

SUSTAINABLE DEVELOPMENT OF THE BALTIC STATES (1991 – 2010)

Stanislav BUKA

Baltic International Academy, Riga, Latvia
stanislavs.buka@bsa.edu.lv

Abstract

The problems of transfer of the microeconomic decisions taken by the International banks at the level of macroeconomics of the Baltic States and problems of the economic policies forming are considered. The threats of such transfer for the economic and political system of the Baltic States are investigated. It has been shown that in the transformable economics a leading role is played by the psychoeconomic and psychopolitical factors. A factor of a “responsible feedback” in forming of the economical and social provisions of programmes of the political parties is analyzed.

Keywords: sustainable development, microeconomic decision, macroeconomics, crisis, market economy.

JEL Classification: O₁₂, O₁₆, Q₅₆.

A development of the economics of Latvia after 1990 in many aspects confirms one of the conclusions of the evolutionist G. Hadgson (1994, p. 98) that, “in an economic context the evolutionary processes do not necessarily lead to optimal results”. During transformation from a command economic system and mono political system to an open market multi party system, it has been a priori considered as an evolution in a positive (“correct”) direction.

It has been assumed that since a market economy refers to a class of the self-developing systems then it will be able to find a right way of development itself. Such moods have been ruling also in the issues of a “multi party construction”, it has been considered that a multi party system ensures an optimal decision-making in the economic, financial and social policies of the country. However, at that, it has been missed that a market economy is an unstable, disequilibrium system by definition and it develops through deviations, i.e. through phases of raise and crisis and these are its weak and strong sides. These are the qualitative characteristics of a market economy based on competition and following from it, and a duration of one or another phase of a replenishment cycle or value of growth (depth of

recession) expressing the quantitative economic characteristics do not change anything in the principles of its functioning. At the same time they are signalling about opportunities of an economy and a government or requirements to a controlling authority, showing how many controlling economic or legal impulses on behalf of the state are needed and to what spheres of a social and economic life they should be directed. And, since it was allowed, although unreasonable, not to take into account the principal, qualitative characteristics of the market economy at this stage of destruction of an old (social) system for it meant a method of a total destruction because there were ruling the political methods of the economic system transformation called a “shock therapy” though it was better to call them a “shock” surgery. However, at the second stage (because it was impossible to combine attempts of synchronizing the destruction processes of the command economy and a creation of the market environment without serious social losses), from the middle of the first decade of the XXI century ignoring some of these characteristics speaks about a poor professionalism of those politicians, consultants, economists of the EU and USA who are performing this transformation, and, reasoning from the achieved results it must be acknowledged. The threats of adoption of the economic and political models of the “developed” capitalism that has almost three hundred years of an experience in developing and managing have not been taken into account even though this experience belongs to a fully self-adjustable economic system like it is in the USA for almost “zero phase” of the market economy construction in such countries as Latvia.

During 5 recent years similar threats and “possible problems” have been ignored while adopting the schemes of mortgage and consumer crediting and also opportunities of the EU funds assimilation to the Baltic States via the daughter structures by banking and financial structures. A considerable role at the first and second stages belongs to the psychoeconomic and psychopolitical factors. At the first stage - a psychology of winners of socialism and, at the second stage - euphoria of business and population that is quite explainable after decades of social privations and by the high rates of development of economics in the middle of the first decade and an extrapolation of these rates. This euphoria had also gripped governments that started treating irresponsibly to spending budget means, to an expansion of a bureaucratic apparatus, and to a support of the grandiose projects at all levels. Besides, it turned to be that inertia of the system was so great that even when the signs of an economic crisis were increasing, the policy based only on an extrapolation of the results of the previous 3-4 years was continuing to be realized.

The governmental forecasts in many aspects have relied on forecasts of the banking analysts, who, in their turn, have presented the average European levels as reference points, for example, prices for estate property. A trust to forecasts of the Swedish banks has given a

confidence in tomorrow to population, but it has not been based on an actual state of economy, and it has been formed by the accessible banking credits and easy money from the European funds and also by a deficit of man power in the inner labour market.

It is generally accepted that the methods of microeconomic controlling in activity of not only small and medium companies, but also the regional level companies are directed towards an optimization of the available business environment and maximilization of the economic result of their activity. Such microeconomic decisions, first of all, of very large foreign banks, were a part of the national economic policy or they were forming it de-facto as a forced measure for bringing a system character to consequences of decisions taken at the level of large companies. Without taking such decisions as the elements of the national economic policy, a threat of the spontaneous distribution of both economic methods themselves and also their consequences to a considerable part of the economic systems of the country and even their “export” within the frames of the open market economic systems to other countries of similar (or close) size and with the same “inborn defects” of their economics. For example, this is going on in the economics of the Baltic States that are almost the same by sizes of their economics, they have left the centrally planned economic systems, and also transfer of microeconomic decisions to a macro level has happened actually from the same sources – the Scandinavian and German banks.

Theoretical threats of such application of microeconomic parameters to the circumstances of the general economic importance and to the incorrect assessments of the micro- and macro economics subjects` behaviour are very well known and described in the scientific literature.

However, it seems, it is the first time when we face such a massive example of an “erroneous derivation of generalization” that has touched not only a separate area of economics in a certain country but that has led to a system crisis in a number of the EU countries.

And there is a question - why didn't the given inter level transfer localize at least within the frames of one country?

Efficiency and sensitivity to taking into account a position of business community and social partners during making changes in the normative documentation have played a critical role already at the macroeconomic level and have defined differences in the depth of the economic crisis and speed of its overcoming.

There a government has acted as an amplifier (multiplier) of the inter level economic decisions and consequences (micro => macro, region => country, country => international region). It refers both to positive and negative consequences. A government, in the face of its

financial and economic structures, has obtained an opportunity to include these consequences in the part of the economic policy by transferring from “de facto” state to “de jure” state.

Differences in correction of the economic policies influence not only consumers but also the outer investors, at that, not only the potential ones but those already working in the Baltic States. So, questioning about a degree of attractiveness of the Central and Eastern Europe countries for the German entrepreneurs that was conducted in April 2010 by the German-Baltic Chamber takes into account these differences and their consequences quite precisely.

For Latvia, during the assessment of the economic situation, an overwhelming majority of the interrogated persons - 83% evaluates its as bad, 17%- as satisfactory and 0 % - as good. For Lithuania it is correspondingly 4%, 33% and 63%. Estonia occupies the 2nd place of 21 countries included in the questioning with index 2,5 letting forward only Germany, and the economic situation assessment is as follows: 43%- bad, 54%- satisfactory and 4%- good. Romania occupies only the 15th place with index 4,0 (Telegraph, 28.04.2010).

As a practice of the recent years has shown, with the “excellent students” countries that fulfil all requirements and rules (regulations) of the EU thoroughly, for example Latvia, and with the countries that interpret a necessity to control the given macroeconomic parameters quite freely (as it has been found out, to such countries Greece, Ireland, Portugal refer), the consequences concerning their readiness to a possible crisis and ways of its overcoming turned to be the same. It seems that at the level of a number of countries that include governments, business, trade unions, population participating in this process in a totality, the conclusions, or more precisely, the assumptions and conclusions operating at the micro level say that people are impatient and a stake that they use to discount a future is decreasing in time. It is called a “present bias” - a shift of preferences in favour of the present. It is revealed, for example, in the fact that when choosing between consumption and savings a preference (a choice) is given to consumption (Suvorov, A., 2009, p. 59-66). The given conclusions of the behavioural economics are confirmed at the macroeconomic and even at the global levels not only in the pre-crisis period, but during the crisis itself.

The psychologist D. Kahneman, the 2002 Nobel Prize laureate in Economics, when investigating behaviour of the representatives of business community and groups of consumers, has distinguished two levels of thinking. To our opinion it is more precise to consider them as types of thinking, because their use by people does not mean different levels and an obligatory transfer from one (lower) level to another (higher) level. The given types of thinking may be one-level, but also their combination in separate decisions-making is possible. A version when depending on a size of, for example, economic system, one or another type of thinking is used also is possible. Especially distinctly, such duality appears during a cooperative decision-making, for example, at the governmental and legislative levels.

“System 1” is an instinctive and intuitive level (type). There it concerns thoughts that come in a head spontaneously, and unconscious reactions, conditioned reflexes, and the “autopilot” behaviour. Of course, related to the economic decisions at the macroeconomic level, it is hardly possible to speak about the conditioned “economic reflexes”, because their development assumes a frequent repetition, and what is important, the results of such activities and also their consequences must be similar. The assertion is true that people transfer their experience of the consumer decisions-making at the individual level already perfected up to an automatic performance to the level of the macroeconomic decisions-making, or, in better case, at the level of the macroeconomic systems. The world experience shows that politicians’ decision-making at the national economic level takes place mainly at the level of “System 1”.

The second level of thinking distinguished by D. Kahneman is “System 2” that possesses a number of advantages in many cases, especially at the macroeconomic systems level, still does not allow avoiding errors. “System 2” is a level (type) of a clear linear, logical thinking that does not depend on emotions that demand efforts and attention.

Schumacker P. the Director of the Wharton Business School (University of Pennsylvania), and R. Gunther suggest to take into account the “third level” of thinking – “System 3” that is the “level of reflection on thinking” and critical analysis of conclusions that allows avoiding incorrect conclusions when their making is based on the false initial premises (Schumacker P., Gunther R., 2006, p. 63) .

The “syndrome of the eldest brother” brings in a serious correction in a combination of methods “System 1, 2 and 3”, and even more so, in their correlation at the national level, i.e. the “autopilot” decisions-making resulting from instincts and experience of either separate “old” EU states that have been taken as an example for imitation and adoption of a development model in the given country, or the EU in a whole. In the short-term period it allows decision-making in any branch without efforts done for performing the analysis of peculiarities of the development of a country and the economic policies system creation taking into account its possibilities and limitations. For example, in Latvia it has practically led to an absence of the balanced and predictable national economic policy. An adoption of separate blocks and elements of the economic policy of other countries or the unitized provisions and decisions of the EU oriented, first of all, to the long ago formed market economics of the “old” EU states, leads to the unpredictable consequences in the “new” EU states.

Transformable economy often does not react in the expected way and absolutely not in the way it has done in the countries from which the methods and managerial impulses have been adopted. Unlike the predictable reactions in the economic flatness in a parent country of

the adopted model, in the recipient country the reactions not only influence the economic sphere (a considerable expansion of a “grey” sector of economics and a jump growth of the illicit goods), but they also lead to an expansion of a general system of corruption constituent of the society life and migration flows from the country.

Unfortunately, in reality, after elections or after a creation of a governmental coalition, nobody bears the responsibility for fulfilment of the pre-election promises or items of the governmental declaration, and within the period before the next elections the political landscape changes so much that nobody recalls the given promises, and what maximum is really evaluated are the results of decisions for the recent 1-2 years or even the recent months. Electors and organizations expressing interests of the social and professional groups also do not fulfil functions that are the integral elements of a democratic society – a “responsible (positive or negative) feedback”. An absence of such responsible feedback at the national level leads to an actual lack of necessity for the ruling parties to develop a long-time economic policy, because there is an opportunity to pose it as a realization of the EU directives, and, in terms of the economic crisis, also as the requirements of the IMF for the countries that have received credits from the IMF and other organizations.

At the same time it is the world economic crisis that has led to a “spontaneous” reestablishment of a responsible feedback unexpected for the ruling parties in the form of a popular voting during the presidential elections in Lithuania or in the form of a protest voting during the municipal elections in Latvia. Is it a beginning of creation of the responsible feedback system or is it a single “short circuit” of a cycle of elections in the nearest 3-5 years? In any case, for these countries an interest to the socio-economic provisions of the party programmes is increasing, and, perhaps, for the first time, the opposition parties will have a chance to attract electors and organizations presenting various collective interests. It should activate a building of models of the average and long-term economic policy that will take into account not only a development of the EU, but also the national and regional interests expressed in the fight for electors` votes.

In case a responsible feedback will not become a natural and obligatory element of functioning of the political and economic systems of these countries, they take the risk of facing a tendency of regionalization, at that, not from the point of view of a fight for a political autonomy and independency of regions including a governmental independency, but, first of all, the economic regionalization.

The “Europe of the Regions” concept gives and stimulates opportunities of the direct economic liaisons with Brussels and other EU states and also of a fight at the national level for the directly given EU resources. A special interest to such direct liaisons will be expressed by the self-governments where representatives of the opposition parties that are not included

in the ruling coalition of parties have won in the local elections. First, they cannot take account for the “special relations” and financial support from a capital city like the party fellows of the ruling parties. Second, they consider, and in a number of cases it is reasonable, that to obtain even the foreseen for them means from the EU funds when their administrating is performed by the governmental structures is more complicated that directly from Brussels.

The “new” members of the EU from the former Soviet block represent an unusual political and economic phenomenon. In spite of the fact that they are independent states for 20 years with all formal and major real signs of an open market economics, many of their decisions in the economic policy have a kind of an imprint of the past methods and ways of decisions-making and an absence of the economic ethics.

It is necessary to answer a question whether this imprint is a result of a real “post traumatic social syndrome” that forces to take decisions with anxiety and fear that “it should not be associated with the social goals, ideas and projects”. Or, possibly, it is a part of the Eastern economic neoliberalism based not just on the economic regularities of a social market economy, but on a priority of the political goals of the period of transformation of economics and society in these countries at the end of the XX century.

Clearly expressed internal politics priorities in the programmes of parties participating in elections might be considered as the signs of the fact that in a number of countries the economic policy that reflects and expresses the interest both of all members of the society and separate economic and socially active groups is not realized. Socio-economic provisions of these programmes are not only on the second place for parties themselves and sponsors, but also for electors, for which they are not taken into account too as the criteria of the principle differences of one party from another. It unties hands of the parties and governmental coalitions formed not on the principles of the average or long-term economic policy, but on the unity by the historical, national, language signs, and the attitude to one or another country.

Actually, it is just a world economic crisis that possibly will “open eyes” of the subjects of a political and economic life to the importance of the average and long-term goals of an economic policy and to the necessity of an active personal participation in forming of these goals and the politicians’ responsibility for their realization.

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