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**Trajectories of Entropy and ‘the Labour Question’ -
The Political Economy of Post-communist Migration in the New Europe**

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Trajectories of Entropy and ‘the Labour Question’ -

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Jeffrey Sommers and Charles Woolfson

Abstract

This article begins by outlining the global historical context of contingent neoliberalism which has emerged in the late twentieth century as the dominant alternative economic trajectory to that of corporatist liberal welfare capitalism. Our analysis connects contemporary dimensions of labour migration and the challenges of economic development. It is relevant to the understanding of contemporary developments in Central and Eastern Europe in that we locate a case study of labour migration from the Baltic State of Latvia as an outcome of the application of the trajectory of neoliberalism which more widely now threatens to dismantle the Jacques Delors’ ‘Social Europe’ model. We argue in the new post-communist EU member states such as Latvia, such socio-economic prescriptions based on a ‘low road’ of poor labour standards fail to deliver sustainable development for those who have adopted this path.

Keywords: Neoliberalism, Social Democracy, Migration, European Enlargement, Latvia

In Europe a century of experimentation and implementation of social democratic labour practices is being undone. In Eastern Europe, and in the Baltic States in particular, German social democratic attempts to influence the character of post-communist societies have found singularly unreceptive audiences among the new ruling elites (Phillips 1999) Specific attempts to promote social democracy rather than neoliberalism as pathways of post-communist reconstruction appear not to have taken root in the political economy of countries such as Latvia. This poses the question of the viability and ultimate sustainability of alternative trajectories.

Bringing these issues into sharp focus is the accelerating labour migration within the European Union, especially in the post-enlargement context of 2004 and 2007 which has brought a total of ten new post-communist states into the Union. Labour migration is now occurring in ways that are dramatically impacting social solidarity throughout the European Union. This threatens to undermine the ‘Social Europe’ model defined by Jacques Delors in the 1980s, but with a century of historical antecedents in the construction of coordinated market economies. In order to better conceptualise these important shifts, the authors attempt to situate the present trends in historical context providing a global, regional, and in the end, local case study of a new ‘European’ state suggesting just how fragile that model might now have become. We selected the new EU nation of Latvia to illuminate the changing political economy of labour migration in the enlarged EU and trajectories of economic development in Europe as a whole. The paradoxical and ultimately self-defeating character of the current trajectory, based on unrestrained free market ideology, specifically in terms of its impacts on ‘the labour question’ is the subject of the current article.

Recently, the ‘Polish Plumber’ has become the symbol over anxiety facing Europe as neoliberal policies and the expanded EU have created both a new economic logic and a political structure that work in tandem to promote labour migration. Yet the EU grew out of projects, such as the European Steel and Coal Community, to enhance economic stability and social cohesion of a historically divided Europe scarred by war. After World War II a period of historic peace, prosperity, and stability followed in the Transatlantic world with the Bretton Woods order of embedded liberalism which included an expanded social democracy (Ruggie 1982). This post WW II order worked well, until the 1990s when Western Europe was plagued by economic crisis, which included the return of actual war in the Balkans. The economic turbulence undermining this order struck first in the US in the 1970s, followed by instability in the Soviet bloc in the 1980s, and thereafter contemporaneously visiting much the rest of the world.

Buffeted by the winds of this global economic storm, America constructed a program writ large for the world to solve these economic difficulties by restoring the calm of profits and order, in addition to riches for its business elite. It was a project that proposed reversing much of the previous economic assumptions underlying the existing Keynesian coordinated market economy order. The foundations of the Bretton Woods system, partly damaged by the above mentioned difficulties, were then razed. Replacing it would be a new edifice built on the footings of liberalised capital flows, making recourse to underutilized labour through more extensive labour utilization strategies (factor accumulation), and disciplining labour through cutting benefits and wages: all three are connected to the flow of labour migration from New Europe to points West.

First, we briefly recapitulate the historically contingent emergence of liberalism (and neoliberalism) as a contrastive economic project to that of coordinated market economies which achieved contemporary historical underpinning in the now defunct Bretton Woods order. Secondly, we chart the demise of that order under the impact of US globalist ambitions. Third, we locate our case study country, Latvia, as a paradigmatic instance of the impact of neoliberal prescriptions in the new market economies of Eastern Europe in order to underpin our argument that an oppressive labour regime is stimulating a mass exodus of the workforce. Finally, we explore the ‘inevitability’ or otherwise of the adoption of a neoliberal strategy by briefly examining an alternative case study, Slovenia. Our conclusion attempts to argue that it is ‘the labour question’ which ultimately makes the trajectory of neoliberalism both entropic and self-defeating.

Europe, Liberalism and Corporatism

Many presume the nineteenth century marked a period of liberalism for Europe. Yet, really only twenty years of that century (1860-1880) were guided by truly free-trade prescriptions of such political economists as David Ricardo. At the century’s start the Napoleonic Wars disrupted commerce among European nations. This period was then followed by continued British mercantilism and protectionism until its industrial advantage resulted in its changing course toward a program of more free trade. This would enable Britain to seize its comparative advantage in manufactured goods over less developed competitors. Karl Polanyi detailed this trajectory of development in his classic work *The Great Transformation* (Polanyi 1944, 2001).

Yet, a period of relative free trade was also inaugurated by France in 1860. Napoleon III was convinced by Britain's example that free trade facilitated economic development. Most other European powers followed suit fearing they would be left behind. The result was Europe's *slowest* two decades of economic growth in the nineteenth century. What followed after 1880 transformed the world (Bairoch 1993). Much of northern Europe rejected Ricardian ideas and initiated a return to the German and American school of state interventionist economic theorists of Friedrich List and Henry Carey (Hudson 1993).

By the very early 1800s Europe's failed experiment in free trade was increasingly replaced by a regime of tariffs. But, rather than merely enable rent-seeking national monopolies, as say Spanish mercantilism promoted, a number of key European powers began to launch industrial development drives. Among the most successful was Sweden. Labour poured out of Sweden onto America's shores from the mid to late nineteenth century. It is at this point that national development plans were launched in Sweden in key sectors, such as mining. Infant industries were supported with the desire of catching up with Britain, rather than merely exporting raw materials in a Ricardian comparative advantage model. Foreign capital then raced in and facilitated economic development. Yet, foreign capital was not the causal variable in Sweden's success, but rather state planning, which in turn enabled effective use of foreign funds. Indeed, such planning was in fact what attracted external investment capital. Once economically developed, Sweden stopped exporting labour and stabilized its economic trajectory on a path of national corporatist development (O'Rourke, Williamson 1999: 147-156). Labour agitation in Scandinavia was another motivation in the move away from economic liberalism to coordinated model (corporatist) of development (Crowley 2007: 13). The Swedish

model demonstrated that labour and capital mobility can be useful for creating prosperity, but only when complemented by national development strategies ensuring this capital is productively employed in the real economy, rather than merely finding its way into speculative schemes. Spain and Italy also exported labour, but without state planning, it brought them little longer-term economic benefit.

Other strategies were also employed by Europe's northern developing states. For example, France supported state-sponsored competitions to advance technology. Germany targeted infrastructural development. The results were impressive. Russia, under the guidance of Finance Minister Sergei Witte put up tariffs higher than even America's. Robust economic growth also followed these measures. Later entrants, such as Finland in the twentieth century followed suit. By the early twentieth century corporatist national development strategies focusing on value-added timber and then steel would emerge in newly independent Finland to transform formerly its backward economy into one of the world's richest nations. This was advanced even further by the Great Depression of the 1930s, which presented a different agenda of national development in the face of the collapse of global markets. Given the disappearance of foreign direct investment, poor nations had to turn toward local or indigenously sponsored development.

An additional impetus towards the concerted mobilization of corporatist strategies was the existence of the USSR and the fears of national elites that the Soviet system presented a viable alternative. To paraphrase one Finnish commentator, 'the USSR created a workers' paradise, just not in Russia, but Finland instead.' The Soviet Union brought together the twin threats of external invasion and ideological fuel for domestic labour unrest in Finland. For similar reasons following World War II, the US, Britain and a number of other European countries tolerated corporatist or

coordinate expansion employing capital controls. This served ideological as well as economic exigencies in the Cold War requiring strong market based economies—even if mixed with great state control—especially for those regions such as Western Germany and Scandinavia proximate to the Soviet border.

The Bretton Woods Order

The Bretton Woods order, created in the wake of the global turbulence generated by the 20th century's two World Wars and Great Depression, was hardly perfect, but it was successful. John Maynard Keynes and Harry Dexter White, the British and American negotiators respectively, matched elements of corporatism and international trade to rebuild Europe's war-torn economies along coordinated economy principles. Their new model was predicated on the need to first create the conditions for national development, as a necessary precondition for international trade, a model which was to deliver the highest levels of economic growth in world history. Moreover, it did so while often reducing inequalities within nations and between them. Like all systems, however, regardless of how successful, ultimately entropy dissolves. The very factors that made the Bretton Woods order work so well eventually turned into the engine of its destruction.

Five major crises emerged within the Bretton Woods order that were embedded in the logic of this system. They were the: 1) the crisis of global economic competition and overcapacity in the rich north, 2) increasing wage demands that formerly bought stability, but which later exacerbated a crisis of profits, 3) the democratic momentum within nations built up during the Bretton Woods order that

was no longer sustainable given governments' reduced ability to redistribute wealth, 4) the North/South conflict grounded in the crisis of rising expectations in the latter, and 5) the resource crisis (Brenner 2003). In Thorstein Veblen's old phrasing, this system 'had the defects of its virtues' (Dowd 2000: 159).

It was assumed in the immediate aftermath of World War II Japan would be relegated to the status of a producer of textiles and light industrial goods, and Germany was only to be reconstructed enough to make it a hedge against the Soviets. That Japan and Germany should ever rise to economically challenge the US was unanticipated. Their rise threatened US hegemony: it created a neoliberal order in two ways. The first was through the emergence of overcapacity and competition with the US economy. The second challenge revealed itself only later as the economic and political threat of the USSR passed. The Bretton Woods system marked a period of US tolerance of a plurality of political and economic systems in geostrategic areas, as long as they did not close themselves off from the US. From Japan to Germany, nations in such geostrategically sensitive regions were embraced in what Immanuel Wallerstein and Chalmers Johnson have characterized as an "invitation to develop," or what Alice Amsden described as the heterodox getting prices wrong in order to get development right (Cummings 1996: 61-92).

Yet, the limits to accumulation prevented the continuation of that system. The Clinton era National Security Advisor Anthony Lake summed up this situation nicely: 'Throughout the Cold War we contained a global threat to market democracies,' but now we can 'consolidate the victory of democracy and *open markets*' [emphasis added] (Chomsky 1999: 14). And, Clinton era Treasury Secretary Lawrence Summers declared, 'Globalist economic policy...is the forward defence of America's deepest security interest' (Laxer 2002). Thus, Keynesianism's utility as a politico-economic

paradigm was redundant. By the 1970s it had created overcapacity and competition that proved ruinous to the US economy. With the end of the Cold War it became an anachronism that obstructed future profitability and resurgent US hegemony. The US could now pursue an ‘open market’ strategy, which for the rest of the world looked suspiciously like a giant Open Door policy as advocated by US Secretary of State John Hay a century previously. Indeed, as Henry Kissinger asserted ‘globalization is only another word for US domination’ (Amin 2000: 15). A neoliberal globalization agenda replaced the Keynesian Bretton Woods Order.

US Comparative Advantages and Rolling back Coordinated Market Economies

The United States’ response in the 1980s to changes in the global economy required the creation of greater labour agility and flexibility to roll back the pioneering protections labour achieved under the New Deal, and subsequently recapitulated in the wider Keynesian project. The effects of the neoliberal assault on labour standards for most employees have been longer hours, poorer safety, a decline or stagnation in per-hour compensation, and – in many instances – a form of unnatural rigidity, in which labour market insecurity ties employees to employers in order to retain their health benefits in a form of quasi-serfdom. This worker insecurity was celebrated by then US head of the Federal Reserve as restraining wages, and thus, inflationary pressures on profits (Federal Reserve Board Greenspan Testimony 1999).

Yet, for European social democracy, following the US example too closely would threaten one of the EU’s major achievements – a measure of social equity – and the legitimacy of the ‘social dimension’ meant to complement ever-closer

economic integration. Moreover, these achievements could be sacrificed for relatively little, if any, gain predicated on the basis of a number of contestable assumptions. First, there was the distorted argument that the gap between US and European productivity rates favours America. Accounting scandals with Enron, Arthur Anderson and others have raised doubts about the reliability of much-proclaimed negative comparisons suggesting European productivity significantly lagging behind America. Comparisons are also affected by the incorporation of profits from US production *outsourced* overseas; due to the greater global presence of US companies, this is a factor that affects American figures more than Europe's. Moreover, some work practices common in the United States may boost corporate ratios and profits, but further distort comparisons: in the retail sector, for example, it is widespread practice for workers to work 'off-clock' (for no pay), thus inflating reported productivity rates (Henwood 2003: 66-67).

Secondly, the US has the unique advantage of issuing the world's reserve currency, being its greatest power, and being too indebted for default to be possible. As the US abandoned the Bretton Woods order in the 1980s, it exported its own incipient monetary crisis to Europe. As Richard Nixon's Treasury Secretary John Connally asserted, "We had a problem and we are sharing it with the rest of the world—just like we shared our prosperity. That's what friends are for" (Prestowitz 2003: 71). Even more clearly, he asserted, "The dollar's our currency; but it's your problem" (Lander 2004). Lastly, and most relevant to this article, at least part of the United States' continued economic growth rates has been built on mass immigration. However, this adds labour, flexibility, and growth, but not necessarily efficiency. For the less advantaged nations it siphons off talent raised and paid for by these nations, themselves in need of educated human capital. Secondly, migration is problematic for

developed regions over the long term in that while it delivers more labour (factor accumulation), it dilutes incentives to increase efficiency on the part of capital by keeping labour cheap. Paradoxically, within Europe a mass migration is now underway from poorer to richer nations that mirrors this ‘American’ path toward development.

The telescopic view provided above for the general structural forces that led to the unravelling of the Bretton Woods order, is complemented in the next section by an examination of the influence of neoliberal policies on the transition zone of ‘New Europe’. We use the ex-Soviet Republic of Latvia to inspect the changes wrought by neoliberalism on labour and the push factors propelling that country’s labour exodus West. Together, these two multi-level analyses, both the preceding global and macro above, and the following regional and micro below, show why this labour migration contributes to maintaining economic growth in a neoliberal Europe, while demonstrating both its great human cost and its paradoxical lack of sustainability.

The Case of Latvia: Neoliberalism and Labour migration

In Latvia (New Europe) we see represented the greatest antithesis to economic corporatism, or coordinated market economies built over the past century in northern Europe. Latvia is a paradigmatic exemplar of change in the world system. It is one of the smallest post-communist countries, with some 2.3 million inhabitants situated on the northern shores of the Baltic Sea. It is also among the least advantaged of the new EU nations, although with great wealth concentrated at the top of the economy and recently robust economic growth. Like other European states it developed a concept

of national identity in the nineteenth century eventually leading to national development strategies at independence.

Yet its experience of incorporation within the Soviet Union in the period after World War II was not entirely negative from an economic standpoint and the degree of industrialisation and living standards made the country an attractive destination for migrants from other parts of the USSR. Like much the rest of the Soviet Union, and the developed world during the post-WW II Bretton Woods period, Latvia also witnessed significant social gains during this period. After the turmoil and terror of war subsided, full employment, early retirements, longer holidays, along with comprehensive health care and education were introduced. However, stagnation emerged in the 1970s. This coincided with the limits of factor accumulation as the limits of 'adding more labour' to promote economic development in the USSR were reached. The Soviet Union achieved full employment and began to increasingly rely on oil revenues rather than innovation to maintain its economy. The sclerosis worsened in the 1980s as the Warsaw Pact nations were hit by the debt crisis, in which the soaring US dollar, the currency in which their loans were denominated, had to be paid for with increased exports. Structural adjustment policies ensued, in which sharp increases in bread and housing costs contributed to rise of movements such as *Solidarnosc*. Meanwhile, the USSR was itself struck by the collapse of oil prices in the 1980s that came in the wake of the ensuing world recession, (and arguably a US and Saudi collaborative effort to glut global oil markets). Shortages worsened, queues lengthened, and frustrations grew, yet social benefits in Soviet republics such as Latvia remained largely intact. The eventual collapse of the Soviet system was to launch Latvia on an entirely different road.

Since independence from the USSR, Latvia, like its Baltic neighbours of Estonia and Lithuania, has pursued far-reaching neoliberal policies. A global ranking of 178 nations on key business regulation reforms provided by the World Bank noted that Eastern Europe in general has achieved the highest rate of reform of any region in the world with Latvia ranked at 22nd place (World Bank 2007). Market reform has been a success, at least for the domestic elites who have benefited not simply from the economic gains of privatization, but also from the more recent record rates of GDP growth posted an extraordinary 13.7 per cent in the first quarter of 2006, the highest rate in the EU 25 (Bank of Latvia 2006) and in excess of 11 per cent in the first six months of 2007 (Latvijas Statistika 2007).

In strongly neoliberal economies such as Latvia, there has been the rapid erosion of stable employment relations within newly intensified work regimes, in which the discipline of mass unemployment has hitherto been an important factor in undermining the organizational capacities and confidence of labour. The result has been to create labour ‘flexibility’ and workforce compliance, with a consequential down-grading of employment standards in the context of business-friendly regulatory regimes. Evidence from contemporary social surveys and case studies of Latvia attests to excessively long working hours, low basic salaries, high levels of conflict in the workplace, gendered wage discrimination, poor working conditions and employees whose employment is ‘informalised’ in various contingent, temporary or atypical forms of work (Antila and Ylöstalo 2003; *EIRO*Online 10 September 2004; Hazans 2005; Parent- Thirion et al. 2007).

The Latvian State Labour Inspectorate estimates the percentage of workers receiving ‘envelope wages’ in the form of supplements to the official minimum wage at 28 per cent (LETA 2004). So-called ‘undeclared work’ is prevalent in many sectors

of the economy including public sector healthcare institutions, construction, agriculture and forestry, hotels and restaurants, commercial services and retail. Other estimates of the size of the workforce receiving under-the-table wages payments range between 15 per cent and 45 per cent of total employment for Latvia with approximately four fifths in the private sector and one fifth in the state and local government sector (*EIROOnline* 10 September 2004). The extent of concealment is also indicated by the relatively low level of declared pay in the private sector compared with the public sector; private sector pay is 21.4 per cent *lower* on average, while in sectors where undeclared work is traditionally found, such as the construction industry, the disparity is even greater (32.5 per cent) (*EIROOnline* 10 September 2004). In construction, the figure for the proportion of employees receiving envelope wages reportedly reaches 40 per cent (Sedlenieks 2005) while “local economists ...believe that the shadow economy in Latvia is 40 per cent of GDP or more” (European Employment Observatory Review 2005: 115). It is this mass of ‘down-graded’ legal and semi-legal employment which provides one of the key drivers for deteriorated labour standards.

Deteriorated labour standards are also manifest in dangerous and unhealthy working conditions to which employees are exposed and which they are unable to refuse without fear of job termination. The consequences for safety and health at work are particularly significant. Under Latvian legislation, the laws regulating industrial relations relate specifically to employees with employment contracts. Thus, if an employee is injured in an accident at work, social guarantees may only be received if the employee has a contract. Construction is one of the industries in which employment contracts are most often not concluded and in which working hour limits are not observed. The result is fatigue and accidents in the construction sector are

disproportionately represented in terms of workplace fatalities (*EIROOnline* 14 March 2006a). A recent upsurge in speculative building activity following EU accession, particularly in the capital city Riga has led to a sharp increase in industrial fatalities. For three out of a five year period, between the years 1999-2003, Latvia has ranked either the worst or second worst performer in terms of workplace fatalities in Europe and current rates are spiralling while penalties for labour safety violations remain derisory (*EIROOnline* 8 April 2004; European Employment Observatory 2005: 118-9).

In terms of trade union density and collective bargaining agreements, the situation in the Baltic region is also the most precarious among the new EU Member States, with both membership and bargaining coverage in continuing decline. Recent estimates suggest optimistically 15 -16 per cent of the workforce in Latvia are trade union members (*EIROOnline* 5 January 2005). As elsewhere in Eastern Europe, the majority of trade union membership is concentrated in the public sector or in the few remaining non-privatized enterprises, while union representation in the new private companies and at sectoral level is negligible and fiercely resisted by most employers. Current trade union members are mostly inherited from Soviet times and all evidence suggests continuing trade union decline, despite valiant efforts on the part of union organizers.

Where collective agreements exist, they are rather weak when it comes to issues such as securing additional severance pay in the event of dismissals. More likely, union members will not be re-employed. 'Liberal wage setting laws' also ensure that legal minimum wages are low by international standards (OECD 2003: 59). In a candid appraisal of 'labour flexibility' in the Baltic States OECD observes: "While such flexibility is advantageous for business, there can be a danger of abuse by less-scrupulous employers if the institutional framework is too weak. Some groups

of low-skilled workers, notably in small private firms, are probably in a vulnerable position if their employers are tempted to reduce wage costs more than is legally allowed” (2003: 60).

To the low level of wages and labour standards, and the general disempowerment of employees, must be added the legacy of the previous regime. The pervasive ‘low-trust’ social environment of post-communism remains a barrier to collective assertion of labour demands. Under such conditions of lack of social solidarity individualistic solutions to life problems are sought, including those of violations of rights in the workplace. The most ‘individualistic’ solution of all is that of ‘exit’ in the midst of a neoliberal context and without the protections of a socially inclusive national community.

The ‘Exit Strategy’

From the standpoint of Latvian society, deteriorated labour standards may benefit individual employers in the short-term, but reliance on this strategy is not ‘costless’. Accession to the European Union has at least partially opened doors which were once closed. Against previous predictions, the most recent period has seen a significant outflow of labour seeking higher wages and better working conditions in old Member States (Krieger 2004). Latvian analysts estimate that perhaps 50,000 to 100,000 people emigrated in the two years since EU accession in May 2004, with as many as 25,000 to 50,000 of them going to Ireland alone (*EUbusiness* 2006). The number of migrants now exceeds the numbers deported under Stalin in the 1940s. While none of Stalin’s victims left by choice, these new Latvian émigrés feel the significant push

factor of poverty and despair and have few other options. Amounting to a staggering total of between 4 per cent and 10 per cent of the workforce, the current levels of migration seem set to remain (*EIROOnline* 26 January 2006). How much of this migration is 'legal' or 'documented' is not known. However, if worker outflow continues at the current rate, the Latvian economy could be faced with further inflationary wage pressures (already increasing by as much as one third annually) as a result of persistent labour shortages.

Such shortages are now critical, not only in construction and lower skilled sectors, but also in medical and allied professions, and in other high qualification sectors, with potential resultant 'de-skilling' of the labour force as a whole, a process that seems likely to continue. A report from the Dublin European Foundation based on the *EuroBarometer* survey, notes that better-educated men and women in the ages 25-34 from Latvia are "four times more likely to migrate to another EU Member State than equally well-educated men and women in the same age group from the Czech Republic, Hungary, Slovakia and Slovenia" (Krieger and Fernandez 2006). Similar or even higher figures are reported for neighbouring Poland, Estonia and Lithuania which together with Latvia are classified as 'high mobility' new Member States. This research suggests that there are different reasons in the new Member States as to why individuals would wish to migrate, with 'work-related factors' such as higher household income (59 per cent compared to 37 per cent average for the EU25) and better working conditions (57 per cent compared to 36 per cent average for the EU25) featuring highest on the list of expressed priorities (Krieger and Fernandez 2006: 8, 15). Overall, 7.4 per cent of Latvians interviewed indicated some degree of preparedness to move to another EU country (Krieger and Fernandez 2006: 11-12).

Yet, the adoption of an ‘exit strategy’ by tens of thousands of workers from the new Member States such as Latvia is both an understandable and an inevitable consequence of the desire to find a better working life, and to escape the adverse nature of the domestic working environment. In a rare instance of public candour, the Latvian State Employment Agency has conceded the importance of low levels of pay and the “not uncommon practice for companies to employ workers illegally, or officially pay them the minimum salary thus decreasing their level of social protection” in prompting workforce exit. A representative of the agency observes: “employers in Latvia are not ready to motivate their employees and give them good working conditions. This is the main reason why our citizens are looking for jobs in other European countries” (Akule 2006).

Within the current Latvian government there seems to be reluctance to acknowledge the scale of the issue or develop new public policy options. One of the few critical commentators on the current situation, Raita Karinte of the Latvian Academy of Sciences suggests that the problem of emigration in Latvia is far more serious than the Latvian government cares to admit. While the government insists that emigration facilitates the improvement of labour force quality, as emigrants can learn a language, master skills, earn money and return home more economically better-off, “The fact that many emigrants engage in unskilled jobs that frequently do not correspond to their level of education, and that they do not wish to return home, has never been addressed by the government” (*EIROOnline* 26 January 2006).

Legacies and Prospects

While the costs to labour have been high, the current impressive economic growth of the 'Baltic Tigers' reveals the success of their neoliberal economic development strategy and at the same time the seeds of its demise. On one level, global advances in transportation and manufacturing have lowered costs of setting up production abroad. When matched by a reordering of the international political economy toward mobility of capital that occurred in the wake of the crisis of profitability in the 1970s, this has provided capital with new mobility options. Moreover, given that post-Soviet industry has been largely controlled by West European nations and oriented toward re-export to Western markets, there is no incentive to create corporatist systems in post-communist economies in which high wages create demand for local industry that in turn might deliver both political stability and profits, as for example occurred in West Europe after World War II (Bohle and Greskovits 2004).

Yet, has there really been no alternative to the neoliberal model? The historical record shows different paths have been taken. The Slovenian example is particularly instructive in revealing an economy that has flourished by following a more traditional coordinated economy (or corporatist) approach to development within the limits set by the post-Bretton Woods environment. Slovenia has the highest GDP among the post-Socialist bloc states. Much of this was inherited from its high level of socialist era development and reforms undertaken towards creating a mixed, not liberal economy, before socialism collapsed. Since independence Slovenia has increased its wealth and sophistication of its economy while retaining features distinct from neoliberal economies. Contra Latvia and the Baltic States generally, where union density rates are the lowest in Europe, Slovenia has the highest rates in the former socialist economies. Rather than following neoliberal policies that punished

labour by driving down wages and depoliticising workers in order to form a new kind of primitive accumulation for development, Slovenia maintained a fully unionized workforce. Moreover, Slovenian labour in this neocorporatist system has had some influence over how its industry would be privatized and developed, unlike the Baltic States where the process was turned over to foreign capital and home-grown oligarchs. Also, in distinguishing itself from the Baltics, Slovenia, according to Carlos Acuna and William Smith “exhibits all the features of an ‘inclusionary democracy based on strong actors and an activist state’” (Bohle and Greskovits 2007: 452).

The contrast with Latvia could not be starker. In Latvia the public has exercised little influence over policy and the country’s political life can only be charitably characterized as an electoral oligarchy. Furthermore, the comparative advantage of imposed labour flexibility has delivered no advantages to Latvia and the Baltic states. While the Baltic States have among the highest degree of labour flexibility in Europe, Slovenia is below average for *all* the EU in labour flexibility (Crowley 2007: 17). Additionally, Slovenia had the further advantage of being able to keep the IMF out during the transition period, again in contrast to the Baltic states, thus suggesting that proper planning and cooperation are more important to the development equation than liberalization (Crowley 2007: 21).

Again, by contrast, the Baltic States also possess among the worst manufacturing situations when compared to Slovenia and the Visegrad states. Latvia had the most complex industry of the Baltic states made up of several advanced sectors in electronics, communications, polymers, etc., but made no move in the post-Soviet environment to determine what might have been salvageable. The radical liberalization undertaken in the Baltic States resulted in loss of industrial capacity and

technical competence (Bohle and Greskovits 2007: 459), thus leaving them in the current de-industrialized state. It is a fate which John Maynard Keynes and Harry Dexter White predicted would be that of Western Europe after WW II if they merely followed a liberal path. Latvia's structural indicators are the worst among the Baltic States, with a dramatically lower percentage of complex exports and complex manufacturing FDI stock per capita than the Visegrad states or Slovenia (Bohle and Greskovits 2007: 446). One indicator of such de-industrialisation is labour productivity which compared to the EU15 average is low (35.7 per cent in 2004), only ahead of Bulgaria (29.9 per cent) (Eurostat Structural Indicators, Labour productivity per hour worked). Meanwhile, in terms of the spread of GDP per capita, Latvia is third lowest in Europe at 55.8 per cent of the EU27 average, only ahead of Bulgaria (37.1 per cent) and Romania (37.7 per cent forecast) (Eurostat Structural Indicators GDP per capita in PPS). It is therefore a low productivity, low added-value economy. As such, it is many miles away from the projected EU 'Lisbon agenda' of a competitive matching of the US economy based on high growth, high skill and technology based on investment in R & D. Indeed, gross domestic expenditure in 2005 on R&D in Latvia at a mere 0.57 per cent of GDP was again the third lowest in the EU27, just ahead of Bulgaria (0.5 per cent) and Cyprus (0.4 per cent) and well below the 3 per cent GDP target of the European Union (Eurostat Structural Indicators, Gross domestic expenditure on R&D).

On the other hand, Latvia has succeeded in attracting FDI, as predicted by neoliberal theory, but it has gone into unproductive speculative sectors, such as real estate, along with some rather primitive production connected to the timber sector. This has been facilitated by the low tax environment, fuelling real estate speculation. The result saw Latvia with a 21% current account deficit in 2006 and 26% in 2007.

The deficit on tradeables in Latvia in 2006 was an astounding 42% (Standard & Poors presentation in Riga: 2007). Moreover, Latvia's economic 'success' has also been driven by banks, many Swedish, pumping huge sums of money into Latvia's real estate market, along with Russian money seeking property to store oil and mineral wealth, and the impact of EU structural funds all working to inflate the economy. Property prices in 2006 were up 87% over 2005, which saw similar increases over the past few years. The Baltic economies, but especially Latvia, are nothing more than asset bubbles inflated by foreign funds looking to capture speculative rents.

Given the very large trade deficits, what will happen to these economies when the speculative finance dries up? A 1997 Thailand like scenario could play out, with foreign capital racing to exit and no manufacturing to balance the balance of payments vacuum created. The hard-landing scenario is now feared among investors, and Latvia's economy is the most worrisome among the new EU nations even though banks are beginning to restrict credit to slow the economy (*Economist* 2007: 49-50). Just as worryingly, the flow of foreign investment, at least from the EU15 Old Member States now seems to be drying up. Overall EU15 foreign direct investment (FDI) in the New Member States has been increasing significantly since accession, after falling to its lowest level in 2003. In 2005, 17 per cent of all extra EU15 investment flows were directed towards the New Member States. Both Latvia and Lithuania have registered negative increases for the first time in three years, the only New Member States to do so, ranking these states in 11th and 12th place respectively as FDI recipients out of the twelve New Member States (Foltete and Kärkkäinen, 2007: 2).

These emerging economic difficulties on the horizon in the Baltic States hint at the limits neoliberalism in addressing the needs of long-term economic growth and social stability, if not the very viability of New Europe's smaller states itself. Initially appearing successful, upon closer inspection neoliberal policies are not repairing defects in the Social Europe model. What is revealed instead are economies with very little production, high rates of speculative activity, and an extreme emigration levels driven by poverty that threaten the very demographic survival of these states.

Conclusion

Global economic history, and the rejection of its lessons, is the backdrop to current events in which world-systemic pressures are working to remake the European political economy away from coordinated markets. In the interstices of these structural forces shaping the global economy, however, there is room for exercising agency. This agency has been demonstrated on the national level with states such as Slovenia with state policies promoting industry and better worker protection. The political prospects exist for extending these measures throughout the New Europe when economic crisis provides another opening for continental wide policy change.

It is only in the context of an understanding of the unfolding political economy of an increasingly neoliberal *European* project that the Latvian responses make sense, while revealing the problems neoliberalism is generating throughout Europe. The do-nothing-pursue-the-'low road' strategy is simply the reflection of a conventional neoliberalist doctrine that argues the market will 'solve' all problems. Yet the conventional wisdom of business and political elites disguises deeper currents of

opposition which although just beginning to emerge in parts of the old Europe, are also finding a first sympathetic echo in the New Europe. The haemorrhaging of society's human resources through mass out-migration poses profound dilemmas for the future social development of post-communist societies such as Latvia and consideration of 'the labour question' cannot be postponed indefinitely. The struggle will be to convince the peoples of the newly reconfigured Europe that an opportunity exists to pursue a very different trajectory of development to that which is currently being imposed upon them. What is at issue on this contested terrain of choice is two rather different economic and social models which now vie for political resonance in determining not just Latvia's, but ultimately Europe's future.

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