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# No People No Problem: “The Baltic Tigers” False Prophets of Economic Austerity

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*The Baltic states have discovered a new way to cut unemployment and cut budgets for social services: emigration. If enough people of working age are forced to leave to find work abroad, unemployment and social service budgets will both drop.*

This simple mathematics explains what the algebra of austerity-plan advocates are applauding today as the “New Baltic Miracle” for Greece, Spain, and Italy to emulate.  The reality, however, is a model predicated on economic shrinkage as a result of wage cuts. In the case of Latvia, this was some 30 percent for Latvian public-sector employees (euphemized as “internal devaluation”). With a set of flat taxes on employment adding up to 59% in Latvia (while property taxes are only 1%), it would seem hard indeed to present this as a success story.

But one hears only celebratory praise from the neoliberal lobbyists whose policies have de-industrialized and stripped the Baltic economies of Lithuania and Latvia, leaving them debt-ridden and uncompetitive. It is as if their real estate collapse from bubble-level debt leveraging that left their basic infrastructure in the hands of kleptocrats, is a free market success story.

What then does a neoliberal “free market” mean?

After a half-century struggle for independence, the Balts emerged in a world where neoliberal policies were the global fashion, and where the dress code and face control were initially enforced by the world’s international financial institutions–and later even more aggressively internalized by Baltic policymakers themselves.  Twenty years of neoliberal policy after emerging from Soviet rule have left the Baltics a mess.  On the lead up to the 2008 global economic crisis and the world’s biggest collapses the financial press was praising the Baltic Tigers for dutifully imposing rule by bankers.

Now, after the storm has quieted in the Baltics, Anders Aslund and other apologists are at it again as they promote the Baltic model.  Aslund did so most recently with his Petersen Institute banking industry funded book on Latvia’s “remarkable” rebound.   The only thing he failed to mention was that Latvians were voting with their feet in record numbers.  Latvians were exiting at a rate of roughly 1% of the population per month in an exodus of Biblical proportions. Indeed, Latvian’s census makers were horrified when they discovered that that the country’s population had decreased from 2.3 to 1.9 million people from

2001-2011.

The situation was close or even worse in neighboring Lithuania where a massive outward migration triggered by the start of global economic recession and collapse of the housing bubble in 2008 now threatens the future viability of this nation state. As the economic crisis intensified, unemployment grew from a relatively low level of 4.1% in 2007 to 18.3% in the second quarter of 2010 with a concomitant increase in emigration from 26,600 in 2007 to 83,200 in 2010. This was the highest level of emigration since 1945 and comparable only with the extensive the depopulation of the country during World War II. Since the restoration of independence in 1990, out of a population of some 3.7 million 615,000 had left the country; three fourths were young persons (up to 35 years old), many of them educated and with jobs in Lithuania. By 2008, the emigration rate from Lithuania became the highest among the EU countries (2.3 per 1,000), and double that of the next highest country, Latvia (1.1 per 1,000).

Forecasts for the period 2008-35 suggest a demographic decline by a further 10.9%, one of the highest rates in the EU (following Bulgaria and Latvia). The 2011 population census seemed only to confirm these grim prognostications. Demographers previously proved to have been too optimistic in their forecasts (the latest issued in 2010) and had overestimated the size of the Lithuanian population by about 200,000. Instead of the forecasted 3.24 million, the census found that by 2011 Lithuania's population was only just over 3 million (3.054 ml)

These grim numbers suggest a kind of euthanizing taking place of the small Baltic nations. This, ironically, after having survived two World Wars, two occupations, and several economic collapses in the 20th century. Indeed, at the end of the Soviet occupation, Latvians and Lithuanians were replacing themselves through natural reproduction. By contrast, today, the twin forces of emigration and low births have conspired to create a demographic disaster.

Enter Anders Aslund again, desperately seeking to resuscitate his reputation after the disastrous failures ensuing from his policy advice in the 1990s in the former USSR. Just this week on Monday, Aslund rhapsodized about the success of Lithuania's harsh austerity regime in the *EUObserver.* His article had both the upbeat tone of Joseph Stalin's famous "dizzy with success" speech, while simultaneously reciting a droll set of statistics of a kind of "Five Year Plan achieved in Four" report proving that the economy and country are in better shape than ever.

Let's look at his most important argument by his own word: that of Lithuania's "impressive" economic rebound and its high World Bank ease of doing business index rating. Aslund reports that through harsh medicine and free-markets this Baltic Tiger is back. Whether by ignorance or intention, let's assume the former, Aslund gets the facts wrong. He rightly explains that this Baltic Tiger's economy crashed by a whopping 14.7% in 2009 (although failing to mention further contractions in 2008 and 2010 on top of that). But, he asserts that this year's current annualized growth rate is some 6.6%, thus suggesting this neoliberal country is not on the road to economic perdition. This *might* sound impressive to some, but Aslund ignores that just last week the massive Lithuanian Snoras bank just presented Lithuania (and Latvia) with an exploding cigar that will wipe out most of Lithuania's economic growth for this year. Furthermore, even if there was a resumption economic growth, IMF estimates that its rates will remain sluggish at best indicating that probably a decade or more will be needed to return to pre-recession levels of economic activity. Thus, according to IMF projections by 2015 Lithuanian GDP as measured in $US was projected to remain 12% less (as measured in current prices) than in 2008, with unemployment at 8.5%

Finally, we need to contrast anemic IMF economic growth forecast for the next 6-8 years with disastrous social consequences of internal devaluation policies. Consider that Lithuania almost tripled its level of unemployment in Lithuania from 5.8% in 2008 to 17.8% in 2010. Although by 2011 unemployment began to decline to 15.6%, this happened not as much because of creation of new jobs, but because of mass outmigration from Lithuania. Public sector wages were cut by 20-30% and pensions by 11 percent, which in combination with growing unemployment let to dramatic increasing in poverty. If in 2008 there were 420 thousand or 12.7% of population living in poverty, by 2009 poverty rate increased to 20.6%. Although by 2010 there was a .4% decrease in the number of poor to 670 thousand, the decrease was caused mostly by downward change in measuring the poverty. Various measures of quality of life and well-being deteriorated even further indicating prevalence of deep pessimism, loss of social solidarity, trust, and atomization of a society.

The extremely high social and demographic costs of such policies put the very future of sustainable economic growth in the region into question. Investments in education, infrastructure, and public services that are preconditions of the “high,” knowledge-based and higher productivity based economic development were slashed, while brain drain intensified. Although Prime Minister Kubilius was promoting his administration’s economic development strategy based on knowledge and innovations, the very austerity measures implemented by his government were relegating to Lithuania to the “low road” of economic development based on low standards in salaries and labor conditions.

The mood on the ground is sour as well.  Lithuanians have emigrated in massive numbers and like their Baltic brethren in Latvia, this has mostly been from people of talent, education, and of childbearing age.  Indeed, like Latvia, Lithuania’s latest census shows a hemorrhaging of people out of the country.  A kind of gallows humor prevails on the ground too.  Recently, a Lithuanian couple in Vilnius reported to the authors: Husband to wife, “we should go back to Norway to work in the canneries.  There, you could leave a thousand euros on the ground, return in a year, and it would be still there.”   Wife, “nah, no way, too many Lithuanians there.”  Their humor is intact, but their sense of desperation grows.

These people deserve better than to have another failed ideology imposed on them.  Let’s hope they and others liberate themselves from the experiments of ideologues and stop being pawns in their game.  To the rest of Europe, we counsel caution.  Joseph Stalin’s maxim, “no people, no problem” is no way to solve an economic crisis.  Euthanizing larger nations in southern Europe through large-scale emigration would be as undesirable as it is impossible to achieve.  Where would the people go?

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