

THE CHALLENGES FACED BY THE JEAN MONNET PROGRAMME IN LATVIA IN THE LIGHT OF THE CRISIS

Professor Dr. Tatjana Muravska, Jean Monnet Chair
Director, Centre for European and Transition Studies
University of Latvia
President, Latvian European Community Studies Association

As the previous speakers highlighted the importance of the Jean Monnet Programme in strengthening education and research in Europe and in the world, let me give you the perspective of the programme from Latvia as a small economy, a country that belongs to a group of a New Member States and which is experiencing currently, with a number of other EU countries, very serious financial, economic and social problems.

When Latvia expressed its wish to become a member of the European Union, the Jean Monnet Programme was of unique value in allowing Latvian scholars to begin a dialogue with their counterparts in different countries on common and fundamental issues for integration before accession to the EU. In the lead-up to this accession and after becoming a member of the EU, Latvia had shown positive and strong economic development until mid 2008 with the most impressive growth rate among the New Member States which was also the fastest in the EU up to recently with a GDP growth more than 10% per year during 2004-2007 due to structural reforms, FDI and the availability of EU structural funds. Latvia has followed an ambition reform strategy in recent years after the EU accession based on twin pillars of fiscal consolidation and structural reform. Overall, Latvia's high growth rates in GDP resulted from the First-generation reforms, which helped establish strong macroeconomic fundamentals. Convergence in indicators of standard of living was attributed to the second-generation reforms started with the prospects of EU enlargement and continued since. Convergence was viewed in two ways: as the outcome of EU integration, but it is also as a precondition to it, as each country had to reach a certain level of development before becoming a member of the European Union. Latvia's National Development Plan 2007-2013 put the emphasis on the development of knowledge-based industries to complement the traditional industries with such sectors as biotechnology, timber chemistry and pharmaceuticals, all of which require advanced technology, and highly qualified manpower.

Latvia has been generally following a set of monetary and fiscal policies in line with the requirements of the international financial institutions. Free convertibility and a liberal foreign exchange policy have secured competitiveness on the foreign exchange market. The national currency (LVL) was pegged to the SDR and changed to a Euro peg¹ after accession to the EU. Exchange rate pegs in Latvia have provided currency stability and significant progress with disinflation. However, when the exchange

¹ Since the beginning of 1994 when the Latvian currency was pegged to the SDR, the unit of accounting of the Internationally Monetary Fund (1 XDR = 0.7997 LVL). The Bank of Latvia on December 30, 2004, has fixed the peg rate of the lats and the euro at 1 EUR = 0.702804 LVL, which took effect on January 1, 2005 in line with the government approved plan for Latvia's preparation for full-fledged membership in the Economic and Monetary Union (EMU). Bank of Latvia <http://www.bank.lv/eng/main/all/monpolicy/ls-euro/cmp1/>

rate is fixed, the burden of adjustment in response to external shocks, or shifts in relative competitiveness, falls elsewhere on the economy. To the extent that prices or wages are not flexible enough, the real economy has to adjust. As a result of comparatively stable and liberal economic policies, the Latvian economy had been successful in attracting foreign direct investments² which have had a positive influence on the rapid economic development. When the financial crisis hit, Latvia suffered an exceptional slump. GDP fell and continues to fall, unemployment has increased and exports to the EU have decelerated. The current economic crisis in Latvia represents major threats for the further development of the country. Capital outflows are taking place and the country's economy is facing a new wave of emigration and "brain drain".

Currently the European economy in particular and European integration in general, are experiencing hard times. In the past similar downturned resulted in a period in European integration history that was called as "eurosclerosis", when protectionism tendencies dominated and integration was not developing further. There is a danger of the same tendency to be repeated and we should do our utmost to avoid this repetition.

In the coming years Latvia is facing economic downturn, through unstable financial sector situation, crash of real estate markets, fall in production and growing unemployment. However, international experience shows that economic growth not always has been a symptom of economic overheating. So called "overheating" of the Latvian economy was and continued to be discussed by experts. Still, no forecasts have been made for such deep downturn as in Latvia and the other Baltic States are experiencing now. Overall, it is very difficult to produce serious statements in a situation of flux.

In the pre-accession to the EU period different Jean Monnet grant schemes have been launched in Latvia. This was a starting point for an interdisciplinary approach to education, theoretical and applied research on the themes related to European integration. The Programme was helpful in the development of the human capital as an essential priority. One of the dimensions was training civil servants during the accession process. This took a long time to be achieved and preservation of the human capital is essential.

We, in Latvia, consider of great importance to involve young people: masters and doctoral students, in discussions on issues, which are of vital importance to all of us. We often hold these discussions within the framework of the Jean Monnet programme, which spirit encourages constructive and provocative discussions, exchange of views and experiences. At the same time, I strongly believed that at present, more than ever, stable economic and financial development, and the concept of a single market correspond to one of the key areas supported by the Jean Monnet Programme.

² Foreign investors get national treatment, and they are free to engage in any activity, convert and transfer their earnings. Companies established before 1995 received 4-8 years tax holidays. Since 2001, large investments – both domestic and foreign – are eligible for corporate income tax holiday of up to 40 percent of the invested amount, in line with the limit set by EU competition rules. Companies manufacturing high-tech products enjoy a tax holiday of 30 percent of the investment; in the case of small and medium-sized enterprises it amounts to 20 percent. The corporate income tax rate has fallen gradually, reaching 15 percent in 2004. The withholding tax on dividends amounts to 10 percent.

In this currently difficult period for Latvia, we teach our students that the economic crisis has a key feature- by definition it will be over and it is imperative to be prepared for a new upturn when it comes. To be ready means that we have to understand the following: despite the fact that economic recession has similarities in many European countries, the territorial distribution of the crisis varies greatly. In relation to this phenomenon is a set of questions – the answers to which are essential for our understanding on how to cope with the given situation: we have to assess the territorial distribution of the business cycles and suggest effective economic and regional policies.

It is finally also important to know if this is a crisis of the periphery for some territories or a periphery of the crisis? The consequences of the crisis could have long-lasting depressing effects, especially in the areas of human activities, which depend on state support such as health, education and research. There is also a serious risk that the lack of knowledge accumulation will further increase the pre-existing gap between industrially developed and less developed regions and countries in Europe. The gap could widen and the task of real convergence that was in the agenda, for most of the New Member states will not be reached not only in the short but also neither in the long run. The restoration of the human capital in the post crisis- reconstruction will take a long time and will be very costly. The question is how much time and effort will be required to reconstruct the human capital once it has been dispersed?

It is necessary to reassess the role of the government and good governance. Solidarity is one of the fundamentals of the European integration, and very often this is the only opportunity to get economies of the Union out of the recession, to maintain financial stability and keep the broad benefits of the common market, such as, for example, free movement of labour.

A stable economy is essential for the EU and in turns a key part of the EU's role in the changing world. It is a known fact that crisis and scandals in the field of health care, for example, lead to increased European Community competence for the benefit of people. At the moment, there should be growing confidence that education and research as areas of European Community competence will exit the crisis stronger than ever before, using the momentum of the 2009 European Union Year of innovation and creativity as a stepping-stone. There is an imperative need to maintain the long-term goals of the education and research responding to economic and social challenges. Support from the Cohesion, Regional and Social Funds is essential to foster deeper integration of national economies, which is the only way to create the potential for economic growth and human development throughout the European Union.

We must remember what we have achieved in Europe as the result of the enlargement of the Union, but we must also look at the future, and offer policies relevant for today, and tomorrow's Europeans.