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ECONOMIC AND FINANCIAL DEVELOPMENTS IN LATVIA (1920–1940)

NATION-BUILDING AND ECONOMIC RECOVERY (1920–1929)

World War I ravaged the greater part of the territory of Latvia. The War of Independence from 1918 to 1920 and the war against the Russian adventurer Bermont from October 1919 to January 1920 hindered economic recovery and development. The Peace Treaty between Latvia and Soviet Russia was signed on 11 August 1920. Industry was destroyed, and industrial equipment had been evacuated to Russia already in the early years of Word War I.[1] Also, the population had significantly decreased. Only after 1920 was it possible for the state and the nation to begin the renewal of the economy and the restoration of a normal rhythm of life.

The Latvian State was established without its own national currency. During this time, several means of payment were in legal circulation – German marks, ostmarks and ostrubles, the tsar rubles, the money of Duma, Kerensky rubles or "kerenkas", etc. On 27 March 1919, the Latvian Provisional government published a decree on exchange rate[2], which was signed by Prime Minister Kārlis Ulmanis on 26 March, stating that the Latvian ruble was equal to 1 ostruble, 2 German marks and 1.5 tsar rubles. The main source of revenue for the government was the issuing of paper money, which covered the costs of the War of Independence, the maintenance of the state apparatus and the minimum requirements of the economy. From 18 November 1918 to 1 April 1920, paper money was issued in the amount of 37.9 million lats, which corresponded to 58.5% of revenue.[3] With the adoption on 18 March 1920 of the Law "On Sole Means of Payment and the Settlement of Earlier Debts and Contracts"[4], the Latvian ruble was designated the only legal tender in Latvia.

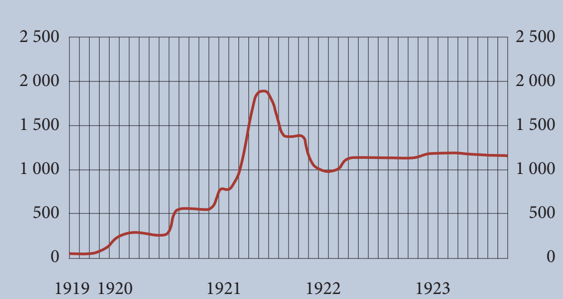
However, the Latvian ruble continued to lose value against other currencies (see Chart 1), and inflation significantly increased in the country. For example, in Riga markets, a pound of rye bread in July 1920 cost 2.25 to 2.40 rubles,[5] but in Riga consumer co-operatives in August 1921 its price was already 10.80 to 12.00 rubles.[6] The government tried to stabilise the Latvian ruble. On 20 June 1921, the amendments to the law adopted on 18 March 1920 by the Constitutional Assembly were promulgated, according to which transactions entered into and taxes payable shall be in Latvian rubles or gold francs.[7] When on 3 August 1922 the Minister of Finance Ringolds Kalnings signed the "Regulations on Money", 50 Latvian rubles were equated to 1 Latvian lats. The lats had a fixed exchange rate in relation to the Swiss gold franc or 0.2903226 g of pure gold for one lats.[8] On 1 November of that year, the Bank of Latvia came into being as the only emission bank in Latvia, and it was also a commercial bank. After the introduction of the Latvian lats, its exchange rate stabilised (see Chart 1). Similarly, prices also stabilised, and in Riga the average price of one pound of rye bread had fallen to 4.32 rubles in October 1922.[9]

In 1929, in the Latvian banking and financial system there were three state-owned banks (the Bank of Latvia, the State Land Bank, and the Latvian Mortgage Bank), 19 private joint-stock banks, and 605 credit unions[10] as well as mutual credit societies and local government credit authorities.

The first state budget law was passed on 26 April 1921. On 30 June 1924, a budget law was adopted[11], which utilised the so-called net budgetary system.[12] At the beginning, especially in wartime conditions, the state budget was planned with a deficit, and only in the 1922/1923 budget year[13] the budget was with a surplus, and such a result continued up to the 1929/1930 budget year.[14] State budget revenues consisted mainly of income from taxes, state monopolies and a part of state-owned enterprise profits. Tax revenue was dominated by income from customs duties, excise taxes, and stamp duties.[15] Of total state budget expenditures on average, 25.5% went to national defence, 11.2% to education, and 23.4% to capital investment.[16] The state budget expenditure on average was about 160 million lats, including some 40 million lats associated with various types of public investment.[17]

The main state monopolies were the flax monopoly (established on 27 March 1919) and the spirits monopoly (established on 30 April 1920).[18] During the first years of independence, the most important was the flax monopoly, but gradually its share

Chart 1. MONTHLY AVERAGE EXCHANGE RATE OF BRITISH POUND STERLING IN RUBLES AT THE RIGA STOCK EXCHANGE (August 1919–December 1923)[1)]



Sources: Latvijas statistiskā gada grāmata. *1920. Rīga : Valsts statistiskā pārvalde, 1921, 284. lpp.;* Latvijas statistiskā gada grāmata. *1921. Rīga : Valsts statistiskā pārvalde, 1922, 279. lpp.;* Latvijas statistiskā gada grāmata. *1922. Rīga : Valsts statistiskā pārvalde, 1923, 295. lpp.;* Latvijas statistiskā gada grāmata. *1923. Rīga : Valsts statistiskā pārvalde, 1924, 339. lpp.*

1) To ensure comparability, the exchange rate of the British pound sterling against the lats in 1923 has been recalculated replacing lats with rubles (1 lats = 50 rubles).

of state income fell and from the 1929/1930 budget year, this monopoly operated at a loss.[19] On the other hand, from 1922 to 1930, the spirits monopoly ensured from 12.7% to 18.4% of state revenue.[20] Of the state-owned enterprises, the Bank of Latvia, the State Railways and the Post and Telegraph Offices provided most of the revenue.

In 1914, the population of the territory of Latvia was 2 552.0 thousand; at the beginning of 1920, there were only 1 596.1 thousand inhabitants.[21] The loss of nearly 1 million inhabitants was the largest economic loss caused to Latvia by World War I. For example, in 1914, the population of Riga was 520.0 thousand inhabitants, but in December 1920, it was only 225.0 thousand inhabitants.[22]

This is due to the evacuation of workers and officials, which began in 1915, and many families becoming refugees. Their return began as early as 1918, and by 1925, about 220 thousand soldiers, refugees, prisoners of war, and those opting for the Latvian citizenship (persons with dual citizenship) had returned home.[23]

Due to the changes imposed by the war, the agrarian nature of the Latvian economy became more pronounced (see Table 1).

In 1897, 744.8 thousand people (39% of total population) actively participated in the economic life of the country, while from 1925 to 1935 their number was some 1.1–1.2 million people (more than 60% of total population in 1935).[24] The growth in the share of economically active population can be explained by the active participation of women in the economic life of the country. Table 1 indicates that employment growth in the industrial, trade, transport and other sectors was at the expense of agriculture, which in combination with forestry and fishing continued to be the main employment areas of population.

Before World War I, in the then Tsarist Russian Baltic provinces, 53% of the land was owned by less than 2% of landowners. In Latgale, large estates held 38% of land.[25] Therefore, one of the most far-reaching changes in the economic life was the agrarian reform, which radically transformed both the legal and economic foundations of the country.

In accordance with Part I of the Agrarian Reform Law of 16 September 1920 adopted by the Constitutional Assembly, a special State Land Fund was established, into which 61% of all Latvian land, including 45% of agricultural land, was transferred.[26] Previous large landowners were left only a small part of inalienable land (about 50 ha). This evolution is reflected in Table 2.

As a result of the agrarian reform, Latvia became a typical small-farmer country with the production sectors and economic management systems characteristic of such a country. The agrarian reform had created 54 243 new farms with an average land area of 17.1 ha (the largest in Vidzeme (17.9 ha), the smallest

Table 1. EMPLOYMENT OF THE LATVIAN POPULATION (%)

	1897	1920	1925	1930	1935
Agriculture and fisheries	45	80	68	66	62
Industry	20	7	11	14	17
Trade	5	2	5	5	7
Various sectors of transport	2	2	3	3	3
Courts, the police, state and local government authorities	1	2	2	3	4
Free professions	2	1	2	3	2
Services sector	13	1	3	3	2
Other sectors	12	5	6	3	3
Total	100	100	100	100	100

Sources: Zalts, A. Nacionālā saimniecība 20 gados: Centieni un sasniegumi. *Rīga : Pagalms, 1938, 16. lpp.; Skujenieks, M.* Latvijas Statistikas atlass. *XX. Rīga : Valsts statistiskā pārvalde, 1938, 17. lpp.; Bokalders, J.* Latvijas ekonomiski-ģeogrāfiskie pamati. *Stokholma : Zelta Ābele, 1947, 30. lpp.*

Table 2. TYPES OF LAND OWNERSHIP

	1913		1929		1935	
	1 000 ha	%	1 000 ha	%	1 000 ha	%
Large landowners' land	3 016	48	–	–	–	–
State land (forests)	628	10	1 861	30	1 746	28
Old farmers' land	2 467	39	2 772	45	2 818	45
State Land Fund allocated for farms	–	–	1 423	23	1 550	25
Other properties	156	3	136	2	130	2
Total	6 267	100	6 192	100	6 244	100

Source: Bokalders, J. Latvijas ekonomiski-ģeogrāfiskie pamati. *Stokholma : Zelta Ābele, 1947, 56. lpp.*

in Zemgale (16.0 ha)). The largest average size of new farms taken by counties was in Valka (19.6 ha), Valmiera (19.2 ha), Aizpute (18.6 ha), and Ventspils (18.6 ha) counties.[27] The agrarian reform transformed Latgale, and with the division of village-controlled land into single-owner farms, Latgale became more similar to the rest of Latvia.

Agricultural development was one of the national priorities. A stumbling block was the losses caused by war (contracting of the workforce; destruction of 25 thousand farms, 70 thousand horses, 170 thousand cattle, 28 thousand work carts, 4 thousand grain harvesters and 76 thousand buildings; 122 thousand partly destroyed buildings).[28] During the war, the area of arable land was reduced by 27%.[29]

It was necessary to import not only many industrial products but also food and cereals, as in the first post-war years crop yields were small, the grain was of uneven quality, and the production costs were too high in Latvia.[30] Due to the small size of the new farmers' land plots, they were more suitable for intensive farming than grain production for the market. In addition, grain prices in the world market began to decline in 1921, and by 1927, for example, rye prices had decreased by about 30%, while at the same time butter prices had risen by about 50%.[31] Agricultural cooperative societies began to be formed, especially in the dairy farming. Before World War I, there were 88 dairy producer societies, but by 1929, 450 dairy producer societies had already been formed.[32]

As the Latvian market could absorb only a small part of produced butter, bacon, eggs and other products of the new farms, the development of this sector was almost entirely based on exports. In particular, rapid progress was observed in butter production for exporting. Butter became one of the most important export products and up to 1932 accounted for almost a third of total exports.

Latvia is a land richly endowed with forests, and the utilisation of forests was of great economic importance. 80% of all forests belonged to the state, where about 6–7 million m^3 of timber were cut annually.[33] This quantity of raw materials and the geographical location favourable for the timber industry (the rivers flow in the westerly direction, as well as favourable port sites) meant that the latter could grow rapidly.[34]

Flax production also played a significant role in the Latvian economy. During the early years of national statehood, flax was one of the main export commodities and a source of foreign currency. The British pounds sterling paid for Latvian flax laid the foundation for a stable and secure financial system.[35] The amount of exported flax slowly declined in the course of 10 years due to high wages and unfavourable purchase prices. The state flax monopoly profits were very high while based on low purchase prices; they thus contributed to reduced areas of flax sown and even to flax smuggling to Estonia, where there was no flax monopoly.[36]

Before 1914, industry in Latvia was well-developed, and about 80% of its output went to the Russian market.[37] The main industrial sectors were the metal industry, including machine building (also railway carriage production), and the chemical industry.[38] To recover the industrial technical equipment brought out of the country during World War I, the Peace Treaty with Soviet Russia included a provision that, along with other property taken away, industrial machinery and equipment would also be returned. Soviet Russia failed to fulfil this provision of the Treaty.

When the Ministry of Trade and Industry was established, it took care of the restoration of industry. After World War I, Latvian industry worked mostly to satisfy the domestic needs. In 1920, 1 430 industrial enterprises with 21.2 thousand workers were registered (23% of the number of registered workforce in 1910).

Industrial growth was hampered by a lack of capital, and the price increases reduced the possibility of utilising the needed bank credits. Therefore, the government started crediting industrial companies. Up to 1 November 1923, the state had issued 22.7 million lats in loans; moreover, most loans were issued in the 1921/1922 budget year.[39] State-owned banks played a major role in the issuing loans to industry: first, it was the Bank of Latvia, from whose total loans about 40% were loans to industry by the end of 1924, later it was the Latvian Mortgage Bank, which issued long-term loans necessary for industrial development; thus at the end of 1932, the Bank of Latvia's short-term loans to Latvian industry accounted for only about one fifth of total credits issued.[40] Industrial development was also hampered by the lack of cheap machinery and fuel shortages.

Table 3. FOREIGN CAPITAL IN LATVIAN JOINT-STOCK COMPANIES (1924–1929)

Year	Millions of lats	% of equity capital
1924	56.0	50.0
1925	74.2	52.7
1926	85.4	54.0
1927	94.9	54.0
1928	94.5	53.5
1929	102.9	53.9

Sources: Latvijas statistiskā gada grāmata. *1929. Rīga : Valsts statistiskā pārvalde, 1930, 264. lpp.; Leits, A.* Buržuāziskā Latvija ārzemju kapitāla jūgā *(1921–1929). Rīga : Latvijas Valsts izdevniecība, 1957, 51. lpp.; Aizsilnieks, A.* Latvijas saimniecības vēsture, *1914–1945. Stokholma : Daugava, 1968, 339. lpp.*

Foreign capital played a fairly large role in the renewal of Latvian industry, especially for joint-stock companies. It was invested in state-owned enterprises (production of matches and timber industry as a whole) and many private companies (for its growth in joint-stock companies, see Table 3).

Up to 1928, foreign capital was mainly invested in joint-stock companies of chemical industry, textile industry, transportation sector and banks. Latvia's renewed industry tried to export surplus production. Industries such as timber, paper, cardboard, rubber and linoleum, chemical, leather processing and food were working mainly for exports. Up to 1927, more than 60% of all Latvian bank equity capital was owned by foreigners[41]. Moreover, foreign businesses owned 27.8% of the total equity capital of all joint-stock companies in the insurance sector, 33.9% in the commercial sector, 63.1% in the transport sector, and about 50% in industry.[42]

Many foreign countries tried to establish trade relations with Latvia to sell their products and to win a starting point for the large market of Soviet Russia. Nevertheless, Latvia's foreign trade was very limited at the beginning. On 4 July 1919, exports of goods to foreign countries were completely banned. In addition, permits were issued only for imports of essential goods.[43] The ministries prevented exports of Latvian goods, encumbering them with various formalities which were often changed.

For example, the Ministry of Finance regulations adopted on 5 January 1920 on exports of timber stipulated that the exporter had to transfer a large part of the income earned in foreign currency to the Ministry of Finance, in some cases even up to 75% of the value of exported timber (this was determined by the Ministry of Agriculture), in exchange for Latvian rubles.[44] Whereas the 14 January 1920 Ministry of Trade and Industry decree stated that all export packages should be appropriately marked, and export permits should indicate the contents of each labelled package. All previously issued export permits were considered invalid.[45] Such a foreign trade policy hindered Latvian exports[46] and, at the same time, contributed to a rise in prices; it likewise hindered imports of those goods the lack of which in Latvia was very strongly felt, thus pushing up the prices sharply.

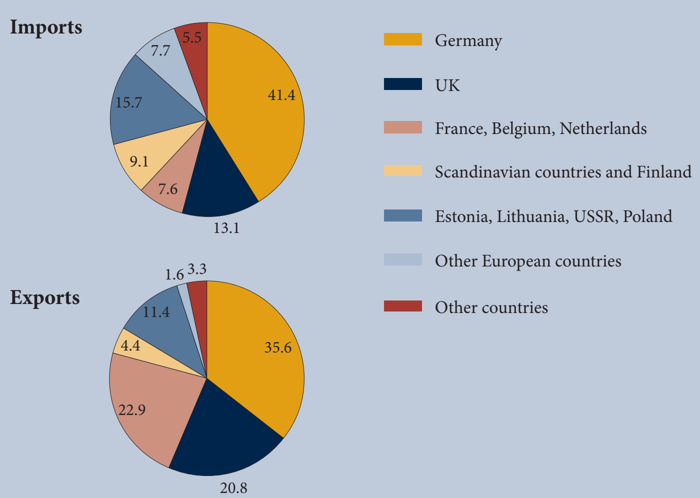
In Latvia, like in most countries in Europe at the end of World War I, there existed many trade prohibitions. Because of food shortages, as early as 4 December 1918, the Latvian Provisional government issued regulations, which prohibited exports of food products without an express permission. Later, the government created a restrictive licensing system, which had been gradually phased out by 1921. The customs tariffs, which were introduced in 1919, were basically very low because of the absence of protected industries and the lack of a wide range of products.[47] Significant relief for foreign trade began after Ringolds Kalnings became the Minister for Finance. On 28 June 1921, the government issued a decree that allowed eggs, butter, cheese, ham, poultry and fruit exports. However, a real export growth was observed in the second half of 1921 with the entry into force of new export tariffs. In 1921, a new customs tariff law was adopted, which was essentially meant to stabilise the new currency. In the 1921/1922 budget year, customs duties already amounted to more than 20% of the value of imported goods.[48] Whereas raw materials and agricultural and industrial machinery and equipment could be imported free of customs duties up to 1926. On 16 April 1928, a new tariff law, which met all international standards, was implemented; it was harmonised with the Latvian foreign trade agreement framework and introduced a system of maximum and minimum tariffs depending on whether or not an international trade agreement had been entered into.

Latvian foreign trade was largely based on trade agreements. Up to 1929, Latvia had signed trade agreements with all major trading partners.[49] The trade policy principles included in trade agreements remained unchanged: an unlimited Most Favoured Nation Principle (reserving the right to grant special privileges to Finland, Estonia, Lithuania and Russia) and freedom of movement (entry, stay and exit rights) for citizens.[50]

The exception was the Latvian and Estonian effort to conclude a customs union. On 1 November 1923, the "Interim Agreement on Economic and Customs Union between Latvia and Estonia" was signed. Since the parties' views on the contents of the agreement differed considerably, it was never entered into. Beginning with 25 March 1928, a number of temporary agreements were signed, which regulated Latvian and Estonian foreign trade.[51]

For Latvian industrial development, a 5-year trade agreement between Latvia and the Soviet Union was signed on 2 June 1927 and ratified on 27 October by the *Saeima* (Parliament). The agreement included a special customs convention with significantly reduced rates of customs duty for many goods of both countries. The USSR promised to place orders for Latvian industrial goods worth 40 million lats annually. Exports to the Soviet Union consisted mainly of industrial products (railway carriages, agricultural machinery, knitted and woven items, etc.). However, the changes in customs duty rates benefited the Soviet Union, not Latvia. Moreover, the Soviet Union did not

Chart 2. MOST IMPORTANT LATVIAN FOREIGN TRADE PARTNERS
(1921–1928; annual averages; % of total)



Source: Latvijas ārējā tirdzniecība. *Rīga : Ārējā tirdzniecība, 1929, 2. un 3. lpp.*

place annual orders in the specified amount, and transit cargoes were not directed through the Latvian ports either.[52]

Up to 1929, the Latvian foreign trade balance had constantly been negative, and the deficit was covered by income from international services (mainly shipping).[53]

Latvia primarily exported agricultural (butter, flax, linseed, bacon, and leather) and forestry (timber, plywood, paper, and cardboard) products and articles thereof, while the main imports were products that could not be obtained in Latvia (coal, oil and oil products, tobacco, cotton, etc.), or products which Latvia did not produce or could not produce of the required quality (agricultural and industrial machinery, automobiles, fertilisers, etc.).

Up to 1929, exports grew 10 times, but overall, imports were still significantly higher than exports. Import customs duties existed only for wood and some other raw materials to promote their processing in Latvia. Germany had become Latvia's major trading partner in imports (in 1928, Latvia imported from Germany 41.2% and exported to Germany 26.4% of total imports and exports). In Latvian exports to Germany, butter was the main commodity. On the other hand, Latvia's main export partner was the United Kingdom. Timber exports to the UK accounted for more than half of the total Latvian exports to this country. Other important export goods to the UK included plywood, flax and butter. Imports from the UK were even less than half of the value of Latvian exports to there. Exports to Belgium and Holland also exceeded imports significantly. After 1927, Latvian exports to the Soviet Union continued to increase markedly and significantly exceeded imports from there. However, during this period on average, imports from Latvia's neighbouring countries Estonia, Lithuania, Poland and the USSR were nearly two times higher than Latvia's exports to these countries (see Chart 2).

The diversity of goods Latvia could offer in foreign trade was significantly affected by international cartels and syndicates, which, merging businesses within Europe or globally, bought up the existing Latvian companies and, after some time, closed them down for the purpose of centralisation of production or narrowed output so as to produce only the amounts needed for the small domestic market. For example, from 1925 to 1928, the Swedish match syndicate *Svenska Tändsticks Aktiebolaget* purchased the majority of shares in four of the five Latvian match factories.[54] On 7 June 1928, the Latvian government signed an agreement with the Swedish match syndicate that provided the syndication of the Latvian match industry and a foreign loan to Latvia of 6 million US dollars.[55] This agreement (with minor amendments) was ratified by the Latvian Parliament *(Saeima)* on 19 December 1928.[56] Matches and match sticks disappeared from the list of Latvia's major export commodities, and in 1936, exports of matches ceased altogether.[57]

In the 1920s, Latvia wanted to develop transit trade via Riga, Ventspils and Liepāja ports and the associated rail links to Russia. However, the transit was dependent on Soviet Russia's economic policies. Between 1921 and 1926, during the period of the so-called New Economic Policy, transit to and from Soviet Russia was fairly important, but from 1927 when the economic policy of the USSR changed, transit was sharply reduced.[58]

LATVIA IN THE YEARS OF WORLD ECONOMIC CRISIS (1930–1933)

The global economic crisis, which began in the fourth quarter of 1930, i.e. later in part because of the operation of the Latvian–USSR Trade Agreement of 1927, replaced the economic boom period in Latvia.[59] The crisis opened with a fall in wholesale prices in the internal market and a price decrease for Latvian exports abroad as well as a decrease in the country's gold and foreign exchange reserves. Latvia, like other European countries, did everything to reduce imports and the associated foreign exchange outflows, including the establishment of an Exchange Commission limiting the exchange of lats for foreign currencies, establishing a contingent (quota) system, drafting import rules, increasing import duties and promoting import substitution.

Table 4. TOTAL NUMBER OF BANKRUPTCIES AND FORCED AUCTIONS IN LATVIA (1927–1934)

Number of:	1927	1928	1929	1930	1931	1932	1933	1934
Bankrupt enterprises	114	90	117	82	162	249	129	129
Advertised forced auctions	577	1 061	1 694	2 562	2 732	3 090	5 425	7 077

Sources: Mēneša Biļetens. *Rīga : Valsts statistiskā pārvalde, 1930, Nr. 11, 624. lpp.; 1936, Nr. 4, 320. lpp.; Aizsilnieks, A.* Latvijas saimniecības vēsture, 1914–1945. *Stokholma : Daugava, 1968, 448. lpp.*

In the overall context of national policy, on 20 December 1930, the Bank of Latvia decided to restrict credit, a resolution in effect as of 1 January 1931.[60] The worsening economic situation had the effect of increasing enterprise bankruptcies (see Table 4). Their numbers peaked in 1932, while the number of forced auctions, mostly in the countryside, continued to grow.

The banks were first and hardest hit by the crisis. As a rule, this is partly inevitable because the big banks do not own real estate, machinery, and other material assets but possess only the means of payment and claims that in a crisis situation are exposed to problems fast. In July 1931, the German banks, with which the activities of the Bank of Liepāja and the Riga International Bank were closely linked, incurred certain difficulties. Depositors demanded to be paid their deposits, but the banks did not have sufficient liquidity and closed their cash offices. Therefore, depositors tried to withdraw deposits from other Latvian banks (e.g. 5 million lats were withdrawn on 15 July).[61] On 21 July 1931, the *Saeima* retroactively adopted a special law, which stated that private banks could pay out to each depositor not more than 5% of their deposit value per week, and this restriction was abolished only on 1 September 1933.[62]

When on 21 September 1931 the UK abolished the pegging of the British pound sterling to gold and its devaluation together with upcoming changes over the following years amounted to about 40%, the Scandinavian countries and Finland followed suit, pegging their national currencies to the British pound sterling. Meanwhile, Estonia abolished the gold standard in June 1933.

The sudden devaluation of the British pound sterling resulted in a loss for the Bank of Latvia of 2.1 million lats.[63] Latvia, however, did not abandon the gold standard, but adopted a number of restrictive measures regarding free trade and capital flows. With the adoption on 8 October 1931 of the "Regulations on Foreign Currency Transactions", Latvia switched to a managed currency exchange rate, keeping the former lats exchange rate but ending its unlimited exchange for gold or foreign currency.[64] The regulations stated that foreign exchange operations can be executed only by the Bank of Latvia, and an Exchange Commission, which examined the demand for foreign currency, was established. In the same year, a number of regulations were adopted that restricted the volume of imports or banned imports of certain goods altogether. Over time, regulations regarding foreign exchange were amended and supplemented, and other laws and regulations were issued in growing numbers.

The customs tariff was amended six times in 1931 and 1932 and 10 times in 1933.[65] Nevertheless, the state budget during the crisis years was with deficit, including the largest deficit in the 1931/1932 budget year (24.2 million lats).[66] The largest decline was recorded for tax revenues and those from state forests management and profits of state-owned enterprises and credit institutions.[67]

In the wake of the global economic crisis, the Latvian export policy also changed. In order to find markets and facilitate settlements, inter-state clearing contracts and agreements were concluded. For Latvia, the first such agreement was drawn with France and came into force on 26 March 1932.[68] For settlements with Germany, an agreement between the Bank of Latvia and the *Reichsbank* (its functions were later taken over by *Deutsche Verrechnungskasse*) was reached. It came into force on 8 July 1932 and stipulated that in their mutual trade both countries should settle payments for imports of goods in the local currency. The intention was to avoid difficulties that import restrictions and exchange restrictions created for settlements.[69] Clearing agreements emerged due to the world economic crisis, not to cease afterwards: for example, in 1935, Latvia signed clearing agreements with Sweden, Lithuania and Estonia.[70]

The UK began to increase exports already in 1933, forcing Latvia to buy products and raw materials in certain amounts as well as to lower import duty on imported British goods.

Table 5. LATVIAN IMPORTS AND EXPORTS (1929–1933; millions of lats)

Year	1929	1930	1931	1932	1933
Imports	362.1	296.3	177.1	84.6	91.2
Exports	273.9	247.9	163.8	96.5	81.5
Balance	–88.2	–48.5	–13.3	12.0	–9.7

Source: Latvijas ārējā tirdzniecība un transits 1933. *Rīga : Valsts statistiskā pārvalde, 1934, IX lpp.*

On 17 July 1934, following the Scandinavian model, Latvia signed a trade agreement also with the UK.[71] The agreement was no longer based on the MFN principle, but on a reciprocity (mutual obligations, compliance) principle. The agreement spelled out Latvia's obligation to import various commodities (iron, steel, automobiles, machine tools and equipment for wood and paper industries, coal tar, textiles, herrings, etc.) from the UK, because the British objective was to improve the negative trade balance with Latvia. Under the agreement, Latvia had the right to export all the goods to the UK, which still was Latvia's most important export market (for example, up to 1939, the UK received almost 100% of Latvian bacon).[72]

Already in 1927, the global agricultural prices had begun to fall, with the world economic crisis accelerating this process, especially relative to most important Latvian exports, such as flax, butter, bacon and timber. In the 1931/1932 budget year, the prices for wheat, rye, barley, oats, butter, bacon and flax fell sharply (by 30%–50%).[73] The government tried to reduce the impact of the crisis by increasing exports and reducing imports. On 7 May 1931, a law was adopted on increasing agricultural stimulation, stipulating that from the 1931/1932 budget year up to 1 million lats from the state budget will be spent for this purpose each year for a period of five years.[74] In 1932, Latvia (the only time until 1936) had a positive foreign trade balance. State monopolies were established for the sugar industry and bacon production.[75]

Food products that after World War I formed a large proportion of Latvian imports were almost no longer imported. Grain imports in particular were among those that could be substituted most easily by domestic producers. After 1933, rye was not imported at all, and wheat was imported only in the 1937/1938 budget year, as the summer in 1937 was very dry. In 1934, sugar imports were also suspended. In the second half of 1930, Latvia was self-sufficient in terms of almost all agricultural products and focused on importing food products other than those that could be obtained in Latvia, e.g. herrings. However, due to the crisis, even herring imports were limited, and never again reached the volumes of 1929 (for the dynamics of Latvian foreign trade during the economic crisis see Table 5).

Termination of the Latvian–USSR Trade Agreement led to the changes in the USSR export goods transit. Instead of the Latvian ports, an increasing amount of rail transit through Latvia was redirected to the port of Königsberg.[76]

In 1931, the crisis fully encompassed the Latvian industry. Purchasing power decreased, foreign capital flowed out, production contracted, and the number of employees in industrial enterprises went down. The decline in industrial employment was due not only to the bankruptcy of many companies but also to the fact that some of them were forced to reduce operations for longer or shorter periods of time, laying off workers, or even completely stopping production for some time. For example, in 1932, with the Latvian–USSR Trade Agreement of 1927 and the related orders expiring, the export opportunities decreased. Thus, such companies as the railway carriage company *Phoenix*, agricultural machinery factory *Imanta* and knitted textiles manufacturer *Rīts* suffered hardships.[77] The highest number of registered unemployed in urban areas (39 086) was recorded in January 1932, while the real numbers could be at least a third higher.[78]

In the crisis years, the first Latvian national income estimates were also calculated.[79] In the 1929/1930 budget year, national income was 1 151 million lats (600 lats per capita), while in 1932, it had decreased by 35% (to 744 million lats or 390 lats per capita).[80] A. Ceichners considered, however, that, given the value of money and other developments, the changes in real national income were much lower (10%–12%).[81]

The crisis in industry had eased already by 1933. The number of workers in the textile industry had increased by 30.8%, while the volume of production had risen by 32.0%.[82] The leather industry, food and condiment industry, and chemical industry were also successfully developing. During the last months of parliamentary republic in Latvia, i.e. in the first half of 1934, new economic growth was already well started.[83] The budget deficit was reduced from a peak in the 1931/1932 budget year (24.2 million lats) to 7.8 million lats in the 1933/1934 budget year.[84]

ECONOMIC DEVELOPMENTS IN THE YEARS OF AUTHORITARIAN REGIME (1934–1940)

On 15 May 1934, the then Prime Minister Kārlis Ulmanis, the Minister for War Jānis Balodis, and the home guard and army leaders carried out a *coup d'état*. The reasons for the *coup d'état* were more political than economic in nature.[85] Nevertheless, the authoritarian regime actively influenced the economic life of the country. In place of the Parliament, a corporate chamber system was introduced. In the economic field, there were four chambers: the Chamber of Trade and Industry was established in 1934, the Chamber of Agriculture and the Chamber of Artisans both were formed in 1935, and the Chamber of Labour came into being in 1936. Chamber members were appointed by the regime, which also controlled their activities as each chamber was subordinated to a relevant ministry.[86]

The important issue of farm debt was resolved. The forced auction of farms was postponed for a specified period; the Bank of Latvia lowered interest rates on their debt and extended the loan repayment terms.[87] The farmers' access to credit was also made easier.

In order to promote mechanisation of agriculture, agricultural machinery and equipment were exempt from import duties. The Chamber of Agriculture established agricultural schools and oversaw the development of pedigree livestock and crop selection in state breeding stations and model farms.[88]

On 29 May 1934, the "Regulations on Limitations on the Activities of Co-operative Societies and Their Associations" were adopted.[89] These regulations gave the Co-operative Audit Board or the Minister for Justice the right to dismiss the elected members of the Board of Directors, the Governing Council and the Audit Committee and appoint authorised representatives of co-operative societies, to whom these societies had to pay salaries and who were charged with strong powers. In this way, the co-operative society movement, particularly with respect to societies producing for exports, was subordinated to the government. For example, the dairy co-operatives were consolidated into the Latvian Central Union of Dairy Farmers.[90]

The regime tried to implement an economic programme aimed at reducing the role of foreign capital in industry and trade, and, instead, strengthen the state-owned enterprises and increase the role of state monopolies and joint-stock companies. On 9 April 1935, a new commercial bank, the Credit Bank of Latvia, was established with the task of reorganising credit institutions. The bank was in fact state-owned enterprise with an equity capital of 40 million lats.[91] Up to 1 January 1936, it had taken over seven private banks for liquidation.[92] Later a number of co-operatives and commercial and industrial enterprises were taken over, to be transformed into new, large state-owned joint-stock companies (for example, JSC *Vairogs*, a state-owned company that manufactured railway carriages, aircraft and automobiles).[93] Shares were owned by the Credit Bank of Latvia alone or together with other government authorities, and in this way the inflow of foreign capital in the country was reduced. By March 1939, the number of state-owned joint-stock companies had reached 38.[94]

In industry, the consequences of the economic crisis were finally overcome. The number of employees increased from 84.7 thousand in 1934 to 117.5 thousand in 1939.[95] In the industrial sector, metal, machinery, textiles, wood and food industries were the most significant. Of particular importance were the state-owned enterprises, e.g. the State Electrotechnical Plant (VEF), which also manufactured radios, aircraft and Minox cameras.

The share of foreign capital in Latvian joint-stock companies declined from 50.4% in 1934 to 25.4% in 1939.[96] This decline was particularly significant, for example, in metal industry and banks. However, Swedish investment in the 1930s increased as the project of the Ķegums hydroelectric power station (1936–1939; designed capacity of 70 thousand kWh; largest in the Baltic States; see the Box) was developed; it was managed by Swedish companies, which in accordance with the provisions of Article 17 of the agreement entered into with the government ensured an 11 million SEK loan for its implementation[97] (about 8.9 million lats according to the exchange rate of the Swedish krona against the lats at the time of entering into the agreement, or approximately 14.4 million lats according to the exchange rate after the pegging of the lats to the devalued British pound sterling). The repayment of this loan was the responsibility of the government, which also arranged for the provision of other resources (according to estimates, 52 million lats was needed) in the form of both domestic loans and budget funds.[98]

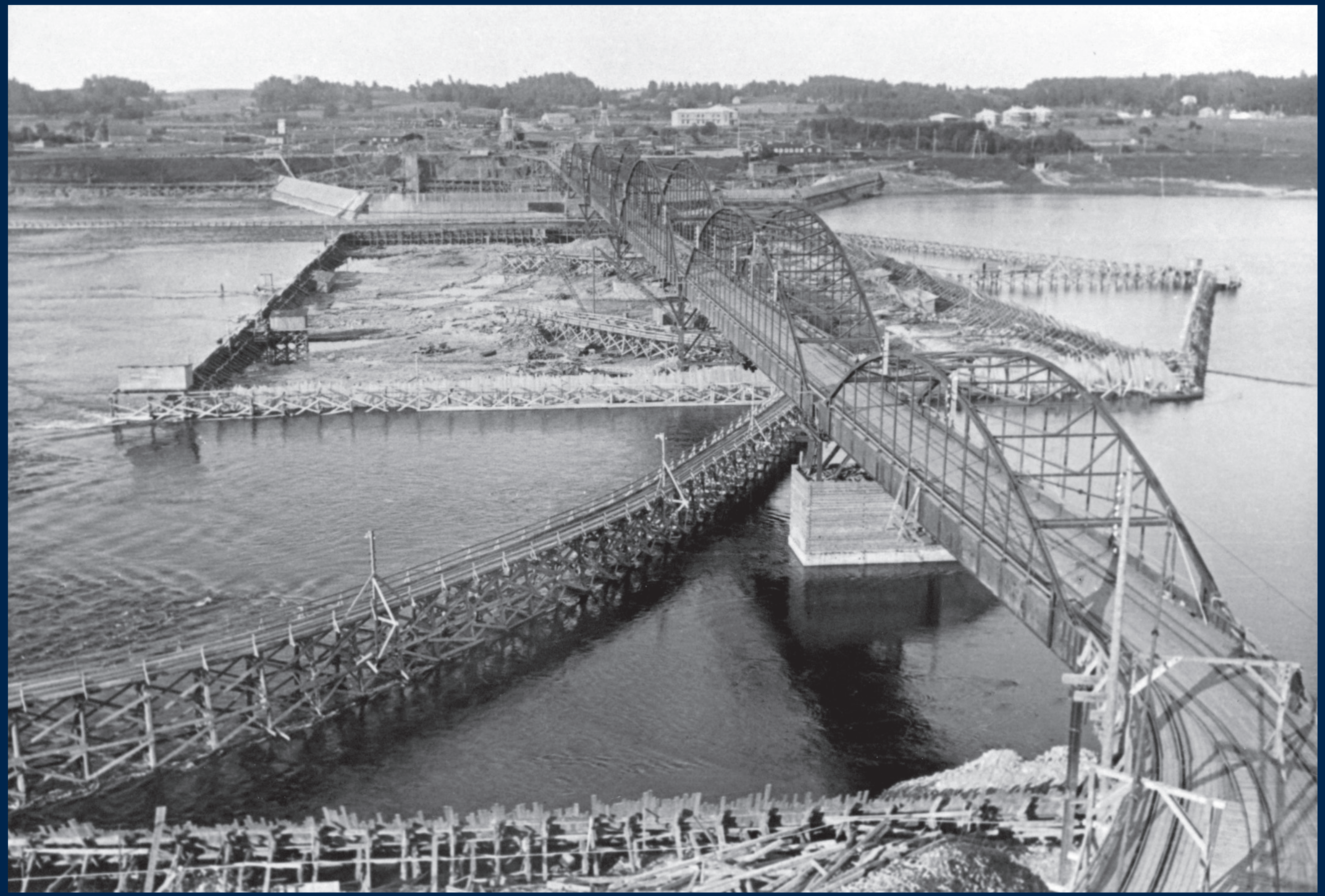
The government also developed a wide range of building programmes, which included monumental structures (such as the Palace of Justice, the Ministry of Finance building, and the Freedom Monument), railway station buildings, schools, cultural centres and sanatoriums.

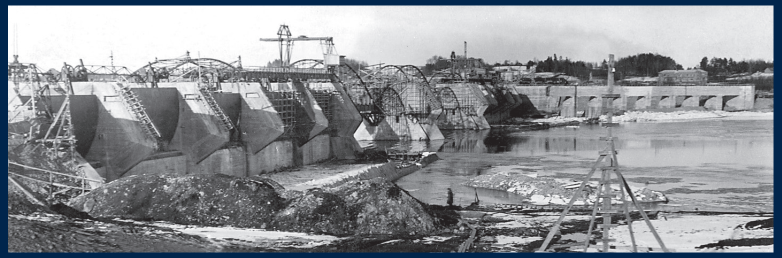
After the *coup d'état* of 15 May 1934, the people were promised that the lats gold parity would continue, and following the Italian and German models, the regime tried to introduce autarchic (a country's economic isolation) principles in order to stabilise the foreign trade balance.[99]

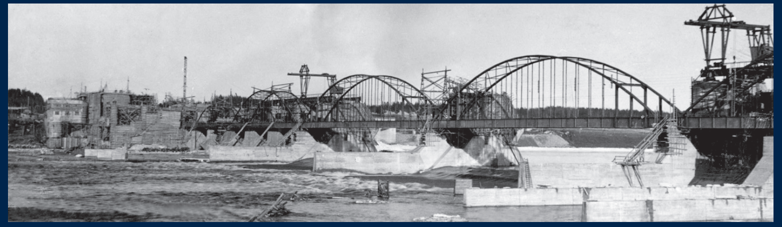
To regulate foreign trade, a number of new measures were implemented. On 8 June 1934, a new law "On Foreign Exchange and Foreign Trade"[100] was adopted, which further contracted the import of goods.[101] Already on 7 March 1935, this law was replaced by another law, which prescribed in more detail the work and mandate of the Exchange Commission, and continued to restrict imports.[102]

Box

CONSTRUCTION OF ĶEGUMS HYDROELECTRIC POWER STATION







In order for Latvia, which has no oil or coal, to provide energy resources for growing industrial and agricultural use, and to avoid import growth of these resources, the government drew up, in October 1932, and the US firm *The Foundation Company* entered into an agreement regarding the preparation of a project for the use of the force of the Daugava River waters and the construction and financing of the first hydropower plant. A study of possible power station building sites had to be completed within a period of three months. Taking into account the results of research conducted on the Plaviņas, Mucukrogs, Lejas Miemēni and Ķegums sites, the government decided in the middle of 1933 to build a power plant at the Ķegums site, because the most suitable geological conditions were there, and it was not far from the main consumer – the city of Riga. The agreement with *The Foundation Company* was terminated because it had not procured the specified credit.

In 1934, the Latvian Maritime Department on behalf of the new regime started negotiations with Swedish entrepreneurs. On 30 July 1936, the Cabinet approved the project submitted by *Svenska Entreprenad A. B.* (abbreviated SENTAB) for the central hydro construction on the River Daugava near Ķegums. On 1 August 1936, the Latvian government entered into a contract for the construction of Ķegums power station with SENTAB and *A. B. Electro Invest, Västerås*, but, on 4 August 1936, the Cabinet adopted and, on 6 August, the President promulgated The Law on the Construction of Ķegums Power Station. It increased the powers of the Ministry of Finance to raise funds utilising domestic and foreign credit.

Such a construction, on a scale unprecedented in Latvian history, was immortalised for the future. The photographer and cameraman Eduards Rihards Kraucs recorded in 2 409 photographs the technical advance of the construction from August 1936 to 25 July 1940. These materials are stored in Ķegums at the Daugava Power Station Museum.

On 22 May 1937, for the laying and consecration of the foundation-stone came the President and Prime Minister Kārlis Ulmanis, the Archbishop of the Latvian Evangelical Lutheran Church Teodors Grīnbergs, Ministers and guests, who, in accordance with the report in the newspaper *Jaunākās Ziņas*, travelled from Riga to Ķegums by special train. Kārlis Ulmanis signed a message for future generations, which was placed in a silver capsule designed by the artist Arvīds Dzērvītis, and sealed into the foundations of the power station. At the celebratory feast afterwards, together with guests, were more than 1 500 workers.

It was intended that foreign capital would be used to import the main machinery (in accordance with Article 17 of the contract entered into by the Latvian government, SENTAB was to provide a loan in the amount of 11 million Swedish kronor), but the construction work itself would be carried out by Latvian labour and capital. Of 52 million lats necessary for the construction of the Ķegums hydroelectric power station, the government allocated 4 million lats, the Bank of Latvia invested 10 million lats and another 34 million lats in 5% credit notes obtained from the Ministry of Finance for domestic distribution.

In February 1938, the Bank of Latvia published a prospectus with photographs showing the construction work already done on the Ķegums hydroelectric power station site and calling upon the general public to subscribe to the credit note issue from 15 February to 1 March, to act patriotically and to receive interest payments.

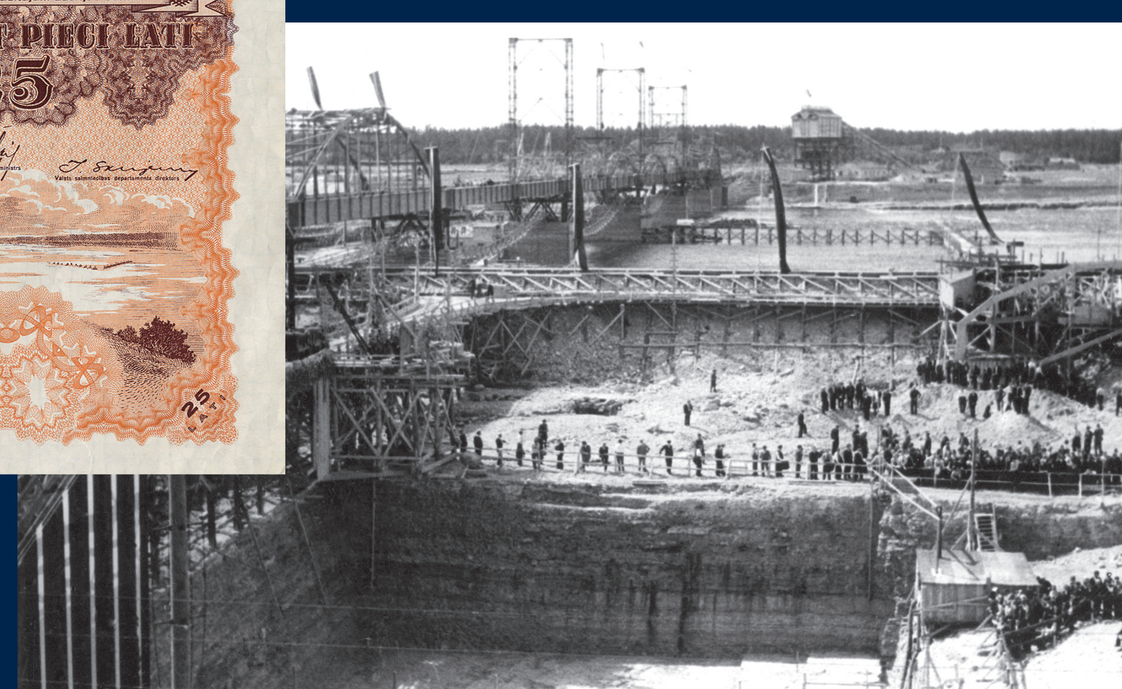
"Construction of the power station near Ķegums will be the largest construction work carried out so far in Latvia, which will continue to serve many generations to come. (..) In order that the entire nation may participate in the facilitation of the construction of Ķegums power station, the Ministry of Finance has issued state credit notes for a total of 34 million lats, which the Bank of Latvia will realise at the nominal value thereof. Credit notes are available for each person's ability to pay, starting with 25 lats and ending with 100 000 lats each (..). The credit notes will pay 5% interest per year and the interest will be paid out by the Bank of Latvia twice a year, i.e. on 2 January and 1 July. The credit notes will be redeemed by the state 4 years after issue for circulation, paying out the full value shown on the credit note. Acquired credit notes may be sold or pledged at will prior to maturity, and they will be accepted at the full value as collateral by all public works and suppliers. The name of the owners of the credit notes will not be mentioned, and they will be quoted on the Riga Stock Exchange."

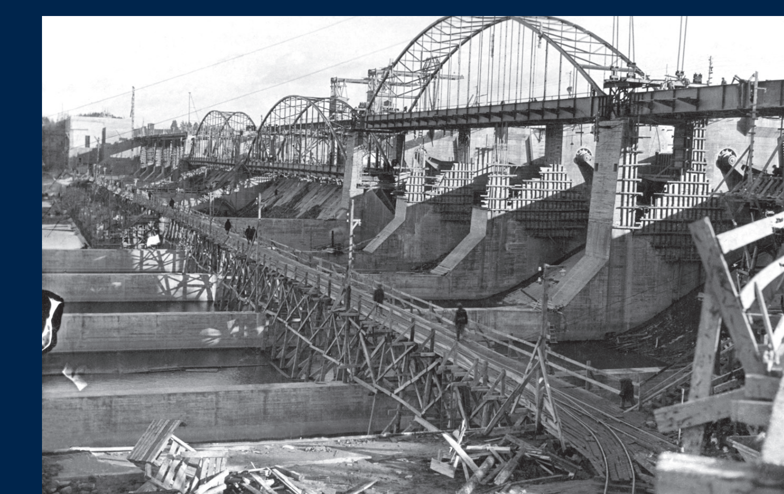
It was expected that the credit notes would be issued in four series (A and B series on 1 March and 1 July 1938 respectively, and C and D series on 2 January and 1 July 1939 respectively). Credit notes of A series, already in the subscription period, for payment were issued by the Bank of Latvia and its branches, and the Postal Savings Bank and its branches. It is true, however, that although the prospectus said that "the invested capital is completely safe and provides income for holders of credit notes", this was in effect only so long as there was an independent Latvian state. According to news reports in the press, the response was overwhelming: already by 16 February 1938, for the planned 34 million lats the inhabitants had subscribed to credit notes worth 36 million lats. Although the acquisition of credit notes was not as smooth as the subscription to them (in 1940, in the portfolio of the Bank of Latvia there was still 13.3 million lats worth of Ķegums hydroelectric power station credit notes), the construction work continued.

Latvia's inhabitants wanted to see the construction work with their own eyes, therefore, in accordance with the construction site visiting regulations, from special observation sites on the right bank of Daugava it was permitted to watch the construction work. Varied and popular were postcards with views of the Ķegums hydroelectric power station construction work with additional stories and text, but the most popular caption was: "Ķegums produces electricity, two hearts produce love!".

On 15 October 1939 at 23:05, the first turbine of the power station was set going. The work was led by Swedish engineers, but from 4 December 1939, power station operation was taken over by a 25-men Latvian team (led by Pāvils Krasovskis, his deputy Edgars Kelders).

Sources: Valdības Vēstnesis. *Nr. 177, 1936, 8. aug., 1.–10. lpp.; Bank of Latvia's informative booklet* "Veiciniet Ķeguma spēka stacijas izbūvi, iegādājoties valsts 5% kredītzīmes"; Ķeguma apvidus vēsture. *Sast. un teksta autore Ruta Andersone. Lielvārde : Lielvārds, 1999, 24., 29., 32., 34. un 39. lpp.; materials from the collections of the National History Museum of Latvia.*





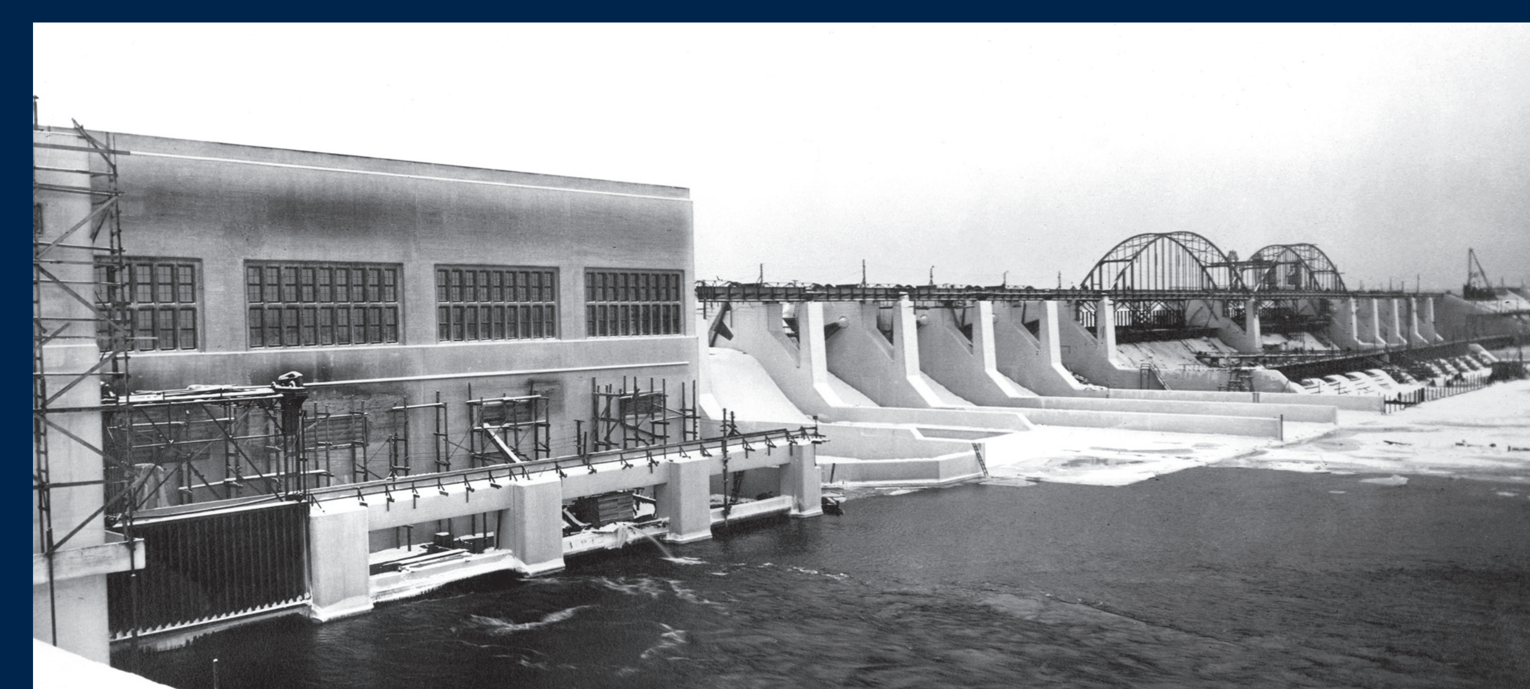
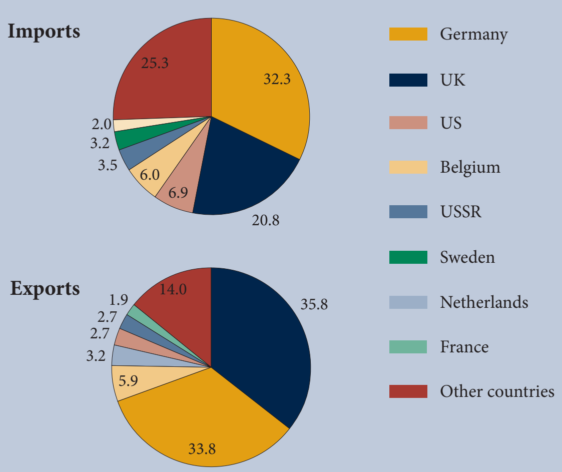


Chart 3. MOST IMPORTANT LATVIAN FOREIGN TRADE PARTNERS
(1933–1937; annual averages; % of total)



Source: Skujenieks, M. Latvijas Statistikas atlass. XX. *Rīga : Valsts statistiskā pārvalde, 1938, 48. lpp.*

On 2 August 1934, a law was adopted on import trade, which prescribed that in the future imports of goods for domestic consumption and processing would be allowed only to those traders and companies that had received permits to engage in import trade in the respective calendar year from the Ministry of Finance and had paid a fee (1 000 lats) for the right to import goods.[103] On 15 December 1936, this law was replaced by a law on import trade and representation of foreign merchants. The second part of this law provided that also foreign merchants in Latvia could operate only after receiving a permit from the Ministry of Finance.[104]

The tasks of the Chamber of Trade and Industry for representation and promotion of trade in Latvia as laid down by the law were to limit unfair competition, to hold product fairs and other outreach activities, to ensure economic contacts, and to organise information and legal services.[105] In order to promote exports, the government continued to enter into the so-called compensation or clearing agreements with a number of countries. These clearing agreements were of little importance and often forced the making of uneconomical transactions, especially with Germany. The Exchange Commission began using the so-called export clause that allowed importers to buy necessary foreign currency from exporters at a premium. Therefore, when importing, one had to pay 30%–40% above the official exchange rate.[106] The law adopted on 24 September 1935 restricted flax and timber exports.

Comparing the data in Charts 2 and 3, one can see that average annual exports in the period increased slightly (from 164.1 million lats to 165.9 million lats), but average annual imports decreased (from 218.4 million lats to 151.3 million lats). In the 1930s, almost 70% of Latvian exports and 53% of imports were ensured by the UK and Germany (by 42% and 54% respectively in the 1920s). Latvia managed to achieve greater diversity in purchasing import goods than in finding markets for its exports. This export concentration and dependence upon two countries was the result of the 1934 reciprocal trade agreement concluded with the UK and the 1932 clearing agreement entered into with Germany.

Given the relatively high proportion of local resources in Latvian exports (a large part consisting of agricultural products and timber) and the significant volume of exports to the countries which had already abandoned the gold standard, the pegging of the lats to the British pound sterling in 1936 implemented by Ulmanis regime, which meant a de facto devaluation of the lats, and the simultaneous recovery of world trade from the economic crisis facilitated Latvia's foreign trade. This step also implied the abandonment of the idea of autarchy.[107]

After currency depreciations by a number of major trade partners, Latvia's ability to compete in export markets, particularly in the UK market, became weaker. However, it was only on 26 September 1936 after the announcement of devaluation and abandonment of the gold standard of the French franc that the Finance Minister L. Ēķis informed that "consultations were held with the State President and Prime Minister, and after assessment of the whole situation, we acknowledged that we should follow the French example and ensure the necessary reforms also in our country".[108]

With the 28 September 1936 amendments to the Credit Regulations, the lats was pegged to the British pound sterling (the lats was equated to 0.0396487 British pound sterling or one British pound sterling corresponded to 25.22 lats).[109] This was the exchange rate which existed up to September 1931, when the British pound sterling abolished the gold standard. Thus, "in terms of the value of gold at the London Stock Exchange, the outcome is that the value of the lats in gold is now 39% less".[110] The exchange rate quoted by the Riga Stock Exchange for the purchase of the British pound sterling was 15.43 lats on 28 September, but on 29 September it already rose to 25.18 lats[111], from 7 October 1936 up to 8 September 1939 standing at 25.16 lats. Consequently, the value of the British pound sterling in lats had increased by 63.1%.

Along with its positive impact on foreign trade, devaluation of the lats had a negative impact on the Latvian economy. The significant rise in prices caused by devaluation was partly offset through substantial tariff changes. Import tariffs were reduced for many consumer goods[112] and a variety of textile, metal and tobacco industry raw materials, but in order to prevent the timber exporters from making unreasonably high profit, the export duty on timber was increased.[113]

According to the data of the State Statistical Office, retail prices rose after devaluation, by, for example, 24% for men's wool suits, 4% for white bread, 33% for fresh pork, and 20% for kerosene.[114] In relation to foreign trade, wholesale prices were the most important indicator.

In the first year after devaluation, the largest increase (60 points) was recorded for the export price index. This meant that exporters received 68.2% more lats for their export goods than before devaluation. However, despite the significant changes in customs tariffs, the import price index also increased by 24 points.[115] Thus, importers had to pay in lats 29.3% more than before devaluation.

One of the main reasons for devaluation of the lats was the improvement of foreign trade balance. After devaluation, total Latvian exports rose sharply, while imports expanded less fast, so the foreign trade balance surplus reached its highest levels in the 1930s. This was due to the fact that the only restrictions on exports were export duties and timber export licensing, while on imports there remained a number of constraints, including currency restrictions and quotas as well as importers' licensing.

The Latvian foreign trade balance had turned positive already in 1936. In that year, both imports and exports had a tendency to expand (already at the end of September, the trade balance improved), and the devaluation only strengthened this trend (compared with September, October exports in lats grew by 32.8%, while imports increased only by 14.2%). In 1937, Latvia's foreign trade balance surplus reached its historical high of the 20th century due to a very strong export growth mainly observed in product groups with a high share of local resources (mainly timber exports). However, there was also a significant increase in imports, and goods, whose imports were limited in previous years by import licensing or foreign exchange restrictions, were imported.[116] Imports rose in part also due to reduced import tariffs for a number of consumer goods and raw materials. In 1937, new customs tariffs were adopted (in force as of 1 January 1938).[117]

During the authoritarian regime, national income gradually increased from 857.6 million lats in 1933 (444 lats per capita) to 1 256.0 million lats in 1938 (637 lats per capita).[118] Thus, the 1929 level was reached only in 1938.

Latvian economic development was interrupted by the Molotov-Ribbentrop Pact signed on 23 August 1929 and the beginning of World War II. At the start of the war, Latvia and the other Baltic States had declared complete neutrality. The circumstances of the war led to economic difficulties in Latvia, and the Ulmanis regime had to make several important decisions to minimise the effects of the war on the Latvian economy. Already on 3 September 1939, strict controls over the Latvian economy were introduced regarding the acquisition, processing and sale of key raw materials along with a ban on transferring Latvian ships to foreign flags and leasing them abroad.[119] On 12 September, the lats was uncoupled from the British pound sterling, and the Bank of Latvia was given the task to "maintain the lats for the needs of the Latvian economy at an appropriate stable level using as a basis the value of gold or some other stable currency."[120]

In the secret protocol of the Molotov-Ribbentrop Pact, it was fixed that the Baltic States were included in the USSR sphere of influence. After grabbing Eastern Poland in September 1939, the USSR began to strengthen its influence in the Baltic States and Finland. Their representatives were summoned to Moscow and forcibly invited to sign a mutual assistance treaty with the USSR. On 5 October 1939, Latvia signed "Mutual Assistance Pact between Latvia and the Union of Soviet Socialist Republics" with a confidential protocol, which provided for the establishment of Soviet military bases with 25 thousand soldiers in Latvia.[121] Ulmanis declared: "This pact with our big neighbour, which was entered into in mutual trust, confidence and a spirit of good faith, brings us security, as well as distancing from the threat of war or even its elimination."[122]

The beginning of the war hit Latvia, for which the majority (about 90%[123]) of foreign trade was provided by sea, particularly hard. Germany had closed the access to the Baltic Sea, preventing trade with the UK, which was Latvia's second largest trading partner. The attempts to maintain trade with the UK through Scandinavia were unsuccessful.[124] For example, imports from Britain fell from 19.8% of total imports in the first three months of 1939 to 2.6% in the first three months of 1940, while exports from 40.8% of total exports contracted to 0.1% respectively.[125] There were two options left – the USSR and Germany.

On 18 October 1939, in Moscow, "Agreement on Trade Turnover between the Latvian Republic and the Soviet Union" was signed. The agreement was seen as advantageous to Latvia in the circumstances of war when export options were severely limited.[126] Latvia exported mainly agricultural products, including live pigs, butter, meat, and cheese as well as railway wagons, but imported from the USSR mainly oil products, cotton, chemical products, agricultural machinery, salt and sugar.[127] In January–May 1940, Latvian exports to and imports from the USSR were six and five times higher respectively than for the same period in 1939.[128]

The other potential market in the circumstances of war was Germany. The mutual aid agreement did not prohibit trade, because the USSR and Germany were allies. After lengthy negotiations, Latvia signed a trade agreement with Germany on 15 December 1939. It regulated both German exports to Latvia and Latvian exports to third countries.[129] On 21 December, a Latvian–German agreement on the supply of goods was signed. During the last four months of 1939, 52.5% of Latvian imports and 56.5% of exports were associated with Germany.[130] In the first three months of 1940, the share of imports from Germany fell to 42.6% and that of exports to 38.4%[131], because the Latvian–USSR Trade Agreement had come into effect.

However, these agreements could not replace the peace-time foreign trade. The reduction of foreign trade had a negative effect on the Latvian economy, causing an increase in the cost of living, shortage of goods, a fall in industrial production, and unemployment. The wholesale price index rose from 113 in 1938 to 140 in June 1940[132], but the cost of living index went up from 90 in 1938 to 272 in May 1940.[133] The especially cold winter of 1940 also made an impact. In March 1940, the sugar rationing began.[134] Problems resulted from a shortage of labour in rural areas, because guest workers from Poland could not enter Latvia. On 28 May 1940, a law had to be adopted regarding economic services, which provided for the compulsory appointment of inhabitants to work in agriculture or peat extraction, albeit its implementation was stopped on 17 June by occupation.[135] The formal admission of Latvia to the Soviet Union on 5 August 1940 ended the Latvian State and its economic independence.

SUMMARY

Latvia's first 10 years were characterised by economic growth and a foreign trade boom. Overcoming enormous material difficulties, the country was able to restore the economy and even to ensure some growth compared with the period before World War I.

The establishment of the Bank of Latvia and the implementation of national currency based on the gold standard stabilised the banking and financial systems and ensured the engagement of foreign capital.

Agriculture developed particularly buoyantly, and the agrarian reform played an important role, contributing to the transition to intensive agriculture.

The Latvian industry primarily adapted to domestic needs. The 1927 Latvia–USSR Trade Agreement was intended to develop industry, promoting the production for exports and reducing imports of manufactured goods. Latvia wanted to develop transit, and the Latvian Shipping Company played a small but growing role in ensuring transit transport, as well as imports and exports.

Up to 1929, Latvian foreign trade was mainly represented by imports of manufactured products and exports of agricultural products and timber. During 1921–1929, butter exports increased notably, becoming a significant part of foreign trade. Although during this period the trade balance was negative, both imports and exports steadily grew, and export and import terms of trade were relatively stable.

Up to 1929, the fiscal policy was focused on a balanced budget or building a surplus budget, which the country managed to implement from the 1922/1923 budget year up to the 1929/1930 budget year. The budget surplus was used to build up a reserve fund, and the state funds were used mainly to restore the infrastructure and to return to growth.

Due to the global economic crisis, prices also fell in Latvia, both in the domestic market and for its export products abroad. Around 1931, due to the declining purchasing power of the population, there was a sharp drop in demand. The reduction in production caused bankruptcies of enterprises, and the number of unemployed increased. The standard of living deteriorated. Latvia did not devalue the lats but in 1931 moved to a managed currency exchange rate retaining the former lats exchange rate and stopped the guaranteed exchange of the lats for gold and foreign currencies. The decision not to devalue the Latvian lats simultaneously with devaluation in the UK, Latvia's largest export partner, meant that Latvian exports became more expensive and the trade deficit increased. To cover this deficit, previously formed reserve fund was utilised, and, therefore, the crisis in Latvia was not as severe as in other European countries. At the end of 1933 and the beginning of 1934, the Latvian economy had started to recover.

After the *coup d'état*, the intervention of the state in the economy intensified, utilising the Credit Bank of Latvia for the purpose of creating state-owned companies on the basis of private enterprises. The system of chambers was established, of which four were related to the economy. Agriculture was still the main sector of the national economy. The regime restructured co-operatives as well as centralised and controlled their activities. The main export goods still were butter, bacon and timber. In industry, state joint-stock companies were established. New industrial sectors like the production of radios, airplanes and telephone apparatus, developed, and the Ķegums hydroelectric power station was built.

The fiscal policy was again directed towards a balanced budget or building a surplus budget. Subsidies for agriculture were introduced. In banks, the share of foreign capital decreased. In 1936, the lats was devalued via abandoning the gold standard. At the same time, there was a retreat from autarchy, especially in industry. Devaluation of the lats lowered export prices, allowing the country to overcome the negative trade balance already in 1936. However, Latvia's foreign debt increased and imports became more expensive, raising costs for Latvian producers. The effects of devaluation were corrected by the state control over foreign trade and domestic price levels. In the years before World War II, foreign trade developed rapidly, and the engagement of foreign investment was enhanced.

ENDNOTES

[1] Latvian Industry since the War. *The Latvian Economist*. Riga : Ministry of Finance, No. 7/8, July/August 1923, p. 159.

[2] *Latvijas Sargs*. Nr. 56, 1919, 27. marts, 1. lpp.

[3] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 111. lpp.

[4] Likumu un valdības rīkojumu krājums. Nr. 181, 1920, 30. apr., 1. un 2. lpp.

[5] *Ekonomists*. Nr. 9, 1920, 15. jūl., 280. lpp.

[6] Ibid., Nr. 16, 1921, 15. aug., 631. lpp.

[7] Likumu un valdības rīkojumu krājums. Nr. 116, 1921, 30. jūn., 186. lpp.

[8] Ibid., 181. lpp.

[9] *Ekonomists*. Nr. 23, 1922, 1. dec., 513. lpp.

[10] *Latvijas Bankas darbība 10 gadu laikā 1922.–1932.* Rīga : Latvijas Banka, 1933, 68., 73. un 78. lpp.

[11] *Valdības Vēstnesis.* Nr. 143, 1924, 30. jūn., 1. un 2. lpp.

[12] See Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 193., 274. un 275. lpp.

[13] The state budget year was from 1 April to 31 March the following year.

[14] See Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 196. un 275. lpp.

[15] Ibid., 276. lpp.

[16] Ibid., 281. lpp.

[17] *Ekonomists*. Nr. 18, 1928, 15. sept., 730. lpp.

[18] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 130. un 132. lpp.

[19] Ibid., 484. lpp.

[20] Ibid., 275. un 287. lpp.

[21] Zalts, A. *Nacionālā saimniecība 20 gados: Centieni un sasniegumi*. Rīga : Pagalms, 1938, 10. lpp.

[22] Ibid., 13. lpp.

[23] Bokalders, J. *Latvijas ekonomiski-ģeogrāfiskie pamati.* Stokholma : Zelta Ābele, 1947, 20. lpp.

[24] Zalts, A. *Nacionālā saimniecība 20 gados: Centieni un sasniegumi*. Rīga : Pagalms, 1938, 18. lpp.; Skujenieks, M. *Latvijas Statistikas atlass. XX.* Rīga : Valsts statistiskā pārvalde, 1938, 17. lpp.; Bokalders, J. *Latvijas ekonomiski-ģeogrāfiskie pamati.* Stokholma : Zelta Ābele, 1947, 30. lpp.

[25] Bokalders, J. *Latvijas ekonomiski-ģeogrāfiskie pamati.* Stokholma : Zelta Ābele, 1947, 48. lpp.

[26] Ibid., 58. lpp.

[27] *Latvijas statistikas gada grāmata 1939.* Rīga : Valsts statistiskā pārvalde, 1939, 159. tabula, 110. lpp.

[28] LSHA, F. 2575, descr. 21, f. 10, p. 18.

[29] Zalts, A. *Nacionālā saimniecība 20 gados: Centieni un sasniegumi*. Rīga : Pagalms, 1938, 29. lpp.

[30] Zalts, A. Ārējā tirdzniecība. ***No:*** *Latvijas Republika desmit pastāvēšanas gados.* Red. A. Bīlmans. Rīga : Golts un Jurjans, 1928, 263. lpp.

[31] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 358. lpp.

[32] Ibid., 249. un 362. lpp.

[33] Darbiņš, A., Vītiņš, V. *Latvija. Statistisks pārskats*. Vācija : P. Mantnieka apgāds, E. Ķiploka apgāds, 1947, 47. lpp.

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[35] Ēķis, L. *Latvia: Economic Resources and Capacities*. Washington : Press Bureau of the Latvian Legation, 1943, p. 95.

[36] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 284. lpp.

[37] Bokalders, J. *Latvijas ekonomiski-ģeogrāfiskie pamati*. Stokholma : Zelta Ābele, 1947, 106. lpp.

[38] Skujenieks, M. *Latvija. Zeme un iedzīvotāji*. Rīga : A. Gulbja apgāds, 1927, 630. lpp.

[39] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 227. lpp.

[40] *Latvijas Bankas darbība 10 gadu laikā 1922.–1932*. Rīga : Latvijas Banka, 1933, 49. lpp.

[41] For the Latvian banking overview see Hiden, J. On Banks and Economic Trends in Latvia 1918–1940. ***In:*** *Transformation and Integration in the Baltic Sea Area*. Ed. by P. Falk and O. Krantz. Umeå : Umeå University, 2000, pp. 133–149.

[42] *The Latvian Economist*. Riga : Ministry of Finance, 1928, p. 24.

[43] See Imported Goods Section: goods of prime necessity and prohibited import goods *Ekonomists*. Nr. 10, 1920, 1. aug., 294. un 295. lpp.; Zalts, A. *Latvijas starptautiskā saimnieciskā dzīve*. Rīga : Valters un Rapa, 1932, 7. un 8. lpp.

[44] Noteikumi par koku tirdzniecību ar ārzemēm (1920. gada 5. janvārī). *Ekonomists*, Nr. 23, 1924, 1. dec., 1447. lpp.

[45] Rīkojums par izvedatļaujām (1920. gada 14. janvārī). *Ekonomists*, Nr. 23, 1924, 1. dec., 1448. lpp.

[46] Kārkliņš, A. Ārējā tirdzniecība 1922. gadā. *Ekonomists*, Nr. 10, 1923, 15. maijs, 377. lpp.

[47] Zalts, A. *Latvijas starptautiskā saimnieciskā dzīve*. Rīga : Valters un Rapa, 1932, 9. lpp.

[48] Ibid., 11. lpp.

[49] See Economic Treaties and Foreign Trade. *The Latvian Economist*, Riga : Ministry of Finance, 1938, pp. 20–23.

[50] Munters, V. Tirdzniecības līgumi. ***No:*** *Latvijas Republika desmit pastāvēšanas gados*. Red. A. Bīlmans. Rīga : Golts un Jurjans, 1928, 267. lpp.

[51] Zalts, A. *Nacionālā saimniecība 20 gados: Centieni un sasniegumi*. Rīga : Pagalms, 1938, 144. lpp.

[52] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 411.–413. lpp.

[53] *Latviešu konversācijas vārdnīca*. Galv. red. A. Švābe, A. Būmanis, K. Dišlers. 11. sēj., Rīga : A. Gulbja apgāds, 1934–1935, 20634. sl.

[54] *Ekonomists*. Nr. 10, 1928, 15. maijs, 473. lpp.

[55] Ibid., Nr. 12, 1928, 15. jūn., 556. lpp.

[56] *Latvijas Republikas III Saeimas stenogrammas*. I sesija. Rīga : Latvijas Republikas Saeima, 1928, 420. sl.

[57] *The Latvian Economist*. Riga : Ministry of Finance, 1938, p. 96.

[58] Hiden, J., Salmon, P. *The Baltic Nations and Europe: Estonia, Latvia and Lithuania in the Twentieth Century*. London : Longman, 1991, p. 79.

[59] It was in 1929 that exports to the USSR expanded most. See *Latvijas statistiskā gadagrāmata 1931*. Rīga : Valsts statistiskā pārvalde, 1932, 195. tabula, 250. un 251. lpp.

[60] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 440. un 441. lpp.

[61] Ibid., 445. lpp.

[62] Ibid., 446. lpp.

[63] *Latvijas Banka. Gada pārskats par 1931. gadu*. Rīga : Latvijas Banka, 1932, 36. lpp.

[64] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 455. lpp.

[65] *Ekonomists*. Nr. 13/14, 1934, 31. jūl., 473. un 474. lpp.

[66] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 476. lpp.

[67] Ibid., 477. lpp.

[68] *Ekonomists*. Nr. 24, 1936, 31. dec., 834. lpp.

[69] Ibid., 835. lpp.

[70] Ibid., 833.–835. lpp.

[71] Zunda, A. *Latvijas un Lielbritānijas attiecības 1930.–1940. Realitāte un ilūzijas*. Rīga : LU žurnāla "Latvijas Vēsture" fonds, 1998, 43. lpp.

[72] *Latvijas statistikas gada grāmata 1939*. Rīga : Valsts statistiskā pārvalde, 1939, 182. lpp.; *Mēneša Biļetens*. Rīga: Valsts statistiskā pārvalde, Nr. 11, 1930, 1060. lpp.

[73] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 497. lpp.

[74] Ibid., 499. lpp.

[75] *LU Latvijas Vēstures institūts. 20. gadsimta Latvijas vēsture (II daļa): Neatkarīga valsts. 1918–1940*. Rīga : Latvijas Vēstures institūta apgāds, 2003, 438. lpp.

[76] Ibid., 449. lpp.

[77] Ibid., 437. lpp.

[78] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 562. lpp.

[79] See articles by economist A. Ceichners in *Ekonomists*. Nr. 17, 1931, 15. sept., 587.–595. lpp.; *Ekonomists*. Nr. 13/14, 1933, 31. jūl., 497.–502. lpp.; *Ekonomists*. Nr. 15/16, 1933, 31. aug., 558.–562. lpp.

[80] *Ekonomists*. Nr. 15/16, 1933, 31. aug., 560. lpp.

[81] Ibid.

[82] *Latvijas statistikas gada grāmata 1939*. Rīga : Valsts statistiskā pārvalde, 1939, 183. tabula, 133. lpp.

[83] Balodis, A. *Latvija un latviešu tautas vēsture*. Rīga : Neatkarīgā teātra "Kabata" grāmatu apgāds, 1991, 248. lpp.

[84] *The Latvian Economist*. Riga : Ministry of Finance, 1937, p. 90.

[85] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 600. lpp.

[86] Ibid., 612. lpp.

[87] *LU Latvijas Vēstures institūts. 20. gadsimta Latvijas vēsture (II daļa): Neatkarīga valsts. 1918–1940*. Rīga : Latvijas Vēstures institūta apgāds, 2003, 632. lpp.

[88] Ibid., 630.–632. lpp.

[89] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 737. lpp.

[90] Ibid., 741. lpp.

[91] Ibid., 637. lpp.

[92] Ibid., 630. lpp.

[93] *LU Latvijas Vēstures institūts. 20. gadsimta Latvijas vēsture (II daļa): Neatkarīga valsts. 1918–1940*. Rīga : Latvijas Vēstures institūta apgāds, 2003, 653. lpp.

[94] Ibid.

[95] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 752. lpp.

[96] *Finanču un kredīta statistika 1939*. Rīga : Valsts statistiskā pārvalde, 1939, 172. lpp.

[97] *Valdības Vēstnesis*. Nr. 177, 1936, 8. aug., 8. lpp.

[98] Johansson, A. Towards the Creation of the Kegums Power Station: How Swedish Enterprise Responded to Latvian Plans for Expanded Electricity Production. ***In:*** *Emancipation and Interdepence: The Baltic States as New Entities in the International Economy, 1918–1940*. Ed. by A. Loit. Stockholm : Centre for Baltic Studies, 1994, p. 368.

[99] *Ekonomists*. Nr. 11/12, 1934, 30. jūn., 428. lpp.

[100] *Valdības Vēstnesis*. Nr. 126, 1934, 9. jūn., 1. un 2. lpp.

[101] *Ekonomists*. Nr. 11/12, 1934, 30. jūn., 425.–428. lpp.

[102] Ibid., Nr. 6, 1935, 31. marts, 208.–211. lpp.

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[104] Ibid., 21. lpp.

[105] Ibid., Nr. 24, 1934, 31. dec., 875.–878. lpp.

[106] Ibid., Nr. 2, 1936, 31. janv., 50. lpp.

[107] Ibid., Nr. 22, 1937, 15. nov., 908. lpp.

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[111] Ibid., Nr. 19, 15. okt., 688. lpp.

[112] Ibid., Nr. 20, 31. okt., 718. lpp.

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[115] Ibid., 961. lpp.

[116] Ibid., Nr. 11/12, 1938, 1. jūn., 510. un 511. lpp.

[117] Ibid., Nr. 7, 1. apr., 312. lpp.

[118] *Strukturbericht über das Ostland. Teil I: Ostland in Zahlen*. Riga : Reichskommissar für das Ostland, 1942, S. 21.

[119] LSHA, F. 6824, descr. 1, f. 6, pp. 1–10.

[120] Ibid., p. 126.

[121] *Latvijas okupācija un aneksija 1939–1940*: dokumenti un materiāli. Sast. I. Grava-Kreituse u.c. Rīga : Preses nams, 1995, Nr. 49 un 50, 118.–120. lpp.

[122] *Valdības Vēstnesis*. Nr. 233, 1939, 13. okt., 1. lpp.

[123] *Latvian Economic Review*. No. 1 (17), The Latvian Chamber of Commerce and Industry, January 1940, p. 30.

[124] See Lane, T. A. The Winding Down of British Trade with the Baltic States, 1939–1940: The View from Whitehall. ***In:*** *Emancipation and Interdependence: The Baltic States as New Entities in the International Economy, 1918–1940*. Ed. by A. Johansson et al. Stockholm : Centre for Baltic Studies, 1994, pp. 291–303.

[125] Calculated from *Mēneša Biļetens Nr. 5*. Rīga : Valsts statistiskā pārvalde, 1939, maijs, 517. lpp.; LSHA, F. 1314, descr. 5, f. 100, pp. 39 and 40.

[126] Aizsilnieks, A. *Latvijas saimniecības vēsture, 1914–1945*. Stokholma : Daugava, 1968, 798. lpp.

[127] Leits, A. *Buržuāziskās Latvijas ekonomika un saimnieciskie sakari (1929–1939)*. Rīga: Latvijas Valsts izdevniecība, 1958, 198. lpp.

[128] Ibid., 200. un 201. lpp.

[129] Andersons, E. *Latvijas Vēsture. Ārpolitika II. 1920–1940*. Stokholma : Daugava, 1984, 285. lpp.

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[131] LSHA, F. 1314., descr. 5, f. 100, pp. 39 and 40.

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