

by Anders Åslund

Today, the Estonian government can claim victory. Last year, Estonia's GDP grew by 7.6 percent, the highest growth rate in Europe and high growth continues. All the three Baltic countries have pursued similar economic policies and the results are similarly spectacular. Christine Lagarde, the Managing Director of the International Monetary Fund just presided at a conference in Riga with the title "Against the Odds: lessons from the Recovery in the Baltics."

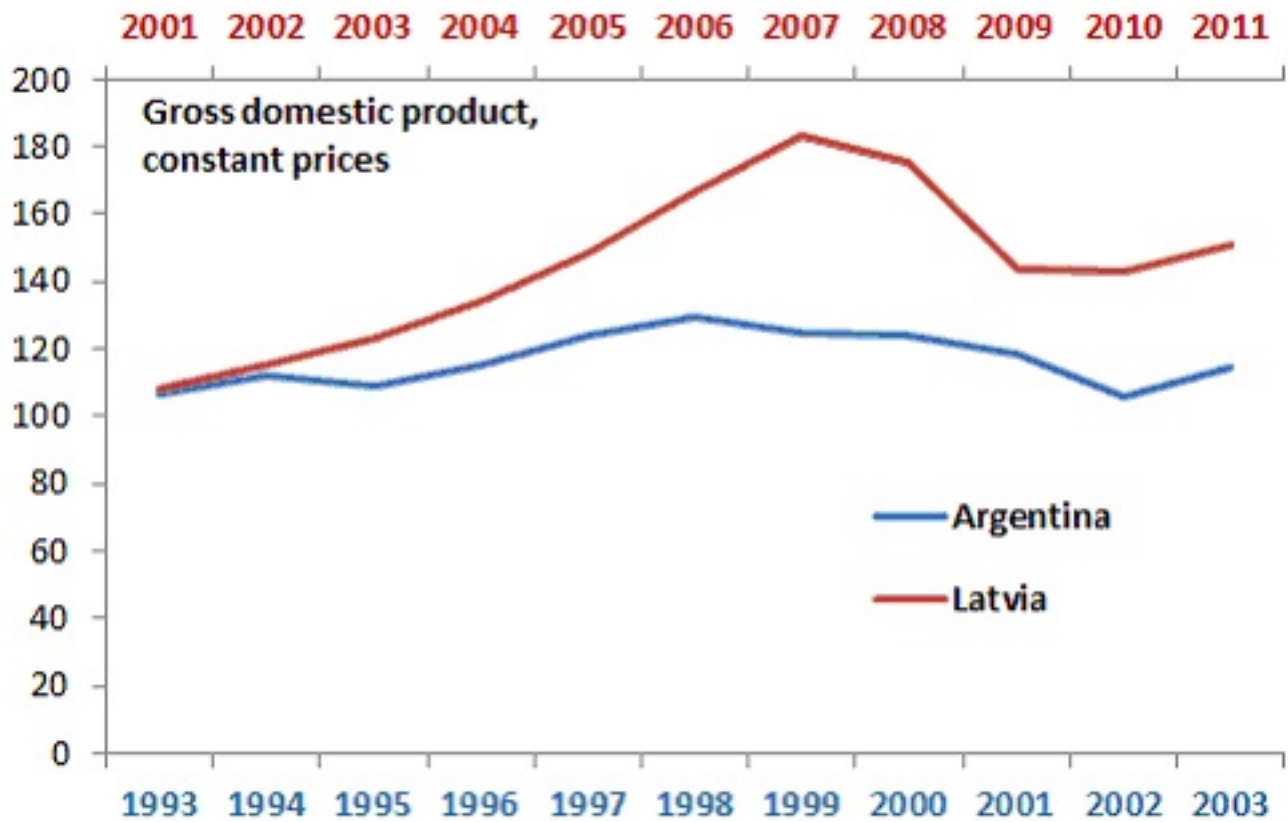
Professor Paul Krugman, Nobel Laureate in economics, however, denigrates the Estonian achievement with reference to the big output fall of a total of 18 percent in 2008-9. President Toomas Ilves has rightly taken Krugman to task. A Nobel Prize does not mean that you are always right or that you do not need to check the facts.

Krugman's problem is personal. In December 2008, he claimed, "Latvia is the new Argentina." He envisaged that all the three Baltic countries would not recover until they devalued, and now he has been proven wrong, which he refuses to acknowledge. Now he complains that "Estonia has suddenly become the poster child for austerity defenders."

Estonia did not devalue. Instead it carried out a vigorous "internal devaluation," with large cuts in public expenditures and wages as well as structural reforms. Many argue that Estonia is special, but Latvia and Lithuania pursued the same policies and achieved equally good results. These three governments did exactly what they were supposed to do and the Baltic peoples understand that, as evident from the reelection of the Estonian and Latvian governments after the crisis.

Krugman just looked upon one single graph, without considering causality. His first mistake is that he takes a short period, disregarding the prior high growth rate. His old argument that Argentina shows the benefits of devaluation because of the long and rapid growth afterwards ignores what happened before the crisis. While Argentina enjoyed decent growth, the Baltic countries thrived on an astounding boom. In figure 1, I have compared Latvia in 2000–2011 with Argentina in the corresponding period around its crisis 1992–2003. Latvia had a cumulative growth of 51 percent and Argentina only 15 percent (figure 1).

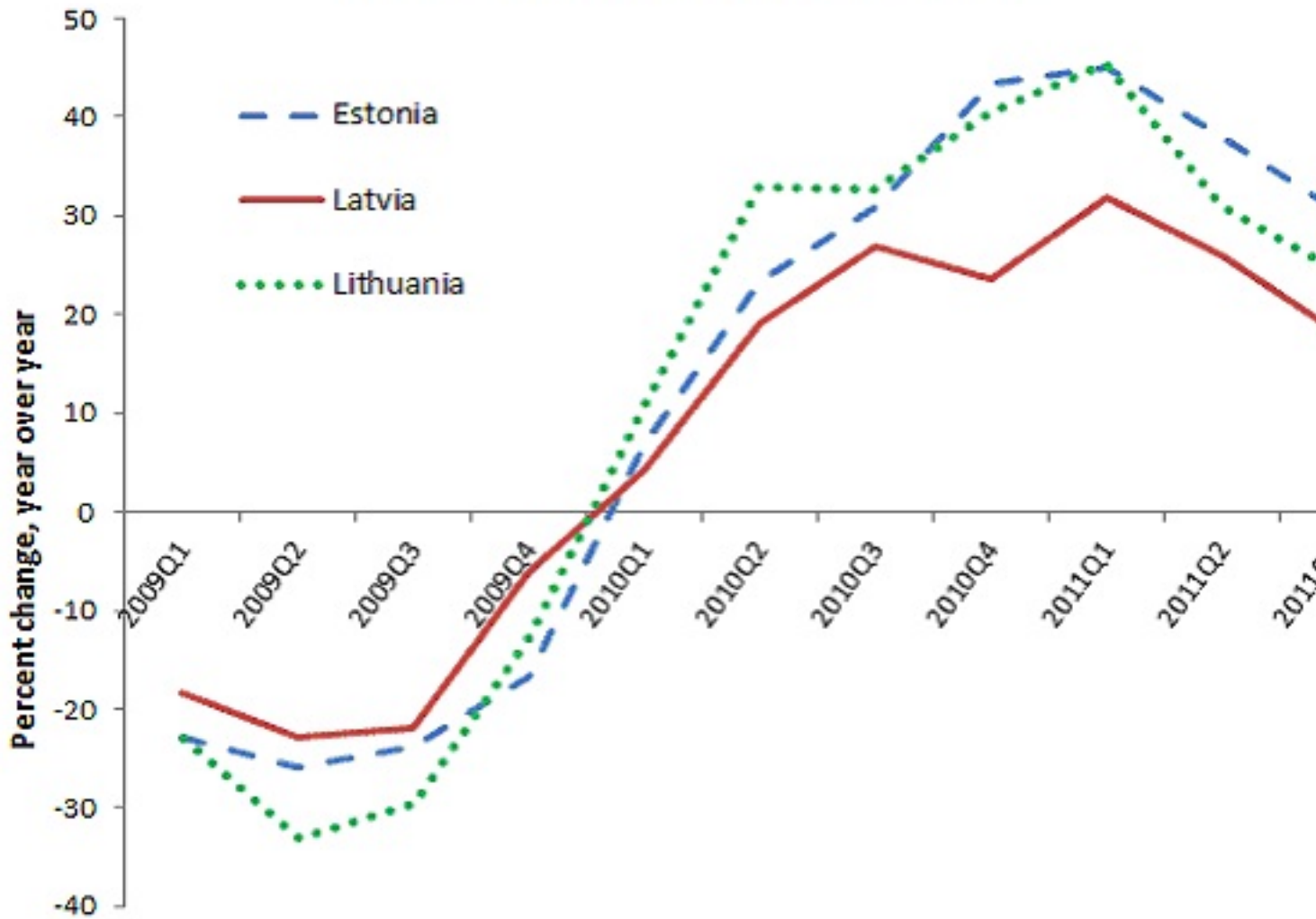
**Figure 1 Latvia 2001–11 vs.
Argentina 1993–2003**



Source: International Monetary Fund, *World Economic Outlook* Database, September 2011; Latvia 2011: Latvian national statistics office

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Figure 3 Total exports, percent change 2009–11, year over year, quarterly statistics



Source: Eurostat Statistical Database (accessed May 14, 2012)

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