

European Issue

n°193

7th february 2011from Sandra Kalniete,
MEP (EPP, LV)

Latvia after the Election of Parliament

SUMMARY The most recent general elections in Latvia took place on 2nd October last in an economically difficult context. The elections were won by the coalition "Unity", thereby strengthening outgoing Prime Minister Valdis Dombrovskis in his position as head of government. Appointed in 2008 by the President of the Republic after the resignation of the previous government Valdis Dombrovskis did however have to take particularly austere measures to avoid the collapse of the State which was heavily in debt with the international organisations. Qualified as "mature" by the European press the Latvian citizens' choice showed that it was possible to introduce draconian savings measures and yet win the elections.

But Valdis Dombrovskis's victory is also that of a politically educated, honest generation deemed not guilty of causing the ongoing economic crisis. It contrasts with that of the oligarchs, those wealthy politicians whose influential networks extend from major companies to political parties.

In addition to the issue of reducing or increasing public spending which structured the campaign between "Unity" and "For a Good Latvia" (PLL) there was also that of the pro-European or pro-Russian tropism of the two parties. The ethnic vote also played a role with "Harmony Centre" (SC) addressing the Russian speakers whilst "National Alliance" (NA) defended a "Latvian Latvia". Finally the Greens and Farmers Union (ZZS) led by an oligarch found support in the countryside and in the small towns.

The coalition of Unity and ZZS, with the support of the NA enjoys a political footing which guarantees the stability of any decisions taken and enables it to take Latvia towards membership of the Euro Area in 2014.

INTRODUCTION The election of parliament (*Saeima*) in Latvia on 2nd October 2010 took place in a context of deep economic crisis. This aspect makes it interesting for our partners in the other States of the European Union. Indeed the third quarter of 2010 revealed breaches in the Greek, Irish, Portuguese and Spanish economies. Painful, unpopular decisions were necessary to reduce deficits drastically and to stabilise financial situations. The threat of collapse spread to other euro States and possibly to the entire European Union.

Latvia's experience proves that it is possible to introduce draconian savings measures and also to win elections. This implies favourable factors: an innovative head of government who knows what to do and a public opinion which supports the government's deci-

sions in the name of the State's higher interests. Prime Minister Valdis Dombrovskis was brave enough to take the measures which his counterparts in other States will inevitably have to take in the very near future. The crisis in Latvia was quelled and the economy is growing again. The general elections in 2010 deserve analysis so that we can understand how, in a period when wages were reduced by a quarter and even a third and when unemployment rose to 20% the head of government managed to convince public opinion of the fairness of his policy. Valdis Dombrovskis achieved the best score giving him the opportunity to continue his stabilisation policy with a greater parliamentary majority than he had before the elections. MEPs told me of the admiration that Western Europe's leaders

Latvia after the Election of Parliament

have for Valdis Dombrovskis because of the courage and calm determination he showed when he took those vital measures to save Latvia from bankruptcy.

To understand the elections in Latvia not only does the pre-electoral period have to be deciphered but we also have to remember the political context that led Valdis Dombrovskis to be Prime Minister. He took office with a great sense of responsibility and abnegation. Neither he nor the experts could foresee the support that he would enjoy by becoming the most popular Prime Minister in Latvia has ever known with 77,000 [1], votes in his support, the best score ever in our electoral history.

A Review of Pre-Electoral Events

After joining the EU in 2004 Latvia experienced strong economic growth. Housing prices doubled in just a few years and the State received European Structural Funds. Latvians believed they could finally reach a level of prosperity of which they had always dreamt. But international experts were concerned by the developments which were not balanced; growing inflation and overheating of the economy. In the summer of 2007 although inflation was over 10% the government led by *Aigars Kalvītis* of the *People's Party (Tautas Partija) (TP)* did not heed the warnings of the Bank of Latvia and of the international institutions which were requesting the drafting and implementation of an anti-inflation plan to limit the overheating of the economy. In March 2008 when he was replaced by *Ivars Godmanis* (at present an MEP) of "*Latvia's First/Latvian Way (Latvijas pirmā partija / Latvijas ceļš) (LPP/LC)*", few observers imagined that the country would be on the brink of bankruptcy just six months later.

In the summer of 2008 inflation rose to 18% without the government taking the necessary steps to limit it. The housing market came to a halt, unemployment rose and the financial crisis in the US affected the Latvian banking sector which had developed a dangerous lending policy because it was too confident in the continued growth of the housing market. In October 2008 Parex the second biggest Latvian bank asked for State aid. Given the strategic role played by Parex in the Latvian banking system the government decided to take 51% of the shares in the bank. From 7th to 20th November 457.4 million more lats left the bank (as a

comparison the State's 2008 budget planned on revenues of 5.5 billion lats) and the State had to invest one additional billion to prevent the collapse of Parex which would have led to the collapse of the entire banking sector. The rescue emptied the State's coffers which forced the government to turn to international lenders (International Monetary Fund, European Union) to avoid insolvency. A loan of 7.5 billion € was granted on condition of the implementation of an economic stabilisation programme comprising a reduction of the State's budgetary deficit from 13% to 3% of the GDP. The Godmanis government decided on a radical reduction in public sector spending. Public opinion was shocked and having lost the support of his coalition partners the Godmanis government resigned.

The President of the Republic Valdis Zatlers chose 37 year-old Valdis Dombrovskis, former Finance Minister (2002-2004) to succeed him; at the time Mr Dombrovskis was an MEP for "*New Era (Jaunais Laiks, JL)*". The government worked day and night to draft a budget that would avoid the State's bankruptcy, maintain the lat in line with the euro and organise a painful "*internal devaluation*". He was obliged to decrease retirement pensions, wages in the public sector and State spending in all areas including public healthcare and education. In the third quarter of 2009 the GDP had contracted by 19.1% and unemployment totalled 20%. However Valdis Dombrovskis, believed to be the leader of a new political generation, educated, honest and not guilty of the ongoing economic crisis, continued to enjoy the confidence of public opinion. He explained clearly the absolute necessity of the measures taken for the economy and convinced public opinion of the fairness of government action.

The Stabilisation of the Parties

The 2010 elections heralded the stabilisation of Latvian political parties. The "*Civic Union*" (Pilsoniskā Savienība) and New Era (JL) (both affiliated to the European People's Party), which are part members of the Dombrovskis government started discussions to form a political alliance in view of the Saeima elections. They were joined by the "*Society for Other Politics*" (Sabiedrība citai politikai). Voters believed this desire to counter the dispersal of the political parties and to

1. The single list voting system makes it possible for voters to cross off names or attribute support to candidates. The total number of votes won by the list determines the number of seats; the total number of names crossed out or selected makes it possible to rank the MPs.

stabilise political life in a positive light. In 20 years of independence 14 governments have succeeded one another. The three parties mentioned above founded a political alliance under the name of "Unity" (Vienotība) and endorsed Valdis Dombrovskis as their candidate for the post of Prime Minister.

Latvia's First/Latvian Way (LPP/LC) and the People's Party (TP) also joined forces with them. These two parties whose popularity in the polls was extremely low maintained significant influence in the Saeima until the elections because of the number of MPs they had. Their decline in popularity was because some members of both parties had led the government and were directly responsible for the economic crisis and for the rise of corruption. The ideologies of the two parties differed: whilst the TP was a national conservative party, the LPP/LC was rather more mixed – rallying liberals and Christian democrats. However the way they both worked was similar: they were created to defend the economic interests of the local "oligarchs" and to dictate political agendas. The TPP is led by multi-millionaire and former Prime Minister Andris Šķēle, the LPP/LC by multi-millionaire Ainārs Šlesers who has occupied several strategic ministerial positions. Appointed for "A Good Latvia" (*Par labu Latviju*) » (PLL) their alliance enjoyed the support of many millionaires in Latvia who hoped that the PLL would limit the impact of the economic crisis on their companies. We must add that some of them had built their capital from public procurement, the attribution of which was extremely biased – this led to bitter criticism on the part of experts and the public alike. From this point of view the candidature of former President of the Republic, Guntis Ulmanis as head of the PLL was a great surprise since he was highly critical of the policy undertaken by the two oligarchs with whom he was going to form an alliance.

Finally the old national conservative party For Fatherland and Freedom/LNNK (Tēvzemei un Brīvībai/LNNK) joined forces with the radical national party "All for Latvia!" (Visu Latvijai) (VL) under the name of "National Alliance" (Nacionālo apvienību) (NA). The ideology of these two parties is close but VL is a young party without any parliamentary experience fond of issuing populist declarations. Their joint candidate to lead the government was MEP Roberts Zile who had already headed several ministries.

The "Harmony Centre" (Saskaņas Centrs) (SC) already has seats in Parliament as an alliance of parties and it was strengthened before the elections. The SC's electorate mainly comprises the community of Russian speaking citizens of Latvia.

Prior to the election Valdis Dombrovskis's government already had the support of the Green and Farmers Union (Zaļo un Zemnieku savienība) (ZZS) which rallies three parties. The ZZS's electorate is to be found in the countryside and in small towns. The party is led by multi-millionaire Aivars Lembergs, the Mayor of the wealthy port of Ventspils.

The Oligarchs in Latvian Politics

To understand the particular features of Latvian political life the role played by the oligarchs has to be taken into account. Similar problems exist in several other Member States that recently joined the EU. It is important to note that the influence of the oligarchs is declining and the media have identified three "oligarchs" who each control and take part in political decision making in Latvia.

After the last elections the Mayor of Ventspils, Aivars Lembergs retained his influence. However he has never been responsible for a ministry nor has he occupied a seat in the Saeima. In fact his influence comes from his party, the ZZS. He has been accused of crimes and was imprisoned in 2007 for four months and was then under house arrest for several months. This has not prevented him from being one of the most popular politicians in Latvia. The Mayor of Ventspils for the last twenty years he has become a multi-millionaire. There is proof that Aivars Lembergs has indirect control over several major companies including Neatkarīgā Rīta Avīze (The Daily Morning Independent). Aivars Lembergs bitterly criticises liberal values accusing a network of "sorosists" [2], of threatening national interests and pretending that Latvia's cooperation with the Western States is not beneficial.

Ainārs Šlesers is the second of these oligarchs in terms of the influence he has. He has built his fortune in real-estate. Economy Minister at 28 and Communications Minister for many years he appointed people to key jobs, creating a network of "friends" on company boards and in the management of State owned com-

2. The term "sorosist" is formed using the name of the American multi-millionaire George Soros. Here we should understand that it is a synonym for "cosmopolitan".

Latvia after the Election of Parliament

panies. Ainārs Šlesers stands as someone who owes everything to his success as an entrepreneur to himself. His behaviour and his manners have earned him the nickname of “*bulldozer*”. His means to influence is via the LPP/LC.

The third “*oligarch*” and leader of the TP is Andris Šķēle, who has been Prime Minister three times. Just like Lembergs and Šlesers, he accumulated one of Latvia’s greatest fortunes in rather troubled circumstances. However in the 1990’s at the beginning of his political career he was relatively popular and enjoyed a good reputation which enabled him to lead the TP to victory in the elections of 1998. But in 2010 scandals linked to his name and his policy of the appropriation of State property have made him the most unpopular politician.

The loss of influence by Andris Šķēle and Ainārs Šlesers after the elections has brought a new player into the arena: Juris Savickis, Chairman of ITERA Latvija, a branch of Gazprom and former member of the USSR’s foreign spy network. In the past ITERA Latvija served Gazprom’s interests more discretely by working in the background with the elites of the parties in power, especially the TP and the LPP/LC guaranteeing them advantageous deals in the area of energy. Since Valdis Dombrovskis does not want to worsen energy dependency with regard to Russia ITERA Latvija now has to find new political support and influential agents who support Gazprom’s interests in Latvia. There very well could be attempts to destabilise the Dombrovskis government and to replace it with more understanding partners.

The Parties’ Programmes

In Latvia there were 80 officially registered parties but only 13 lists were presented to Parliament including five which hoped to win seats. We should look at the programmes of these parties.

The main points of Unity’s programme focused on the creation of jobs, social and fiscal justice, honest competition and education. In terms of foreign policy Unity suggested Latvia’s continued trend towards the West by stepping up EU and NATO integration. The former head of the Office for the Prevention and Repression of Corruption (KNAB) Aleksandrs Loskutovs was well placed on the Unity list emphasising his fight against

corruption and the promotion of honest politics. Unity supported the need to continue work with international creditors and the reforms – even though they were extremely painful – to improve the economic situation and to guarantee stable growth.

For a Good Latvia (PLL) stood as the party of entrepreneurs and manufacturers which promised to earn money and free Latvia from the yoke of the “*financial occupants*”. The programme emphasised free quality education, low taxes, high pensions and a foreign policy directed towards interesting partners in the East. In this latter area the PLL committed to improving relations with Russia and other States of the CIS, so that entrepreneurs could access these markets. In terms of the economy the PLL leaders criticised collaboration with international creditors and maintained they could either change the conditions of the loan or give it up completely. The PLL promised to reduce taxes to stimulate the economy and fill up the State’s coffers.

The “*Greens and Farmers Union (Zaļo un Zemnieku savienība) (ZZS)*”, whose motto was “*Master without Land*” appointed the Mayor of Ventspils as its candidate for Prime Minister – a man who had been accused of serious crimes. With regard to the national economy the ZZS wanted to reduce bureaucracy, make the tax system fairer, update long term agricultural and rural development strategies. In the social area the ZZS promised to maintain retirement pensions at the current level guarantee quality medical care in the regions and establish the surveillance of children in schools in their free time. The ZZS also insisted on improving the quality of education via various reforms. In terms of foreign policy it wanted greater integration in international organisations. This was however in contradiction with the critical line adopted by their candidate for Prime Minister as far as Latvia’s participation in NATO was concerned. The ZZS also asked for the rapid withdrawal of Latvian troops from Afghanistan.

In its programme National Alliance (Nacionālo apvienību) (NA) mainly focused its attention on the formation of a “*Latvian Latvia*”. NA promised to limit immigration, to reserve jobs for Latvians in times of unemployment. In terms of the economy NA said it wanted to work with the international creditors and undertake vital reforms. As far as foreign policy was

concerned it proposed to enhance defence capabilities and to develop NATO's military presence in Latvia. With this goal in mind several NA representatives invited the US and NATO to establish strategic posts in Latvia.

During the entire electoral campaign, Harmony Centre (Saskaņas Centrs) (HC) led in the polls and political experts forecast that HC would win the most votes. Their programme said that their electoral victory would save the State from bankruptcy, humiliation and wild capitalism; it would also lead to the creation of a socially responsible economy via the appointment of a government of professional ministers who were independent of any party ties. HC severely criticised working with international creditors and suggested an end be put to this. The representative of the HC's shadow cabinet criticised the banks for their policy in Latvia and threatened to nationalise them to "*put an end to their oligarchy*". In terms of foreign policy HC privileged wider cooperation with Russia to stabilise new growth. Some HC members said it was in favour of NATO's and the EU's withdrawal but without this featuring in the electoral programme. Its electorate comprised mainly Russian-speaking citizens and the HC asked for Russian to become an official language and for "*non-citizens*" to be made Latvian citizens. Most politicians in HC have never acknowledged that there was a Soviet occupation of Latvia.

When analysing these electoral promises it must be admitted that populism featured in all of the programmes to a certain extent. But the PLL's proposals made economic experts laugh rather loudly – since its proposals swung from far right to far left ideas. We should not forget that PLL's politicians were in power between 2004-2009 and are directly responsible for the present crisis. The least populist programmes were those of Unity and NA. During debate politicians from both electoral alliances kept their sense of reality without promising the impossible; they insisted on the measures to take to avoid another crisis and reduce unemployment. After the elections ZZS relinquished a majority of its populist promises.

The Electoral Campaign

The electoral campaign started late and was not as vigorous as the previous ones. This was because of the

economic crisis and the financial means available to most parties to pay for exorbitant TV ads. The law sets a cap of 800,000€ on each party's adverts. Since the PLL had greater official and hidden means – it had the highest profile on the TV. HC which benefited from wide publicity in the Russian-speaking media was practically absent from the Latvian speaking channels.

Aware of Valdis Dombrovskis's popularity Unity targeted debates on the competition for the position of the Prime Minister – other candidates were: A. Šlesers (PLL), A. Lembergs (ZZS), R. Zīle (NA) and J. Urbanovičs (HC). Debates mainly focused on austerity measures, the economy, the creation of jobs, taxes and retirement pensions. The candidates for Prime Minister crossed swords more than once over these issues.

Unfortunately 20 years after the restoration of independence the electorate continues to vote according to ethnic origins. Work by the parties to diminish communautarism has been in vain. Unity, NA and the ZZS focused mainly on the Latvian electorate. Unity and NA believe that Latvian society should develop on the basis of a State language and communicate with the Russian-speakers mainly in Latvian. Simultaneously HC employs Russian with the Russian-speaking community. For its part PLL uses Latvian with the Latvians and Russian with the Russian-speakers.

This electoral campaign amazingly witnessed very few outbursts and very little slander and can be considered as having been correct. We might say that towards the end of the campaign there was a PLL advert in support of A. Šlesers, that maintained that if Valdis Dombrovskis remained in power pensions would be reduced and taxes increased. Two books by the investigative journalist Lato Lapsa were also published with regard to rather sleazy affairs involving A. Šlesers and A. Lembergs.

Much was said about the survey undertaken by Unity offering to choose the future Prime Minister between V. Dombrovskis and J. Urbanoviču of HC. At the beginning of the survey declared that HC and Unity were in the lead. The aim was to provide additional arguments to the President of the Republic in his choice after the election with regard to the person who would form the next government.

The Election Results and the Formation of a Majority

Turnout in the elections totalled 62.62% of the electorate. This turnout can then be considered satisfactory. Up until the last day the result was uncertain. Polls forecast HC as the winner; observers announcing its electoral victory imagined that it might take part in government for the very first time. Unity was due follow HC. However after the closure of the polling stations estimates granted a better score to the Prime Minister's "Unity".

In the end Unity has 33 MPs out of 100 seats which is the second best result achieved by the party since the restoration of independence. HC has 29 seats and ZZS 22. In fourth position came NA with 8 seats and fifth PLL supported by the multi-millionaires also with 8 seats. In the two previous elections the total of the two parties in the present PLL totalled 33 seats. The electorate punished the politicians of the PLL for their activities over the last few years and for the mistakes that had led the State almost to bankruptcy. From 2000 to 2010 members of the PLL alliance had occupied the position of Finance Minister for eight years and that of Prime Minister for seven. This result was a great disappointment for the parties in power particularly for the entrepreneurs who had widely supported the PLL's campaign.

The results clearly indicated that Valdis Dombrovskis and Unity (Vienotība) should form the new government. During the campaign Unity announced that ZZS and NA would be their privileged partners. Both of these parties were already in the coalition that had approved the unpopular budgetary measures. Valdis Dombrovskis started consultations with HC for government collaboration according to the following conditions: HC's approval of work with international creditors, the agreement stipulated that Latvian would remain the only national language, acknowledgement of the Russian occupation of Latvia, and finally HC's support of greater integration into the EU and NATO. Since it refused to fall in line with these demands HC relinquished participation in the government coalition. The following stage was the negotiations with the ZZA and NA. Finally the government was built on a coalition between Vienotība and the ZZS. The total number of MPs was 55 with the additional support of 8 NA MPs which gua-

rantees the stability of decisions.

Latvia is a parliamentary democracy and the Saeima, parliament, endorses the government and elected the President of the Republic. The President represents Latvia internationally, chooses and appoints the Prime Minister which the Saeima then approves. Although the President is free to choose he does take the real balance of power in the Saeima into account. President V. Zatlers, after consulting with all parties represented in parliament invited V. Dombrovskis to form the government.

Future Challenges

Latvia still has to rise to serious challenges. To achieve its main goal i.e. joining the Euro Area in 2014 it has to continue fiscal consolidation and structural reform. In line with the agreement between Latvia and the European Commission the budgetary deficit 2011 must fall below 6% of the GDP and that of 2012 must be below 3%, at the levels defined by the Maastricht criteria. This may imply the reform of the social security and retirement systems. These will also be politically difficult measures to take. Pensions have been maintained until now but they are not guaranteed long term. Public health and higher education have to be rationalised and made more effective. These reforms which affect many political interests will certainly encounter resistance and inertia. The same applies to the payment of taxes, the reduction of the grey economy and the introduction of a progressive taxation system. The next test of political maturity will be the election of the President of the Republic by the Saeima in June 2011. The stabilisation of relations with Russia will imply a re-adjustment of pragmatic economic relations with the maintenance of total political independence.

Cautious optimism seems to be justified so that the Dombrovskis government can succeed, step by step, settling problems whilst maintaining social and political stability and continuing to undertake vital reform. I am convinced that in 2012 Latvia will be able to meet the Maastricht criteria and also qualify to join the Euro Area. In 20 years we have made enormous progress, modernising the State and society. Of course there have been errors in Latvian policy and like elsewhere there are some dishonest players. But in all the results achieved in the restoration of the State are honourable.



Auteur : Sandra Kalniete

is an MEP (EPP, LV) after having been Latvian Foreign Minister, European Commissioner and Ambassador of Latvia in France.

[See her biography on the European Parliament's site](#)

07

Latvia's leader have clearly shown to their colleagues in Europe and the world that it is possible to implement vital measures, even unpopular ones, and at the same time retain the electorate's confidence to be able to continue working. We cannot disappoint that confidence.

THE FOUNDATION'S LATEST PUBLICATIONS

The European Citizens' Initiative: not such a good idea?

European Issue n°192 - 31/01/2011 - Jean-Luc Sauron

General Elections in Ireland - 25th February 2011 - Analysis

Going Nuclear in the Middle East - Information mission from M. Jean FRANÇOIS-PONCET et Mrs Monique CERISIER-ben GUIGA - 25th september 2009

You can read all of our publications on our site:

www.robert-schuman.eu

Publishing Director: Pascale JOANNIN

THE FONDATION ROBERT SCHUMAN, created in 1991 and acknowledged by State decree in 1992, is the main French research centre on Europe. It develops research on the European Union and its policies and promotes the content of these in France , Europe and abroad. It encourages, enriches and stimulates European debate thanks to its research, publications and the organisation of conferences. The Foundation is presided over by Mr. Jean-Dominique Giuliani.