

“Governance without government - causes for the Latvian meltdown 2002-2008”¹

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(The first draft of the paper thus prior referencing please contact the author)

ABSTRACT: Teivo Teivainen (2002) convincingly argues that the domestic and international economic spheres during the last thirty years have gradually amalgamated. Simultaneously the international political sphere via such bodies as the UN, the EU, OECD, OSCE a.o. diminish the policy sphere that was traditionally reserved for the traditional domestic sovereignties. To describe governance several authors have used a wide range of different conceptualizations (Bache and Flinders 2004; Tömmel and Verdun 2009; Rosenau 2006b; Patomäki 2008; Lipschutz with Rowe 2005; Jachtenfuchs 1997; Held 2004; Fukuyama 2004; Emadi - Coffin 2002). The obvious dichotomy rises between concepts of governance and statecraft. The first concept describes set of rules that allows states, international organizations and non state actors to mutually interact without hierarchical principles employed. The second concept describes the capacity of state rule and within the scope of this article it would mean that the statecraft would imply ability of states to achieve democratic legitimacy in the eyes of their populace, and also to be able to participate in the global capitalist economy which is embedded in the free trade regime. Basically it makes this article to question both inputs and outputs of the government. While inputs could be described as procedures and accountability of the state vis-à-vis its citizens, then outputs are considered the effectiveness of rule, thus enabling effective measurement of the quality of statecraft. Statecraft within the scope of this article would be equated with government, because according to several authors (Giddens:2006, Scholte:2002, Heritier:2002) we cannot properly analyze governance without accountable government. Thus, this article would use Latvia as a case study to show, first how governance in Latvia throughout 2004 – 2008 was mismanaged and, and second, how it barred Latvian civil society from achieving better governance through the EU governance mechanisms.

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Introduction

Governance has been severely debated issue since the end of the Cold War. The end of bipolar world order it was predicted by realist writers would rearrange once stable patters of international governance. The onset of American hegemony and liberation of Eastern Europe allowed the integration process to gain momentum on the European continent, but the process was not solely European driven because the market reforms coined as Washington consensus transformed once centrally run and heavily regulated economies. For countries in Europe before and after accession to the EU within academic domain there was a transformation of

¹ The purpose of the paper is explorative, and it is the first step in a larger project, i.e. PhD dissertation on effects of transforming modes of governance in the Baltic States entitled: “Governance in the Baltic States from 1999 – 2009 - Estonia, Latvia and Lithuania between Europeanized regionalization and continued Post-Soviet political culture”, University of Helsinki

the traditional divide between the domestic and international politics. In the same vein the scholarship of international relations was enriched by the workings of the comparative politics, because the integration process transcended once solid material borders of nation states. Even though the old proverb says that the more things change the more they stay the same, we may notice that it becomes harder to employ outdated mechanisms of government in today's dynamically changing global world, and very much that is what many Central European governments and Latvian one in particular have been doing – following the path dependent route of development. Marshall McLuhan called it global village but I consider this description as inappropriate, because the Enlightenment project still carries us forward and instead of the Central and Eastern European provincial values the values of cities and towns prevail in global marketplace of ideas.² The EU requires new patterns of governance thus methods like community method and OMC allow the member state governments to emulate the best governance practices. However, if more and more delegations of the traditional government are delegated upwards and horizontally downwards then the ability of some member states governments have come under serious scrutiny as noted by Beate Köler Koch.³ Latvian government along with PIGS countries and Hungary were at the epicenter of the financial turmoil. The reasons for certain countries to withstand the financial crisis without repercussions in the political system differs well and not so well governed countries. Because Latvia witnessed administrative capacity problems already before the EU accession⁴, it is essential to detect whether Latvian leadership and society did anything to cure detected shortcomings and improve its statecraft after the EU accession in 2004. From 2004 onwards and even before trust in democratic representative institutions in Latvia has virtually disappeared.⁵ This gives us a possibility to speak about the meltdown of Latvian government, because any the EU governance must be embedded in the system of representative democracy, and when the government lacks legitimacy then one may argue about Latvia being defective or illiberal democracy.⁶ Meltdown of Latvian government was vividly recognizable during the international financial crisis when one government after another tried to avoid insolvency of the republic. Thus, at the situation when three Baltic countries used the same neoliberal tenets of economy and mechanisms for running the political system, there is legitimate question - why Latvia *ceteris paribus* showed such a devastating results and was led to the verge of insolvency? To answer this question the first part of the research would discuss about legitimacy of government in today's global age. The nexus between government and governance is widely discussed (Tömmel&Verdun:2008, Ebner:2007, Majone: 2005), and

² In 2009 according to UNO the number of world's urban population for the first time in recorded history surpassed the one of the rural one

³ Köler-Koch 2005: 12

⁴ EU 2003 acquis communautaire report on Latvia p.66 and Venturini eds. 2003:12

⁵ Ehin 2009: 11-14 and Spolitis 2010: 88

⁶ First one to coin the phrase illiberal democracy was Fareed Zakaria in 2007

to analyze the specificity of the EU governance also the multi level governance principle would be analyzed. Governance principles do not exist outside the political economies of given states and models of political economies for countries participating in major International Organizations are exogenously set. Thus, particularly for the small states who are monopsonists to use the economic terminology it is essential to follow one of the existing models of political economy. For Latvian mainstream political class rather unexpected collapse of the USSR forced to adopt the Schumpeterian Workfare model and to give up the traditional Keynesian National Welfare model. The Washington consensus and its policies were followed selectively, and it did not allow achieving thus needed structural reforms that allowed more gradual development of Estonia and Poland. The Latvian case is rather unique because the technocratic elites were corrupt, thus neither the liberal creed was followed nor the Latvian government was able to govern whilst using the traditional mechanisms of government due to the EU enlargement process. Thus, the constitutive problems and subsequent lack of rule of law determined path dependency of the Soviet hierarchical network governance practice and led to the subsequent Latvian meltdown. However, in order to understand how the process was instituted in Latvia one must first determine what constitutes governance.

1. Governance discourse

There is an agreement (Giddens:2006, Scholte:2002, Heritier:2002) that one cannot discuss issues of governance without government, because the governance broadly denotes the rules of the game that governments must follow. Governance is widely contested concept and outlines of the budding discussion in the international relations literature mostly comes from the management theory. For the sake of this paper I have chosen the definition of James Rosenau because it explains the problem between government and governance nexus in Latvia in the best possible way. "Governance refers to any collectivity, private or public, that employs informal as well as formal steering mechanisms to make demands, frame goals, issue directives, pursue policies, and generate compliance".⁷ Definition implies the process of governance and thus underlines important fact, that to govern an institution or a function means to exercise authority. Exercise of governing authority in dynamic environment clearly exemplifies to the followers of set of rules that the governing authority has legitimate right to govern. In such a way legitimate governing authority differs from authoritarian rule, because while in the first case the right to rule is mutually accepted, in the latter case it is unilaterally forced upon submissive part of the rule.

Traditionally governments generate acquiescence of populations through constitutional legitimacy. Thus, "as the demand for governance increases with the proliferation of complex interdependencies, rule systems can be found in non-governmental organizations, corporations, professional societies, business associations, advocacy groups, and many other

⁷ Rosenau in Bache & Flinders 2004: p. 32

types of collectivities that are not considered to be governments”⁸. While the demand for quantitative and qualitative governance increases exponentially several authors still question the ability of the state to cope with the ever increasing number of tasks.⁹ It is daunting for the post-Soviet governments because they not only have to meet the demands of domestic governance but also external one. In a nutshell one may say that post-Soviet governments are in quasi student position, because they must rule effectively to remain legitimate, and at the same time they must learn the rules of the international governance because they did not have access to the governance discourse in democratic societies during the Cold War. The transition of economic governance from Fordism to post Fordism took place prior the Soviet Union collapsed. Therefore, the neoliberal reforms were introduced by many post Soviet governments with little understanding about inherent qualities of those reforms and their natural development in Western world. Grasping the utility of the reforms for personal enrichment allowed fraudulent Latvian leaderships to propagate neoliberal dictum with deregulation, mass privatization, open capital accounts, and budget discipline as if it would be the only orthodoxy in town. Latvian leaderships failed to notice that they have not included the civil society in their blueprints of rebuilding the post-Soviet state, and without resources the buds of civil society that enthusiastically sprouted during the late 1980’s slowly passed away, in order to slowly revive only after the country being on verge of insolvency.¹⁰

In the meantime nation states indeed had undergone transformation during Ronald Reagan and Margaret Thatcher era, which were later coined as onset of neoliberal reforms. States had become managerial, thus still able to exercise a sovereign control and the future of state and society relations very much depended on tripartite negotiations. Disregarding nation state’s continuing legitimacy and sometimes shaky authority, key dimensions of the modern state power had undergone considerable diminution particularly after reforms of the Bretton Woods agreement in the 1970’s. Deregulation of financial system enabled spectacular growth of financial conglomerates particularly in the economic triad countries, but it also made more and more governments feeling powerless because those financial firms by their capitalization often were larger than some medium or small states. Also the deregulation unleashed market forces that were previously checked by governments, thus governments found themselves toppled from the commanding heights of economy to paraphrase Daniel Yergin and Joseph Stanislaw¹¹. For already established governments used to democratic practices the new

⁸Rosenau in Bache & Flinders 2004: p. 32

⁹ Bache & Flinders eds. 2004: 34, Jessop (2007,2009), Wallerstein a.o.

¹⁰ Ivars Godmanis (1991-1993, 2008-2009) ironic and self-reflecting acknowledgment that during 19 years Latvia has not been able to produce politicians who would be able to negotiate with the IMF members as equal to equal

¹¹ Yergin & Stanislaw (2002)

situation came in piecemeal fashion, while for Latvian government the situation presented major challenge.

The demands for government in today's democratic states are mostly qualitative. Citizens have elected their representatives and they expect their politicians to provide the welfare that many election promises have provided without real ability to secure those promises. At the same time demands for governance are quantitative as well as qualitative. People follow international media and they are bombarded about the real time events in split seconds. Differently from other era when media coverage was not global, population's consumption habits were different. Therefore today's populations are growing restless and unhappy over the quality of their governments. Except in those rare cases where statehood is sought, people's demands are not for more governments; rather they want their systems of statecraft to be less corrupt and more ready to serve their needs. Thus, when they become more alienated from their representatives and learn from international media about mounting global challenges due to environmental commons or labour outsourcing, then particularly younger generation opt for more governance instead of government even if they sometimes barely understand the qualitative difference between those two terms. Even though younger generation supports such post modern values as world peace, global solidarity, self enrichment a.o. similar issues, still governments in countries where viable democracies rule must deliver responsible governance because otherwise they face disobedience in terms of striking activities and consequent loss in elections. The Latvian EU membership presents us today with unique phenomena, however, because when population is unhappy and alienated from their governments they opt for trusting the EU institutions, and due to lack of restrictions do not bother demanding better governance but leave for Western member states of the EU instead.¹²

While governments in Latvia continued their path dependent travails insulated by increasingly alienated population and monies coming from the EU funds, the government officials grew complacent without noticing the scale of transformations in society that technologies provided. The technological innovations fostered ever-greater interdependence and complexity of modern societies, while Latvian subsequent governments simply deregulated the "outdated mechanisms of central command economy" but failed to notice the importance of state regulation vis-à-vis their own society. The Latvian society transformed faster than old fashioned state institutions including universities did, and rather ironically global market forced allowed the society to open up to the global challenges, while rather inversely it ossified the channels of upward mobility in the Latvian political system and stagnated Latvian political cream of the crop. For today's democracies it is not enough to have no oppressive institutions that enforce rules, because democracies also have to be liberal enough and provide equitable platform for participation to all. Accountability of office holders as well as participation is also essential. Critical theorists like Mark Bevir argue that if markets and

¹² Spolitis (2009) p. 97-101

networks are replacing states and hierarchies, we need to rethink the ways in which we conceive legitimacy of all levels of politics, from the local to the global.¹³ Normative questions particularly after world economic crisis about legitimate, democratic governance increasingly concern policy makers of IO's, NGO's and most of the world powers. The World Bank added "good governance" to its lending criteria during early 1990's.¹⁴ World Bank has been the traditional promoter of neoliberal worldview and favors introduction of principles of market principles in public sector. Today both World Bank and IMF have become more "socially aware" and not only good governance, but also demands for socially balanced development is required. The fact is, however, that during the early 1990's when the foundations of most of newly created states were created and rules of the games apprehended by most of the newly created governments, the World Bank as well as International Monetary Fund preferred one size fits all policies. What are the consequences of such a demand for governance in post Soviet states? By and large post communist countries can be divided in star performers, medium reformers and laggards.¹⁵ Because of the scope of this paper evaluation of reasons why countries had achieved different results would not be discussed. However, if one looks upon three Baltic States governments who started their transformation from barely the same lane, it becomes obvious that historic legacy and founding legal documents were among major culprits why, for example, Estonia is in the group of star performers but Latvia is positioned between medium reformers and laggards. Ability to establish transparent rules of the game allows countries to reform antiquated political and economic structure and thus to reap the benefits of emulating the best governance practices. Education and acquired skills of political elites are essential here, and to achieve enlightened elites principles of meritocracy and independence of public administration from political depredations should be followed. Thus, for several countries including Latvia the problem of elites are stuck in theories and narratives of the past, and because of stagnant and heavily hierarchical governance structure none of the advisers are in power to change the path dependency route Latvian elites are taking. Thus, Rosenau notes: "our analytic capacities are rooted in methodological territorialism in a long-standing, virtually unconscious habit of probing problems in a broad, geographic framework."¹⁶ This habit poses an acute problem because of the ever-growing porosity of domestic-foreign boundaries that has rendered territoriality much less pervasive than it used to be even as all the social sciences continue to construct their inquiries, develop their concepts, formulate their hypotheses, and frame their evidence-gathering procedures in spatial contexts. Nor are officials free to think in alternative contexts: as Reinicke (2000: 45) noted, "Trapped by the territoriality of their power, policy makers in traditional settings often have little choice but to address the symptoms rather than

¹³ Bevir (2005): 124

¹⁴ Williams & Young 1994: 84-100

¹⁵ Scerbiak: 2005, 32

¹⁶ Rosenau in Bache & Flinders eds 2004: p. 39

the causes of public problems.’¹⁷ In matters of governance discourse the consensus is that governance cannot effectively work without effective and transparent governments. To paraphrase the ominous phrase “thing globally and act locally” could be paraphrased as: “think locally and act globally, and do not let local minded ones to use the hyperbole of global discourse for their own populist agenda. Without having global governance regimes it would not have been imaginable to foster changes in once stable stalwarts of authoritarian rule. To understand how the principles of global governance gradually seeped into Latvian government one may understand why Latvian state capturing elites and lack of transparent public finances are still a problem since Latvia is the member of the European Union for five years already.

2. Instituting government and governance in the post Soviet Latvia

Government is usually led by collective college of ministers and depending on personality type of prime minister the work of the government acquires characteristics of teamwork or single leadership. The government implies the double faced phenomenon, because it must control whether its decisions are followed and also it must govern, even though at the onset it might look like singular activity. Government steering has been researched by comparative politics rather extensively (Gourevich 1999; Heritier 2005). While the system of inputs is usually clear cut and legalized through parliamentary proceedings, and the hierarchical work of the public administration system the outputs of the government decisions are traditionally questionable, and make one to argue about the work of the government as a black box phenomenon. The production of government outputs of the post-Soviet governments in Latvia are obscure. Even though there are procedures that Latvian government must follow, still the actual policies very often are agreed not within confines of the government but in extra-democratic political bodies like the coalition council. The task of analyzing travails of post Soviet governments was to some extent questionable, because methodologies that stem from analyzing works of Western governments with rule of law, clear cut balance of power and viable civil society do not directly apply to the workings of the fSU governments. Also every democratic government system in Europe developed following its own logic, because the liberalization movement and democratic reforms were instituted due to particular constellation of political forces of given state within particular timeframe. The simple transposition of Western methodologies into analyzing work of Eastern European and flu government work has even been coined as neo-totalitarianism in Social sciences.¹⁸ Müller asks several normative questions in his research. Because it goes out of the present research I would not elaborate on those normative issues, but rather ask a question which is valid also for present research - why did the Soviet totalitarian regime suddenly collapse in 1991? This question is valid in order to know what enabled the liberalization movement that led to the

¹⁷ Rosenau in Bache & Flinders eds 2004: p. 45

¹⁸ Müller 1997: 3

eventual independence of the Baltic States. Conventional answer for the reasons why the USSR imploded is the collapse of centrally planned economy and the latter argument helped constitutively to institute neo-liberal economic reforms that were at that time designed for the Latin American economies.¹⁹ The collapse of the USSR not only bankrupted the tenets of state regulated economic governance, but also swept away the mechanisms that existed to keep the Soviet ruled political system stable, economy running and society together. Implementation of Western governance innovations as well as springing up of the civic society groups would not have been able without transformations in Gorbachev led Soviet leadership. The leading role of the Communist party (CPSU) was inscribed into the Soviet Constitution, but the Baltic leaderships removed this clause in early 1990's soon after Boris Yeltsin's Parliament did it in the Russian Soviet Socialist Federation. This allowed civilian power to take shape and to offer alternative to the traditional rule of nomenclature.

The work of Soviet government was different from its counterparts in the West. The way it operated, and because most of the CEE states even after free elections followed the path dependency of government work created two problems for the post-Soviet executive – first, the embeddedness of the technocratic culture and unaccountably obedient rule, and second, complacent stagnation due to the lack of democratic alternative. First, according to the Soviet tradition government performed the bookkeepers office role²⁰, because the actual running of the state affairs was entrusted to politburo of the CPSU, thus governments often failed performing major requirement of governmentality – providing welfare and improving the situation of the population living in poverty.²¹ The subordination of Council of Ministers to the Politburo might have looked similar to the subordination of Western executive branch to the parliament, but in reality the Soviet reality was more complicated. The difference stemmed from the fact that first there was no genuine rule of law because presumption of innocence in the USSR was abolished, and also the representatives to the People's Deputy Congress of Politburo were not elected in open, competitive and free elections. Thus, the path dependency of the subordination role of the Latvian government to the omnipotent parliament continued after independence and first free elections in August 1993. The second problem was the lack of democratic competition for the executive position because of lack of competition within political parties which resembled rather aristocratic clubs of the 19th century. Thus, ministers were picked for their positions without comprehensive screening process and evaluation of their skills had to service needs of small and often corrupt political party leadership, or as it has become widely renown in Latvian colloquial, there was a need to elect

¹⁹ Williamson: 1999, 3

²⁰ Gaidar in Aslund eds. 2007: 74

²¹ Lipschutz 2005: 26

“biggest cretins” for the office.²² The lack of democratic competition barred principles of meritocracy to be employed, did not allow Latvian executive to acquire thus needed networks that would help to adjust to the dynamically changing exogenous policy environment in the European Union and globally. It was particularly explicit during the accession process into the EU and the problem has carried on also after the actual membership, because today Latvia has the smallest number of nationals working for the EU civil service among the Baltic States.²³ The values and norms of Western governance were often misunderstood, because they traditionally socialized by the very narrow circle of officials (Foreign Minister, the President, and Prime Minister), but they did not trickle down to the rest of the policy makers and public administration. Also the decision to create the European Integration Bureau under auspices of the Ministry of Foreign Affairs institutionally concentrated not only decision making power in the previously mentioned ministry, but also made the ministry to concentrate the recourses and information, thus creating the situation when the EU membership actually came the sectional ministry officials were virtually unprepared for the realities of new governance system. The work of the government was performed by civil service that was undergoing reforms from 1996 onwards. Even though the public administration followed classical tenets of corporate independence from policy-makers, first those were the 1996 reforms of PM Skele²⁴, and second, those were reforms of 2002 when the PM Repse turned the Latvian public administration into subservient arm of government, thus ending the system of corporate independence of the public administration and institutionalizing the system political appointees. The strategic decision of Latvian leadership to join the EU facilitated the move towards that goal. Since 1999, when Latvia together with Lithuania and Slovakia were invited to start the EU accession negotiations, the coordination of Latvian government work improved and Latvia together with other nine new democracies joined the EU in the fourth enlargement wave on May 1, 2004. The results from the first moment could sound as laudatory, but in reality the last report prior the accession showed some signs of trouble, because the capacity of state administration, rule of law, and ability of economic structure to withstand the pressure of common market were underlined as special problems for Latvia.²⁵ The rubberstamping of the EU legal principles in the Latvian parliament was swift, and Latvia managed to finish *acquis* negotiations faster than Estonia even though the latter started negotiations three years later. Also while Poland spent thirty months to negotiate chapters

²² Former Prime Minister Andris Skele was implicated in vote rigging affair in *Jurnala* in 2005 and it became known that his party supported the “biggest cretin” for the major Office.

²³ There were 327 Estonians and 154 Latvian nationals working in the EU public service according to 2008 data. For more information see European Personnel Office webpage

²⁴ The management agreement system was designed that allowed the top notch public administrators to receive uncontrolled remuneration system, and plans about introducing comprehensive and universal system of public service remuneration were abolished

²⁵ 2003 *acquis* report

concerning the movement of capital for the three Baltic States it required only six months.²⁶ The speed of closing the EU chapters showed that the central role of the EU integration process was entrusted unto the government. In reality the system was more complicated, because the EU regulations that had to be transposed into Latvian legislature had to first reach European Affairs Commission of the Parliament. But the parliamentary committee itself delegated those powers to the European Integration Bureau or sectional ministries, and thus willingly delegated the power to the executive branch. This supports the argument about governments using the EU as argument with the internal interest groups to legitimize their standings in Brussels “package” negotiations. Thus, the executive is becoming stronger vis-à-vis other branches of the government.²⁷ At the time when civil servants were negotiating the *acquis communautaire* package they were also putting themselves into position to be first to be employed by the EU public service after the membership came into effect. But in reality the Latvian political government worked by its own logic and the work from political realm was left to the administrative one. It was later openly admitted by the former Prime Minister Aigars Kalvītis who at his speech to the Latvian University students revealed that the politics is about the realpolitik games, because the policy making is left to civil servants anyway.²⁸

Thus while the work of the government institutionally was left to the civil service and there was no role for the political branch, also the principles of democracy were not followed, and it was very vividly exemplified in the bi-annual Eurobarometer surveys. Also the policy innovations that should stem from either the government or the parliament ceased to come up and the political normalcy of illiberal democracy was established, with trust among the ruled decreasing from year to year. The lack of trust in representative democracy kept open old cleavages in Latvia among the ethnic Latvian and ethnic Russian political parties as well as between the democratic and oligarchic forces. The lack of institutionalization of the political system would be continued in more detail in Ch.4, but to come back to the problem of work of government we must speak also about the role neither the political parties, nor governments failed to do. The issue is about the structure of capitalist economy and emulation of best governance mechanisms that are available in today’s democracies. According to Jessop in Ebner the market society must be formed in order for capitalist system and markets operate properly.²⁹ If government does not use its mechanisms and leaves intentionally to market forces, then one cannot really speak about democracy but market ruled anarchy. Such anarchy served traditional nomenclature very well because while in the office they were unaccountable and mostly devised the system where right wing governments throughout the 1990’s announced that every person should be able to take care of himself. Bourdieu argued

²⁶ Glenn 2002:9

²⁷ Wink 2002

²⁸ Prime Minister A.Kalvītis speech to the University of Latvia students in June 2007

²⁹ Ebner eds. 2008: 345

that the market anarchy would create the system replicating 19th century capitalism, while Jessop warned that outright liberalization would only strengthen incumbent nomenclature and embed resentment among broad swathes of society.³⁰ As if echoing warnings of those writers the gradual impoverishment of Latvian society created resentment and alienation among broad swathes of people.³¹ The EU accession and incoming structural and social cohesion funds helped the incumbent government to muddle their way through. The elections of 2002 brought in new coalition government. There were grand hopes associated with the new political party that was elected on anti-corruption ticket. Because of parliamentary infighting the coalition government of E.Repse was able to survive only until December 2003. The grand plans for legal amendments were postponed, and the problems that plagued Latvia until 2003 were reamplified through the politicized public administration system now. The long term unsustainability of Latvian governance was built into its body politics since rolling over the 1922 *Satversme* (Constitution). The unitary state in Latvia in the early 1920's was designed whilst following the French republican design. The majority rule did not leave much voice for the opposition minorities, and thus the human rights principles had to be included into the *Satversme* in 1998 as Chapter. VIII, that stemmed from constitutional amendments back in 1992. While governments can never experience the total freedom of majority rule, the opposition politicians constantly bring up the polity issues as if they would fix governance problems in Latvia. While number of politicians³² irresponsibly call for introduction of majoritarian election system they forget about the legal principles that base foundations of the rule of law. While discarding the issue of rule of law as something belonging to the discussion of classical liberalism politicians resort back to the Soviet experience of quasi-majoritarian democracy. Thus, certain kind of *coul de sac* is formed where politicians blame bad governance on bad quality of parliament due to the decreasing rate of political participation and rising negativism about political process in Latvian media, and voters without any agency caring to educate them alienate from the body politics and declare that the political process is sham. Latvian mainstream politicians want to follow the old dictum of republicanism with clear majority rule, but in this they similarly to neo-republicans fail to notice the nature of modern and mass democracies, that according to the Tocqueville'ian traditions were regulated by balance of powers and rule of law. The participation was critical for securing private liberties throughout 19-20 century, but particularly during the onset of welfare state there were worries that continued practice of such liberties and 'prevention of government encroachment could reduce the motivation for political participation'.³³ Thus, while willing to increase the citizen's participation without constitutionally stipulated legal foundations for

³⁰ Ebner eds. 2008: 178-183

³¹ Spolitis, 2010: 88-90

³² Former head of the Social Democratic party Juris Bojars, Union of Greens and Farmers as well as Harmony Center party

³³ Kimpell:2009, 13

public finances and basis for rule of law, the Latvian political leadership for the last nineteen years have left voters in quasi anarchy demanding their voice heard only once in four years. The legacy of the Soviet past did not leave many civil or moral norms surviving, even though there were authors who believed that Latvia represented vibrant civil society during the early 1990's.³⁴ Inability of the Latvian state to fight endemic corruption continued until the Corruption Prevention and Fighting Agency (KNAB) was founded in 2003. The sheer fact of KNAB foundation was a positive sign about Latvian government taking the problems of corruption seriously.³⁵ However, the foundation of new agency mostly was determined by the external pressure that existed prior the double enlargement process in 2004. Prosecutor General Office that should deal with legal matters was left out and there were clear indications that also the prosecutor's office travails were not transparent.

Thus, the principle of diminishing role of traditional government in Latvia happened inversely. While Latvian government was not able to ensure the rule of law those were the EU enlargement mechanisms that forced the fractional Latvian coalition government to act. Thus, while we may notice here diminishing of traditional government, but within the EU we may also notice empowerment of transparent rules through good governance principles. The conditionality of the *acquis communautaire* worked prior the EU membership, but since 2004 one could notice that trust in major institutes of democratic governance as well as Latvian lagging behind neighboring countries started.³⁶ Among reasons for declining trust of the democratic institutions was the increasing living standard due to the massive influx of monies from the EU structural and social funds. The fact that government coalitions were fractional was partially based in the Article 59 of the Latvian constitution that requires parliamentary voting for any change in the government.³⁷ It basically stipulates that parliament reigns supreme, and therefore the head of the cabinet must constantly ensure the stability of the governing coalition and there is little time left for the actual policy issues. Furthermore, due to the fractional political landscape decisions are most of the time passed in the coalition council which is democratically unaccountable. Thus, Prime Minister is drawn into constant micromanagement of issues and rubberstamping the legislature which most of the time means transposition of the EU legislature.

The international governance has taken much of the traditional government tasks, and for the Latvian voters it has become customary to hear high caliber politicians and scholars putting blame on requirements of international organizations to slim the economy, kill the

³⁴ Mattusch 1996: 55

³⁵ The Latvia 2003 EU *acquis communautaire* report: 61-66

³⁶ Spolitis (2010): 89-100

³⁷ For more information see <http://www.saeima.lv/satversme.htm>

goose that lays golden eggs or similar arguments.³⁸ While the domain of the international has indeed taken over the domestic, even more pronounced takeover took place when domestic economic sphere took over the traditional political sphere.³⁹ The transformation of Latvian economy followed rather uniform patterns of transition process in the Central and Eastern Europe, where those countries that fully implemented reforms and where accepted to the EU did not really experience exigencies of the neoliberal rule.⁴⁰ The lambasting of Washington consensus after the world economy faltered in 2008 it is noticeable that there are considerable increase of political parties that have reported to lambasting international financial organizations, Washington consensus and thus showing their grievances about decline of living standards.⁴¹ Amadea (2005), Teivainen (2002) argue that the division between the domestic and international in reality is artificial and this argument is also supported by Wallerstein (1999) and Jessop (2007). Arguments of previously mentioned authors are normative, however, and due to the scope of this article they would not delve deeper into normative issue of the economism and individuation of the global market participants. Nevertheless, the individuation of the market participants has propelled the neoliberal creed in Latvia, where former nomenclature members could enrich themselves under the new fad of capitalist free market economy. However, this background was needed to outline the reasons for distorted discourse about basic empirical facts and mixing them with normative assumptions in Latvia. Thus, the distortion of understanding about the role of the individual and legitimacy of ownership in market economy in combination with state capturing elites immutable has ossified Latvian statecraft. Negotiations on tripartite level are elitist and allow the state dictate its terms due to the flawed legal system, that did not allow striking activities even though Latvia had signed ILO declaration promising to guard the rights of employees. To start the EU entry negotiations Latvia fulfilled requirements of the *acquis communautaire* legal texts. Because the European Union mostly was concerned about the capacity of the economic structure to withstand pressures stemming from the common market the requirements about the rule of law, state governing capacity and constitutional principles were not questioned, because before accession process also the Council of Europe performed that role. The problems of rule of law and lack of governing capacity were continuously reminded in Latvian progress reports all the way until the EU 2003 report.⁴² The problems of governing capacity and the state capture were thus serious that also the last IMF report specifically mentioned it.⁴³ The decision to allow Latvia become the member of the EU was not based on

³⁸ Ronis & Smirnovs, Zelmenis

³⁹ Teivainen (2002): 5-10

⁴⁰ Orenstein (2009): 8

⁴¹ Neatkarīga Rita Avize, "SVF ir finansu okupācija", 2010. gada 19. maijs

⁴² EU 2003 *acquis communautaire* report: 67

⁴³ IMF report on Latvia 2003: 22, 61

conditionality, however, and regardless of all the flaws it was hoped that Latvian government would fix the problems of governance already inside the club.⁴⁴ The disappearance of governance sticks and massive influx of the EU funds stalled the government reforms in Latvia. Thus, instead of furthering transformations the post Soviet government practice was continued and unaccountable political parties with questionable representatives continued to heat the galloping economy contrary to the suggestions of the advisors.

3. Mismanagement of economy and partocracy rule

Availability of the cheap and unregulated credit has been blamed by policy makers and experts as the major reason for the faltering of Latvian economy. The exponential rise of the private mortgage market issued mostly by Scandinavian banks, the procyclical tax and budgetary policies as well as widening current account gap and consequent decline of productivity and GDP has been reported by several reports.⁴⁵ While buds of Latvian overheated economy were noticeable already in 2006 those were Latvian faltering policy makers who acted against the basic principles of macroeconomics. In 2007 the Economist warned about overheating economies in Latvia and Estonia, and Estonian government while preparing for 2007 elections collected the budgetary surplus into reserve fund.⁴⁶ Throughout the 2007 also the EU ECOFIN Commissioner, the IMF and Latvian economists warned Latvian government about economic disbalances.⁴⁷ Latvian new cabinet consisted from the same coalition as before the elections in October 2006. The government continued its reckless policymaking and concentration of power into hands of prime minister. The warnings were not heard also when the governor of the Bank of Latvia Mr Rimshevičs issued his cautionary but somewhat contradictory remarks about the need to follow conservative and anti cyclical budgetary policy.⁴⁸ The coalition government promised teachers, policemen and doctors to raise salaries after learning that they were arbitrarily raised by 30-50 percent for the public servants in administrative apparatus. The steep rise of salaries for public servants increased the budget deficit, and because there was not proper remuneration system for the state employees the inflation spiral started to gallop. Because of government not listening to the warning of the Governor of the Bank of Latvia also the bank continued its autonomous

⁴⁴ From the interview by the member of the EU Enlargement Commissioner Günter Verheugen Office and officials in Latvian Ministry of Foreign Affairs and Economics

⁴⁵ IMF and EU research about 3B in 2010

⁴⁶ *The Economist*, "A boom tails off. Devaluation next?", October 18, 2007

⁴⁷ For more information see [http://spolitix.blogspot.com/Warnings/not heard-recleness continues? August10_2007](http://spolitix.blogspot.com/Warnings/not%20heard-recleness%20continues?August10_2007)

⁴⁸ Warning government in 2007 about excessive budgetary expansion, but in the meantime saying that there is no crisis in Latvia forthcoming (Financenet)

policies. Latvian government, while signing the Europe Agreement, eventually had to join the Eurozone and thus on January 1, 2005 the Bank of Latvia (BoL) abolished the SDR parity and established the one with the Euro at the time when inflation was already raging. Because the BoL statutes require the bank to fight inflation thus after the inflation spiral started BoL was literally emasculated. BoL had to ensure the stability of the exchange rate and control the inflation when it had no control over the money mostly Scandinavian banks lent to the private households. Thus, the only institution that could act, the Ministry of Finance acted far too late, when deciding to establishing the currency reserve system in November 2008, when the public finances due to massive disbalances were led to the level of insolvency. In addition, in the late 2008 the effects of the international economic crisis affected the second largest commercial Parex bank. Due to the liberal lending practices and lack of transparency in its operations in emerging markets Parex owners had to come to the government for help. The government in a secretive environment purchased the bank for symbolic sum of Ls1, but it later appeared that the extensive liabilities amounting close to EUR2 billion had to cover the taxpayer. The collapse of Parex was unexpected and the opposition parties raised the question of the regulating role of the Financial Control and Capital Oversight Commission (FKTUK), which advised the government about the problems in Parex only days before the news broke out in the media. In the hindsight it is clear now that for ensuring the balanced development of the financial system in the open economy is essential for regulatory agencies, government and central banks to coordinate their actions. The Latvian situation with bureaucratic infighting and party officials appointing officials and regulators based not on merits but due to the party affiliation aggravated the situation. Instead of coordinating their actions and ensuring management of financial system during distress every branch of the financial system fought for their existence and put a blame on other. Pro cyclical macroeconomic policy that contradicted principles of first year economics textbook continued heating already galloping Latvian economy. So called “pedal on the metal policy” that the Former Minister of Transport promoted at the end led country to virtual insolvency.⁴⁹ Inability to listen to the Western advisors was built into the body politics through the path dependent policies, thus budget deficit problems were not dealt with and that only aggravated macroeconomic balance of the economy.

Figure. 1 Latvia’s yearly statistics 1992 - 2008

	G D P c o n s t a n t p r i c e s , %	Inflation, %	U n e m p l o y m e n t r a t e , %	S t r u c t u r a l b u d g e t b a l a n c e	T r a d e b a l a n c e	C u r r e n t a c c o u n t d e f i c i t
92-2004	0.5	-	13.2	-	-12.5	-2.6
2005	10.6	6.9	8.7	-1.7	-18.9	-12.5
2006	12.2	6.6	6.8	-3.3	-25.6	-22.5

⁴⁹ Simon Kuper, What went wrong with Latvia?, *Financial Times*, June 5, 2009

2007	10.0	10.1	6	-4.5	-23.9	-22.5
2008	-4,6	15.3	7.5	-5.8	-17.0	-13.6

Source: Latvia's Central Bureau of Statistics, Eurostat

The deterioration of the balanced economic development and the government's hands off approach increased the distrust of the general population. Development policies were not present because of belief of the market forces. The fact that political system stayed intact did not give a chance for the alternatives of the government intervention policies. The hands off approach was most vividly exemplified by the hoards of Latvian people leaving to the Western parts of the European continent. The leaving population aggravated the employment and only added bargaining power to trade unions. Prime Minister A.Kalvitis had to satisfy demands of trade unions due to threats of striking activities and general distrust in government that collapsed after March 2007 revelations about the Major of Ventspils bribing whole of the Latvian political leadership and consequent detention of Aivars Lembergs. Collapsed trust in major democratic institutions was explicit and differently from neighboring Estonia positioned Latvia at the bottom of the EU list of the countries where trust in democratic institutions was measured.⁵⁰ Inability of the government to operate in uncharted waters of open economy and lack of knowledge to follow the EU good governance principles led Latvian subsequent governments deeper into crisis, because constitutive principles that defined Latvian governance were unreformed.

4. Constitutive principles and lack of policy domain

Latvian political system was the latest one to liberalize among the Baltic States. Latvia until today is the only country in Central European and former Soviet Union that decided to roll over the constitution of the 1922. The disagreements about the election law among the political groups in 1992 and the question of legal succession the republic founded in 1918 allowed the first free elections to hold only in summer 1993, shortly prior departure of the Red Army from Latvian soil. Amendments in the election law allowed solve problems that corrupted democratic governance during the 1920's, particularly the lack of the parliamentary entry threshold which made government coalitions unstable. However, the increase of the session of parliament from three to four years only embedded ineffective practices of MP's electioneering and parliament delegating more and more of its powers to the executive branch. The lack of constitutive caucus did not reconcile major ethnic groups in Latvia and it affected Latvian election system detrimentally. The Latvian party political system was established on ethnic cleavage, and right wing policies were mostly proposed by ethnic Latvian while left wing policies by ethnic Russian political parties. Thus the electoral system became highly volatile with political unions constantly renewed after oligarchic elites were

⁵⁰ See Eurobarometer 70, 71 and 72 reports also Spolitis (2010): 88-100

unable to agree among themselves.⁵¹ The lack of tax and property declaration system embedded the rule of legal nihilism and did not allow upgrading neither Latvian electoral system nor increase the governing capacity of the public administration and thus enable transposition of the EU good governance principles. Thus, even though Latvia became the member of the EU the Europeanized change was shallow and did not overhaul its political system due to the nature of the European law that entrusts primacy of legislature to the member state governments. Legal principles were flawed in Latvia and allowed state capturing elites to enrich themselves. It also allowed the same elites to manipulate the public opinion against the European Union even though in reality the problems stemmed from the failed governance at home. Such reckless manipulative policies have led to the situation when Latvia is the most Eurosceptic member state of the EU today.⁵²

Beate Köhler Koch argued that even though most policies are considered good for the EU governance they could be rather detrimental for the EU member states.⁵³ Previous arguments are supported by Merkel who argued that the systemic problems in the EU new member's states had its roots in illiberal constitutive principles.⁵⁴ Such societies are informally penetrated by clientelistic-personalized parties, and in Latvia until 2002 all parties could be classified as clientelist ones. Because until now Latvia in addition to Malta is the only EU member state that does not finance political parties from the state budget it gives inordinate influence to private financiers. The weakness of formal institutional rule and the rule of law as a whole is compensated for by inter-elite networks and the transformation of Latvian political system after 2002 and 2006 parliamentary elections is clear example of this. "The representative institutions of liberal democracies are circumvented and perverted. The result is a potentially stable, yet hybrid political system: a democracy with defects, for this informal mode of representing interests not only lacks democratic inclusiveness, but also damages the norms, rules and institutions of democratic representativeness, responsiveness and responsibility. In the long term these serious defects can weaken citizens' (diffuse) support for the (formally) democratic system and thereby also indirectly shake citizens' belief in the legitimacy of democracy as a whole. The defective illiberal democracies gain short-term stability at the expense of their long-term chances for consolidation".⁵⁵

In situation where the EU good governance principles were not implemented only increased the distrust of the population vis-à-vis the governing cliques. Problems stemming

⁵¹ Meinwaring (1998): 3

⁵² See latest Eurobarometer report - http://ec.europa.eu/public_opinion/archives/eb/eb73/eb73_fact_lv_en.pdf

⁵³ Kohler –Koch(2005):6

⁵⁴ Merkel (2001): 12

⁵⁵ Ibid: 33

back from the early 1990's were becoming more acute. The illegitimacy of the 2006 election campaign galvanized the dormant civil society and started series of referendum campaigns demanding early elections and demonstrations that were held against the usurpation of power by the Kalvitis and Godmanis cabinets.⁵⁶ The activization of the civil society coincided with the reckless economic policies which led to January 13, 2009 sporadic riots in Riga.⁵⁷ The lack of rules for implementing genuine rule of law determined the overall dissatisfaction with the government policies, and there was no time for upgrade of election law or upgrading state governance among the nomenclature groups, because distrust was overwhelming.⁵⁸

The Latvian political system is still democratizing due to the inelasticity of Latvian MP's who managed to change the 1992 election law only in 2009 and then only due to the pressure from civil society and the president.⁵⁹ The ill famous locomotive principles ossified Latvian political culture, and failure to ensure the change of party financing rules turned Latvian political system into a nurturing ground for rise of oligarchic families. Also the artificially low number of the people (two hundred!) was required for foundation of the political party, and it did not foster consolidation of the Latvian political system. Thus, even though there were hopes that the political system has stabilized in 2006, it became known later that stability was achieved with illegal means. The fact that winning parties breached election law was not left unnoticed, but inability of the legal branch of the government to prosecute the transgressors is endemic. According to the Company Registrar Office there are fifty five parties in 2010. Even more significantly only two political and none of the political parties unions which were created prior 2006 elections would run for the elections in October. The high volatility of party members across the board signifies that there is no clear right and left wing political cleavage achieved in Latvia. The unfortunate division in left wing ethnic Russian and right wing ethnic Latvian political parties is still poisoning the Latvian political system and does not allow promotion of clear cut and Western standart discussions about socio-economic policy issues. The fact that Ombudsman office, under continuous insistence of the former president Vaira Vike Freiberga, was created only in 2007 did not allow Latvian citizens to exercise their rights vis-à-vis the state administration and additionally embedded their distrust in state administration. All in all the policy domain in Latvia is left inattentive because for political elites to manipulate the power it is more profitable to constantly put on agenda polity

⁵⁶ The Latvian Supreme Court rules on November 3, 2006 that election campaign was illegitimate but due to the lack of substantial evidence the Administrative Senate did not proclaim the elections as null and void

⁵⁷ "Anti-government rioting hits Riga", January 14, 2009, <http://news.bbc.co.uk/2/hi/europe/7827708.stm>

⁵⁸ Spolitis (2010): 95-100

⁵⁹ The President Valdis Zatlers while acting outside his constitutional powers announced the tasks parliament must pass after the January 13, 2009 riots in Riga. He announced the March 31, 2009 deadline and threatened to initiate the procedure of early elections unless the tasks would be fulfilled – electing the new head of the Corruption Prevention Bureau, amendments and abolition of the ill famous locomotive system from the election law a.o. tasks.

issues, even though the stable democracies are characterized by countries where the policy process takes place mostly without touching polity framework.⁶⁰ The amendments of election law in 2009 were a movement in right direction. Bill about the election campaign financing from the state budget and comprehensive campaign limits is stuck in the parliament and would not be passed prior starting of the new parliamentary session. The Latvian political system is consolidating and political elites still have high hopes on optimal election outcome without doing much for ensuring the proper functioning of the rule of law. Principles of illiberal democracy are embedded in Latvia, and the EU good governance principles must still be implemented through the workings of the domestic legal system.

Conclusion

Academic research on governance exemplifies division between research on steering of actual institutions and practice that determines operation of governments and institutionalizes governance. Both issues are often overlapping and within scope of this particular research I have omitted the mechanisms of steering and focused on principles that determine governance in certain institutional framework. According to several authors there is an agreement that instead of dividing the term governance it would be feasible to denote actual steering to the government and the underlying principles that enable actual statecraft to governance. The capacity of governance is changing due to the endogenous and often complimentary processes of globalization and Europeanization. Thus, the primary determinant and quality mark in order to emulate the best governance principles are determined by quality of statecraft. The quality of statecraft or government is essential for achieving reforms of ossified governance structure, because the EU member state governments are constantly involved in multiple levels of negotiations. Therefore whilst looking at the domestic impact of European integration in more detail, intergovernmentalists depart from two-level theories where national executives are simultaneously involved in international negotiations and bargaining with domestic interest groups. Governments can achieve balanced outcomes at the international level if they convincingly show that their hands are tied by domestic commitments. More important, domestically, it allows them to avoid the blame for unpopular policies by pointing at international package deals and the need to live up to international obligations.

In retrospective consecutive Latvian governments convinced their peers in Brussels about commitment to major social partners, and also they could excuse unpopular decisions as requirements from Brussels. The inability to ensure balanced development of Latvian economy and political system therefore stemmed from constitutive moments of the reestablishing the independence of Latvia. Longitudinal analysis in hindsight gives us now ample of information about the mistakes committed. At the same time the time frame from 2003-2008 also gives the possibility to find out that Latvian democratic governance was

⁶⁰ Almond and Verba (1999)

punctured in September 2006. Both constitutive arguments and outright wrong decisions of Latvian government facilitated Latvian meltdown. Still several Latvian scholars tend to downplay the constitutive principles and policy decisions and resort to history arguments instead. While comparing Latvia with other Baltic States such scholars usually point out to basic macroeconomic data, but tend to omit the more profound research of international comparative evaluations. Just recently the World Economic Forum economic competitiveness index positioned Estonia as 33 most competitive economies, while Latvia had fallen to the 70th spot behind Iran and Russia. Latvia is gradually falling not only behind Estonia but now also behind Lithuania and Poland. History arguments are valid indeed but they are not the only truth in town. To ensure sustainability of the small and open democracy available resources must be used efficiently and strategic choices must be acceptable to the bulk of the society. When public finances are built on questionable grounds and rule of law does not operate it is clear sign that such democracy is illiberal. To overcome such shortcomes constitutional principles that would ensure the rule of law and transparent work of government must be implemented. The mistakes of Latvian founders in early 1990's can be fixed and trust of population regained not through mechanistic transposition of the EU governance principles, but first and foremost through the institutionalization of the rule of law. Such action would finally allow Latvian future governors have the hands on approach on the political and economic matters, propose thus needed policies for economic development and regain the trust of alienated populations.

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