

Economic Crisis and Social Turbulence in the Baltic States

The Baltic Riots: "Existing Thatcherism" and the Washington Consensus

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Margaret Thatcher, Britain's former prime minister, once asserted there is no society, only individuals. In part, this is precisely what Latvia's and Lithuania's protests this week represents, the weakening of society and the hyper individualism of the past two decades introduced by the Anglo-American led Washington Consensus.

Latvia and Estonia erupted into protest as yet another round of structural adjustment appeared to be on the table. Almost two decades into independence these continuing reforms have brought only turbulence and little democracy or development in these nations where oligarchs often call the real shots and the middle class is insecure. The Baltic protestors want government to protect a society at risk. The Singing Revolutions of the late 1980s and early 1990s that gave birth to their independence movements also represented an attempt to preserve society. It was both an idealistic attempt to achieve freedom from foreign rule, and a response to the Soviet economic crisis of the 1980s. Unfortunately for Latvia, the Thatcherite ideals that animated post-Soviet Latvians were quite distant from the program that generated wealth in the West after World War II. For Latvia, Margaret Thatcher's neoliberal program has now come close to delivering on its promise of destroying society.

At independence, neoliberal economic advisors counseled Latvia to ignore production and exports in favor of focusing on getting macroeconomic indicators correct, which from an economic history perspective has not been the main generator of economic development. These advisors in the 1990s were known as the 'Marriott Brigades', as they remained within the walls of 4 star hotels isolated from the countries they advised, only perhaps sampling the local call girls at night. By contrast, the development programs historically followed by Western and East Asian nations in practice, not theory, were sold as ineffective, despite their past success. Thatcherites aptly titled their program shock therapy, as they understood that a democratic deliberation of choices by society, not to mention the ideas advanced by academic disciplines other than economics, might have delivered alternative choices. Shock therapists studied the methods of Leninists, whose tactics of fast action at a pivotal time of change was seen as the proper way to implement Thatcherite economic policies.

Thatcherites celebrated the individual over society, discounting the role society played in permitting the individual to develop, just as the protection of individual rights in the context of community strengthens society. Thatcherism was gas on the fire to the newly independent Baltic states. The Soviet Union created a hyper cynicism regarding government and collective action in a society which had considerable rights to human

development, but little right to private life. When applied to Latvia, private life without human development, combined with no economic development strategy, was like an acid poured over society that corroded all it touched. People turned toward hyper consumption that supposedly celebrated the private, but which was in fact meant as public spectacle. A desperate grabbing for recognition and distinction surfaced and broke through the alienation and manifested itself in the need to be 'exclusive.' This exclusivity and private life was really meant for consumption by others to reflect one's desperate attempt to find meaning in lives often ruined by shattered economies and historical experience of corrupt Soviet life and its equally corrupt post-Soviet incarnations.

In West and East alike social spending was slashed under the Thatcherite program. Education, and therefore human development providing self-respect, was cut. Professions related to production provided further self-worth, but, evaporated as factories moved to East Asia as the new investor economy favored moving production abroad over the hard work of innovation at home. What emerged from the destruction of professions were careers in speculation or in services to the rich. Work supporting society still existed, but was devalued in all ways. In part, the promise of Thatcherism became realized enough for many by the beginning of the new millennium and was advanced further with EU accession. Rising energy and metal prices led to the CIS to seek offshore centers to launder and/or store their money. Latvia provided both. EU membership brought huge structural fund inflows. Moreover, money creation and credit expansion in the US designed to deal with the limitations of its low-wage (seeing wages as total compensation per hour) deindustrializing economy, led to speculative capital flows reaching Latvia through Sweden. This temporarily created a middle class lifestyle for many Latvians. However, the fragility of this prosperity was revealed with the economic crisis that unfolded last year.

With the current economic crisis we can now see what Thatcherism has wrought given its incubation period is over and the system is fully matured. Latvia and Lithuania are under great stress. Society and economy have been under a full spectrum assault. There has been no plan to develop Latvia's economy, with Lithuania's being somewhat better given they retained some industry. Regressive taxes have been increased, while areas of speculation remain relatively untaxed and undeterred. Credit has disappeared and will not return, and should not return in its old form. As people lose their jobs or fear losing them, the government has reduced the duration of unemployment benefits in Latvia and have displayed a callous disregard for labor. These events have combined to leave Latvia and Lithuania vulnerable to further societal disintegration.

This week's protests represented fear and anger over what has transpired since 1991, combined with an idealistic attempt to reconstitute society and recapture the goals of 1991. The protest in Latvia, which I attended, was well organized. Great attention was given to creating a positive, collective venue through which to voice their concerns and frustrations. From the start speakers spoke to Latvians tradition of measured, thoughtful, and disciplined protest. National choirs provided both a calming tone and reminder of the cultural equity stored among Latvians.

Latvians overwhelmingly behaved civilly and demonstrated the best practices of democratic life. Yet, there was a more a mood of anxiety than hope present. Historically, crowds, especially large ones, are not known for their good behavior. Yet, Latvians consistently have shown their maturity under conditions of great pressure. Given the forces described above, I expected, what some, in Marxist parlance used to call lumpen elements, to

surface. What is remarkable is that there was not more vandalism and violence.

Baltic policymakers largely have themselves to blame for this week's protests and violence. They persist in following Thatcherite policies that have meted out untold violence to pensioners, students, workers, and the professionals of the former Soviet economy. Society has mostly taken these punches without protest. These elements of society who in some senses have the right to respond violently, have not. It is only the lumpen elements created by Thatcherism that have acted destructively. These are the children of the Thatcherite program. In Thatcherite fashion they have no respect or understanding of society, as society has shown them none. They are reckless individuals whose only society is the crowd.

This week's protests should serve as an alarm to Latvian and Lithuanian society and policymakers regarding the inattention paid to both the human and material needs of Latvians and Lithuanians. An urgent response is required to prevent further deterioration of conditions. It is not enough to merely get macroeconomic fundamentals correct. In short, the problem is too complex to be left to most economists whose policy prescriptions have been derived more from ideology than economic history and experience. Latvia must go beyond a speculation based economy and empty rhetoric of creative industries and give equal weight to production and technological innovation. This will generate both the economic growth, jobs creating self-worth, and a material base for the existence of the mutually reinforcing development of the individual and society.

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