Latvia's Transition to a Market Economy

Political Determinants of Economic Reform Policy

Marja Nissinen

Researcher VTT/Technical Research Centre of Finland Espoo Finland

Contents

List of Tables and Figures List of Abbreviations		V111 X
PA	RT I: THE RESEARCH QUESTION AND ITS	
	FOUNDATIONS	1
1	Introduction	3
2	The Political Sources of Economic Policy Choices	9
PA	RT II: THEORETICAL UNDERPINNINGS	15
3	Transitional Dilemma	17
	The Democratic Sustainability of Marketization	17
	The Friction Between Capitalism and Democracy	19
	Economic or Political Liberalization First?	26
	The Case for Authoritarianism	26
	A Critique of the Case for Authoritarianism	31
	The Case for Democracy	38
	Beyond Dichotomies and Toward Consensus	40
4	Radical and Gradualist Strategies for Reform	44
PA	RT III: SETTING THE RESEARCH TASK	53
PA	RT IV: EMPIRICAL CASE STUDY	59
5	Latvia's Transformation Strategy	61
	'Washington Consensus'-Type Standard Package	61
	1 Liberalization	63
	Price Liberalization	63
	Foreign Trade Liberalization	64
	Currency Convertibility	65
_	Foreign Direct Investment	65
7	Stabilization	68
	Monetary and Exchange Rate Policies	69
	Fiscal Policy	70

3	The Institutional Frame for a Market Economy	71
	Legal Reform	72
	Banking Reform	72
4	Restructuring	73
-	Industrial Restructuring	74
	Restructuring of Trade	77
6	Privatization	79
	Privatization as an Economic Phenomenon	79
	Characterization of the Privatization Strategy	81
	Comparative Typologization	87
	Privatization as a Political Process	91
	The Political Modification of the Strategy	92
	Controversial Privatizations	95
	Political Control over Privatization by Law	101
	Stakeholders and Nomenklatura Privatization	103
	Restitution – A Double-Edged Sword	105
7	Economic Programmes of the Political Parties	109
	The Union For Fatherland and Freedom	112
	The Latvian National Conservative Party (LNNK)	118
	The Christian Democratic Union	122
	The Farmers' Union	127
	Latvia's Way	130
	The People's Movement for Latvia (Siegerist Party)	136
	The Unity Party	144
	The Democratic Party Masters (Saimnieks)	146
	The Political Union of Economists (Tautsaimnieks)	150
	The National Harmony Party	153
	The Socialist Party	156
	The Social Democratic Party	161
8	The Political System and its Special Features	170
	The Main Axes of Political Conflict	170
	Socioeconomic Cleavage on an Issue Basis	172
	Consensual Topics	173
	Conflictual Topics	176
	Summary	187
	Evolution of the Party System	188
	Centre-Orientation Despite Fragmentation	197
	Corruptive Symbiosis of Business and Politics	201
	Intellectuals' Schizophrenic Attitude to Democracy	206

	Contents	vii
9	Ideologization of Economic Policies	210
10	The Nationality Question	216
	The Fallacy of Researchers	216
	A Heterogeneous Minority and its Divisions	217
	Peaceful Coexistence but Latent Tensions	223
	Citizenship and Political Attitudes	228
	Non-Citizens' League	236
	Identity and Loyalty	239
	Russian-Speaking Business	241
	Ethnic Cleavage in Party Politics	244
	The Decline of the Ethnic Cleavage	251
PA	RT V: POLITICS VERSUS MARKETS?	255
11	Political Constraints on Economic Reform	257
	Availability of Political Support	257
	Political Feedback	260
	Solid Ground but Minor Drawbacks	263
12	Reflection on the Theoretical Discussion	267
Notes		274
Bibliography		289
List of Interviewees		298
Index		300