

Baltic Tiger or Paper Tiger?

‘Latvian Miracle’ or
Unraveling Social Europe?

Jeffrey Sommers



Christine Lagarde: The Latvian Miracle

- In May 2012, head of the IMF stated in Riga:
 - Latvia “could serve as an inspiration for European leaders grappling with the economic crisis”



Nordex: Money, Metals, Oil & the Spatial Fix

Marc Rich



(Vice-Rector)
Grigori Louchansky



Correspondent Banking (*Tax Evasion*)

SHOREX



“Wealth
Management”
“Tax Optimization”

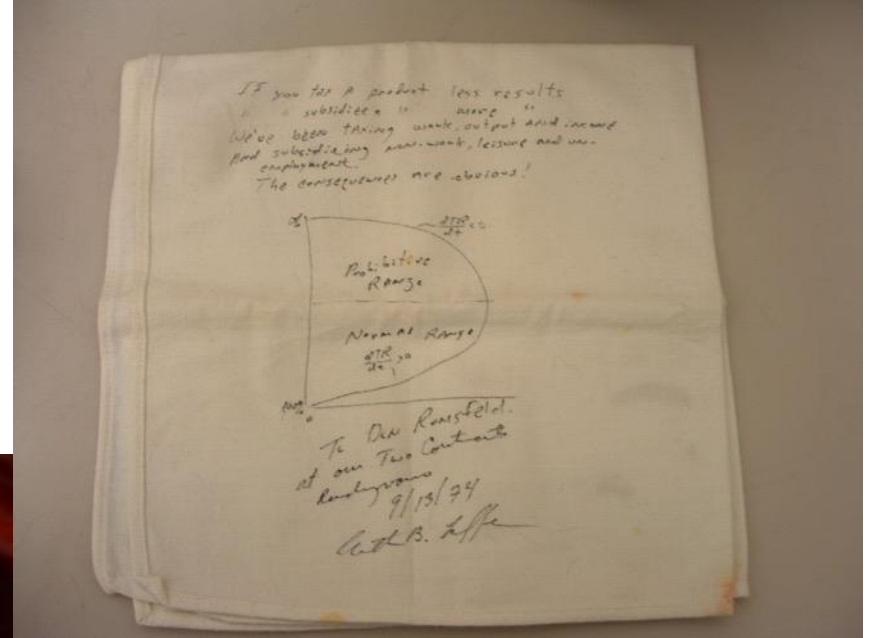


Lucy Edwards, Bank of New York

George Viksnins

("Jurokolis")

"Georgetown Gang"



1991 and “Latvia 2000”

“...the reform has to continue despite changes in government”

- Tight monetary policy
- Pegged currency at high exchange rate
- Regressive Taxation:
 - high labor tax
 - no capital gains

An austerity “success” must be found Latvian austerity to the rescue!

Tabula Rasa. Small place that people don't know much about. Provides a frictionless opportunity for people to impose narratives on.



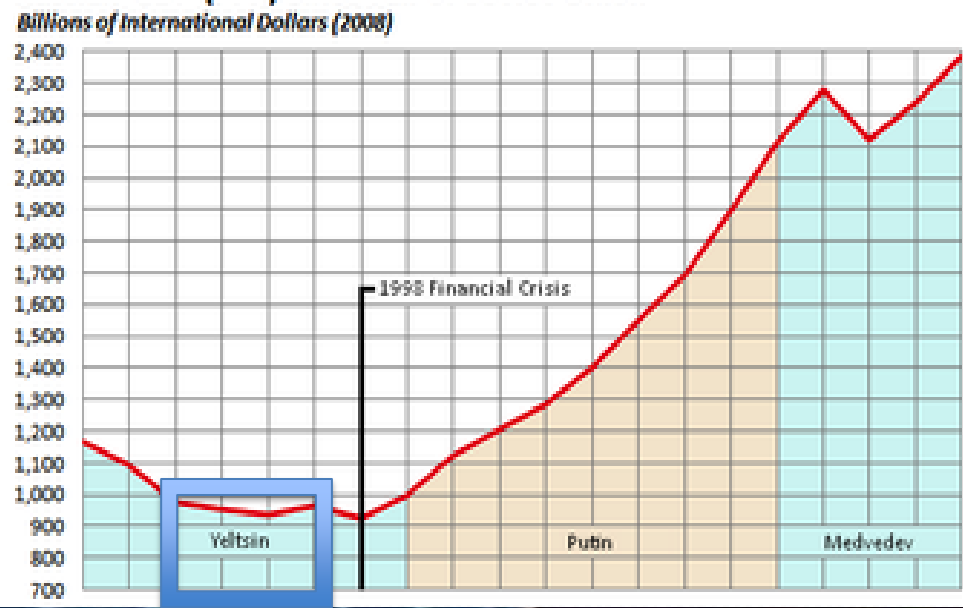
Anders Aslund

- One architect of Latvia's austerity model and chief economic advisor to Latvia's former austerity Prime Minister writes:
 - Latvia's internal devaluation and austerity has been a huge success and an example for other European states to emulate
- Aslund likely wished to rehabilitate his reputation and that of austerity after the results achieved by his last "pupil" ...





Mr. Aslund's
last pupil



El Dorado Found: Asset Inflation and Collateralizing Latvia's previously Debt Free-Property *The return of (debt) Serfdom*



SEB



Swedbank

Sartrean 'No Exit' for Latvian Borrowers

- Latvians not allowed to walk away from mortgages.
- Banks can go after borrowers and any family members that *co-signed* for property. A kind of neo-serfdom (no exit) from which families are 'daisy chained' together in debt.

Latvia, *uniquely*, criticized IMF from the *right*, arguing it needed *more* austerity than IMF counseled

- As State Department cables from Wikileaks reported negotiations over Latvia's 2010 austerity budget:
 - “The telephone conference did not go very well, according the Assistant Secretary of State, with the IMF and EU expressing serious concerns about the income distribution profile of the proposed budget cuts. The EU and the IMF urged the Latvian government to reconsider the measures, but Repse [Finance Minister] defended the budget proposal....”

Chrystia Freeland

- “The harsh Latvian plan worked because the whole country was committed to it.”
 - Reminds one of the Red Cross inspections of the *Theresienstadt* showcase concentration camp, who shown orchestras and clean conditions announced, “everything in order here!”



Protestant Morality Play, Plucky, Stoic Balts:

“The harsh Latvian plan worked because the whole country was committed to it.”

- Carefully scripted Latvian Government narrative for export at odds with facts on the ground
- In fact, Latvians much divided on austerity

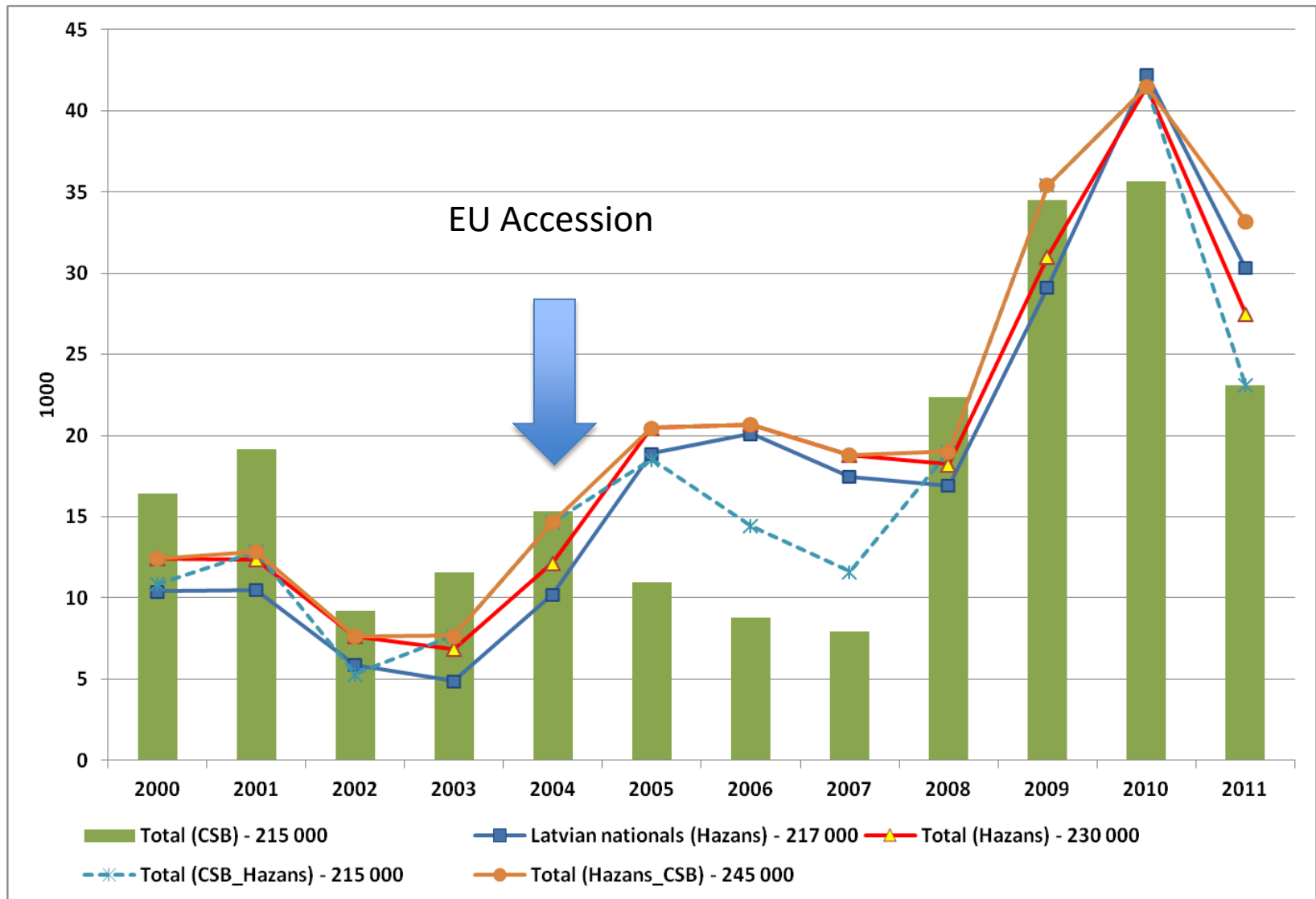
Huge protests following crisis: January 13, 10,000 demonstrate in Riga



‘No people, no problem’:
Нет людей , нет проблем

‘Self deportation’ as means for addressing
unemployment

Net emigration from Latvia, 2000-2011

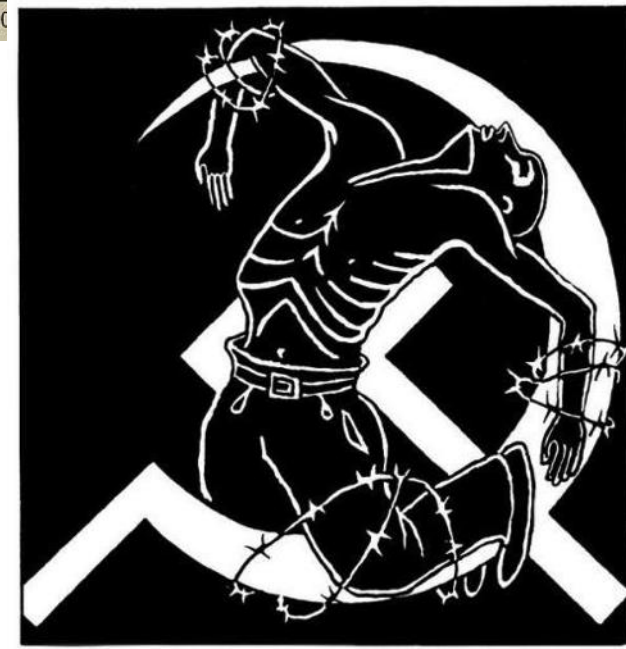
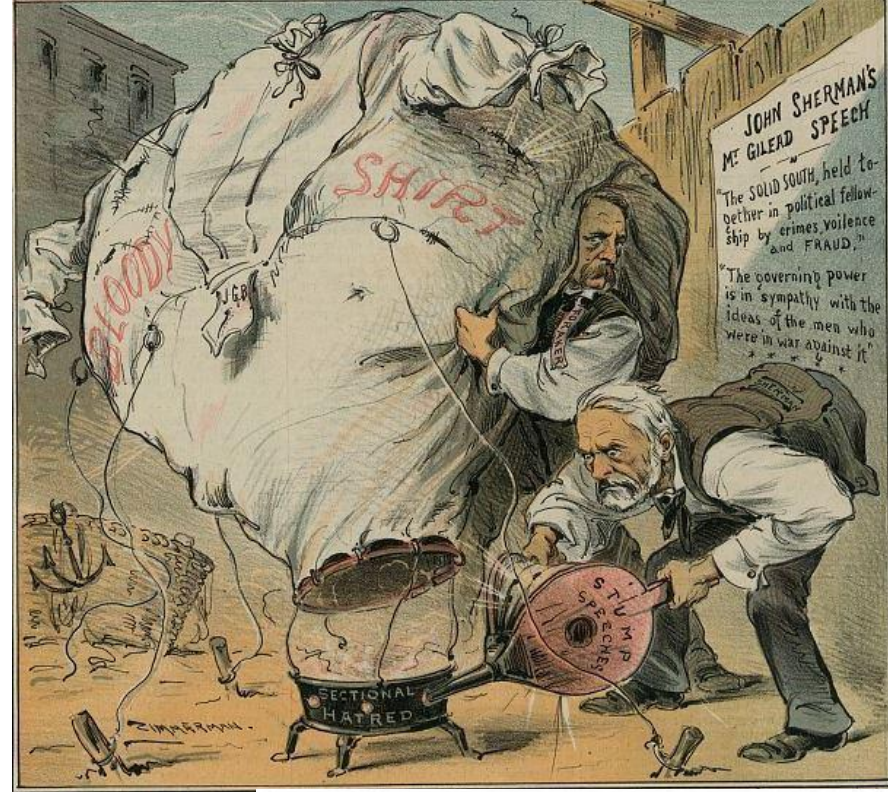


Live Births Peak in 1987 (42k)
Lowest point in 2010 (18k)



“Wave the Bloody Shirt”

- Ethnically divided population that permits ethnic card to distract population (“Wave the Bloody Shirt”)
- Depoliticized Post-Soviet population willing to give up protest after short period



Model of Underdevelopment

- Sell residency permits to CIS residents and China
 - Price: 150k euros (raised to 250k in 2014), Riga. Lower for countryside.
 - Roughly 10k sold
 - Deloitte predicts will bring 1.7 billion euros (with multiplier effects) by 2015

Present sources of growth and sustaining of demand...

- Offshore banking (foreign deposits) continues (Moldova). Strong growth of Rietumu & ABLV (correspondent banks).
 - Cyprus & Ukrainian flight deposits
- Forestry (half the country forested, half that public owned). Clear-Cut.
- Fast credit (SMS loans): usurious rates....
- Increased inclusion of Latvian production in global commodity chains
- Grain (abating with price declines). Agriculture hurt by EU sanctions on Russia.

