

# LATVIAN ECONOMY IN THE SHADOW OF PANDEMIC AND OPPORTUNITIES OF THE POST-CRISIS RECOVERY

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***Latvijas tautsaimniecība pandēmijas ēnā un pēckrīzes izrāviena iespējas (Latvian Economy in the Shadow of Pandemic and Opportunities of the Post-crisis Recovery).***

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*This article is a review of the collective monograph *Latvian Economy in the Shadow of Pandemic and Opportunities of the Post-crisis Recovery* (in Latvian). This book is a result of the nine-month research project, gathering a multidisciplinary team of 80 economists, lawyers, political scientists, and sociologists to investigate the impact of COVID-19 pandemics on the Latvian economy, as well as to identify challenges of recovery from different angles and formulate policy recommendations. The book has earned recognition from the Latvian Academy of Sciences as one of the most important science achievements in 2021.*

The team of distinguished authors has conducted a comprehensive research of the economic consequences of the pandemic crisis and fostering of economic recovery in

Latvia. Analysis of vulnerability and resilience of the Latvian economy to the exogenous shock caused by the pandemic is very timely. The research team should be praised

for finalising an evidence-based multidisciplinary research in a very short period of time, in the situation of rapid changes, uncertainty, and lack of information.

The monograph consists of an introduction and four chapters.

In the first chapter the authors analyse the economic sustainability challenges and provide an assessment of the vulnerability and resilience of the Latvian economy to external shocks. This chapter includes four papers, two of which are devoted to the international environment of the post-crisis development, and the other two papers are aimed at the domestic preconditions of strengthening resilience.

Clearly, the international political situation and the related risks will affect Latvia's economic recovery in the post-pandemic period. I have read with great interest the reflections of A. Sprūds, V. Kleinberga, and K. Bukovskis on four potential scenarios for the post-pandemic development and agree with their conclusions that cohabitation is the most likely scenario in a post-COVID-19 world. The US will become more involved in international matters, however, some features of the "Trump era" like protectionism will persist, but on a smaller scale. Latvia will have to continue deeper integration into the production chains of its closest EU and NATO partners.

Valdis Dombrovskis continues the international dimension analysis and looks at the EU role in the post-crisis development. He argues that Latvia's future economic prospects strongly depend on the opportunities provided by the EU, and that the synergy of the European and national response to the crisis can bring a rapid economic recovery. On the personal note, I am very impressed that Mr. Valdis Dombrovskis, Executive Vice-President in the European Commission, agreed to contribute to this study. His paper enriches the monograph as it combines deep knowledge

of the European and Latvian prospects and policies.

Timely and efficient national response to exogenous shocks depends on institutional set-up of public governance. I. Šteinbuka and A. Austers elaborated on the theoretical framework of institutional analysis during and after pandemics, in particular in small economies. The authors concluded that in Latvia the effectiveness of institutions need significant improvements. The conclusions are based on the survey-based analysis of people's attitude towards the government's emergency programmes including trust in the state. The last paper (by J. Bistrova, N. Lāce, and L. Kasperovica) provides a profound evaluation of Latvian enterprises' crisis-resilience and solutions for improving it.

In my view, the second chapter concentrates the most central studies of the monograph. Two papers are aimed at various aspects of productivity as the driving force of Latvia's future recovery. The research team argues that productivity is a key to economic resilience and future growth, and concludes that an accelerated programme of investments in technology and capital, especially coupled with complementary investments in human capital and innovation, could raise a rather sharp labour productivity growth.

The core study of the monograph (by O. Barānovs, J. Salmiņš, and I. Skribāne) provides comprehensive insights into the existing research of productivity in Latvia. The authors evaluate productivity trends and structural changes in technology intensity, compare Latvian productivity indicators with those of the Baltic states and other EU Member States, and assess the impact of the COVID-19 pandemic on productivity. The authors also present two development scenarios (trend and accelerated growth scenarios) to illustrate how a higher productivity can foster economic growth.

As limited public resources should be invested effectively, O. Krasnopjorovs and

K. Kovaļovs elaborated on state support criteria promoting productivity. I am impressed by the research concept, correctly applied quantitative methods, and conclusions of this study. A very valuable feature of the study is the application of micro data to analyse the productivity (real value added per employee) of 167 thousand economically active Latvian companies over the 2011–2018 period. As a result, three criteria have been identified to receive a state support for enhancing aggregate productivity. In my view, the study has not only scientific but also practical value for the policy-makers.

The third paper (by I. Šteinbuka and N. Malnačš) looks at the problem of enhancing productivity and growth from the fiscal angle. The authors conclude that in order to reduce the negative impact of the COVID-19 pandemic on the economy, Latvia needs consolidating fiscal expansion, when the state invests large financial resources in activating the economy and promoting competitiveness. COVID-19-related economic and fiscal risks remain high, especially in the short term. The right choice of fiscal instruments is crucial to achieve the economic recovery as efficiently as possible and with the smallest impact on the public finances.

In the third chapter aimed at structural changes caused by the pandemic crisis I would like to particularly praise the study on the remote work and its impact on the economic structural transformation (by O. Barānovs, J. Salmiņš, and I. Skribāne). The authors pointed out that currently available international research on remote work is mainly based on the public opinion surveys. There are almost no studies based on actual statistical data. The authors have used all recently available data, however, the main challenge is the lack of the necessary “specific” data to strengthen the research base. Despite of lack of evidence, I am impressed by the strong argumentation and maturity of conclusions. Certainly, the availability

of such data would increase the quality of research and I strongly recommend to continue this study.

I am less impressed by the other three papers, which are generally correct but in my opinion do not provide comprehensive research on the anticipated future structural changes.

In the fourth chapter, the team of authors analyse innovation as a key driving force of productivity and growth. I fully agree with the conclusion that innovation activity in Latvia is relatively small and that strengthening of innovation ecosystem in Latvia would have a significant impact on productivity, competitiveness, and faster growth.

The paper by G. Bērziņš and J. Priede describes the challenges of the EU and Latvia in promoting innovation during and after the COVID-19 crisis, as well as EU and OECD recommended good practices and policies. The conclusions well correspond with and compliment the conclusions made by O. Barānovs, J. Salmiņš, and I. Skribāne (Chapter 2).

I would like to praise the study of J. Bistrova and N. Lāce, which proves that competitiveness of companies depends on innovations, investing in R&D, and intangible capital to ensure higher company productivity. Their microeconomic research shows that the significance of the total factor productivity for the Latvian companies is growing, since the role of labour and capital tends to diminish. The study has a solid theoretical background and is justified by micro data analysis. I believe that this chapter could be benefitted by the analysis of the current labour supply problem and creation of the entrepreneurship culture in Latvia.

In the fifth chapter, the authors analyse various aspects of digital transformation including economic, legal, and socio-political benefits and risks. I cannot agree more with the conclusions that making full use of digital opportunities is essential to maintain

productivity and improve the living standards. In my personal experience, the integration of digital technologies in companies is well below the EU average. Latvia has not developed a comprehensive strategy for digitalisation of companies. The lack of highly qualified staff exacerbates this problem, and adequate and speedy actions are vitally important.

My opinion is that all studies presented in five chapters are well interrelated and build a comprehensive analysis and integrated vision of the Latvian economy's future

challenges. The authors of the monograph draw a number of conclusions and make recommendations. I guess that their findings have not only academic value but also practical interest for decision-makers.

In conclusion, the editor-in-chief, Prof. Inna Šteinbuka has attracted excellent authors to contribute to this multidisciplinary research. This collective monograph provides a comprehensive assessment of post-pandemic Latvia's economic recovery and suggests political instruments to tackle future challenges.

## About the author

*Dr.oec. Joseph Menaker* (USA) is a Board Member of the Institute of European Policy Research, LightPath Technologies Inc., UAV Factory Holdings LLC and Tsal Kaplun Foundation. Dr. Menaker started his career at the Institute of Economics of the Latvian Academy of Sciences. He continued his research work at the New York City Department of Finance and Taxation after immigrating to the U.S. as a political refugee in 1989. Dr. Menaker's research topic was the Econometric Modelling of Regional Economies. During his years as a research scientist, Dr. Menaker published over twenty research papers and books and participated in numerous scientific conferences as a panelist and keynote speaker. Currently, Dr. Menaker's research is focused on the development and challenges of high-tech industry in Latvia. He is a visiting professor at the University of Latvia Business, Economic, and Management Department master programme "European Studies" (2001) and "European Studies and Economic Diplomacy" (since 2018). He also has cooperated with Riga Technical University by participating in scientific conferences and research collaboration at the Faculty of Engineering Economics and Management.

## Par autoru

*Dr.oec. Džozefs Menakers* (ASV) ir Eiropas politikas pētījumu institūta, *LightPath Technologies, Inc.*, *UAV Factory Holdings LLC* un *Tsal Kaplun Foundation* valdes loceklis. Dr. Menakers sāka zinātnieka karjeru Latvijas Zinātņu akadēmijas Ekonomikas institūtā. Pēc emigrācijas uz ASV politiskā bēgļa statusā (1989) viņš turpināja pētniecisko darbu Ņujorkas Finanšu un nodokļu departamentā. Viņa galvenais pētījumu virziens bija reģionālās ekonomikas ekonometriskā modelēšana. Pētnieka karjeras laikā publicēti vairāk nekā 20 zinātniski raksti un grāmatas. Dr. Menakers piedalījies daudzās zinātniskās konferencēs kā diskusiju dalībnieks un galvenais referents. Pašlaik Dr. Menakera pētījumi veltīti augsto tehnoloģiju nozaru attīstībai Latvijā. Viņš ir vieslektors Latvijas Universitātes Biznesa, ekonomikas un vadības fakultātes maģistra programmās "Eiropas studijas" (2001) un "Eiropas studijas un ekonomiskā diplomātija" (no 2018). Dr. Menakers sadarbojies ar Rīgas Tehniskās universitātes Inženierekonomikas un vadības fakultāti, piedaloties zinātniskajās konferencēs un pētījumu projektos.

## LATVIJAS TAUTSAIMNIECĪBA PANDĒMIJAS ĒNĀ UN PĒCKRĪZES IZRĀVIENA IESPĒJAS

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### Kopsavilkums

**Atslēgvārdi:** *monogrāfija, ģeopolitiskā ietekme, produktivitāte, inovācijas, digitālā transformācija, strukturālās izmaiņas*

Raksts ir recenzija par kolektīvo monogrāfiju “Latvijas tautsaimniecība pandēmijas ēnā un pēckrīzes izrāviena iespējas”. Grāmata ir deviņu mēnešu darba rezultāts, ko īstenoja plašs starprozaru pētnieku kolektīvs — 80 ekonomisti, juristi, politologi, sociologi. Pētnieku uzdevums bija izpētīt Covid-10 pandēmijas ietekmi uz ekonomiku un atklāt Latvijas tautsaimniecības atveseļošanās iespējas visdažādākajā skatījumā, kā arī piedāvāt ieteikumus atjaunošanas politikas veidošanai. Grāmata saņēmusi atzinību no Latvijas Zinātņu akadēmijas — tā iekļauta 2021. gada nozīmīgāko zinātnes sasniegumu skaitā.