense of the entire country.

Latvia before the election:

Against the odds and the oligarchs

BY: PAULS RAUDSEPS

A little more than three months ago on May 28, then president Valdis Zatlers did something unprecedented in Latvian history - he called for a referendum on the dissolution of the Latvian parliament. Although the legislature ("Saeima" in Latvian) had only been elected last October, in a speech to the nation that was televised live, Zatlers argued that his decision was justified by the danger posed by the "privatization of democracy." Zatlers said he was giving the voters a chance "to put an end to the impunity of a small group of people," and a large number of his fellow citizens took advantage of the opportunity. On 23 July almost 690,000 people participated in the referendum, and 94% of them voted to dissolve the Saeima. Of the seven referendums that have taken place since Latvia regained its independence, this one regarding the dissolution of the Saeima attracted the second largest number of votes in favor, only some 25,000 less than the number that voted in favor of

Latvia joining the European Union. Parliamentary elections will now be held on 17 September.

On the face of it, this political disaffection might seem paradoxical. Twenty years ago in August, 1991, Latvia and the other Baltic States - Estonia and Lithuania - regained their independence after fifty years of Soviet occupation. Just last month, the 20th anniversary of this event was widely celebrated, not only in the Baltics but also in Sweden with the participation of the country's leaders including Prime Minister Reinfeldt. The celebrations were well deserved - Latvia's development since the complete reestablishment of independence from the Soviet Union has been unexpectedly successful.

In 1991, however, the prospects for Latvia hardly seemed favorable. After 50 years of socialist central planning, the country's economy was in a shambles. The unhindered migration of Russians, Ukrainians and Belorussians into the country after the Second World War had

left it with a higher immigrant population than any other nation in Europe. Before the war, Latvians made up approximately 75% of the country's population, but in 1991 that figure had been reduced to 52%, and the resulting tensions heightened fears in the West that Latvia and neighboring Estonia,

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which had experienced a similar though somewhat smaller influx of immigrants, were in danger of slipping into the same kind of ethnic conflicts that consumed the former Yugoslavia. Furthermore, the Russian army still had tens of thousands of troops stationed in the country, creating further doubts about Latvia's security and its ability to maintain its independence.

Swedish diplomat Lars Fredén (now that country's ambassador to China) was the only Western diplomat stationed in Riga from 1989 to 1991, and he was also Prime Minister Carl Bildt's advisor on Baltic affairs from 1992 to 1994. In his book entitled "Återkomst", an invaluable study of Latvia and Estonia at the beginning of the 1990s, the Swedish title of which means "Comebacks" (a Latvian translation of the book is being published this month), Fredén vividly describes the concerns in Sweden and the West about the future development of the Baltic States. However, as he notes in one of the book's final chapters (the title of which translates to "That which - amazingly enough - never happened"), most of the pessimistic scenarios that many Western observers thought to be almost inevitable did not in fact eventuate. The Russian army was withdrawn from Latvia and the other Baltic States in an orderly manner. Democracy has been established, free markets have been successfully introduced, and an economic development has taken place that has raised most people's living standards above the levels they were at during Soviet occupation.

I would also add that, not only were the many pessimists proved wrong, but some things have happened that even the most starry-eyed optimists could not foresee. Latvia and the other Baltic States have joined

the Western rich countries' clubs, NATO and the EU. Ethnic relations may not have disappeared from the political agenda, but they are no longer fraught with the emotions nor give rise to the fears that caused such concerns twenty years ago. As Fredén writes: "The Baltic region's capital cities have regained their former glory and more besides. Now when I visit Tallinn, Riga or Vilnius, I have to make a great effort to see in my mind's eye the grayness, cold and dark which ruled there (...) It is even more difficult to recall the harsh feelings of vulnerability which ruled there in the early nineties."

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Some may be tempted to look for the causes in the recent economic crisis. Fueled by massive (one might even say foolhardy) lending by the Swedish banks that dominate the Latvian market, as well as by lax regulation and loose fiscal policy on the part of the Latvian government,

the country enjoyed tremendously rapid growth between 2004 and 2007 on the back of a huge real estate bubble. In 2005 and 2006, Latvia was the fastest growing economy in the EU, expanding by over 10% of GDP per year. Then it turned completely around and experienced the deepest economic decline of any country in the EU in 2009 - 18.4% of GDP. All told, from peak to trough, the Latvian economy shrank by a quarter during the crisis, unemployment rose to 20% of the working population, and after the failure of its second largest bank in November 2008, Latvia was forced to turn to the International Monetary Fund, the European Commission and a number of neighboring countries for an aid package that initially was projected to reach 7.5 billion euro. Fulfilling the terms of the program meant harsh budget cuts and tax increases. In 2009 alone these totaled 9% of Latvia's GDP, significantly more than any of the Eurozone countries now receiving support from the EU and IMF have had to achieve during the course of a year.

Just as at the beginning of the nineties, a chorus of prominent international commentators was predicting that the program would not work. Yet, in spite of some harrowing moments in 2009, the Latvian economy has successfully turned around. Exports are booming, GDP grew by 5.6% year on year in the second quarter of 2011, and unemployment is falling steadily.

Most surprisingly, Prime Minister Valdis Dombrovskis, who took office in March 2009 when the situation was at its most dire and who implemented the harshest budget cuts in 2009 and 2010, saw his party win the elections last October with the second-largest majority in Latvian electoral history.

The roots of the political disaffection crystallized by Zatlers' call to the polls go much deeper than the recent economic crisis.

They stretch back to the early nineties and the way in which Latvia privatized its large enterprises. Often done in an ad hoc and intensely politicized manner, the privatization process gave privileged insiders the opportunity to take control of significant assets at cut-rate prices. Then, in a vicious feedback loop, their newfound economic power allowed them to increase their political power even further and to pursue their economic interests at the expense of the state ever more effectively. In 2000, a rigorous and ground-breaking World Bank report on corruption in the former socialist countries of Eastern Europe concluded that Latvia exhibited relatively moderate levels of administrative corruption, that is, of small scale bribes to officials, but a very high level of what the bank called "state capture", that is, the use of unacceptable political influence to rig the laws and regulations in the interests of a favored few. As a result, many of the developments

that have contributed to the power of the "oligarchs", though unfair and harmful to society, have been, at least on the face of it, perfectly legal.

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A vital factor in the growth of the oligarchs' power has been their increasing influence over the Latvian media, an essential element in solidifying their political power. My own experience testifies to these sorry developments. I was one of the founders of the Diena, a publication which the well-known New York Times columnist William Safire once called "the most adamantly independent major new daily among the nations of post-Soviet Europe". Our political independence and commitment to tough investigative journalism made Diena many enemies, especially among the oligarchs.

So it came as a shock not only to Diena's journalists, but also to many people in Latvian society, when in July 2009 our majority owners, the Swedish media company Bonnier, sold Diena to a young man who, by his own admission, did not have the money to buy the company. Since he could not provide any plausible

explanations regarding his backers, almost a quarter of the editorial staff of the newspaper quit, including all the editors, commentators and investigative journalists. After a complicated series of changes, the company is now run by a Board of which three of the four members are close business or political associates of the three men universally known as the main Latvian oligarchs.

Unfortunately, this is not an isolated incident. All the main Latvian daily newspapers are now tied to the interests of local tycoons, public television's news department has unburdened itself of its leading journalists and investigative reporters, and the owner of the largest private television station helped to organize a political movement in support of two of the oligarchs before the last elections. Because of the growing influence of these political and business interests on its media, Latvia has seen a marked decline in its Freedom House rating of freedom of the press during the last six years. Although it has not yet crossed the border from the "free" into the "partly free" category, Latvia is getting uncomfortably close to that line.

Of course, these developments have not gone unnoticed in Latvian society, and dissatisfaction with the role and influence of the oligarchs has been on the rise for a number of years. In fact, the largest political demonstrations since the massive rallies for independence did not take place during the economic

crisis, but rather in 2007, when the economy was booming, wages were rising by 30% a year, and it seemed that everyone should be fat and happy. Yet, in spite of the economic growth, political dissatisfaction was widespread, and a large demonstration in November 2007 brought down the government of Aigars Kalvītis, which was composed of the three parties most closely tied to the oligarchs. This “umbrella revolution”, which took its name from the wretchedly cold autumn rains that accompanied all its demonstrations, was triggered by the government’s ham handed attempt to oust the head of the independent anti-corruption agency that had shown the determination to investigate a number of important politicians.

Two of the oligarchic parties were also severely punished by the electorate in the 2010 elections. Their self-serving politics were seen to have been responsible for the excesses of the boom and, as a consequence, for the depth of the downturn. The People’s Party was founded by one of the oligarchs - Andris Šķēle. At the beginning of the 1990s, he was the official at the Ministry of Agriculture responsible for privatizing Latvia’s food processing industry, and subsequently he emerged as one of the country’s richest men. His party’s Prime Minister, Kalvītis, had given a name to the boom - “the fat years” - and the voters did not forget. In the 2010

elections, the People’s Party made an alliance with the First Party of Ainārs Šlesers, who elbowed his way to the oligarchs’ table by taking the transportation sector under his wing. As early as 2004, Šlesers dismissed both domestic and foreign concerns that the Latvian economy was in danger of overheating, and loudly declared that now was the time to “put the pedal to the metal.” The voters did not forget that either, and the combined representation of these two parties in the Latvian parliament fell from 33 seats in 2006 to only 8 in 2010.

Aivars Lembergs, who has served as mayor of the Latvian port city Ventspils since 1988, and who is now considered to be the richest man in the country, is the country’s third oligarch and is intimately associated with the Greens’ and Farmers’ Union. By keeping a lower profile and positioning itself as the defender of the pensioners and small farmers, this party did relatively well in the 2010 elections. However, thanks to investigations launched by the Latvian prosecutor’s office and the anti-corruption agency, Lembergs is on trial for multiple charges of corruption, and the dissolution of parliament has made his influence on Latvia one of the central issues in this election campaign.

Latvian election results tend to be difficult to predict, because a large proportion of the electorate only makes up its mind at the last moment, but these elections

are particularly hard to call. The campaign is unusually short - only two months from the referendum to the vote on the new parliament. The party line-up has been significantly shaken up. For the first time since 1998, the People’s Party will not be participating, discouraged by exceptionally low poll results and weighed down by a one million Lats (1.4 million euro) fine for campaign finance violations in 2006. Zatlers, whose presidential term ended in July, has formed his own political party, which is riding high in the polls but which still presents voters with a host of unanswered questions.

However, the real test will not be the election results as such, but the government coalition that emerges in the next parliament.

Harmony Center, the party that is seen as the representative of the Russian-speaking population, has been trying (with only modest success) to attract ethnic Latvian voters, many of whom are worried about the party’s cozy relationship with the Putin regime in Russia. Prime minister Dombrovskis’ party Unity, which did so well just seven months ago, has been somewhat tarnished by its decision to form a coalition with the Greens and Farmers after the elections, but still gets credit for its ability to keep the economic recovery program on track. Šlesers’ First Party has not given up hope and is spending as much money

as it can to get a foothold in the next parliament. Finally, the nationalist Everything for Latvia!/Fatherland and Freedom party could see its support increase among Latvian voters who would otherwise vote “none of the above”.

However, the real test will not be the election results as such, but rather the government coalition that emerges in the next parliament. The possible combinations are too various to describe here, but a few predictions can be made with some degree of confidence. Firstly, no matter which parties make up the coalition, Latvia will almost certainly do what is necessary to fulfill the terms of the international aid agreement with the IMF and the EC. This might involve more public posturing with some combinations of parties than with others, but there seems to be little doubt that Latvia will complete the program at the end of this year as planned. The real question is whether the government continues to stick to a policy of fiscal restraint after the international advisers have left. The greater the influence of Unity and Zatlers’ party in the government, the better the chances of fiscal probity. The more prominent the role of Harmony Center and the Greens’ and Farmers’ party, however, the greater the risks will be.

A second fairly safe prediction is that the next government will, in one way or another, represent a major break from the coalitions that have run Latvia since the reestablishment of independence. This may be the first time that a party representing the country’s Russian-speakers will join the ruling coalition. It could be the first time since the middle of the nineties that none of the governing parties will be associated with the oligarchs. It is even possible that both these political milestones will be passed at once. What that would mean for Latvian politics is extremely difficult to foresee.

Nevertheless, if the past is any

guide, these changes may well set Latvia on the road to positive change. The country has a long history of getting into extremely tight spots, only to make a seemingly miraculous escape and keep developing in spite of all the doubters and prophets of doom. It happened a number of times during Latvia’s struggle for independence ninety years ago, and it has already happened more times than is good for one’s nerves over the past twenty five years. Despite all the uncertainty surrounding the upcoming elections, I’m betting that, once again, Latvia will beat the odds.

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Born in the United States, Mr. Raudseps received a degree in Russian and Soviet Studies from Harvard University. In 1990 he moved to Latvia to work for the Popular Front. He was one of the founders of Diena, which for many years was Latvia’s leading daily newspaper. Having worked for almost 19 years at the newspaper as managing editor and editorial page editor, he left Diena in October, 2009, to found the weekly news magazine and website “Ir”, where he is both a commentator and chairman of the advisory board.

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