

**POLITICAL ECONOMY OF NEOLIBERAL
REFORMS IN ESTONIA, 1991-2014**

*Thesis submitted to Jawaharlal Nehru University in partial
fulfilment of the requirements for the award of the degree of*

DOCOTOR OF PHILOSOPHY

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DECLARATION

I declare that the Thesis entitled *Political Economy of Neoliberal Reforms in Estonia, 1991-2014* submitted by me for the award of the degree of **Doctor of Philosophy** of Jawaharlal Nehru University is my own work. The Thesis has not been submitted for any other degree of this University or any other university.

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CERTIFICATE

We recommend that this Thesis be placed before the examiners for evaluation.

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Dr. K. B. Usha
Supervisor

Dedicated

To

The memory of Selvi, my eldest sister

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Abbreviations

EU	European Union
FDI	Foreign Direct Investment
FSU	Former Soviet Union
FTA	Free Trade Agreement
IMF	International Monetary Fund
GDP	Gross Domestic product
LFS	Labour Force Survey
MNC	Multi-National Companies
OECD	Organization of Economic Cooperation and Development
PAYG	Pay As You Go
PPP	Purchasing Power Parity
SAM	Social Affairs Ministry
SHIC	State Health Insurance Council
U.S.	United States
UN	United Nations
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization

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Chapter 1

Political Economy of Neoliberal Reforms: A Theoretical Framework

Background

Estonia, one of the Baltic republics¹ of the former Soviet Union, regained independence in 1991. In the post-independence period, the country faced several new challenges such as political instability, economic decline and chaotic social situation caused by the Soviet disintegration. As a result Estonia has been undergoing multidimensional transition, political, economic, social and cultural, and de-Sovietisation process. Institutional restructuring, democratization of political system and market-oriented economic reforms have assumed key roles in this process. Estonia embraced neoliberal economic reforms as a crucial element in the post-Soviet nation-building with a view to transform their economy into a market economy, distance from Russia and integrate with Europe. One of the primary goals for the Estonian government was to “return to Europe” and join the European Union to keep the country away from Russia, which the national political elite defined as a potential threat.² This security perception was one of the reasons to embrace neoliberal policies quickly. Although a new democratic system was established and neoliberal economic policies are implemented rapidly, it generated enormous negative social consequences such as unemployment, low wages, poverty, inequality and so on. Therefore, the study, political economy of neoliberal reforms, seeks to understand the political factors underpinning the processes

¹ Latvia, Lithuania and Estonia together are known as Baltic states. These three countries were provinces of Russian empire until 1918. They achieved independence during First World War and remained as sovereign states during the interwar period, 1918-1940. However, the Second World War geopolitics changed their destiny. They were incorporated into Soviet Union and remained under Soviet occupation until 1991 when the Soviet Union itself disintegrated.

² Estonia started the process of gaining EU-NATO membership in early 1990s and finally joined the EU and NATO in 2004.

of privatisation, liberalisation, the policy choices of various governments, and economic outcomes and social impact of these policies.

After independence the future vision of the country has been defined on the principles of De-Sovietization, colonization and historical injustice, i.e., interpretation of Soviet occupation. These principles remain the basis of defining national identity, citizenship and social integration despite the multi-ethnic character of Estonian society. Legal continuity of the interwar period was applied in the post-Soviet democratization and nation building processes. Titular ethnicity was defined as “self” and the Russian speakers are the “other”, which reflects an exclusionary approach based on identity/memory politics from the very beginning (Park 1994). This means the national question became important for the state with capitalist and neoliberal economic policy.

A new democratic political system based on western values and norms was established in Estonia. New constitution was approved by a national referendum in June 1992. A parliamentary electoral system based on proportional representation and party lists was adopted. Parliament *Riigikogu* is unicameral with 101 members. The first elected government assumed power in 1992. In the years followed by the establishment of the first government, Estonia witnessed several governments being changed without completing their tenures, and was grappling with political instability even though each successive government continued with the policies of neoliberal reforms and opening up of domestic markets. Political parties are fragmented. Article 66 of the Estonian constitution prohibited corporate funding for political parties and their candidates. In 2007 scandal exposed the corporate nexus with political parties in Estonia ‘buying the law’, where one of the country’s most prominent business figures donated considerable funds to several political parties while he was involved in building a power plant for renewable energy sources (International Institute for Democracy and Electoral Assistance: A Handbook on Political Finance 2014: 175). In 2012 a former member of parliament Silver Meikar admitted receiving money from undisclosed source for his

ruling Reform Party (ibid: 181). The level of political institutionalization is not satisfactory in Estonia as expected from a modern democracy (Titma 1996).

Even though the institutions of democratic state was established in a short span of time, the concerns of nationalist forces of preserving Estonian language and culture, ethnic policy of government and ethnic social division characterised the Estonian state as ethnicity based democracy. The treatment of Russian speaking minority comprising of about 24 percent of the total population, denial of citizenship rights to Russian speaking population and notifying them as aliens/non-citizens which is still an unsettled issue in Estonia set the stage for their social exclusion and segregation. The threat of survival being a small state leads to harsh nationalistic policies. The issue of minority rights has become a politics of identity and culture with implications on Estonia's bilateral relations with Russia.

An economic development model conforming to the West was highlighted as one of the guarantees of security. Inspired by the philosophy of Milton Friedman and Margaret Thatcher, Mart Laar, the first Prime Minister of Estonia, immediately embarked on "shock therapy" free market reforms, liberalization of the economy and privatization (Smith 2001). Estonia's ruling political elites rapidly implemented privatization, market reforms and liberalization policies based on the conditionalities of International Monetary Fund (IMF), World Bank and World Trade Organization (WTO) and European Union. Necessary legal enactments were made to facilitate these reforms (Peet 2009).

Until 2007 the country had shown high growth rates of 10-11 percent (World Bank 2015) among the EU countries and was, thereby, even known as one of the "Baltic Tigers" or "shining stars" in the post-Soviet space. However, the growth was embedded with overheating tendencies including high inflation, real estate boom, increase in wages, accelerating exchange rate, increasing foreign debt liabilities, rising current account deficit, and so on. By 2008, the bubble burst into economic downturn, which was further exacerbated by

global economic depression originated from Lehman Brothers bank's collapse due to the US government's refusal of bankruptcy protection and Euro zone crisis (Usha 2014). In 2008, economic crisis that hit the Western economies and the EU countries adversely affected Estonia. Estonia's GDP fell down around 14.3 percent and in the beginning of the crisis unemployment rose from below 5 percent in 2008 to over 17 percent in 2010 (ILO 2014). The domestic and external negative economic situation hit hard Estonia with a decline in growth, increase in unemployment, low wages, low standards of living and increasing migration to other EU countries (Usha 2014).

During 2008-2010 Estonian economic growth declined by 24 percent in terms of GDP, partially due to the global financial crisis. One of the major reasons for such a crisis was the fact that 98% of the banks in owned by foreign corporations. Estonia had borrowed huge amounts from the EU to deal with the crisis and became one of the first former Soviet countries to adopt Euro as currency in 2011 (estonia.eu. economy Euro).

Since 2008, in order to recover from the shock of economic crises, Estonia adopted severe austerity policies comprised of enormous cutbacks of government spending in the social welfare, healthcare and education systems, and labour market reforms that made employment relationships more insecure and reduced wages. The Estonian government adopted measures like wage-cuts to the state government employees, decreasing health subsidies, unemployment benefits and labour protection, rise in pension age, etc. The government claims that Estonia has resumed its fast growth, expanding 8.3% in 2011, compared with an EU average of 1.5 percent, and 2.5 percent in 2012, even while the rest of the EU shrank. Invariably, during this period Estonia's austerity model has been projected as success story of growth-oriented neoliberal macroeconomic models and a role model for the rest of Europe. In 2013, growth rate has been projected at 3.1 percent. The political elite of the country claims that it has become one of the fastest growing economies in European Union. However, in terms of other social indicators such as

inequality, unemployment, stress, migration etc., the country's performance is not at all satisfactory (Sommers et al. 2014).

The transition to market oriented capitalism in Estonia substantially heightened the inequalities of income and wealth among the population and increased social division. It resulted in a significant widening of the gap between rich and poor leading to the issue of social exclusion. A growing number of retired citizens, particularly of the fixed income group, were hard hit by the rising free market prices. The implementation of reforms in the social sector had serious impacts on the employment and health in particular. The health sector shifted from a state funded system to one which was funded through health insurance contributions (OECD 2014).

Several severe social problems like social deprivation, labour migration etc., emerged in Estonia. Population decline is a big social problem in this country with a 1.29 million population. The major reason for the population decline is the large increase in emigration. This means that people think that better life opportunities are less in Estonia. This calls into question the social progress aspect of democratic system and economic development (Sanguinetta and Mastrapa 2014).

This is why, a closer look at the role of the state in distributing the resources and protecting the rights of citizens, offers several puzzles related to political economy of neoliberal growth model in Estonia. Hence, given the cost of economic crisis and austerity for people, especially at the bottom of the society, Estonia is a good case in point to analyse the political economy of neoliberal capitalist model and its various implications.

Theoretical Framework

Simply speaking, political economy is about the role of public policy in influencing economic and social welfare of people of a country. Political economy, in the Marxian sense, is about the economic relations of people. According to Lenin political economy is concerned mainly with “the social relations between people in production, the social system of production”

(Lenin, Collected Works vol. 3: 62-63). Nikitin defines: “political economy is the science of the development of the socio-productive, i.e., economic, relations among people. It explains the laws which regulate the production and distribution of material wealth in human society at different stages of its development. Political economy is the study of the basis of social development” (Nikitin 1959: 15). Marx says that production of material wealth determines the development of society. Because as Nikitin puts it “in order to live, people must have food and clothing, housing and other material means of life, and to have these people must produce them, they must work. Any society will collapse if it ceases to produce material wealth” (Nikitin 1959: 8). So wealth creation, labour and distribution of wealth are important factors for social progress. These factors were the basis of Soviet experiment of socialism. But the disintegration of Soviet Union shows failure of the socialist political economy.

After the disintegration of the erstwhile Soviet Union, most of the state either willingly or forcibly (in some cases) implemented capitalist neoliberal economy. In 1970s Keynesian economy, which advocated limited government interference in the market to steer it in the right direction, faced a retreat and the current economic world order dominated by neoliberal economic policy came into being. Since 1991, neoliberalism and globalization emerged as hegemonic regime of policies reforms and processes for systemic transformation worldwide. Neoliberalism is not just as an economic policy, it is also a political philosophy which strongly advocates individual freedom through economic freedom. Neoliberalism believes market will bring the natural order in the society where individual can truly achieve social prosperity and freedom. Also neoliberalism argues market is the only place where allocation of resources can be achieved in true sense (Turner 2008: 4).

According to neoliberalism, economic freedom can be accomplished through market free from the clutches of state interventions of any sort. Neoliberalism however backed multinational corporations to have free hand over the affairs of the economy of a country without any restriction from any government in

the way of its creation of profits (Patnaik 2010: 2). Further, to free the economy from government control, essentially three basic principles of liberalization, privatisation and globalisation must be followed. Neoliberal economy is not tied up with one particular state giving it an international character beyond the control of the state. Neoliberalism thus makes changes in internal economy and undermines the legitimacy of the state (Patnaik 2010:1, Harvey 2005: 66). Neoliberalism is another way of establishing elite rule through corporate governance.

a) Governing Institutions and Transnational Corporations

The important governing institutions of economic globalization are IMF, World Bank, WTO and United States Treasury Department.

First time in history of capitalism, post Second World War, the capitalist countries agreed to establish international institutions in order to control economic activity to avoid further depression like in 1930s leading to the establishment of World Bank and IMF. Through these international economic institutions globalisation economic policies came to be implemented. These neoliberal policies have been implemented in the entire world through international institutions like the World Trade Organisation (WTO), World Bank and IMF and different names like Globalisation, the Washington Consensus in Latin America and Shock Therapy in Former Soviet Union Countries, have been given to it.

The neoliberal globalisation economic policies are thus implement structural adjustment policies in various names. Countries taking loan from the international intuitions, must implement these structural adjustment policies, based on major recommendations, as the following (1) Flexible labour market policies (2) Privatisation, allowing multi-national corporations (MNCs) and privatisation of the state owned assets (3) Liberalising trade, removing the all trade barriers for MNCs and including agriculture sector (Patnaik 1994: 4, Stiglitz 2003: 14). Elite economist and corporate elites push the government to follow the structural adjustment policies in the name of competition in the

world market and attaining world class standards to attract FDI. Organisation for Economic Cooperation and Development (OECD) policy paper 1999 clearly mentions that liberalisation of the trade will cause immediate pain for the countries, but also “liberal trade and investment are, and must be seen as being, not only about greater freedom of choice but also about fairness” (OECD 1999: 11). In the same policy paper it is mentioned that it might be so that due to the new labour market policies the existing labour might lose their jobs due to new technology and nature of workforce mobility (OECD 1999: 6-7). Open trade brings cheaper products and more advanced technology with which the domestic producers cannot compete thus making the labours lose their jobs. Trade liberalisation also contributed more and more to the informalization of the labour force in vast numbers (Babb 2005: 212). This clearly shows the ‘fairness’ of trade liberalisation which is evidently one the side of the WTO and IMF rules demanding the cutting of government expenditure in social sector while on the other hand the developed countries continue to argue that trade liberalisation is the “natural order and greater freedom”.

The neoliberal economy unlike the previous capitalist model came with further unprecedented development coupled with advanced information technology, promoting aggressive consumerism in accompaniment with international economic institutions like the WTO, IMF and World Bank and regional organisation like EU and OECD. Neoliberal economic policies also came to be implemented in different names- sometimes it came to be equated with globalisation; while in case of the third world countries it occupied the form of Washington Consensus. In case of the Post-Soviet Union countries it came to be known in the name of Shock Therapy. The underlining policies of these models remained the same: promoting the MNCs, free trade, financialisation and liberalisation.

One of other significant aspects of contemporary neoliberal Globalisation is that unlike earlier phase of capitalism, economic policies are implemented through international institutions, like World trade Organisation (WTO),

World Bank (WB), International Monetary Fund (IMF) and the United Nations (UN). Regional organisations like European Union (EU) for Europe and G8 for the developing countries, act as supra state actors playing important role to promote and pursue the neoliberal globalisation economic policies (Harvey 2001: 24, Stiglitz 2003: 10). Free trade, trade liberalisation is another way to force the globalisation economic policies through unequal treaties and international agreements like the North America Free Trade Agreement (NAFTA), European Union Free Trade Agreements (EUFTA) and ASEAN Free Trade Area (AFTA). Currently, United States (US) has free trade agreements with 20 countries. Through free trade agreements, massive Foreign Direct Investment (FDI) is allowed to other countries with tax exemptions. These trade treaties sometimes pressurize the developing and under-developed Countries.

In 1994, Organization for Economic Cooperation and Development (OECD) brought out some of major recommendations for the labour market. These new labour market policies have been most regressive in character and completely favoured private corporations. Below are some of its recommendations:

- Remove obstacles in labour legislation which impede the emergence of flexible working-time arrangements, and encourage employer-employee negotiations on flexible working hours and part-time work.
- Extend part-time working in the public sector.
- Move from the household to the individual as the base for the income tax, and take measures to avoid any loss of tax allowances.
- Reduce the tax for social security and unemployment benefits (OECD 2002).

The policy recommendations clearly show how in the name of flexible labour market the intension was to keep the workers under control of the private corporations and make them vulnerable and insecure about their jobs. These policies have been most successfully implemented in European countries and after the disintegration of Soviet Union; all the former Soviet Union countries

have implemented the new labour policies. Country like India is the example of being one of the worst sufferer of the new labour policies with working condition and basic minimum wages being in the worst spot possible (Guha 2009: 45).

Transnational corporations act as the main drivers of globalization. The primary aim of them is trade, business, profit maximization and accumulation of capital and resources. Neoliberal theory argues for unrestricted capital flow. Once the developing and underdeveloped countries implement neoliberal policies, they willingly or unwillingly open up their local market for international capital, bringing in the MNCs in massive way with the free flow of capital. Foreign Direct Investment (FDI) most of the time comes through these MNCs in these countries.

MNCs and FDI are not new phenomena for the international economies. Colonialism was a part of the economic expansion earlier and its perfect example is the East Indian Company from Britain which used to be a truly big Multinational Corporation. Post Second World War, the capital flow was under control due to the Keynesian economic policy. Neoliberal policies were successfully tested first in Chile under Augusto Pinochet's dictatorship where he overthrew the democratically elected Salvador Allende. Pinochet successfully implemented neoliberal policies with the help of the "Chicago boys" trained under Milton Friedman.

The MNCs grow like mushrooms under neoliberalism; in 1970s there are around 7000 MNCs. Before Soviet Union disintegration, in the year of 1990, around 30,000 MNCs were functioning. Once the fall of Soviet Union this number doubled worldwide by year 2005 around 77,000 MNCs are operating (Cohen 2007:47). These sudden changes in the political and economic spheres led to massive changes in the world economy also, leading to unprecedented technological developments. The growth of MNCs accounted massive increase in wealth and wealth concentration in the hands of few MNCs; out of the 75,000 MNCs by the year 2000 around 100 largest corporations accounted

for the wealth of 4.3% of global scale (Roach 2007: 4). Since expanding capital in the name of globalisation across the world is part of the neoliberal ideology, globalisation paved the way for the increase of MNCs by 2014. The share of MNC sales increased around \$18 trillion and exports of \$7.4 trillion (Detomasi 2014: 2). The more states opened their markets and deregulated state control supporting privatisation, the more the number of MNCs increased.

Neoliberalism argues for free market competition and is against state monopoly but it supports the monopoly of the corporates because this market monopoly apparently would lead to growth and healthy competition. However, as statistics show, it is only few countries which dominate majority of the MNCs. Out of 75,000 MNCs, 50 largest firms dominated the economy and had increased their profit by around 686% between 1983 and 2001 as a result of trade liberalisation and privatisation (Roach 2007: 14). Only the MNCs of a few countries dominate the world market, for example, like out of 500 largest MNCs, 434 are from US EU and Japan and their account of FDI is 90 percent the data, clearly showing how it is only very few countries that have hegemony over the world trade (Gooderham and Nordhaug 2003). According to UN data by the year of 2002, 90 percent of the top hundred transnational headquarters are situated in either the US, EU or Japan again clearly showing how this triad controls and makes trade rules and regulations for the rest of world. The US has control over the IMF making it easy for global governance through international financial institutions (Elteren 2009: 180, 182). Financialisation, privatisation and corporatisation of everything are few of the primary objectives of neoliberalism.

Financial transaction dramatically increased during the first phase of neoliberal reforms with the FDI flow rapidly increased by MNCs. FDI had increased from \$59 billion in 1982 to \$1.2 trillion in 2000. In the beginning years, the growth of FDI was 23.6 percent from 1986 to 90 and it slowed down in early 90s to 20 percent from 1990 to 1995. Despite the Asian crisis in 1990s, the growth of FDI increased around 40.1 percent (Kiely 2007: 426).

The reason behind the increase is the formation of the World Trade Organization (WTO) in 1995 where one of the major conditions is to remove the capital control and reduction in subsidies. During the same period, where on one side, the FDI increased on the other side the global level agricultural revenue sharply declined from 6.5 percent in 1980 to 2.8 percent in 2010 (Connell and Dados 2014: 130) due to the competition of MNCs. Cohen describes that there are varieties of FDI: namely, Resources seeking FDI and Market Seeking FDI. Most of the MNCs fall under the category of Resources seeking FDI which became one of the most effective method for developed countries to extract the natural resources from the third world countries like oil, mineral, gold, tropical commodities and other natural resources. Market seeking FDI on the other hand seeks to build up on these resources and get maximum profit and looking for new market. This second kind of FDI came up with massive amount of infrastructure and capital (Cohen 2007: 66, 67, 68).

Under neoliberalism, public institutions are subjected to privatisation. This privatisation process started in 1980 and was pursued vigorously in the following years. Ravi Ramamurti gives two major important reasons for the privatisation policies by the government: To resolve (1) the fiscal crisis the government sale the government owned enterprises, and (2) international pressure from the international organisations like IMF, World Bank and WTO from where the developing countries receive loans. These institutions must follow terms and conditions of these institutions whereby privatisation is one of the major conditions for the country who apply or receive the loans (Ramamurti 1992: 226).

Apart from the two reasons there are many more factor behind this privatisation process, making the developed and underdeveloped countries' economy mostly export oriented, forcing them to sell their state owned assets to private companies, allowing MNCs to take over the state owned companies and thereby expand privatisation to areas where there were no market earlier-like in education, health, banks and natural resources. Unlike the developed

countries, the public sector in the developing and under developed countries formed the very back bone to their growth in the post second world war development. This was similar to the post second world war conditions in the developed countries where due to Keynesian model the growth depended heavily on the public sectors. In Britain, in 1975, 20 percent GDP was produced by the public sector. By the year of 2000, the government has sold most of the state enterprises (Hermann 2007: 5). The increase of MNCs has majorly affected the domestic producers because of the bringing in of large number of capital and advanced technologies by the MNCs. Some of the neoliberals argue the MNCs bring and better quality of services but the MNCs cannot generate same number of employment as it replaces the domestic producers thus causing unemployment.

Most of the time, FDI not only carries the industrial development agenda in neoliberal era, it also targets the finance sectors like bank, insurance and the flow of speculative finance leading to economic crisis like the 1997 Asian financial crisis and 2008 global economic crisis. FDI in education, health and social sector weaken the social benefits because the state retreats from the responsibility of providing the social security (Patnaik 2010: 3). It is the GATT, an earlier version of WTO, which paved way for the aggressive expansion of liberalisation further increasing the profits for developed countries MNCs. In the Doha round under the NAMA (Non-Agriculture Market Access) the Third World countries were pushed to open the local market to MNCs as result of which, industrialisation in the Third World countries declined and created massive level of unemployment. In countries like the Cote d'Ivoire, tariffs were cut down by 40% in massive way in 1986 for major state owned enterprises like textiles, chemical and automobiles sector; in Senegal one third of employees had lost their jobs by second half of the 1980s; Ghana's employment in the manufacturing sector had reduced in massive scale from 78,700 in 1987 to 28,000 in 1993 (Hilary 2005: 4, 5).

MNCs are at helm of the neoliberal era whereby liberalising the trade and capital helped the MNCs to their own advantages. The free flow capital

increased the number of MNCs in dramatic way making the less developed countries to be at the receiving end. The amount of capital flow increased in less developed countries through FDI from being 6 percent in 1980s jumping to 60 percent in 2000. In amounts the increase was from \$303 billion in the 1980s to \$2.4 trillion in 2004 in less developed countries (Cohen 2007: 183). The state owned enterprises in the underdeveloped countries sold or privatised most of the time in the name of merger and acquisitions. This tendency increased from 1980s, the amount of FDI in merger and acquisitions being \$10 billion, rising to \$65 billion in 1998 through 2003, and the post-Soviet Union countries are perfect example for the selling out the state owned valuable enterprises for a cheap amount (Cohen 2007: 51, 136). In recent times Special Economic Zones (SEZ) or Export Processing Zone (EPZs) are the new formulae for allowing MNCs with tax relaxations and cheap labours to export and import duty free.

b) Role of State

The key factor in neoliberalism is the advocacy for a state created structure which creates obstacle for the individuals in accomplishing their economic desire. State in neoliberal theory is the protector of market. When state has to modify laws and set up institutions that uphold markets and promote efficient operation of market mechanism, the state is then forced to make policies that help efficient functioning of corporations, markets and capital flows (Bhamphri 2005). In neoliberal theory free movement of capital is very crucial and necessary. So as to make way for free flow capital the state must make necessary laws and remove regulation to support or protect market. According to Friedman, the state must enforce rules of the game not to get in the way to individual choices (Friedman 1962: 31).

Though the development of capitalism is in itself a global phenomenon, the present-day neoliberal globalisation is characteristically different from the earlier one. Beginning from mercantilist period, capital has always been supported by or backed by the state which included putting up barriers against the flow of goods, control of goods, as well as restriction on inflow and

outflow of capital (Patnaik 2002 :3). Neoliberal globalisation however is neither controlled by any state, nor does it allow any sort of control from any state. Neoliberal globalisation is completely backed by private capital which places the market above the nation-state. While the notion of state and nation has emerged through the enlightenment era, capitalism has emerged out of feudalism and placed the sovereignty of the nation state at the very top. Since 1648 treaty of Westphalia, the concept of sovereignty, one of corner-stone of the international politics, was put forth strongly among the participatory nations. This also laid the foundation for the future nation- state with its borders as well as there was emergence of strong nationalistic sentiment which strengthened the mercantile class.

However, one of the prominent features of the neoliberal globalisation is building the global level system without controls of any particular state and unregulated economic activity. Among the Marxist scholars the dominant view is that in neoliberal economic globalisation, state autonomy and sovereignty undermines international financial capital which is led by the private investors and MNCs. David M. Kotz argues that Globalisation produces huge interdependence among the nation–states whereby no individual nation-state will have the power to control the international capital (Kotz 2002: 74). Amit Bhaduri’s argument gives very important insight into market and the state’s accountability.

For a government, globalisation has time constrain but not the same for market, placing the international market above the state. Globalisation process not only affects the internal economy but also undermines the nation-state’s sovereignty over its economic decisions. The government has accountability to the people who elect it. In market, however, investors don’t have accountability to anybody and their investment is at their own risk. The Government cannot either overrule the minority neither can the majority impose its rule over others. However, the market functions fundamentally against the majority. The policies of the MNCs simply reflect the interest of minorities. In democracy accountability and correcting the mistake of the

government is an essential feature, while in market both the features cannot be found (Bhaduri 2000: 24, 25, 26). Joseph Stiglitz, former World Bank governor, wrote famous book called *Globalization and its Discontents*, where he reveals the most prominent problems of globalisation and how the international institutions force the developing and under developed countries to pursue free market economy, making them face economic difficulties.

Globalisation also creates different kind of social system which is highly consumerist in nature and promotes westernisation of culture in every span of life. Robert Gilpin, famous scholar of global political economy, agrees that globalisation undermines the nation-state and creates uneven development between the developed and under developed countries. He however argues that most of the failure of the globalisation in social economic arena as well as other related problems arise due to lack of technology, corrupt politicians and the failure of nation-states to act in a responsible manners (Gilpin 2001: 363).

One of the major attacks by neoliberalism has been on the democratic institutions within a state. In neoliberalism, individuals came to denote big corporate firms and big capitalist individuals. Neoliberalism links individual freedom with natural freedom of choices and aimed to free the choices of the individual from the clutches of the state's bureaucratic structure, but not from the exploitations of basic rights like ensuring minimum wages and living standards for them. For example, since neoliberalism argues for individual rights against collective rights, the premise of neoliberalism is against having labour unions and any other form of collective activity which according to it would obstruct the market and production (Friedman 1962).

c) Economic Outcome and Social Consequences

The contemporary globalization has generally been projected by its framers that it is positively aimed at high level of growth, development, financial stability, prosperity, well-being and high standard of living. The two important arguments in favour of globalization are: (1) Globalization accelerates economic growth and generates wealth and therefore it is very much beneficial

to the society; and (2) The wealth created at the top will trickle down to the bottom of the society. But the social impact of neoliberal economic reforms has been under scrutiny by the critics who argue that (1) globalization creates poverty, inequality, unemployment and insecurity; (2) globalization downgrades the role of state to protect its citizens; and (3) globalization causes imbalances in labour market (Juhansz 2002; Stiglitz 2004; Scholte 2005).

The global economic crisis testifies the failure of trickledown theory. The global experience of political turmoil, breakdown of government and social protest proves that neo-liberalism has severe-or to a certain extent inherent flaws in terms of delivering human security, social justice and democracy. As Scholte (2005) points out human security has suffered due to problems of unemployment, low wages, insecure working conditions, inadequate labour protection, ecological destruction by companies and income inequality. It threatened cultural integrity, social cohesion, etc. Market does not have any inherent morality, economic efficiency is in question and political system is unfair in addressing the problem.

Social Justice

Neoliberalism is essentially against the very concept of social justice. This can be understood for example by taking into account Milton Friedman's not supporting government decision of ending segregation. This act would invariably involve the government in individual choices. Thus he can be famously found quoting, "Those of us who believe that color of skin is an irrelevant characteristic and that it is desirable for all to recognize this, yet who also believe in individual freedom, are therefore faced with a dilemma" (Friedman 1962: 99). The quote efficiently enumerates how the conservative ideology of neoliberalism has pitted the collective welfare of society against individual freedom. The free flow of FDI in economy brought vulnerability and instability in economic activity all around the world. Globalisation not only privatised the public sectors but also forced the government to cut the social security systems replacing it with private ones not only in third world

countries but developed countries as well. Privatisation of social security policies also took place in the developed world (Babb 2005: 24).

Also, neoliberalism doesn't consider the historical background of any country. In classical sense, neoliberalism favours the market over the state, because market is the place individual can act or choose their own wellbeing apparently better than the government. Neoliberalism strongly pushes the state to withdraw its welfare schemes and lift the protective barriers, bringing huge assault on the local market. Till 1970s the countries were holding the trade barriers and protection over the inflow outflow of the capital and third world countries built their own industries through state intervention, and spent on social schemes like health, education and labour rights. This ensured social protection for the workers achieved without globalising their economy. From 1970s onwards neoliberalism triumphed over developed countries and these same neoliberal economic policies subsequently came to be implemented in the name of "globalisation" in the developing and under developed countries. Cutting the welfare schemes further makes the socially vulnerable groups even more isolated, pushing them towards abject poverty (Smith et al 2008: 7). Workers thus are the worst sufferers of neoliberalism. In the name of market and labour discipline, workers face massive wage cuts, reduction in welfare schemes. Job insecurity makes them extremely vulnerable. While on the one side in the name of outsourcing the developed countries take their jobs away from them; on the other hand the third world country workers are hired and are subjected to exploitations of the cheap labour with no basic facilities, social protection. The neoliberal political economic theory thus replaces state with international corporates in the name of individual choice and freedom to choose.

Distribution of Wealth

Under neoliberalism inequality increased in several fold along with that world wealth concentrated on few people hands. We elites and corporates enjoyed the prosperity and wealth; in 2013 Capgemini and RBC Wealth Management presented a World Wealth Report (WWR) in that report it sited despite the

global economic meltdown the High Net worth Individuals (HNWIs) numbers and their wealth increased; in 2012 High Net worth Individuals (HNWIs) numbers increased by 9.2 percent worldwide and their wealth increased to 46.2 trillion dollars comparatively higher than previous 2007 and 2006 years (Capgemini and RBC Wealth Management 2013: 4). In 2015 Oxfam organisation brought public issue that brought world level attention in which Oxfam gave certain important data regarding world wealth concentration. As per that data, “in 2014, richest 1 percent population share 48 percent global wealth, rest of the 99 percent population share the rest of the 52 percent wealth (Oxfam 2015: 2). Further this 52 percent dropped into 41 percent along with this the same time wealth of the 62 richest people increased further 500 billion dollar to 1.76 trillion dollar (the guardian 18th Monday January 2016). In 2010, the wealth of 80 world’s richest people amounted 1.3 trillion dollars by 2014 this number increased further into 1.9 trillion dollar (Oxfam 2015: 3). Neoliberalism made rich elites further richer and increased the gap between poor and wealthy. In 2008 economic crisis affected all the countries some were but the wealthiest few people continue to earn and increased their wealth while most of the countries implemented austerity policies were workers and poor faced brunt of the wage cuts and social welfare schemes cut the few rich elite people continue to enjoy the tax exemption and wealth increase.

Neoliberalism also forces the state to financialise everything including basic water, land and nature of a country and allow the private players to make profit over it (Harvey 2005: 32). Noam Chomsky called this neoliberal globalisation to be making profit over people (Chomsky 1999: 7). This uncontrolled financialisation and free flow of capital and trade led to massive economic crisis in 1998 East Asian economic crisis and recent credit crisis. Fukuda has also criticised international organizations like the IMF, blaming it to have accentuated the 2008 crisis. He says, “After the collapse of the housing bubble in 2008 around 1 billion people now face chronic hunger and starvation” (Fukuda 2010: 491). Joseph Stiglitz also critiques neoliberalism and equates it to market fundamentalism. The western countries promoted the

market fundamentalism in Former Soviet Union Countries (FSUC) to take control over its natural resources as well as its politics and replace the state which provided pro-poor policies and quality of education and free health care with mafia and oligarchies (Stiglitz 2003: 154). It is interesting to note David Harvey's valid criticism of political project of elites where he says that it is their (read the elite's) "political project to re-establish the conditions for capital accumulation and to restore the power of economic elites" (Harvey 2005: 19). This neoliberal economy is highly promoted through academic discourses and media and state institutions.

Inequality and Poverty

Globalization mostly favours the Western countries increasing the gap between the rich and poor day by day, as a result of which most of the people in "developing and under developed countries living in extreme poverty are living in less than a dollar per day" (Stiglitz 2003: 5). Domestic producers of the developing and under developed countries are the worst sufferers of the liberalisation of finance and trade, because the developing and under developed countries' market is not mature. Also to compete in the global market they are forced to cut the expenditure on social sector and deduct subsidies for the local producers, to remove the protective barriers for FDI. Western countries, however, put barriers for the goods imported and force the developing and under developed countries to accept unequal trade agreements in the name of fair competition (Patnaik 2008: 109, Stiglitz 2003: 6, 7). After the implementation of the liberalisation of finance and trade the third world countries' economy performed much less than what it used to earlier.

Jan Nederveen Pieterse argues that the neoliberal globalisation increases the division between the rich and the poor deeply in the society. As a matter of fact, since the introduction of neoliberal globalisation, Pieterse citing UNDP (1996:13) argued: "Between 1960 and 1991 the share of the richest 20% rose from 70% of global income to 85% – while that of the poorest have declined from 2.3% to 1.4%, the ratio of the shares of the rich and the poorest increased from 30:1 to 61:1 – by 1991 more than 85% of the world's population

received only 15% of its income” (quoted in Pieterse 2002: 1023). Sarah Babb spells out that the one of the primary and clear motivation behind the structural adjustment loans for the creating condition is trade liberalisation. The Third World countries are forced to sell their public assets; “from 1988 to 1994 within period of 6 years around 3000 public entities transferred to private ones due to the trade liberalisation” (Babb 2005: 200, 201).

Globalising finance is one of the key agenda for the international institutions after the Uruguay round negotiations where around 100 countries signed in agreement to liberalise their trade within the period of one year and around \$200 billion dollars have been gained by these countries through tax cuts in various public expenditures. Most of these countries are from the third world (OECD 1999: 2, Stiglitz 2003: 7). Gerard Dumenil and Dominique Levy argue that “globalisation or the internationalisation of the world economy is an old process. The Internationalisation of capitalism has always been marked by exploitation and direct violence” (Dumenil and Levy 2005: 10). Globalisation is trying to establish world level hegemony in both the economic as well as the cultural levels. The victims of the economic globalisation are the third world countries.

Labour and Unemployment

As already discussed earlier, the basic premise of neoliberalism is against itself. Due to the Keynesian state interventionist policies, labour would get better living standards and healthcare. For the first time under capitalism, massive unemployment question was addressed under the Keynesian model; with full employment and unemployment benefits, the workers movements across the globe gained the better bargaining power. One of the first and foremost reforms that have been proposed by the neoliberal theory is to reform the labour market. The neoliberal theoreticians give several reasons for the need for labour market reforms. Hayek says that “labour unions are the strong obstacles to the price mechanism”, and further argues flexible labour market as the only possible way through to the market economy, implying taking back the trade union and workers’ rights (Turner 2008: 93).

Milton Friedman argues that labour monopoly is the biggest problem for economic development and it is slowing the market. The reason behind labour monopoly is the major assistances it received from the government through the welfare schemes and protection (Friedman 1962: 110). Flexible labour market meant flexible timings, wages, job security and social protection for the labours. It also implied the adjustment of the labour market with the economic shocks. Other arguments for the flexible labour market policies point towards the helps it provides towards macroeconomic stability, competition and productivity (EMU and labour market flexibility 2003). Neoliberal theorists provide many more arguments for labour market flexibility whereby the employee can chose better the jobs and better wages. Changing technology allows the employer to change worker according the capability of the workers (EMU and labour market flexibility 2003).

One of the major reasons for the neoliberals' opposition to trade unions are the strong workers movements for better wages and basic rights along with anti-war movements of the 1960s and 1970s which somewhere shook the state, bringing new labour laws in the name of flexible labour policies as the first step towards curbing workers' rights. According to Hayek labour monopoly is greater threat to liberality because labour union and labour monopoly gets in the way of smooth market functioning and suppresses the competition (Turner 2008: 127).

According to Prabhat Patnaik the labour market flexibility weaken the bargaining position of the workers and also taking the back their rights place them into consistent vulnerable situation (Patnaik 2011: 2). This argument also gathered strength by endorsement from several other scholars. Roach for example points out how during the first phase (1980-94) of labour market policies, the trade union membership declined sharply in OECD countries: "across these 19 OECD countries the trade union membership reduced from 46% to 40% and US is the first in the top; there trade union membership went to 10% percent currently (Roach 2007: 15). There are several examples showing how labour market flexibility changed the concept of permanent and

secure job to part time jobs like in Europe and UK; 79 percent of the part time workers are females and the number of male part time workers has increased from 4.2 in 1991 to 5.6 percent in EU. Around 35 percent of the fixed contract workers have expressed their desire to get permanent job which however the government have failed to increase due to the financial crisis, austerity policies and long standing neoliberal policies (EMU and labour market flexibility 2003).

The labour market reforms affected even worst in Third World Countries like India where the organised sector employment which grew at 1.20 percent during 1983-94 fell drastically to 0.53 percent as soon as the government opened up their economy (Sharma 2007: 3). In the period between 1996 and 2000-2001 about 1.1 million workers or 15 percent of the organised manufacturing workers lost their jobs. During the same period, contract labour system increased in terms of numbers from 1990 to 2002. The numbers have increased from 12 percent to 23 percent (Sharma 2007: 6-7). Lebaron and Ayers argue that the new labour market policies have worsened the conditions of the Third World Countries even further: “the privatisation systematically reduced the household income due to the job loss and cut in social security schemes; this reflects in people’s food consumption in all over Africa; house consumes 25% less food compared to 25 years back (Lebaron and Ayers 2013: 881-882). The large oppressed communities of the Third World countries and other countries benefited from government interventions and state policies of social protection of employments which consisted not only of social security but also formed a considerable part of the social justice. Due to the state intervention in production, jobs were created for the people coming from the marginal sections of the society. This had gained momentum during the Keynesian era of welfare schemes, but once the neoliberal order had pushed the state to withdraw its responsibility from employment the marginalised people of the society had suffered the most.

Unemployment is one of the major issues in world level. The International Labour Organisation (ILO) official data (2014) says, in 2013 global

unemployment rate is 6 percent (but unofficially much higher); since 2008 the unemployment rate increased progressively, particularly in developed and EU countries; there, the overall average unemployment rate in 2009 was 8.4 percent; in 2010, 8.8 percent; in 2011, 8.4 percent; and in 2012, 8.4 percent (ILO 2014). The workers earn less than international standards; three billion (half of the world population) live with less than 2.5 dollar per person (Fields 2011: 16). The Unemployment rate has been increasing steadily due to global economic recession. According to the International Labour Organization estimates, since 2008 around 61 million jobs have been lost, and this ‘jobless’ situation will increase further by 2019. Numbers of the jobless will double widening the inequality between the rich and the poor. The richest 10% earn 30-40% of total income while the poorest 10% earn around 2% of total income. Among the youth, the number of jobless searching for a job have increased to around 74 million whose average age lies between 18 to 25 pushing the labours into vulnerable situation (*The Guardian* 19 January 2015).

In developed countries the feature of neoliberalism is through deindustrialisation and shifting the production away from home (Harvey 2005: 26) because the wages in the developing and under developed countries are cheap and it is this cheap labour power that help opening the local markets in these countries to MNCs with tax relaxations and all other related facilities. In recent times, for example, the Special Economic Zones (SEZs) are the famous formula for the MNCs to set up companies in the developing world. Since neoliberalism is a global phenomenon, the developing and under developed countries are mainly subjected to massive exploitation. Below are some examples as to how the developing and under developed countries today are making special arrangements of laws for the SEZs.

In classical Marxist sense, capitalism creates unemployment as a reserved army. In neoliberalism, not only a reserved army is created but also the workers are made vulnerable, and kept in perpetual fear and insecurity of the “Hire And Fire” policies of the flexible labour market. Under Keynesian policies, a major part of the income used to be shared for labour welfare, while

in neoliberalism all the welfare schemes are cut, and a worker is “paid what you are worth”, according to which there can be no fixed wages. This is done in the name of avoiding any crisis and to maintain the fair market (Palliy 2005: 20; Patnaik 2011: 1). Labour market flexibility policies affected the developing and under developed countries in different ways. Since most of the developing and under developed countries achieved their independence after the Second World War, the working class emerged very late in these countries and the industries in these countries have formed part of the nation building. For example, in India post-independent Indian Government built the industries and public sector through government intervention under different plans. Also the basic minimum wages, job security and social protections were part of their freedom movement. Since these countries implementing the neoliberal economic policies within a span of forty to fifty years after independence under the auspices of neoliberal flexible labour market policy, labourer started facing massive cuts in their welfare schemes.

Human Rights and Labour Rights

Neoliberalism also forces the state to financialise everything including basic water, land and nature of a country and allow the private players to make profit over it (Harvey 2005: 32). Noam Chomsky called this neoliberal globalisation to be making profit over people (Chomsky 1999: 7).

In the last couple of years, movement against neoliberalism and globalisation increased multi-fold. The Occupy Wall Street movement in the US (2011) is a glaring example for movement against anti-neoliberal and globalisation policies; in this movement, particularly the slogan ‘99 versus 1 percent’ attracted many; and many countries followed the same slogan and occupied financial headquarters of the respective countries. In 2008 economic crisis resulted in massive unemployment and increased poverty; and government-imposed austerity policies hurt everyday life of common people. From 2006 to 2013, around 843 protests were held in 87 countries globally. Highest number of protests occurred in developed countries – 304 (Ortiz et al. 2013: 5). During 2006-2013, 488 protests happened against austerity policies and for economic

justices; 376 numbers of protests took place against privatisation, corruption, anti-war and for justice. During the same period, protests against international institutions like IMF, G-20 and free trade increased several fold with 311 protests (Ortiz et al. 2013: 14).

Analysing Europe's major economic crisis and austerity policies, Timothy Misir gives compelling view about the EU crisis and reason behind the European Social Model. Jacques Delors, president of the European commission from 1984 to 1994, gives the vision of European social model alternative for American model of unchecked market capitalism with welfare schemes and economic development (Misir 2011: 3). The European social model tries to compromise between social democracy and neoliberalism; this formula is called third way, but gradually this model failed due to privatisation and uncontrolled foreign capital flow; and slowly corporations had taken over the state policies when 2008 economic crisis hit the European Union the EU offered austerity as alternative measures. The European social model failed when the welfare schemes faced with fund cuts; workers' wages were reduced and finally the European social model faced flak (Misir 2011: 5). In recent times protest against austerity increased in European Union; 134 protests, around 16 percent of overall protests, happened against EU (Ortiz et al. 2013: 16). Post-economic crisis, highest number of protests happened in developed countries compared to other countries from 2008 to mid-2013; around 262 protests have taken places in these countries, most of them for economic quality and against austerity policies by the respective countries (Ortiz et al. 2013: 13).

Neoliberal Transition and Transformation in the Post-Soviet Space

Post-communist transformation and globalization are thus the important contexts in which the systemic transition of Baltic states are taking place. Post-communist transformation involves multiple transitions from a command economy to liberal market economy, a communist political system to a liberal democracy and social transformation from Soviet values and culture to

European values and culture. Globalization is primarily economic with related consequences at political, cultural and social realms.

Shock Therapy economic policies are extreme form of neoliberal policies implemented in Former Soviet Union Countries (FSUC). Shock Therapy is a set of economic policies which was strongly pushed by IMF and World Bank to transform the state controlled planned socialist economy to liberal market economy. Liberalisation of prices and free trade, privatisation of government assets and allowing private actors in previously government sector, balanced budget controlling inflation, independent bank and convertible flexible currency, are the basic economic policies implemented in FSUC to change them into western oriented free market society (IMF 2000: 2, Marangos 2005: 70). Without either any prior institutional framework, or any historical experience, these policies have been implemented in the FSUC. Privatisation was implemented in different ways like vouchers, auction and traditional way of sealing it to big corporates. The FSUC countries did not have big corporate companies, thus it was the MNCs which brought the big industries in these countries.

The IMF and World Bank called voucher privatisation as “people’s privatisation” and the government distributed the voucher coupons on a mass scale to encourage the privatisation and encouraged them to buy the shares of small, medium and large enterprises (Roaf et al. 2014: 22, Aslund 2008). Through this process, in Russia during 1992-1994 around 15,000 were shifted to private enterprises’ hand” (Dawson 2003: 3). Once the reforms were made, these had massive social consequences in FSUC, namely unemployment arising in every country. According to IMF data, for example, around over a million people or 16 percent were unemployed in the transition process in Poland alone (Roaf et al. 2014: 14). Within the immediate effect of this sudden transition, the inflation increased like never before; “Central and Eastern European economies (CEE) faced with 450 percent, 900 percent in Baltic States, around 1000 percent in CIS countries” (IMF November 3, 2000).

Anders Aslund arguing in favour of Shock Therapy said: “a normal society meaning of democracy and a market economy is based on private property and the rule of law” (Aslund 2008). This statement clearly shows the intention of early pro-market economy, intellectual’s preferring to change the society with the replica of Western societies without any prior institutions and not considering the historical background of every country.

Joseph Stiglitz and John Marangos both criticised the shock therapy privatisation. Without prior institutions and infrastructure, privatisation was superimposed on these countries. To shape the economy properly, the states must have proper economic institutions the absence of which would lead the FSUC economies to disasters (Stiglitz 2003: 122, Manrangos 2005: 72). The shock therapy made a few rich elites and more poor in FSUC. The conditions of life worsened than pre-disintegration USSR period. The life expenditure and death ratio increased in Russia since 1990; “death ratio increased from 49 to 58 for thousands and it further increased to 84 per thousands in 1994; male life expectation reduced 6 years (Utsa Patnaik 2004).

Financialisation of capital and price liberalisation without any control soon led to economic crisis within 7 years of the Soviet Union disintegration. In 1998, East Asian economic crisis affected the Russian economy. To rescue the Russian economy, the IMF gave loans to Russia in 1997. Russia received around \$4.8 billion and World Bank provided around \$6 billion (Stiglitz 2003: 148). The Shock therapy economy clearly is motivated by the Western countries to push economic reforms in FSUC in order to establish Western model of Capitalist market economy. It however not only failed, but also back-fired the FSUC economy and society as a whole. The poverty rate increased in Russia compared to the Soviet Union time: “In 1989 around 2 percent only lived under official poverty but Post Soviet Union this ratio increased drastically. By 1998, the World Bank estimated around 23.8 percent of population to be living under poverty in Russia, 40 percent of the which population lived under \$4 per day (Stiglitz 2003: 153).

The Shock Therapy is imposed ideology of Western countries to find a short cut to create quicker Western Model capitalism in Former Soviet Union Countries (Marangos 2005: 76). Without any political transformation the IMF and World Bank went ahead with the reforms. Bill Clinton was the US president then when the economic transition was taking place in Russia. Most of media criticised Boris Yeltsin for his lack of political reforms but Bill Clinton defended Yeltsin in his famous statement: “Yeltsin represents the direction toward the kind of Russia we want” (<https://www.nytimes.com/books/first/c/cohen-crusade.html>). This statement clearly shows in whose favour the transition was towards in the FSUC.

Review of Literature

The literature on the implementation of neoliberal reforms in Estonia is ever expanding. Political economy is about how the political institutions, political environment and economic system influence each other. The review is divided into five sub-themes relevant to this study. They are as follows:

1) Neoliberal Economic Reforms: Different Perspectives

There is, by now, a vast amount of theoretical and empirical literature on neoliberal economic theory and policy. David Harvey (2005) provides a succinct account of global political and economic configurations which resulted in the rise of neo-liberalism and a fairly comprehensive description and analysis of the content of neoliberal policies, as they are to be found in different contexts. Patnaik (2008) argues that the neoliberal economic model is another form of economic imperialism. He explains about the kind of changes which have occurred in the global economic order, which have underpinned the emergence of neoliberalism in the developing world. Giroux (2008) focuses on the political transformations which neoliberalism has brought in its wake. He provides an analysis of what neoliberalism means for democratic processes and, at a more micro-level, for democratic political consciousness. Pallef (2005) characterises contemporary neoliberalism as one guided by the Chicago School of Economics and thereby brings in its association with the role that individuals play in determining economic outcomes, efficiency of

market competition and distortions brought in by government intervention and regulation of markets.

Kottz (2002) describes neoliberalism as a continuity of classical liberalism. He explains the nature of neoliberalism as one in which the state plays the role of a regulator of the market but its intervention in framing economic policies limited. This according to him amounts to a “free movement of capital, services and goods but not the people” (Kottz 2002: 65). He also puts forward an understanding of the relationship between technological advancement and its use for the transcendence to transnational capitalism.

Marangos (2005) studies the process of neoliberalism in relation with the specificities produced by two different ways in which neoliberalism adapted itself. The first was the ‘gradualist’ approach. The second was the ‘shock therapy’ approach, which was used in the economic sector to fasten the process of transition. He traces this in the immediate introduction of the economic paraphernalia in the form of independent central bank, establishment of a fully convertible currency, immediate price liberalization, achievement of balanced budget, free trade, etc. Such changes, however, are not channelled through democratic political institutions. Thus privatization was done through “vouchers, management acquisitions and workers buyouts” (Marangos 2002: 263).

Fitoussi and Saraceno (2004) laid down three basic principles in the Washington Consensus that have been central to the development of the present model of Neoliberalism: Balanced budget and price stability, structural reforms and the neglect of any possible trade-off between present and future growth. These have been elaborated upon by Williamson (2003) into ten points: fiscal discipline, re-ordering of public expenditure which entails no priority for health, education or other social sectors, tax reforms, liberalizing interest rates, competitive exchange rates, trade liberalization, liberalization of inward FDI, privatization, de-regulation and private property rights. Neoliberalism also promotes the culture of individualism. This essentially

encourages a moving away from collectives and creates the isolated individual who is often unable to cope radically with outside pressure engendered by neoliberalism.

2) Political Transition, State and New Institutions

Estonia has been undergoing multiple transitions since 1991: transition from communist system to liberal democracy, planned economy to free market economy, and other social transformations. Different schools of thought can be found in explaining political and economic developments in Estonia since 1991. Works on the development of political institutions have pointed to the skewed development of a political culture based on the principle of exclusion. Grofman, Mikkel and Tagepera (2007) have studied the Estonian elections from the beginning years of 1988 to 1993. In this study of nine elections at three levels of referenda, national elections and local elections point to the restrictive nature of the democratic process. Otfinoski (2004) studies this process through the conditions of political representation. He argues that the difficult membership criteria and mandatory vote-share requirements for the political parties determined the participation process in the elections.

Some of the extant literature focuses on the introduction of market relations and free market policies through institutional measures. The emphasis is on the new kind of institutions that have come into being over the last two decades in Estonia. These institutions have been vital vehicles of the reform process and there is an extensive literature which focuses on the character of these institutions and their place within the larger socio-political processes. For instance, Dillon and Wykoff (2002) provide a detailed narrative and analysis of the process through which, a planned economy got transformed into a market economy, with a focus on the role of certain key institutions. They took a close look at the kind of role legislative bodies have played in the emergence of the free market. They highlight the fact that the process is mediated by several kinds of political contention, by conflicts between different kinds of political groups.

The analyses of institutions have been accompanied by studies on economic development in Estonia since 1991. Avo Trumm (2005), for instance, looks at levels of poverty and unemployment over the last two decades in Estonia. This analysis has been done in the context of stagnant economic growth, and shows a steady increase in the levels of poverty and unemployment. The wage-earning classes have been hit particularly hard. The author also elaborately points out that, in the context of the kind of politico-economic transition that Estonia underwent, one must be particularly careful in fashioning one's conceptual tools for measuring change, given the far-reaching and dramatic nature of the transformation.

However, several authors have attempted comprehensive analyses of the process of reforms in all political, economic and social aspects. An instance of this is the study carried out by Tovi U. Raun (2001). The author charts out the overall political, economic and social transformations that occurred in the Baltic States, particularly in Estonia in the first decade of the reforms. He looks at a range of factors behind the entire process, ranging from changes in the relationship with the Soviet Union (and then with Russia), to the role played by the introduction of parliamentary democracy. The principal characteristic of the study is that it presents the varied interconnections between the different kinds of transformations.

Jarve and Poleshchuk (2010) look at the process from the re-adoption of the 1938 old citizenship act in 1995. By this act the demand for naturalization of citizenship was accommodated. Another such has been undertaken by Vello Petai (2012). Petai looks at the larger political economic configurations in Estonia and changes therein since 1991. He looks closely at the changing class configurations and the kind of impact the process of reforms has had on the process of transition and vice versa. Of particular focus is the relationship between the class configuration and the political-electoral process. The manner in which the form and content of the electoral process is determined by the shifting balance between the classes is a particular area of concern for him. A very close historical examination of elections in Estonia is

accompanied by a study of the changes within the politico-economic formation.

3) Social Policy and Labour Market Reforms

Several studies have focussed on particular aspects of socio-economic development in Estonia over the last two decades – particularly health and education. Van Ginneken (2012) provides an extensive overview of the changes that have come about in the health sector. The principal kind of change, according to the study, has been a widespread penetration of market forces into the provisioning of health services. While on one hand, there has been extensive dismantling of the public health system, with private agents being trusted with the development of healthcare, on the other hand, the centralised system has very dramatically made way for micro-level, localised, decentralised health provisioning. These developments, of course, are closely interlinked. The study further provides an extensive analysis of the effect that these changes have had on the health standards and life-chances of different sections of the Estonian population.

In 2009, the Estonian Ministry of Foreign Affairs came up with a document called “Estonia’s Way to the European Union” in which Henerik Hododei argues that the accession from 1995-2005 co-ordination started with the signing of the Association agreement. By 1996 the government had created an EU co-ordination system which operated only with small changes to the Domestic Co-ordination system. Later the Office of European Integration and Council of Senior Officials were created. The CSO’s official members were representatives from the ministries of the government. The National Programme for Adoption of Acquis (NPAA), however, brought the EU integration agenda into the domestic arena by making it a part of the Government’s action plan. The NPAA was made directly answerable to the Riigikogu (Estonia’s Parliament).

Tang (2000) studies the effect of new economic policies on production to argue that the process has affected adversely the profits of domestic producers

and movement of labour. Studies in the health sector reforms also point to a similar trend. Thomson (2004) in the WHO report takes the 1991 Health Insurance Act and 1994 Health Services Organization Acts to study the health sector reforms and the resultant decentralization. The 2002 New Health Insurance Act was the final nail in the coffin of the governmental regulation of the health sector. The resultant deregulation led to a free play of private actors in the Medical sector. The schemes such as Estonian Health Insurance Fund (EHIF) under the Ministry of Social Affairs restrict themselves only to four main responsibilities of contracting health care providers, paying for health services, reimbursing pharmaceutical expenditure and payment of sick leaves and maternity benefits. The effects can be seen through the study of the OECD report on Private Pensions 2004 which states that the pension reform system of Estonia was based on three principles: (1) PAYG (Pay As You Go) which implied an increase in the age limit of pensioners to 63 and individual collection for pensions; (2) Mandatory funding of one's own pension; and (3) Voluntary Funded Pensions.

4) Social Exclusion of Minorities

Social Exclusion is one of the major concerns for the newly formed Estonia. Especially Russian speaking linguistic minorities are sources of major concern for the authorities. According to the 2010 data of the European Union, 25.5 % percent population of Estonia are Russian-speakers, while Ukrainians and Belarusians comprise of 2.1% and 1.2% of the population respectively (<http://estonia.eu>). The Russians had a major control over the industries during the Soviet period but when new government started the privatization process a lot of them lost their jobs and control over the market. But, since most of these workers were highly-skilled technicians from soviet era, they shifted out of Estonia, taking jobs in other places (Aasland and Fløtten (2001)).

But, there was another big problem, which crept up in post-independence Estonia, and that was of differential wages between Estonian labourers and labourers coming from Russian-speaking minority community. The wage gap widened sharply within three years of the transition and reached from around

11% to nearly 22% due to discriminatory policies of government (Vodopivec, Orazem, Noorkoiv and Puur 1999). Since the very beginning, the newly-formed Estonian government followed discriminatory policies vis-à-vis the Russian-speaking minorities. During the 1992 new constitution referendum, the government decided to re-adopt the 1938 citizenship act, and accordingly gave voting rights only to those holding Estonian citizenship. Thus, the minorities were excluded from all decision-making processes including the crucial decisions like formation of government. But, due to international pressure, especially from the European Union (which Estonia have always wanted to join), they had to adopt a new citizenship act in 1995, and a naturalization process started. Although, this naturalization process was not very easy, it was carried out through a number of regulations, again by the pressure of EU (Järve and Poleshchuk 2013).

5) Impact of Global-Euro Zone Economic Crisis and Austerity Policy

There are several works that focus extensively on the economic aspect of Estonia's European integration. Nivik (2009) explains how the European Economic Area (EEU) and European Free Trade Agreement (EFTA) was a constant part of the EU accession negotiations as a part of the external relations chapter. Paclk (2009) takes an inside to outside view towards the EU by studying the attitudes of the Estonian people towards the European Union. He charts the overwhelming and increasing support of the people by studying the 2003 referendum which noted a 67% support for the accession, followed by a peaking increase of 85% in January 2008.

It was only after the conclusion of the December 2002 negotiations in Copenhagen that Estonia went on to acquire a full member status from an acceding country. On May 1st 2004, Estonia became a member state of the EU along with nine other countries. After 4 months Estonia was also integrated into the UN as a member state and the NATO. Smith (2006) provides a scathing critique of the Estonian integration into the EU and terms it as a complete Europeanization, and studies the Europeanization in the foreign

policy in accordance with the 1993 “Copenhagen criteria” relating to democratization, minority rights and a functioning market economy.

Estonia, which accounted for the highest ratio of FDI stock per capita in central and Eastern Europe, also saw a high concentration of foreign capital in the banking sector. The European Cooperation in Science and Technology Report (2008) states that out of the 17 banks in the country, 15 were owned by foreign corporations with a total asset share of 98.2%. However, this changed drastically after the economic crisis of 2008. Though the GDP still remains at 7.6%, the country is subjected to the lowest wage and unemployment rates (Tanning and Tanning 2012).

Kattel and Thorhallsson (2012) see this as a problem of locating growth in the sectors like services (60%) and real estate (15-20%). The negligence towards spending in social sectors did not have any resistance, primarily because of weak civil society movements. The political and economic policies concentrated only on currency board, balance budget and proportional income tax and thus propagated further the model of growth based on foreign savings. The increasing reliance on European Funding amounted to 3.75 billion Krons in 2007 which increased to 5.4 billion in 2008 and 11 billion in 2009. which dropped the unemployment rate to over 20%.

Schneider (2013) argues that the decision to join the Euro zone was a result of the 2008 economic crisis. The country was to choose between either devaluation of currency and adoption of austerity measures. Estonia, he concludes chose the latter. The result was cuts in pensions, government salaries, and increase in VAT. Estonia thus became the first ex-Soviet country to adopt Euro as its currency.

Estonian political landscape is characterised by lack of stability, fragmentation, frequent change of governments and moderate level of institutionalization. The institutional structures of democracy have been evolved. There has been a rise of right wing nationalist politics. Various governments followed the neoliberal policies and reforms dictated by IMF,

World Bank, and WTO. Estonia adopted austerity policy to recover from the current economic crisis. In most of the studies, the neoliberal reforms and austerity policy have been projected as a right model that generated stable pattern of growth. However, the social cost of neoliberal reforms and austerity policy contradict with success claims of political elite as it has resulted in increased national debt, mass unemployment and increased migration to other EU countries, brain drain, declining birth rates, poverty, inequality, deterioration in health security, rise in suicide and depression rates, social unrest, negative change in demographic profile and misery to the common people.

Since Estonia joined EU in 2004, it has to abide by the common EU policy on various issues. The domestic policies seem contradict with EU norms of “social Europe” model and principles of representative democratic system in which minority rights, gender issues, social security etc are important priorities. Very few studies address these social issues. There has been little substantive work on the issue of linguistic minorities, exclusionary nature of citizenship laws and the like. Hence the study would be a relevant contribution to the existing literature on the political economy of neoliberal reforms and austerity policy.

Focus of the Study

The study seeks to explore the following points on the political economy of neoliberal reforms in Estonia.

- ❖ The interaction of politics and economics;
- ❖ The role of the Estonian government in formulating and implementing market oriented economic policies;
- ❖ The role of state in fulfilling the social welfare goals and enhancing social progress as per national and “social Europe” norms of European Union;
- ❖ The economic implications of nationalist policies;
- ❖ The role of state in the distribution wealth; and
- ❖ The social consequences of neoliberal reforms in Estonia.

- ❖ The impact of economic crisis on common people
- ❖ The social ramifications of austerity measures implemented since 2008

Research Questions

In pursuant to the above focus areas, this research seeks to address the following research questions.

1. What must have been the political and economic goals behind the introduction of neoliberal reforms and economic policies in Estonia?
2. What has been the role of state in the context of the implementation of neoliberal economic policies in Estonia?
3. What is the social impact of neoliberal reforms in Estonia?
4. What kind of social exclusion and discrimination are faced by the national ethnic minorities in post neoliberal reforms?
5. How does austerity policy work in Estonia and what is the social cost of the austerity policy?
6. How successful has the state been in bringing social progress and ensuring well-being and protecting the civil rights of citizens?

Hypotheses

The study proceeds with following underlying hypotheses.

- Multinational corporations and businesses in Estonia have had influences on the political elites while making neoliberal policy choices, institutional reforms and economic outcomes.
- Despite increase in growth rates, the neoliberal reforms in Estonia produced negative socio-economic outcomes and the austerity policy adopted to meet the consequences of Global/Euro economic crisis further aggravates the situation.
- The economic policies, political practices and cultural transformation based on the vision of national identity have kept the ethnic minorities at the risk of social exclusion and discrimination.

Methodology

The study is empirical and analytical in nature. The study uses neo-Marxist theoretical perspectives on development and underdevelopment proposed by André Gunder Frank and Immanuel Wallerstein. It also uses theoretical insights from the works of David Harvey, Karl Marx, V.I. Lenin, Prabhat Patnaik, Samir Amin, Paul Krugman, David Lane and others. The Study is based on primary sources including government documents, reports of World Bank, WTO, UNO, OECD, IMF, European Union, party programmes, newspaper reports, speeches, interviews, etc. Secondary sources include books, journals, articles and internet sources. The data available in English and English translations from Russian and Estonian languages are used in the study.

The Scheme of Chapters

In lieu of the theoretical framework enumerated above, the first chapter of the thesis titled, 'Political Economy of Neoliberal Reforms: A Theoretical Framework' formulates a theoretical framework for understanding the political economy of neoliberalism and economic reforms in Estonia. As we saw, this chapter examines the political factors underpinning the processes of privatisation, liberalisation and the policy choices and economic outcomes. The second chapter titled 'Political Transition, State and New Institutions in Estonia' examines in detail the processes of political transition, adoption of constitution, establishment of democratic state and building new institutions in the wake of the introduction of neoliberal policies in Estonia.

The third chapter, as the title 'Neoliberal Economic Reforms in Estonia' suggests, analyses neoliberal economic reforms and policies pursued by various governments in Estonia. Chapter four, 'Labour Market Reforms and Social Policies: Outcomes and Challenges' looks into the challenges and outcomes generated by labour market reforms and social policies. It examines the migration and population decline due to these policies as a factor which informs about the problematic foundations of labour market. This chapter

analyses the social policies and different kinds of social exclusion which the neoliberal reforms brought in.

The fifth chapter 'Social Exclusion of Minorities: Politics of Identity and Culture', examines the political processes and practices, ethnicity based vision of national identity, Soviet legacy and discriminatory state policies that cause the national minorities to face discrimination, deprivation of citizenship rights, and social exclusion in Estonia. The sixth chapter 'Austerity Policy in Estonia: Social Consequences' is a detailed analysis of the social impact of global and Euro zone economic crisis and the policy response of austerity growth model in Estonia. It reflects the contradictions between success claims of austerity policy by the government and social cost of neoliberal reforms. The seventh chapter, 'Conclusion' enlists the findings and conclusions of the study. The validation of or otherwise of the hypotheses and also suggestions are given in this chapter.

Chapter 2

Political Transition, State and New Institutions in Estonia

The current political transition and development of democratic institutions in Estonia is influenced by historical factors. Estonia was a province under the Russian Empire. The national awakening in the nineteenth and early twentieth century led them to work for autonomous statehood. After the First World War in 1918 it gained independence for the first time. Estonian state evolved as a democratic state. Until 1934 the democratic system lasted. A short period of dictatorship was followed by the democratic phase. During the Second World War Estonia experienced invasions from Germany and Soviet Union. After the Second World War Estonia was incorporated into the Soviet Union based on the provisions of Molotov-Ribbentrop Pact of 1939, and remained under soviet occupation until 1991 when it regained independence. The re-independence gave Estonia opportunity to transform from totalitarian system to democracy and create new political institutions of governance.

Evolution of State and Political Institutions: Historical Background

Estonia was ruled by several countries, from the 16th century to the 18th century it was dominated and ruled by Germans and from the 18th century till the beginning of the 20th century it was under the Russian Tsar's Control. Language and culture are deeply rooted in Estonia's national awakening and they used it well against the foreign invaders. Estonian national sentiment and awakening started in the middle of the 19th century against the Russian occupation. In 1838 Friedrich Robert Faehmann founded "The Society for Learned Estonians". The purpose of this society was to research about Estonian language and culture (Subrenat 2004: 85). In the year 1869 the first National Song festival took place in Estonia against the Tsar's Russification of Estonia and their tradition (Pettai 1996: 15). In the year 1884, the blue, black, and white colour flag was created by the student's society and that flag was blessed by the local church later and the same flag was later made into Estonia's official state flag (Estonia.eu Estonia's History). In the beginning of

20th century in 1905, the failed revolution in Russia had an impact in Estonia. In the years 1905-1906, Estonia had their first political party “Estonian Progressive People's Party” which participated in the Russian parliament, the Duma (Pettai 1996: 15). In 1914, with the outbreak of the First World War created more political turmoil within Tsar Empire, in 1917 revolution led by Bolsheviks overthrew the Tsar’s Rule. In 1918, Estonia proclaimed independence but was later occupied by the German forces and after two years of bloody battle in the year 1920, February Tartu Peace Treaty was signed between Soviet and Estonia, and the Soviet Union was the first country to recognise Estonia (Estonia.eu Estonia’s History).

Interwar Period Democratic System and Dictatorship

In 1920 Estonia’s constitutional assembly approved the first constitution of Estonia and established the parliamentary political system. With this the Prime minister became the prime administrator. First time in Estonian history other minorities’ culture were recognised by the Estonian government, minorities had the right to receive education according to their own mother tongue and cultural autonomy (Smith 2001: 14). Along with the democratisation process trying to get recognition from the international community, part of that in the year 1921, Estonia was accepted in League of Nations as a member.

Estonian political system and parliamentary democracy faced instability; between the years 1918 to 1933, there were around twenty-three governments that held office (Pettai 1996: 17). In the interwar period Estonia faced political fragmentation and an economic crisis. In spite of the political instability and the economic crisis the Estonian government continued to protect the minorities and their rights, in 1925, the Estonian parliament passed the significant “Cultural Autonomy Act”. Under this act the minorities were allowed to elect their own representatives from their own school. These were schools funded by the local or the central government and also allowed minorities to collect taxes from the relevant ethnic groups (Smith 2001: 16).

In the years 1933-34, the political crisis grew deeper in Estonia. Like other European countries, Estonia also witnessed the emergence of fascist right wing political parties and organisations in the 1930s. In the 1929, Central League of Veterans of the War of Independence (shortly in Estonian language Vapsid), a radical right wing organisation was formed. In 1933 Vapsid successfully collected 25,000 signatures and demanded for a referendum on an amendment to the constitution to change the political system from the parliamentary system with a prime minister was replaced with the powerful presidential system later the constitution was amended and the entire political system was changed (Smith 2001: 16). In 1934 January Vapsid gained a big political victory in elections and alarmed by this the caretaker prime minister Konstantin Päts along with Commander of the Defence Forces Johan Laidoner organised a bloodless coup and declared stare emergency in March 1934 (Pettai 1996: 17). This coup ended Estonia's interwar democracy and a dictatorship continued till 1940 before the soviet annexation. Vapsid was banned and Konstantin Päts and 400 leading members were arrested (Smith 2011: 19).

The authoritarian period was called the 'Era of Silence' in Estonia. Parliament was closed down and all political parties were prohibited. Censorship was imposed on all press, except the government press, and in 1935, the government clamped down on universities and student unions were banned and the government abolished the existing labour unions and replaced them with appointed bodies (Smith 2001: 20).

Molotov-Ribbentrop Pact and Soviet Occupation

War was looming everywhere in Europe in the mid-1930s. Estonia was not an exception to the war threat, in 1935 there was an agreement between Britain and German navies. Under this agreement Britain allowed Germany ships to the Baltic Sea areas. This led to German influence in the Baltic Sea. In August 1939, Soviet Union and Germany signed a 'non-aggression' pact under which Germany and the Soviet Union agreed not to attack each other in the case of war. This pact is historically known as the Molotov-Ribbentrop Pact. The

Baltic states were the victims of this pact as under this pact, both countries agreed to share the borders of the Baltic states and Finland.

Within a month of this agreement, Germany attacked Poland and the Second World War started. Estonia was expected to drag into the announced neutrality, but things changed lately in the month of September. The Estonian Foreign Minister Karl Selter and the other Baltic states representatives were called to the Kremlin. All three Baltic states signed a pact of Defence and Mutual assistance. Around 25,000 Soviet Union army soldiers arrived in Estonia as a precautionary defence against Germany (Subrenat 2004: 131). In the year 1940 Soviet Union annexed Estonia and other Baltic states, after the annexation the Soviet Union conducted 'elections', in which only the communist party candidates were allowed to contest, after the election, the newly 'elected' government declared Estonia a Soviet republic and 'requested' to be a part of Soviet Union. In the next month Estonia's 'request' was 'accepted' and the annexation process was completed (Pettai 1996: 18).

After the annexation, political parties were banned and the leaders were deported to Siberia. In the year 1941, around 10,000 people were deported to Siberia (estonia.eu Molotov-Ribbentrop Pact). "Estonian persistence and Estonian will have united us once again as the Republic of Estonia. The recent elections have shown the entire world, but foremost ourselves, that the Estonian people, you, the Estonian voters, have brought an end to your Soviet past. In its first free elections, Estonia has chosen the free European democratic road" Lennart Meri (Meri 6 October 1992). Lennart Meri is the First elected president of the post-Soviet Estonia and the above is his first speech in parliament on 6 October 1992. Compared to the other former Soviet Union states, Baltic states are much smaller, but the democratic aspiration has been very high in these small states. Estonia is one among the Baltic states in the forefront for its independence. Estonia fully used the Perestroika (restructuring) and Glasnost (greater political openness) reforms to mobilize its people for their separation from Soviet Union.

Estonia's drive from Soviet Union to Independent nation was one of the most remarkable and nonviolent protests during the Soviet Union period. Estonia's independence movement was rooted in cultural and linguistic aspiration. Eiki Berg places important explanation behind Estonia having strong roots towards building nationalistic feelings. One of the main reasons for the same is Estonia's language difference from its neighbours and it clearly played a determining role in nation building. Language was one of the most single point agenda for their building up Estonian identity (Berg 2002: 112).

Estonia's independence movement had very strong influence from the elite intellectual circle within and outside country. One of the former professors from Tartu University, Andrus Saareste, lived outside Estonia after the Second World War. He wrote an article in 1955 where he mentioned three important duties for the people who lived outside Estonia as refugees 1. Organise Political activity in order for the rebirth of the Estonian state 2. Protect Estonian language and culture in all its diversity 3. Protect the ideas of democratic and independent Estonia between two World Wars (Subrent eds 2004: 190). Saareste gives importance to the culture and language of Estonia because people fear that the Russification will dilute their culture and language. Thus, in order to protect their cultural and language, several steps were taken by the Estonians. Those intellectuals and writers who lived outside Estonia during the Soviet occupation, formed an association called Valismaine Eesti Kiranike Liit (Exile Estonian Writers Union), which was founded in 1945, in Stockholm. In this exile, the writers' union later merged with Estonian writers union in Estonia in the year of 2000. By the time they merged the union had around 35 members, 14 of them from Sweden, 12 from USA, 6 from Canada, 2 from Finland and one from UK (Subrent eds 2004: 189). It shows how strongly the union has worked in Western countries. This union played a key role in mobilizing opinion for the Estonian independence both in and outside Estonia.

While the cultural and linguistic clubs created strong political pressure, the educated elites created public opinion among the Estonian people to counter

the Soviet authority. In the later period, Heritage society, one of the major political force emerged among the Estonians, through cultural and historical side to create nationalistic feeling among the people (Estonia.eu). As Li Bennich- Bjorkman, puts it simply “Estonia stands out in the manner that clearly organised networks with overt cultural, historical and nationalistic aims were formed already in the 1960s” (Bjorkman 2007: 323). Mikk Titma gives one of the important insights about the educated youth and student’s role in Estonia’s independent movement “59 percent of the population had secondary school diplomas in Estonia, according to the 1989 census and in 1990 around 16,000 researchers and scientists were work in Estonia (Titma 1996: 57). Tartu University has played a key role in creating nationalistic intellectual circle and counter the political elite for independence of Estonia. In Tartu University in the year of 1966 The Society of Nature was founded later, which played a deceive role in protesting against Soviet Union on environmental reasons. Along with language and culture, environmentalist also had an important part in national awareness among the people. During the 19th century Estonians established their first Naturalist Society to protect the nature. It was established in 1853 in Tartu. In the initial phase of Perestroika, in 1987 May Day, Tartu University students staged a protest against Soviet authority. Phosphorus mining project, later in June 1988, the Estonian Green Movement (EGM), organised a rally in Tallinn where around 5000 people participated in protest creating sensitisation among the youth about the environmental degradation (Auer 1998: 660-661; R. lawaskiw 1995: 20).

Political Mobilization in Estonia during Soviet Period

The Estonian nationalist movement was divided into three groups, one being the Estonian Heritage Society, second is Popular Front and third is Estonian National Independent Party (Zunes 2009: 2). The Estonian Heritage Society (EHS) was established in 12th December 1987 in Tallinn within a year of foundation EHS had vast support among the Estonian people. By the year of 1988, 185 local cells comprising about 6000 members had joined this society (Tamm 2013: 653). Mart Laar, one of the founding member of the

EHS later went on to become the prime minister of Estonia. The Estonian Heritage Society played central role in bringing back the old cultural and nationalistic memories from the past. In the year of 1988, first time in many decades, banded Estonian flag the blue, black and white tricolour was displayed due to EHS initiative (Smith 2001: 46). The popular Front was formed in 1988. It is a moderate one but one of the key was to mobilise against the Soviet Union. Also, many of the Popular Front members were part of the Communist party. One of the notable leaders of the Popular Front was Edgar Savissar. Popular Front demanded more reforms, political and economic autonomy from Soviet Union (Smith 2001: 45-46; Zunes 2009: 2).

Estonian National Independence Party was formed in August 1988, which was more radical than the other societies and they opposed any kind of reforms. Unlike the Popular Front they argued for the immediate and unconditional withdrawal of Soviet Union. Also, they declared Estonia to be de facto independent state which was being illegally occupied by Soviet Union. Tunne Kelam one of the founding member of the Estonian National Independence party said “We saw political independence and multiparty democracy as the only pre condition for the real implementation of all reforms” (Subrent 2004: 242).

The Popular Front of Estonia (PFE), started with some members of the Communist Party of Estonia (CPE), in the month of April of the year of 1988. But this front got official registration on 17 January 1989. (Taagepera 1990: 33). The Estonian Heritage Society (EHS) was instrumental in bringing into the open the Estonian national colours, (Taagepera 1990: 334) and the Estonian National Independence Party (ENIP) was formally founded in August 1988. One of the major goals of Popular Front of Estonia (PFE) was to create separate republic state (Taagepera 1990: 339).

Elections and Singing Revolution

In the year 1989, elections for the Supreme Soviet triggered democratic aspirations among the people and it led to separatist demands for having a full

republic for Estonia. There were two major stages through which the Estonian people passed towards getting a democratic republic: the first phase was 1989 to 1991, when Estonia Popular Front won majority of the seats in the Soviet Supreme elections and the next phase was to frame a constitution for the country. For these two hard-line they passed through some difficulties. The first phase was achieved with the help of some small group of people with democratic aspiration and with the help of mass support like singing revolution, which is the most famous movement towards establishing new state republic. "On 29 April 1989 the Popular Front of Estonia (PFE) Representative assembly went along with the growing mood for independence and declared (the stated goal of the PFE since August 1988) was morally a possible transitional step on the road to full independence" (Taagepera 1990: 339).

Singing revolution was a key movement in Estonia's political movement. According to many historians Estonians' songs had a key role in their independent movement against Germans in 13th century, in 18th century against Czar Peter the Great and again in 1869 when Russian Czar attempted Russification of Baltic provinces. Whenever the foreign invaders have tried to destroy the Estonian culture, they have used songs as a political weapon to protest. In the year 1988, annual music festival was organised. Popular Front had taken serious initiative to mobilise people. Three music festival were organised where the second music festival was attended by 20,000 people and final music festival around 300,000 people had gathered and sang their national songs which were restricted under the Soviet Union rule (Waren 2012: 443-445; Zunes 2009: 3). Cultural artist Heniz Valk was the first one to coin the slogan of singing revolution during the music festival. Estonians were visible everywhere creating huge nationalistic impact among the Estonian people (Smith 2001: 46).

In 1989, March 26th was landmark year in Baltic states history. It was for the first time since post Second World War that they had multiple candidates' election for the USSR congress of people's deputies. In this election one

person would vote for one candidate and the candidate securing more than 50% votes will be considered as a winner. All three Baltic states elected Popular Front supported candidates (Taagepera 1990: 330).

After the success of the singing revolution movement and massive victory in election, the Estonian political organisation decided to put more pressure on Soviet Union authorities. In August 1989 three Baltic countries decided to protest against the 50th anniversary of “Molotov-Ribbentrop Pact”. The people of Baltic claimed that secret agreement must be revealed in public because Soviet Union officials asserted that it was the Baltic states which had willingly joined with the Soviet Union (The Baltic Way 2014). Three Baltic states organised 600 km long human chain connecting all three Baltic capitals. The participation numbers are disputed. While the Western Media has claimed the participation of around 700,000 people, the Soviet news agency announced around 300,000 people had participated in the human chain (Estonia history return to independence 1981 1991 estonia.eu). Irrespective of the numbers the impact of the human chain was huge, Soviet authorities was under pressure from international community and there was mass unrest against Soviet Union occupation in Estonia. In the subsequent days, the Soviet Union acknowledged the existence of the Molotov–Ribbentrop Pact and declared it invalid. It was a major victory for the Estonia independence movement (The Baltic Way 2014; Kasekamp 2010).

In 1989, the citizen’s committee movement started the registration of the pre Second World War citizens. This initiative was taken by the Estonian National Independent Party (ENIP), Christian Union and Heritage Preservation Society. This move clearly indicates the process of excluding the Russian settlers. In 1990 there was election for Supreme Soviet of the Estonian Soviet Socialist Republic, (Estonia’s History Estonia.eu). This election was boycotted by ENIP. Out of 105 seats in the legislature, popular won 43 and Association for Free Estonia (reform Communists) and other pro-independence groups won 35 seats, and the Russian International Movement won 27 seats making Edgar Savisaar the prime minister of the Estonian SSR (Wilder 1993: 73). The

election 1990 election was kind of a quasi-parliamentary election for Estonians. However, even while the Soviet Union opposed the move, it did not block the election process. Independence was declared by the Supreme council but this decision was put down by the soviet authorities (Grofmane et al 1999: 236) also the Supreme Council reinstated the interwar title *Eesti Vabariik* and symbols (Smith 2001: 55). In August 1990, Gorbachev drafted a new union treaty which the Estonian leaders refused to sign on the ground that the treaty according to them did not represent the will of their people. Gorbachev then proposed another plan to hold a referendum for a new treaty but Estonian leaders held separate referendum for the Estonian independence in 1991. In 1991 reformist leader Yeltsin visited Estonia two months before the important referendum (Smith 2001: 59).

The crucial referendum was held in March 1991, which produced 78% in favour of independence on an 83% turnout (Wilder 1993: 73). Post referendum the Baltic republics pushed hard for the independence. Later on, the Gorbachev favoured coup failed and on 24 August 1991 Estonia seceded independence from the Soviet Union. Soviet Union General Secretary Gorbachev famously announced on September 1 that it is the “ultimate will and intention of the peoples of these republics, I believe we have to agree to it” (on 27 August 1991 he repeated that republics had the right to secede, but it had to be done constitutionally) (Jeffries 1993: 95). Within a month's time, leading Western countries had reinstated diplomatic relations with Estonia and on 18 September 1991, the flags of all three Baltic states were raised in front of the headquarters of United Nations in New York (Jeffries 1993: 95).

From Soviet Union to Independent nation Estonians passed through hard chips but determination, and innovative protest had led them into free nation. The independence movement was strongly rooted in cultural and linguistic struggle and assimilation, but in this process the Estonian political parties and movements started excluding the Russian speaking minorities. This created

anxiety between two different communities. Nevertheless, the independent state movement was most peaceful and nonviolent in nature.¹

Independence and Nation-Building

National identity formation, interpretation of history, memory politics, legal continuity, and ethnicity based self-other dichotomy is some of the issues related to nation building in Estonia. After independence Estonian political elites found it important to consider its post-Second World War history in order to re-establish a meaningful position in world community. Thus, history remained the basis of Estonian nation's vision and orientation towards its major domestic and foreign policies (Kakonen 2012).

a) Constitution and Political Institutions

Estonia is parliamentary state rule by parliament the parliament functions according with constitution. The newly independent Estonia adopted the constitution in 1992. The new Constitution incorporates many elements of the earlier Constitutions, and particularly those of 1920 and 1938. For the Constitution, later on, another referendum was held in June 28 1992 where 91 percent of the voters turned out for the polling. 67 percent of the voters approved of the new constitution, also the referendum were restricted to only Estonian citizens whereby most of the Russian speaking minorities was left out in the process (Wilder 1993: 73 and Narits 2009: 56).

Marrt Laar the first elected prime minister of the post independent Estonia indicates the direction of the new state Estonia to moving from East to West. Marrt Laar explains "The reconstruction of an independent state and the act of breaking free from the East and turning towards West were harder and more painful" (Subrent 2004: 238). Later the September 14 2003 the constitution was amendment according to entire European parliament. Constitution of the Republic of Estonia, which declares that the task of the Estonian state is to guarantee the preservation of the Estonian nation and culture through the ages,

¹ Mahatma Gandhi was one of the important influences in the non-violent Singing Revolution, the freedom movement of Baltic states

is in fact a result of the historic struggle in favour of national identity (Constitution of the Republic of Estonia 1992)

b) Citizenship Rights and Minorities

Under the new Constitution's Article 8: "Every child of whose parents one is an Estonian citizen has the right to Estonian citizenship by birth" (Constitution of the Republic of Estonia 1992). Citizenship is one of the first right given in Estonian constitution, but the contradiction lies in the fact that the 1992 constitution as approved by only the voting of Estonians while the Russian speaking minorities were deprived of their rights. There was, thus, a linguistic segregation.

Estonian constitution is liberal constitution where it clearly indicates the desire of the Estonians to completely break from the past. In the Estonian constitution the individual's priority over the state is not prescribed by the state, but the Republic of Estonia acknowledges this as a natural right of the individual. On this basis, the Estonian Constitution clearly reflects the move towards West (Narits 2009: 58). The constitution defines that the institutions like the Riigikogu, The President of the Republic, The Government of the Republic, The Bank of Estonia, The State Audit Office, The Chancellor of Justice, The Courts, Local Governments, come under the Republic Estonia (Constitution of the Republic of Estonia 1992). President is the head of the state but the power is vested on Riigikogu parliament of Estonia. The parliament elects the President apart from once in 1992 when Lennart Meri was elected as President by popular vote. He was supported by the pro-reform, centre-right coalition known variously as Isamaa or Pro Patria. The President represents the state in international relations whose term is for five years. It is only twice that a person can be elected a president. Also the Riigikogu elects two vice presidents (Riigikogu Rules of Procedure and Internal Rules Act 2003).

Estonia always wanted to be a part of the western countries and in the process; the 1992 constitution was amended in 14 September 2003, in order to get membership in European Union. "Estonia may belong to the European Union

in accordance with the fundamental principles of the Constitution of the Republic of Estonia”. This amendment was against the early constitution which says that the Estonian state belongs to the people of Estonia (Narits 2009). The 1992 Estonian constitution also provided the basic rights and fundamental duties for the citizens. Some of the basic social rights were not mentioned in earlier 1938 constitution due to the Soviet Union rule and while Soviet constitution had given principal fundamental rights to citizens the newly independent Estonian government willingly or unwillingly included the same in the 1992 constitution. Article 28; Chapter II: Fundamental Rights, Freedom and Duties, clearly describe that “Everyone has the right to the protection of health” and “The state shall promote voluntary and local government welfare services (Nomper 2002:117-118). This part clearly indicates the newly elected government wanted to fulfil the aspiration and vision of the people who participated in the independent movement and also reflects influence of the Soviet Union constitution.

The Estonian constitution also gave rights to all citizens including the right to organise in trade union. The Trade Union Act was passed in Estonia after nine years of independence in 14 June 2000. This Act was passed in Estonian parliament under this act chapter number 1, provision 1 purpose “This Act provides the general rights of and bases for the activities of trade unions, and their relations with state and local government agencies and employers” (Riigi Teataja, Estonia Trade Unions Act 2000). According to the Estonian laws; “A trade union may be established by at least five employees. An established trade union shall be registered in the register of trade unions of location as the legal capacity of a trade union arises upon the entry in the register and expires upon the deletion from the register” (Riigi Teataja, Estonia Trade Unions Act 2000). But the constitution also does not give assurance about discrimination in work place irrespective of gender and ethnicity. Also equal wages for all is not guaranteed in the Estonian Constitution.

The Estonian constitution has taken several important welfare schemes from the Soviet Union, one of the important of which is the Social Welfare Act,

which was adopted by the Estonian parliament on 8 February 1995. Under this Act “The purpose of social welfare is to provide assistance to persons or families in preventing, eliminating and relieving difficulties in coping, and to assist persons with special social needs in social security, development and integration into society” (provision 3 of the Social Welfare Act 1995). The government also set up the social welfare institutions. Social welfare institutions may be funded by the state or local government institutions, or legal persons governed by public law or private law. Three kinds of social welfare institution exist, for the disabled, elderly and children, but these social welfare acts too do not guarantee the public health right for women and the girl child. The constitution of Estonia also provides free and compulsory education for all the school aged children’s under the article 37 of Estonian constitution but the higher education is neither free nor compulsory.

c) Parliament of Estonia

Estonia needed democratic institutions where it can reflect the aspirations and people can elect their own representative in order to complete the successful transition from Soviet Union to independent country. The constitution has given this power to people through election under “Article 56 The supreme power of state shall be exercised by the people through citizens with the right to vote: 1. By electing the Riigikogu 2. Through a referendum”. To establish credible trust and to move towards West, Estonia established liberal constitution and parliament. The parliament of Estonia is called the Riigikogu. The Riigikogu holds an ultimate authority power over the legislature. Article 59 “Legislative power is vested in the Riigikogu” (Constitution of the Republic of Estonia 1992). Under the Article 93 of the Estonian Constitution, the Prime Minister will direct the government and its activities. The Riigikogu comprised of 101 members directly elected by the people through secret ballot. The duty of the Riigikogu is described in detail in Estonian constitution article 65, some of major duties enshrined in the Constitution are as follows: “The Riigikogu shall: 1. Pass laws and resolutions; 2. Decide on the holding of a referendum; 3. Elect the President of the Republic, pursuant to section 79 of

the Constitution; 5. Authorise the candidate for Prime Minister to form the Government of the Republic; 6. Pass the state budget and approve the report on its implementation; 7. On the proposal of the President of the Republic, appoint to office the Chief Justice of the Supreme Court, the Chairman of the Board of the Bank of Estonia, the Auditor General, the Chancellor of Justice, and the Commander or Commander-in-Chief of the Armed Forces; 11. Present statements, declarations and appeals to the people of Estonia, other states, and international organisations” (Constitution of the Republic of Estonia 1992).

The Riigikogu has the ultimate authority over all key political decisions, including legislation, appointment of the Prime Minister and other leading officials, the longevity of governments, the state budget, and treaties with foreign countries (Raun 2007: 23). Article: 1 in the Estonian constitution it is clearly written what are the visions of the independence struggle. It is stated that “Estonia is an independent and sovereign democratic republic wherein the supreme Power of state is vested in the people” (Constitution of the Republic of Estonia 1992). To fulfil this vision, Estonian government needed strong institutions. The Riigikogu also has 11 permanent committees to look over all the aspects of the governments. Local government system is an important pillar in the Estonian administrative and parliamentary system. There are separate laws formed to govern and maintain the structure of local governments. According to article 155 in Estonian constitution the local governments are rural municipalities and cities, and representatives for local governments are elected through free and fair election. The local government act was passed in Riigikogu within year of independence. In 19 May 1993 the Riigikogu passes the Local Government Council Election Act. The local government act 13 times amendments since 1993 (Olle 1997).

Elections and Party System in Estonia

Estonia is the first Post Soviet Union country to adopt the constitution and hold first election in 1992 (Grofman et al 1999: 227). Every once in four years election for Riigikogu and local election takes place in accordance with the new electoral laws adopted by 1992 constitution. Since 2004 Estonia is part of

the European Union (EU), the election for EU happens once in a five years period. The new electoral system replaced the old single transferable representation with new proportional representative list method. According to the electoral law, if a person has attained 18 years of age, he/she will have the right to vote and when a person attains the age of 21, he/she will have the right to contest election for Riigikogu as well as local election. According to electoral act section 4 clause 3, a person convicted by the court for criminal offence does not have the right to vote and under the same act clause 5, a person who has been divested of his or her active legal capacity with regard to the right to vote does not have the right to stand as a candidate (Riigikogu Election Act 2002).

Estonian constitution also clearly mentioned any important national level issues can be decided through referendum; under the constitution article 105 clearly underlines the need to more participation of the people on important national level issues like 1992 constitution was adopted through referendum and referendum was also held seeking public opinion to join EU in 2003. Referendum Act Chapter 1 Section 2, Number 2 clearly mentions “Issues regarding the budget, taxation, financial obligations of the state, ratification and denunciation of international agreements, the declaration or termination of a state of emergency or national defence shall not be submitted to a referendum” (Referendum Act 2002).

Along with Riigikogu the election for European parliament have been taking place in Estonia regularly. To have election for EU, the Estonian parliament passed a separate electoral act in 2002. Under the European Parliament Election Act six members shall be elected to EU parliament. The time period of the member of European parliament is five years. The rules and regulations are more or less same as Riigikogu election process (European Parliament Election Act 2002). The election is conducted by four different election committees under the guidelines of the Election Act of Riigikogu.

One of the major challenges faced by Estonia is to build a vibrant multi party representative democracy and elections. Estonia wanted to move towards Western countries, but unlike other European countries, Estonia did not have experience of multiparty and formal elections in many decades. Many generations have lived under one party dominated system under the Soviet Union. Thus building such a system was difficult task for the newly independent state. In modern democracy, multi-party democracy is one of the essential elements. According to Grofman, having political parties cannot be sufficient criteria for democracy; there should be the availability of necessary conditions for democracy (Grofman et al 2000: 330). Nicholas Aylott insists that political party are essential actors and institution in almost any viable system of representative democracy (Aylott 2014: 321). Estonian born Rein Taagepera, famous scholar on electoral studies, place it simply that to complete the successful transition for democratisation “Democratization includes developing a workable party system” (Taagepera 2006: 78).

In Estonia there was no such institution as a liberal political party during the Soviet period. Communist Party was the only political party in that controlled the state affairs. Most of the activity by the opposition was underground. Most of them were just as organisations not performing as political parties. This was due banning of political parties. Once reforms started from the Soviet leadership, perestroika, the new movements, emerged, but not as parties officially. No organisation called themselves as a political party except the Estonian National Independent Party (ENIP) which was formed in 1988. However this party was also banned by Soviet authorities. Almost all the political groups aimed at independence from the Soviet Union despite differences with them but once the task was achieved the political parties were in experienced and there was no vision for the future (Kasekamp 2010). This harmed the Estonian political stability strongly.

In 1992, Estonia had the first free election since five decades but the result was fragmented. Also there was 5 percent threshold nation level only. Seven out of fifteen parties crossed the mark and no single party got the majority and

voting percentage was lower than the previous elections, which was 66 percent. Only the pre-war citizens were allowed to vote in the parliament election. The first parliament election left out around 30 percent linguistic ethnic minorities. Out of 101 Riigikogu, there was not a single representative from ethnic minorities (Smith 2001: 81). Grofman points out that from 1988 to 1993 Estonian voters went to vote nine times such was the low turnout for national assembly (Grofman 1999: 228).

To properly institutionalise party system the Estonian parliament introduced a political party act in 1994. The government of Estonia adopted new party law; according to the political party act “A political party is a non-profit association. The Non-profit Associations Act applies to political parties in so far as this Act does not provide otherwise” (Political Parties Act 1994). The political party act also put certain criteria to be registered as a political party. It was compulsory to have 1000 members in 1996 which remained criteria on till 2002. But in the year of 2014 the political parties amended according to the new rule. According to Article 12 Section (2) the political party must show the membership list to the registration board. If they the political party fail to maintain the 500 members then the party can be compulsory dissolution (Political Parties Act 1994).

Estonian government also introduced public funding for the political parties since 1996. The funding for the political party was based on the representative in parliament and not based on the electoral vote share (Saarts 2015: 215). To strengthen the party system and unstable governments there was a new law introduced in Estonia In 1998 whereby a vital electoral act passed in the parliament. According to the law, electoral coalitions were henceforth banned and only single political parties could now field candidates for parliament (Sikk 2006: 346).

Despite several attempts by several government of Estonia through laws, rules and regulations the Estonian party and political system continued to be unstable like all other former Soviet Union countries in the first decade of the

independence. Many reasons have been given for the unstable political systems in Estonia one of the most striking reasons of which is that almost all the political parties were focused on getting separate from Soviet Union, but post Soviet Union period all the political parties followed the same economic policies and hardship of the economic transition and this social stress led to the distrust of the people on political parties. Also the people voted more for individual leaders than political parties (Smith 2001: 81 and Grofman et al 1999: 233).

Since Russian speaking linguistic minorities doesn't have the voting rights, naturally this created division among the Estonians and Russians, which continue to increase. It is reflected in the political parties. Most of the political parties strongly advocates for moving away from East (Russia) towards the West as well as almost all political parties were follows the exclusionary politics towards Russians. The Russian speaking minorities formed political parties of their own, like the United People's Party (UPP), the Russian Party of Estonia (RPE), and the Russian Unity Party (RUP). The UPP party was formed in 1994 (Smith 2001).

In the 1992 election, no Russian speaking representative was in Riigikogu. In 1995, for the first time all the major three parties come together and formed an alliance to pass the 5 percent threshold (Pettai 2003: 8). Despite political instability and weak party system in Estonia it continues to implement neoliberal policies irrespective of different coalition governments. Several scholars noted the absence of genuine left parties in Estonian political system. Several reasons are given for such absence one of the most important argument among these being the history of left politics in Estonia. People of Estonia associates left politics with communism and dictatorship (Aylott 2014: 329).

Unlike in Western countries where the left parties have historically emerged from trade union movement or feminist movement, the post-Soviet Estonia does not have strong trade union or feminist movement and all the political

parties are driven by implementation of rapid neoliberal policy. The political parties in Estonia do not have long vision or proper ideological orientations. One of the major reasons for the lack of vision is that political elite trained from young people who participated in independence movement solely driven by the mere anti Soviet Union sentiment and pushed Estonia towards the West.

While building new democratic institutions in the 1990's, there were several changes which happened in the parliament and in the party system. This process will lead to few parties' dominance in Estonia's politics. In comparison with other Baltic states this numbers was a bit high and it had some impact in the national level politics. The political party act made political parties towards public domicile because the state provided a certain amount of money for the political parties so that the parties could not get money from any private corporation or NGOs. There were strong reasons behind this act because some of the parties were affiliated with Western European countries, like Social Democrats and Christian Democratic Party and so the possibility and apprehension that these parties might be influenced from outside the country (this fear) was always there. The second reason and a very important one behind the introduction of this act were towards bias for some big party. If the party failed to get certain number of vote or members, their registration might be cancelled by the government. It will, thus, help the big parties during the election period to pull the small parties vote (Petai, 2005).

The election law came to be effective in the 1999 election for the Riigikogu. In that election, only officially registered parties could run in national elections, alongside individual candidates, who are effectively subject to more restrictive electoral rules (Sikk, 2006). Small parties suffer due to this law because before this law was passed they might have got some seats in the parliament with some concrete proposal in the election or they might get 5 percent threshold in the Riigikogu elections with the help of big political parties. This helped some of the political elites to control the state.

For any successful democratic transition there was the need for a strong political will of the people. The people of Estonia had experienced the democratic practice after the Soviet Revolution. Estonia otherwise has had a little experience of democratic practice till the Second World War period. The last elections before the Second World War happened in Estonia in the year 1938, which, compared to other two Baltic states was a little late. These states had democratic elections in the beginning of the 1930 or towards the end of the 1920s. For the most important work of building a democratic country with peoples' parliament they needed a constitution. Estonia's new government decided to bring back the liberal model of 1938 constitution in 1992. A constructional assembly introduced amendments to the 1938 Constitution (Norkus 2013).

The transition in the Former Soviet States faced its biggest challenge in establishing their democratic institutions with exclusionary policies and there were some major problems in the transition countries. When the transition happened they did not have any proper institution or political parties to establish the democratic norms; for example, there were no proper ideology-based parties and they were mostly related to the Western European model i.e. Social Democrats, Christian Democrats. They did not have any political agenda for the new states and most of them believed only in bringing back either the parliamentary multi-party system or the western model of democracy. Baltic states were one of the very few of the Former Soviet Union states which had a less bloody transition and a full democratic parliamentary system. In the transition period in Estonia, compared to other Baltic states, there was no bloodshed and there was no former communist leaders' dominance, like in most of the Central Asian countries which had former Communist leaders with reform policies. In the year of 1989 there was a historical election held in USSR for the Supreme Soviet; this election made drastic changes in Estonian politics. In the March 1989 election, most of the Communist leaders and candidates were defeated by candidates supported by

the Popular Front of Estonia (PFE), though there were some communist leaders who won the election with the support of PFE (Taagepera 1990).

In the August of 1991, a dramatic shift happened in USSR politics when the coup attempt made by Gorbachev to regain the republic failed, and finally Estonia declared full independence for itself. After getting separate republic state, the foremost responsibility facing the new government was to build strong institutions: not only the parliament institutions, they needed institutions for economic transition too. “Democracy was crucial for a successful market-economic transition, the higher the quality of democracy the more far-reaching market economic reform was” (Aslund 2007: 207). So the preparation for the new liberal model Constitution was not just for the parliament it was also a preparation for the new economic policies. In the new constitution amendment made in the year of 1992 there were several changes vis-à-vis the rights of the people.

Parliamentary Politics and Electoral Process

After the pronouncement of the independence in the year of 1991 in August, the government officials restored the 1938 constitution. During 1991 to 1992, there were many debates surrounding Estonian politics. “Estonia’s political transformation can be dated much more precisely to the period stretching from August 20, 1991 to June 28, 1992” (Petai 2005). In the year of 1992, the constitution was passed by an overwhelming majority of the people (91 percent). It was the first free and fair democratic election held in Estonia after 1938. Since 1989 to 1992 the country passed through several elections, first for the Supreme Soviet and then a referendum for its own constitutional assembly, “During the six years between 1988 and 1993, Estonian voters went to the polls nine times: twice for national referenda, five times for national elections (including a concurrent presidential election), and twice for local elections” (Grofman et al 1999: 228).

The Estonian people drafted the constitution based on a strong parliamentary Prime Minister system but the presidential system also excited them. Estonia’s

parliament consists of 101 members, the majority coalition of the members forms the government, and the President of the country is elected indirectly by the parliament. The tenure of the prime minister is 4 years, and one person can't contest more than two times for the presidential institution; foreign affairs are overseen by the President who is also the commander of the National Defence. In the elections for the Estonian parliament held in the year of 1992, the people of Estonia elected their first non-communist background leader, Mart Laar as the Prime Minister of Estonia who belonged to the center right party (Grofmana, et al, 1999).

Many observers of democratic transition have noted that the ultimate success of democratization from authoritarian rule depends heavily on the promotion of political moderation within the principal political parties (Ishiyama 1995: 147). For a successful transition to parliamentary democracy, political parties played a key role; for example, the Popular Front of Estonia (PFE) played the most important role in the 1989 elections and after 1991 they became the Center Party. "The Center Party was founded in 1992 as the successor to the Estonian Popular Front, which led the country to independence in 1991" (Petai 2005). There were several political parties which emerged after the establishment of the republic but most of these parties had very few members and the big parties were bargaining with the small parties when they needed to form the government.

In the case of Estonia no party got absolute majority since first parliament election in 1992 and they always had to form the government with the help of small parties, which gives two conclusions about the nature of the parties: 1. The small political party did not had a proper ideological orientation 2. They might reflect the opinion of small section of the people. In the year of first election there were 9 parties in parliament and within five years of transition there were around 30 political parties registered in Estonia (Saarts 2010). Since 1991, the number of political parties increased because the demands of the people also increased day by day. In Estonia, almost all the political parties had the same ideological background; for instance, all the political parties'

leaders fully supported the neoliberal economic policies; however, though some of the parties supported the economic transformation but they advocated a gradual transition.

In the overall transition to democratic institutions, personalities mattered a lot because in the post-Soviet Countries, which were seeing the democratic process after a long time, the people could not identify the political parties with distinct ideologies as almost all the parties supported the democratic transition or else the new economic policies; so the common people, most of the time, identified with personalities, the perfect example being Boris Yeltsin in Russia and Edgar Savisaar in Estonia.

New Party Act and Citizenship Law

While creating a vibrant democratic system in Estonia or in any other transition countries, they had major problems in dealing with the minorities. During the Soviet period, it was comprised of different nationalities and a flexible passport system was exercised, so that the migrant issue was not the centre of attention, but after the disintegration the minority issues appeared as the foremost challenge in these countries. Like they have to make very exclusive system that system should co-opted all the section of the people in the society. In the case of Baltic States, linguistic minorities were the major reason of concern because in these countries Russian speaking people were the major minority group (Smith 2001).

But in the case of Estonia, they implemented the reinstatement of Pre Second World War citizenship law with its 1938 citizenship law. It means majority of the non- Estonians were excluded from the political process. “Applicants for naturalization were required to take oath of loyalty to the Estonian republic, possess a basic albeit unspecified knowledge of the Estonian language and to have resided permanently in Estonia for two years after 30 March 1990” (Smith 2001: 72). While getting permanent membership, non-Estonian citizens, majority of who were Russian-speaking minorities, who had settled there during cold war period under the control of Soviet authorities, had

problems. Because of the fear of Russian interference, if the government gave full citizenship to Russian-speaking people, it (the government) thought this will create problems for them because once these Russian-speakers gained political support they might try to intervene in the ongoing economic reforms (since 1992 most of the trade relations were inclined towards Western Countries, so the new political elites avoided any kind of relationship with Russia). This was one of the major reasons why they were denied citizenship earlier. Some of the radical nationalities in Estonia believed “definition of citizenship, loyalty to the state was synonymous with knowledge of Estonian language” (Smith 2001: 73). The 1993 citizenship law was suspended by the Europe and CSE because it was against the norms of the European council and international minorities’ rights. After consultation of Europe in the year of 1995, in January, a new citizenship law was adopted, establishing six years as the period of residence required prior to naturalization instead of three years. (Jeffries 2004: 132).

Media

During the Soviet rule, the media was controlled by the state and no independent press was allowed. The media role was very minimal during the first phase of independence during the Gorbachev era as most of the media was controlled by the local communist leaders. In the first phase of transition, the media played a key role in nation building process and strongly favoured the shock therapy economic reforms and moving towards the west and backed the government’s anti-Russia stands. Along with supporting the transition, the media in Estonia became more commercialised and focused on exposing the scandals of the ruling parties, like in 1994, the media exposed the first prime minister Mart Laar’s scandal of selling the Russian rubles to Chechen rebels, and in 1995 Edgar Savisaar resigned over allegations of snooping over the opposition leaders’ conversations and in 1997, the media exposed the corruption charges of TiitVáhi and later he resigned from the post of prime minister (Vihalemm 2003: 590). In the result of a continued exposé of the

media in 1998, it was listed as the least corrupt country thanks to the media for its pro-active watchdog role (Vihalemm 2003: 590)

By the year 2011, Estonia has 94 newspapers published and out of these 13 are daily newspapers, 10 in Estonian language and 3 in Russian (Naaber 2011: 1). Estonia has the highest number of internet users in 2016 with 1.2 million users. Almost 91 percent of Estonia's whole population are internet users (BBC 20 April 2016). Urmas Loit says reading newspapers are very much a part of Estonian people's everyday life; every day 74.3 percent of Estonia's population reads newspapers (Loit, European Journalism Centre: Estonia - Media Landscape). Currently, Estonia has 35 radio services out which 5 are public owned, 30 private owned and 7 domestic TV channels, 5 of which are national broadcasted (Naaber 2011: 2).

Estonian media is majorly dominated by the Scandinavian countries. Since the independence from the Soviet Union, the Estonian media developed very rapidly. In present times, Estonian media is dominated by the private and corporate control. Estonian language media was a backbone of the spreading nationalism during the foreign rules, whether during Tsar's rule or the Soviet rule.

In order to liberate Estonia from Soviet Union to an independent state, Estonia led freedom movement from the front and set an example to other countries. Estonian movement against Soviet Union and post-Soviet state building process happened in smoothly without involving any violence unlike other former Soviet Union countries (Raun 2001:26). The hardship during the political transition is not only particular to Estonia alone. All the post-Soviet countries faced the same kind of hardship. Some countries even faced worse ethnic violence and civil war. The reason behind the nonviolent transition is elites in Estonia which homogenises the ethnic Estonian against the external threat of Russia and presence of Russian speaking population in Estonia. In the ideological level, the political elites build the Estonia as ethnic democracy (Adam et al 2009: 71).

Democracy is a political system based on the autonomy and freedom of individual citizens and the determination of public power and policies through competition between citizens as individuals, groups of citizens, based in parties and interest groups (Aslund 2007: 209). The above statement clearly mentions the nature of the liberal constitutions which is precisely suitable for Estonia because after changing from planned welfare state towards neoliberal state they have to make radical change in the constitution to accommodate the changes of transition from state owned economy to market fundamental economy. They however had some kind of breathing space for the democratic aspiration of people because democracy is the key pillar of the transition in the East Europe countries. Estonia not excluded from this democratic aspiration, have to make liberal constitution for ensuring certain rights for the people as it evolved through the political changes.

The process of transition is long and very sharp edged so they have to take cautious step for successful transition. But in the case of Estonia as the first sprinter towards transition one can see the speed of the transition in this country in terms of building democratic institutions and rapid economic changes occurred in Estonia. At the beginning of transition towards instituting democratic institutions they excluded certain section of the people in the society. It has created some sum of problems and tension within and outside the state especially with regard to linguistic minorities, the Russian speakers (Steen 2000). And the democratic process which is exclusionary one, neglecting the right of the particular section of the society, on the basis of language, is complete violation of human rights. But the incumbent Estonian state precisely deliberately adopted this approach towards the Russian speaking section because they consider them as the illegal citizens of the country. They were deported from Russia during the cold war period. According to the Steen an exclusionary form of democracy is an institutional response from the majority in order to keep large ethnic minorities out of the political process (Steen 2000).

Some scholars argued that Estonia built the democratic institutions based on ethnicity and tried to create ethnic democracy (Smith 2001: 74). There is clear motivation behind creating ethnic democracy after the independence in Estonia as there was political vacuum which so many political elites tried to fill for which they used the ethnic card to create some political vested interest groups for consolidating their base for their new government. At this point, some political parties emerged on the ethno-nationalistic bandwagon like Pro Patria. They used the nationality card to form a coalition and to contest election. The ethnic based democracy may create more problems in Estonia because after the Soviet disintegration most of the former Soviet countries had a similar minority's problem, Czechoslovakia being one example.

Most of the former Soviet states did not have a strong democratic institution or mechanism established before 1991. Thus, the process of establishing such institutions was the primary task of these countries, but even when they have completed the task of transition some part of the process have failed because of their misjudgement of the transition process. In Estonia, after 1991, they first went ahead with economic transition as they gave more importance to the impending economic change than democratic transition. However, not having proper institutions for implementing economic policies only created irony, so to say, for any kind of successful changes need political support. But in Estonia, the government changed the rules and laws according to the market expectations. For example, changing 1994 new party law is the way of reducing political parties and not allowing the small parties to emerge. This was because smaller political parties reflecting diverse and smaller groups of the population in the society might challenge the hegemony of ethno-nationalist whose politics is based on pro-market reforms and so their voice needed to be suppressed by this law. Further, the political parties in Estonia don't have the structure as Western countries. Estonia political parties do not have particular ideological orientations like the Western countries. Almost all the political parties have followed same economic and social policies and the

party workers and voters couldn't identify or affiliate with particular party, as propounded by Edgar Savisaar (Kreuzer and Pettai 2003).

The 1998 law will only strength the big parties hand because whenever small parties had a great a share in the parliament it may help to stop some of the anti-people policies because already said small parties might reflect some amount of people's opinion in the public spaces. As the state just wanted rapid implementation of Neoliberal policies without any political debate in the parliament, they made laws for the neoliberal policies, about which dealt with in detail in the previous chapter. Thus, the prime motivation behind the successful transition was not successful democratic transition. As a result there was serious imbalance and instability that wreaked governments that came to power in Estonia. This can be clearly understood with respect to the fact that between 1991 and 2001, there were seven governments that changed in Estonia (Petai 2005). This reveals the motivation of the transition as just for market based economic reforms not for democratic institutions.

Further, Estonian political transition and building a new state was successful one but with many shortcomings, the first decade of the political situation was completely unstable from 1991 to 2014, Estonia had 11 different prime ministers and within ten years of independence from 1991 to 2002. Also by 2002, Estonia had seen nine different cabinets under seven different prime ministers, belonging to six different parties. The result of the first decade of transition created distrust among the people on governments it's reflected on the election participation of the people reduced slowly by 1999 local election the voter turnout was 49 percent less than half the population voted (Taagepera 2006: 80). Economic transition is one of the main reasons behind the political stability, according to Kadari Luhiste. To successfully transition, the voters must have the confidence and trust on the political intuitions. However, the Baltic countries lack the political trust on democratic intuitions (Luhiste 2006: 475).

Political transition and economic transition are both mutually interlinked to have successful democratic transition the state must incorporate all the section of the society not only for voting (Estonia excluded their linguistic minorities in voting also) but also to create important economic decision. This discrimination is clearly reflected in the Estonian political system where referendum clearly lays down that issues related to economic and international affairs cannot be handled in a referendum. It is one of the big setbacks in democratic transition. Luhiste gives four reasons behind the people deficit in political institutions: Government performance, Economic performance, and Political performance, Control variables (Luhiste 2006: 479-480). Estonia fit in these above four categories.

To examine the successful democratic transition it's necessary to study the economic transition, because political transition in Estonia moved towards not only in political arena but also towards economic transformation. Since 1980s the economic sphere strongly came to be dominated by the neoliberal economy, which principally was opposed to the state intervention in economic activity. Where the state must create the necessary condition for the economic policies, the political rights given by the constitution was largely under attack.

Chapter 3

Neoliberal Economic Reforms in Estonia

This chapter examines the economic transition of Estonia from planned socialist economy to liberal market economy. This chapter analyses, neoliberal economic reforms and policies pursued by various governments in Estonia. It also tries to evaluate how far Estonia succeeded in the implementation of neoliberal economic model in the country. While studying the same, the chapter minutely looks into the laws that have been used as an apparatus to implement these neoliberal policies into the economy, like the new banking laws, privatization laws, the installation of new currency and currency board. The neoliberal reforms aim to the global integration of Estonia's economy and enhance the economic growth and social well-being. Reopening of the stock market contributed to the closer ties of Estonia with International financial institutions and the larger international neoliberal economic community.

Neoliberal Economic Reforms in Estonia

Liberalisation of economy generally means liberating the economy and market from the state's control. The shock therapy economic model demands immediate trade liberalisation and price liberalisation in the part of the government to complete and successful neoliberal transition. The government must withdraw its role from all part of economic activity. Estonia followed the radical shock therapy economy model and implemented trade and price liberalisation before disintegration of Soviet Union. During the Soviet Union period market price of goods and commodities was controlled managed and fixed by the government and trade was strictly restricted by the government. Under the neoliberal logic the market decides prices and value; government interferences only help few people monopolise the market. Along with this same lines Estonian government liberalise the prices from the government control expect few basic commodities (Lainela 2002: 32). Estonia transformed itself from being a former Soviet Union country to most liberal economy country in the world but the journey to achieve this remarkable feat Estonia

went through several hurdles. Despite warnings from international organisations, fear of economic crisis and considered Estonia's small economy, the country vigorously pursued neoliberal economic model.

Although in the first decade of the transition Estonia witnessed deep political instability and short term economic crisis, it has successfully overcome the shortcomings and joined elite economic organisation like Organisation of Economic Cooperation and Development OECD in 2010. In the year 2015 World Bank ranked Estonia 17th country out of 189 countries in doing Business (estonia.eu 29/09/2015). Regardless of much unemployment, increasing inequalities and other social consequences policy makers in Estonia pursued neoliberal economy better than rest of the Baltic countries and former Soviet Union countries.

The crux of the politics of Estonian political elites constituted the desire to shift their politics and economics from East to West. The Estonian political leaders chose the economic path of the country long before the collapse of Soviet Union. The political institutions and constitution is liberal and most of the reforms followed the Western model. The Estonian political leaders and political elites chose their economy in neoliberal trajectory. Mart Laar the first elected Prime Minister of Estonia made clear statement about how he was inspired by Ronald Regan and Margaret Thatcher's policies and their anti-Soviet stand. Thatcher was the first person who openly implemented neoliberal policies in United Kingdom (UK) and came to be followed by Reagan in the United States (Subrenat 2004: 226).

Almost every political party in Estonia follow the same set of economic policies. Lennart Meri, the first elected president of Estonia, in his address to the United Nations General Assembly in 1993 clearly indicated that Estonia's future economic policy would be based on free market, stating that "free market and democracy are the interconnected" (Meri 1993a). The same year Meri in his address at Kuwait city he went a step further and assured that Estonia wanted to integrate with the world economy within two years of

regaining independence from the Soviet Union. Estonia invited more than 30 countries to invest and buy their state owned enterprises (Meri 1993b).

Estonian neoliberal development can be divided into three phase. The first phase spans from 1991 to 2000. The second phase extends from 2000 to 2007 and third phase begin from 2008 continuing till now. The first phase of neoliberal reforms faced several problems that included both economic chaos as well as political instability. While the second phase of economic transition brought political stability and growth in the Estonia's economy, it was in the third and the final phase that the Estonian economy and society faced massive economic crisis and social unrest with increase in unemployment and cut in the welfare policies.

To complete the successful economic transition from socialist economic model to neoliberal model the Estonian government primarily focused on six basic issues: namely, deregulation of price, reform of property rights, enterprise reforms, privatisations, macroeconomic stability and liberalisation of trade. These form an inquisitive part of a successful transition to neoliberal economy from socialist economy. Neoliberal economic model's main agenda is accumulation of private property for individuals. Previously the entire economy used to be run under the control of the state (Marangos 2005).

In order to liberate from the clutches of the state privatisation is a primary and important step which the Estonian government took right at the outset. Privatisation of state-owned enterprises and land is a primary requirement to have a successful transition from a socialist economy which is planned to a capitalist market economy. Prices, freed from the constraint of the state control, move to balance market levels. Markets, once introduced, become the basis for allocation of resource and radically change the role of the government. The role of the government is reduced to laying the ground rules for the evolution of a market system from production of goods and services (Marangos 2005).

a) De-controlling of Prices

The Estonian government started the price liberalisation process before its independence. The price liberalisation process started in 1989 and almost completed in 1992. In July 1991 the Estonian government eliminated the state pricing system by end of 1991 only 10 percent of the goods and services were fixed by the government (Meyers et al 1992: 5). In 1992 rationing goods was disbanded and providing subsidies for ration was also stopped by the government. The Estonian government did not control the prices of the commodities produced by the private companies.

b) Trade Liberalisation

Establishing the trade relations with foreign countries became one of the most important tasks of the Estonian government. It was viewed by the Estonian government as a way to escape from their past. Also, it was hoped that trade will help them in the de-Sovietisation process too. Estonia has become a leader among the Baltic states in terms of liberalising foreign trade and removing all the tariffs. Also, Estonia is one of the few countries that do not have any import protection on agriculture as well, even while other two Baltic states do have some sort of tariffs on agricultural imports.

Estonia is considered to be most liberal trade friendly country within the European countries (Lainela 2002: 33). Estonia went into action as soon as they got independence from the Soviet Union removing trade tariffs from most of the goods. In the year 1991 around 200 goods were under the quota protection. However within two years, only five goods were under the tariffs. Further by the year 1995, the government had abolished all the trade tariffs (Feldmann 2001: 521). Before 1991 only 3 percent of trade was between non-Soviet countries (Feldmann 2000: 9).

The important impetus behind trade liberalisation was the fact that unlike other Western countries, former Soviet Union countries did not have traditional big industrialist or capitalist class. Thus most of the investment in Estonia after independence would come from foreign companies. Trade

liberalization was in fact, thus, a mode to attract foreign investment. In the beginning of 1994 the FDI amounted 4 percent in overall GDP (World Bank 2015).

In 1993 after several decades Estonia signed its first free trade agreement with other Baltic states. Before the free trade agreement the government abolished most of the trade restrictions. In the pre-independence era Estonia's economy revolved around Russia and other Former Soviet Union countries. Since the disintegration of the Soviet Union many countries got independence, all of which have chosen the same set of liberal policies leading to competition among these new countries. As a result, Estonia chose more radical step to attract more foreign investors. Currently Estonia is considered to be one of the most economic friendly and investor friendly country in the world. In 2015 World Bank and Heritage Foundation ranked Estonia 8th out of 178 countries making it one of the most free economies in the world (estonia.eu 29/9/2015).

c) Privatisation and Liberalisation of Economy

In Estonia state owned enterprises were sold to foreign owners. There were very few people who had sufficient money to buy these state enterprises, so most of the state owned enterprises were sold to Multinational Corporations and Western country corporations. The first and foremost advice for these countries, given by IMF and World Bank, was to open their internal market for the foreign investor and to make laws in favour of privatisation. "Shock therapy" was nothing but another term for neo-liberal policies advocated by the IMF, World Bank and the Western countries. The new liberal regimes went on to implement the neo-liberal policies in their entirety and created the legal frame within which they made their laws for privatisation. Even before the disintegration of the Soviet Union, Estonia established around 150 joint enterprises with other countries (Brown, 1993: 494). Thus after the disintegration, Estonian Policy makers started implementing the neo liberal policies with the help of IMF and Western Europe countries. The first measure they took was regarding property (Gillies et al, 2002). They introduced the Property Reform Act to free property from the state. Previously, all the

property was under the control of the State. This was necessary so that the privatisation process could be done with a proper legal base.

Among the Baltic states, Estonia has the record of having the best privatization record. Around 50 per cent of the state owned enterprises including agricultural enterprises in Estonia had been privatized by business units by 1994 through auctions and tenders which were used to attract foreign investment. The process began in 1991 with the law of the property reforms while the country was still a part of the Soviet Union. The process of further privatization began after the country attained independence, and it attained full pace in 1993 with laws like land reforms law, law on real estate, bankruptcy law and securities law on came into force along with the adoption of the Privatisation Law in June, 1993 which founded the Estonian Privatisation (EPA) coagulating the State Property Department and the Privatisation Enterprises. The state owned properties in the process were either bought by private foreign enterprises or domestic purchasers with foreign partners (Lopez et al 2002: 1-3).

The primary objective of the foreign policy of Estonia was to build a strong relationship with the Western countries so that they could create a strong market economy based on the Western European model. For this reason they signed numerous FTAs (Free Trade Agreements). Estonia signed such an agreement with EU on 1st January 1995. Estonia also signed in the Europe agreement in 1994-95 (Association Agreement). After signing such agreements and laying the foundation for a market economy, Estonia applied for European Union membership in the year 1995 (Feldmann and Sally 2001: 21). Estonia applied for the membership of other international organizations like the IMF, World Bank and European Bank for Reconstruction and Development on 9 September 1991, and was admitted to the United Nations on 17 September 1991 shortly afterwards. At the same time the Western countries and the US appreciated Estonia's move towards neoliberalism and to further encourage this process they gave financial aid to Estonia making it to

be the first country among the former Soviet countries to receive financial aid from the Western countries (Feldmann 2003).

As clear from above, Estonian economic policies came to be based on certain fundamental features which formed the principles of neoliberalism. Firstly, the basis for the policies is the overarching goal of creating a market-based economy. Secondly, the achievement of this basic objective required the establishment of a set of code of laws and institutions that would ensure respect of private property and maintain the sanctity of contracts. Thirdly, the integration of the new economy with the world economy was essential. The creation of a market economy required that all barriers to trade and tariff be removed. It was, therefore, the re-establishment of the Estonian ports as significant centres became necessary. Further, all of this meant that the new Estonian government and Western countries would have to try to avoid Russian influence and would have to steer clear of dependence on Russia. And, finally, these requirements also implied that Estonia would have to come out of the Ruble zone because they needed to get more foreign investment. All of the above objectives were systematically pursued and carried out. The above principles were set as the 'seven point agenda' by Estonia (Gillies et al, 2002: 178) and moved towards implementing this agenda through rapid legislations during 1990, 1991, and the first half of 1992. Estonia seemed to be in a hurry to carry out the liberal economic reforms so that they could get hold of more foreign investors for selling their state enterprises.

During the process of privatisation Estonia faced hurdles in the early stages but they overcame these hurdles and successfully implemented the privatisation policies unlike other former Soviet Union countries. The reasons for the same are as follows: Firstly while dealing with state firms, about 300 bankruptcy proceedings have taken place by the termination of soft credits to enterprises and the active implementation of the bankruptcy law (Lopez 2002: 4). Prices have been liberalized by a currency board system that links money creation to hard currency reserves keeping inflation at modest levels, and it has also opened the trade regime subsequently encouraging foreign

investment. Secondly, all the political parties in Estonia favoured the privatisation process. Political leaders persuaded the people to bear the ad-hoc yet arduous adjustments. Lastly, geographically Estonia is a small country, and its size acts as an important aspect in its ability to gain quick charge of her economy. Further, Estonia's most important standing characteristic compared to other Baltic states is that geographically she is far and distant from Russia. Estonia has used Foreign Direct Investment as one major tool to break away and restructure from Soviet Union.

Once the Estonian government changed the rules and regulations for the investor friendly environment, the FDI flow to Estonia was more than it was in any former Soviet Union countries according to the EU estimation. It must be observed that the foreign trade and FDI in Estonia have grown from 82 million dollars to 12.664 billion dollars between 1992 and 2006 (Juliussen 2008: 2). After the economic crisis of 2008, these investments fell to 1569 million dollars in 2012 and 553 million dollars in 2013. The FDI situation in Estonia has shown improvement in 2014 whereby 983 million dollars have made inroads to its economy and as of now, Estonia has received investment at the worth of 15.6 billion euro by the 2013 estimates. Out of these investments, 16 percent went into real estate activities, 15 percent into trade in wholesale and retail, 14 percent into manufacturing and 8 percent into professional, scientific and technical activities. Swedish companies have made 27 per cent of these investments, while Finnish, Dutch, and Norwegian companies have made 21, 10 and 6 percentages of investment respectively (Estonia investment agency 2015).

d) Voucher Privatisation

Voucher Privatisation is one kind of privatisation experiment process in former Soviet Union. Vouchers are transferable shares in privatised firms, in investment fund companies, residential housing and land. Each resident receives national capital voucher once he or she is over the age of eighteen, along with each voucher, every individual is also given denomination at 300 kroons. For a person whose property was expropriated illegally and cannot be

returned, the compensation voucher, a second instrument, is issued. People who were expelled during the Soviet era also received compensation vouchers. These vouchers doubled for the total cost of the property at the time it was confiscated. An unsettled problem in the Estonian privatisation program is that the face value of the vouchers outstanding far exceeds the likely value of assets being sold. And even more vouchers are being created as restitution proceeds slowly (Nellis 1996).

According to estimates by the Ministry of Finance, about 10.5 billion crowns worth of vouchers have been promulgated: while 8 billion crowns in “national capital” vouchers have been allotted to all citizens, around 2.5 billion crowns in “compensation” vouchers have been given out for injustices suffered during the Soviet period (Nellis 1996:3). The ministry calculates that 70 percent of about 1.2 billion crowns of vouchers swapped by the public for housing has been privatized. Another 1.8 billion crowns of vouchers have been exchanged by people in privatisation transactions. Out of this only about 100 million crowns of vouchers were used in public offerings in two large combinations. A rough calculation of the value for the remaining vouchers is about 7.1 billion crowns, or approximately US\$630 million. The minority percentages held back from all the firms remaining to be sold are unlikely to be large enough to absorb this outstanding stock of vouchers (though the problem is eased if the trading of vouchers allows their price to fall to clear the market). Citizens may use their vouchers in a variety of ways like by simply selling them to any bidder, or exchange them for shares in companies or in investment funds, buy the housing, purchase land, or buy bonds from a Compensation Fund. In November 1995, it was announced that vouchers may be used at face value for up to 50 percent of instalment payments for privatized companies (Nellis 1996:3).

e) The Legal Measures for Privatisation

“Radical economic reforms cannot be implemented without laws regulating the economic space” by Mart Laar (Laar 2007: 7). This statement clearly underlines the importance of and the intension behind the legal measures to

have successful economic transition. Estonian government had systematic approach for privatisation to have successful privatisation process. Various Estonian Governments irrespective of political parties brought various legal measures' to complete the privatisation process in Estonia.

The following legal measures had to be taken to create the market economy. Firstly, legislation was drafted to cutting all state subsidies. Secondly, measures were enacted for the rapid development of an entrepreneurial small business sector based on private ownership. Thirdly, controls on prices and wages were removed. Fourthly, new regulations for bank were passed. Fifthly, the principles were published regarding governing ownership. The Estonian government first introduced an Ownership Act in 1991 the primary purpose of this act is to change the legal framework for future market economy. It is clearly written in the law that protection of the integrity of property and free enterprise and security from violation to ownership rights and smoothening of the process of move towards market economy forms the basis of the ownership reform. On the way to ownership reform, while returning property to its rightful owner, or while providing compensation to a former owner, there will not be any bias against the interests which are protected by law (Estonia Ownership Act 1991). Privatisation of small and medium sized firms began after the creation of a privatisation agency. Measures were executed to encourage foreign direct investment. Further, all tariffs were removed. Finally, and crucially, the new government took measures to control inflation. These are some of the important steps taken by Estonia, and the help of foreign advisories in this process was crucial.

Estonia has led the Baltic states in the path to reforms. As soon as the Soviet law changed in 1987 permitting state enterprises to seek western partnership and supplies, Estonia was probably the first to immediately act and establish over 150 enterprises jointly with western partnership. After changing their economic policies, it is vital to remember, Estonia faced extreme economic instability. An instance of this is that economic decline continued throughout 1991 and 1992, with some estimates of a decline in GDP (Brown, 1993: 494)

between 35 percent and 50 percent. Estonia began their market-oriented economic policies with privatisation. In the initial years itself almost 40,000 of 45,000 (Purju, 1996) businesses were owned by private entities. But at the same time the country faced serious inflation between January 1991 and 1992. In January, consumer prices rose by 629 percent, (Brown, 1993: 494) while, between February 1991 and February 1992 the rise was a whopping 1,015 percent, and in the next month of the same year the inflation rate was around 1,169 percent. (Brown 1993: 494)

After the collapse of the Soviet Union, Estonia turned into one of the highly liberal trade regimes, particularly in terms of its relationship towards the West. To create a market-based economy, Estonia needed strong institutions and it was to this end that they created a separate agency for privatisation. After establishing this agency, it started the privatisation process, and carried it out over the time period between 1991 and 2000. The Estonian privatisation agency contracted 575 agreements which amounted to 8.3 billion EEK (Purju 1996). Almost every privatisation came through foreign direct investment, and at the end of 2000, one decade after the economic reforms, the economy was completely dependent on FDI, with more than 44.5 billion EEK of foreign direct investment head, an amount which exceeded several times the amount accruing from direct privatisation.

The law on co-operatives as passed by the Estonian parliament established the legal regime for the co-operative in August 1992 (Purju, 1996). The number of non-agricultural co-operatives was increased, and the official number of registered enterprises was 4288 (Purju 1996) in August 1992. After the change of the law in 1987, and the establishment of the first joint ventures, this form of alloyed ownership between a foreign company and a domestic state co-operative increased speedily during the following years. There were eleven joint ventures in 1988, but after the collapse of Soviet Union the numbers of joint ventures are increased rapidly because of the government privatisation policies (Purju, 1996). Edgar Savisaar was the first Prime Minister of Estonia

after the collapse of Soviet Union. He announced his government primary goal was Estonia's transition to a market economy.

Estonia made all possible way to attract the FDI (Foreign Direct Investment) like giving tax relaxation and undervalued their currency in these all the steps led to Estonia one of the highly liberal country in whole Eastern and Central European (OECD Reviews of foreign direct investment in Estonia, 2001). Total direct foreign investment reached 700 million between 1991 and 1996, which made Estonia achieve one of the highest levels of per capita foreign investment in Central and Eastern Europe. In the year of 1996 the U.S share of FDI in Estonia was 27.8 percent (Country Studies US 2010). Estonia parliament made a law for foreign investment and it was passed; main object of this law was to give guarantee of equal treatment to foreign investor as government entities to ensure free refurbishment of profits.

The 'Law on Ownership' as approved in June 1990 came to be the first important law authorised by the parliament during this period was (Purju 1996: 6). The prime objective of this law is to change the ownership from state to individuals because the basic principle of the privatisation is owned by individuals or group of individuals so the motivation behind this law is to take the state hands out of the properties. In the same year the parliament passed 'The Law on Small Scale Privatisation' as prepared by the government. The department of State property was founded in October 1990's. Creating this institution had significant importance whereby the primary objective of this department became to ensure privatisation in small scale and the supervision of the reimbursement process. The Law was adopted by the supreme council On June 13th 1991 (Mygind Co-operation and Programme 2000: 7) according to which the use of vouchers became the main device for privatisation.

At the same year in the month of October the parliament passed one of the important laws in parliament regarding land reforms Law on land reform. According to this Law the land from state ownership came to be converted to private ownership. At the beginning of 1991, the total number of privatized

small scale units was estimated to be 1200 service facilities, 500 shops booths and 80 catering facilities, by the end of 1992, the list of enterprises to be privatized totalled 1212 entities. In the year of 1992 month of April the law on the privatisation of Dwelling was adopted to regulate the privatisation process. (Purju 1996: 17).

The ‘privatisation law’ came to be adopted by parliament in June 1993, (Jeffries, 2004: 166) and it sought to juridically equalize privatisation at both the small scale as well as large scale level. The main goal of the Law was to provide an overarching legal and institutional frame work for privatisation at the two levels of small scale and large scale at the same time; previously these two were treated separately. In Estonia the process of privatisation came to be done by creating firstly a firm legal base because while doing mass privatisation the state wanted proper institutions. Based on this understanding the privatisation law was adopted in Estonian parliament. It was the department of state property that organised the small scale privatisation utilizing the methods of either, auctioning, selling of shares or competition of business ideas tender (Savas 1992). By April 1992, seven large enterprises were privatized.

Estonia had very little knowledge about the privatisation processes. Thus, they called multinational experts in the form of multinational team of experts from Germany, U.S, Sweden and Canada, who were assembled to manage the privatisation of the medium and large business sector of the economy. The method of privatisation, as modified for use in Estonia was based primarily on the principle of selling firms to the highest bidder, regardless of their nationality. By mid of 1996, Estonia had sold the 450 (Jeffries 2004: 166) state owned enterprises as a result of privatisation. After selling the government earned around \$ 227 million. Sector-wise 70 percent of the services were privatized and 90 percent of the manufacturing sector was privatized in the years of, 1991 to 1995. Private sector shares the major part of the GDP of around 70 percent (Jeffries 2004: 166).

The Estonian industry is the major sufferer of this transition because the most of the Estonian economy sustained on the industrial sector. The selling of these state owned enterprises led to more unemployment in the Estonian society. The major task of the privatisation programme in Estonia is based on selling these big industries to foreign investor in the auction. The Estonian government was further interested in building joint venture with foreign companies whereby by January 1991, 232 joint ventures had been registered in Estonia, by October 1991, which increased to being 313. Among the other countries, Finland led the joint ventures by having 159 such joint ventures with Estonia, which is higher than with any other Western country (Country Studies US, 2010). For getting more foreign investment as well Estonia needed proper legal based framework. For that purpose, Estonia passed a new foreign investment law offering tax breaks (government of Estonia give more tax relaxation for the foreign investor like two years year tax exemptions) and import export incentives to foreign investors.

Estonia is the first former Soviet country to allow the foreigner to buy land in Estonia, with some rules. In 1993 Estonian government allowed the foreigner to buy the land, but only through the purchase of privatized share enterprises. (Jeffries 2004: 163) At the same time the government put some of the rules for the joint ventures like a non-Estonian cannot own more than 50 percent of the equity in joint ventures without government permission.

Some key institutions were created by the Estonian government to manage the whole privatisation programme. The governments first setup the Estonian privatisation enterprises to begin dealing with the direct sale of large- scale enterprises to foreign and domestic investor. Despite there being serious reservations about this enterprise, this programme back on track by 1993. In the summer of the year 1993, the Estonian government merged its two major privatisation institution and created new the institution called Estonian privatisation Agency (Smith 2001: 129). The sale of state property done by Estonian Kroon during these period of 1991-92 by the government need to be noticed, whereby it sold 676 properties for a total of EKR 64.3.million by

October 1993. Another 236 small enterprises had been sold for a total of EKR 169 million. When the government started the process of selling the large state owned enterprises the total of EKR 117.8 million had been garnered from the sale of the first phase of thirty large scale enterprises (Country Studies US 2010).

In the year of 1993 there are three major property reform tasks remained. In the very first, mostly unprofitable state enterprises were yet to be sold off. Secondly, the issue of providing compensation for pre-war property claimant's remnants remained unsettled. Lastly, the major and very important part of privatization that remained was the privatisation of housing sector. To solve these three problems the Riigikogu, that is the Estonian parliament, passed a law on privatisation in the year of 1993 month of June (Smith 2001: 129).

Estonia in International Organisations

After the independence Estonia wanted to establish ties with international organisations to break the isolation and to integrate the Estonian economy globally. Also the transition from state owned form of economy to market economy needed more experience and guidelines. The Estonian transition for that matter was helped by the Western countries the major part of the economic advice and assistance of which was given by IMF (International Monetary Fund) and World Bank. In the processes of transitioning to market economy they got considerable money from both these institutions. The Estonian parliament gave approval to join the IMF in April 1992. Once Estonia joined the IMF it started receiving loans to reconstruct its economy (Jeffries 2004). In the same year Estonia joined the World Bank. These two international organisations pressed Estonia to speed up its privatisation and liberalisation process.

In August 1992, Estonia signed its first memorandum with the I.M.F to secure \$40 million stabilization (Jeffries 2004: 164) loan from the I.M.F and \$ 30 million from the World Bank (Country Studies US 2010) but this loans given with certain terms and conditions like, these memorandum for example

obligated the Estonian government to balance its budget, to restrict wage increases, speedup the privatisation process of the state enterprises and to maintain a stringent monetary policy. In 1995 applied for WTO membership and started the negotiations. Estonia implemented the most radical liberalisation policies to get its membership. Naturally it has evolved as a Most Favoured Nation (MFN). As a result of these developments Estonia got the WTO membership in the year of 1999. Estonia was the third former Soviet state to join the WTO (Feldmann and Sally 2001: 18). It is important to keep in mind that the membership of WTO was given only after the process of privatisation was successfully launched and substantially carried out. The membership of European Union was a long waited aspiration and it was a long time goal for Estonia to join the Western Europe community.

The process for applying for EU membership started in 1992; Agreement between the Republic of Estonia and the European Economic Community on Trade, Commercial and Economic Co-operation was signed (Estonia's Way into the European Union Estonian Ministry of Foreign Affairs 2009). In the year 1992, Estonia also had also become a member of the European Bank to rebuild its economy after the huge inflation and instability in the country. After the membership Estonia received total of \$46 million in loan for improving its infrastructure (Country studies, 2010). The first free trade agreement was signed between Estonia and EU in 1994. After prolonged negotiations in 2004 in the month of May, Estonia finally became member of EU. Before the EU membership Estonia agreed to all the conditionalities to be a member. By the time Estonia achieved the membership it became one of the most liberal countries in the entire Europe.

Estonia became member of OECD in 2010 exclusive organisation for developed countries. Before the membership Estonia agreed to all the conditions of the OECD guidelines, namely liberalisation of the capital being one of the key conditions of OECD (OECD 2010). There were nine important basic principles of the OECD most of which revolved around free trade, less

restrictions, liberalising capital. The Estonian economy completely integrated with international economy and was liberated from its government.

Currency Board Reforms and Reopening Stock Exchange Market

To create a market-based economy Estonia needed its own currency since trade dependence on Russia would come in the way of a reorientation of foreign and economic ties towards the Western countries. Price liberalization was required for the Implementation of the new currency which started in late 1989. Changes in prices as sponsored by enterprises came to be allowed by this reform of the government. Control was maintained over price framework at the sale and retail level for a broad range of goods.

At first prices of goods like paper product, furniture and vegetables were decontrolled. In October 1990, prices of food were raised and later subsidies were reduced on energy, telecommunication and transport. In July, followed by the above, prices of goods like milk, meat and several other consumer goods came to be deregulated. At the end of 1991 prices of 10 percent of the consumer basket remained under government price fixing procedure while other 30 percent were under some other administrative regulation. All other prices were more or less free and their movement reflected supply and demand conditions on the market. Further deregulation took place within the framework of the stabilization package. By the end of 1992 the price liberalization process was virtually completed (Erixon 2010).

The Estonian policy makers, therefore, adopted Western method completely. The policy makers' saw the introduction of the new currency as a symbol of their 'independence' and new identity. Estonia was, therefore, the first former Soviet country to come out of the Ruble Zone. The idea of establish currency process started before the Estonian independence, during the Perestroika period. Edgar Savisaar along with other planned to establish new currency for Estonia. Before establishing new currency Estonian government planned to have economic independence from Soviet Union by establishing the new Estonian Bank in 1990 (Erixon 2010: 16).

In April 1990, over a year before the Soviet Union disintegration, the Estonian Supreme Soviet passed a resolution on the introduction of a national currency (Feldmann 2013: 356). The Estonian Supreme Soviet passed a resolution on the introduction of a national currency (Taagepera 1993). When Estonia regained independence in 1991, it was still part of the ruble zone and embedded within the Soviet economic system (Feldmann 2013: 356). The Estonian currency board was established in 1992 during the steep period of economic crisis. Unlike the traditional central banks where the political interference happens, the purpose of the currency board is to function irrespective of any governments policies. The board is autonomous and unlike the central banks the currency board doesn't regulate the commercial banks. The primary goal of the currency board is to attract more foreign currencies and keep the inflation rate in control and finally to continue the process of privatisation and liberalisation without any political interferences (Erixon 2010: 18).

During this transition, the Estonian economy faced serious economic crises due to price liberalization and deregulation of the state enterprises. The Estonian government approached the IMF regarding the new currency, and IMF rejected the idea of the Kroon because of the instability of the economy and the small population of the Estonia. But still the Estonian government wanted their new currency because for them the introduction of the new currency meant getting political and economic freedom from Russia.

On June 20, 1992, the Estonian government under the interim Prime Minister TiitVahi introduced the Kroon. It was valued more than the Ruble (10 RR= 1EK), and was tied to the Dutch mark at a rate of 8 EK= 1 DM. (Gillies et al 2002: 179). The Kroon was deliberately undervalued by 15 percent (Brown 1993: 496) in order to attract more foreign investments. Estonia desperately needed foreign investment in their country for the privatisation process. In the year 1991, all the countries of Soviet Union got separated, and so there was competition between these countries to attract foreign investor and also to get

membership from the IMF, WTO and E.U. It was for this that the Estonian government adopted the method of undervaluing the currency and offering tax relaxation. In this contest, Estonia tried to take the lead. Thus they took all the measures that were required to get membership in the IMF and E.U. For example, when Estonia first applied for membership in the IMF, the IMF's response was the need to see a program for speedy privatisation and liberalization to grant membership to Estonia. To achieve this, the policy makers in Estonia established the legal and institutional frame work for the rapid marketization of economy.

The introduction of the Kroon is the one of the major reform in this process. After the initial stage, Estonia started showing the recovery with the help of the currency board. In 2000 the GDP grew to 6.5 percent. The sufficient reserves totalling 680 million Deutsche Marks is another reason for not having a run on the currency. Inflation was only 3.1 percent in 1999. The currency board has proven to be very successful in stemming inflation (Koetzle 2002: 11). The currency board and the kroon came to be viewed as a symbol of the successful transformation of the Estonian economy, which contributed to a stable economic and business environment. It must be noted here that Estonia is the first Former Soviet Union country to establish currency board. (Feldmann 2013: 357).

Estonia entered the Euro-zone 2011 whereby January 1st onwards Euro became official currency of Estonia. The long political ambitious of moving towards West was somewhere accomplished with this move to Euro-zone. The Estonian government planned to reopen Tallinn stock exchange which was active in early 20th century which was closed down in 1941. In 1996 in the month of May, Tallinn stock exchange reopened. In the earlier days the stock exchange saw a decline and crisis. In 1998 the Russian economic crisis had a major impact in Estonian stock exchange but again since 2000 to 2008 it has run without any glitches (Baltic Capital Market Forum 2015).

Tax Reforms

One of the prime agenda of the neoliberal policies in general is to implement flat taxes meaning implementing same tax for big corporates and small petty producers. In the year 1994, Estonia was one of the first Countries to implement the flat tax reforms, (Hinst 2010: 10) where income and corporate tax rates of 26%, and non wages labour costs to finance health and pension at 33% tax was introduced (Funke, 2000: 102). As a part of the liberal market economic transition, Estonia reduced the tax for the corporate income tax from 35% to 26% in the year 1994, (Purju 2010: 1) but at the same time the Value Added Tax (VAT) was increased from 10% to 18%. In the beginning years, to meet the transition needs the VAT increased to manage the 2008 economic crisis (Purju, 2010: 1). The Estonian Government increased the VAT to 20 percent (estonia.eu 29/9/2015). The reason for decrease in the corporate tax is to attract more foreign investors. This is not just in the case of Estonia, in fact, this flat tax concept was followed in Eastern and Central European countries. These tax reforms are one of the strong reasons behind the privatisation and macroeconomic stability.

The Income Tax Act of Estonia has been in force since 1st January 2000. The main principles of the Income Tax Act concerning the profit distributions are taxation of the distribution, and not on the accumulation of the income, or application of the tax exemption on the profits reinvested within the company, (Oro 2000) but the taxes are 20% for finance. And, in the case of social insurance like pension, both workers and disabled persons are included in the social insurance and health insurance, with employer tax at 13%. The Government has reduced the corporate income tax and increased the workers contribution to around 2% (Purju 2010: 1). It must be noted here that the Estonian income tax system is considered one of the simplest tax regimes in the world, with its flat rate of 20 percent. Deferral of taxation shifts the time of taxation from the moment of earning the profits to that of their distribution. Undistributed profits are not subject to income taxation, regardless of whether

these are reinvested or merely retained (US Department of States 2015). The government introduced 20 percent flat tax reform from 2015 onwards.

During the Soviet period, health and pension social security measures never had a separate tax. After 1991 Estonia elected a path of liberal economic policies with the advice of World Bank, and a part of the neoliberal policy includes regulation of taxes and implementation of new taxes. But, in Estonia the neoliberal model of tax reforms only helped corporates to grow and increased the workers contribution for health and pension way of tax; hence, it is evident that the government tried to reduce its role as social security provider. Along with flat tax to attract more corporate investment the Estonian government made free for the reinvested corporate profit tax.

Banking Laws and Banking Crisis

Establishing a new and independent bank was necessary for Estonia, in the new constitution, article 111 gave the sole right to the Eesti Pank to issue the new currency and the most important duty of this bank was to stabilize the new national currency Kroon. Article 112 was to give guiding principle to Eesti Pank to operate and work to its governing law and its activity must be reported to the parliament. In continuity with these articles, in the next year 1993, the parliament adopted law on Eesti Pank. (Drēviņa et al 2010: 12).

After getting full authority from the monetary reform committee, the Central Bank of Estonia gave licenses to more private banks. In 1993, there were 21 banks in Estonia. Out of 21, 1 foreign owned bank was included and the government asset in the whole share was reduced to around 25.7 percent. In 1994, around 22 banks including 1 foreign owned bank and state asset was 28.1 percent, and in 1995, 18 banks 4 foreign owned banks, and government share hold was reduced dramatically to a very low 9.7 percent. In the next year, number of banks was also reduced to 15 also including 3 foreign banks. However, government share was cut down more to 6.6 percent whereby in 1997 there were around 12 banks and 3 foreign banks were included. However again the state's assets in the banks were completely 0.0 percent shares

(Barisitz 2002: 87) and some of the banks merged while some of them were liquidated.

Within one year of the new banking system, problems emerged, like in 1993 when Eesti Pank was announced as a stabilization period and new banking licenses was stopped due to some crisis, (Sorg and Vensel, 2002: 44). There were strong reasons behind this government action because in the beginning of the new banking reforms, there was serious planning and management problems. In the early reforms, the government increased the minimum limit for the capital requirements from 5 million EEK to 6million EEK. Because of these criteria the small banks couldn't offer to touch the minimum requirements. In early 1993, around eight small credit institutions did not meet the minimum requirement, and were liquidated. Thus, the total number of Estonian credit institutions was reduced from a maximum of 42 at end-1992 to 21 at the end of 1993 (Barisitz 2002: 92).

Within a short time period Estonia faced two financial crises. One crisis occurred in the beginning of the transition period, and the other was the 1998 Russian and Asian financial crisis. The first crisis was common to all the transition countries because when the government decides to go for full liberalization process they faced some serious management and financial problems. When Estonian government started the "Shock Therapy" economic process, speedy reforms took place in all sectors. The first and foremost advice on reform was to liberalize the monetary and banking sector (Drēviņa et al 2010: 11).

Poor management and lack of planning and inability to handle the FDI in banking sector led to the first banking crisis in Estonia from 1992 to 1994 (Sorg and Vensel 2002: 47). But, the second crisis was related to the international financial crisis when Estonian markets dominated by the multinational and foreign companies withdrew their investment from Estonian market leading to a very young stock market facing an immediate crisis (Sorg and Vensel 2002: 46) In comparison to other Baltic states, Estonia has

managed to come out of the crisis with the help of Finland and other Western European countries. In spite of some success in the beginning of the transition period, there was some threat to internal economic stability because Estonian banking sector was deeply involved in the privatisation process and as and when the bank liquidates, governments are required to save the banks so that they have to ultimately spend common man's tax to save private banks.

In order to liberalize the economy and control the economic and currency regulation transition Estonia needed strong banking reforms and regulation. The Bank of Estonia was established at the end of 1989. The main job of the bank was to create the entire banking system, ensure economic sovereignty and restore normal and smooth performance of the market economy. The banking law was introduced in 1993 and came into operational in 1994 then the banking act again was amended in 2003 along with the rules and regulations of European Union banking policies. They already had a little experience in running the central bank between the First World War and Second World War. The bank was re-established after the collapse of the Soviet Union. Bringing back the Estonian Central Bank had was very significant in the whole liberalization process. Before launching a new currency Kroon they needed their own strong banking and monetary system to macroeconomic strength. Estonian Central bank is called Eesti Pank, and was established on 24th February 1919, after they got independence from the Tsarist Monarchy. But this bank did not last long. After the break out of the Second World War, in 1940, Estonia was taken over of by the Soviet Union, and the Eesti Pank was nationalized (Drēviņa 2010: 10).

During the perestroika period in December, 1989, the Supreme Soviet of Soviet Socialist Republic passed a resolution to re-establish the Eesti Pank (ibid 2010: 10). Estonia Central Bank officially started to function after the USSR disintegration around 1991. It took nearly two years to work as a separate bank before they got autonomy, but Eesti Pank had to stay with the USSR central bank. On 1 July 1991, the Monetary Reform Committee gave

authorization to Eesti Pank to authorize licenses to private banks and foreign exchange licenses (Drēviņa, Laurinavičius, and Tupits, 2010: 11).

Summary

“Liberalize, then negotiate, but don’t negotiate and then liberalize” was slogan put forward by ‘Mart Laar’ (Feldmann and Sally 2001: 14) who implemented neoliberal reforms in Estonia. Privatisation is one of the essential conditions for the establishment of the market. So the motivation for privatisation is pretty clear in the case of Estonia. The political economy of neo-liberalism involved the advice and guidelines of the international organisations to all the newly independent countries to withdraw the state’s hands from all sectors. The role of the state in neo-liberalism is to protect the market, and so it should make comprehensive laws for privatisation and withdraw all subsidies from agriculture, industries and the service sector.

In the case of Estonia, the policy makers first made the attempt to change property relations. Then the government made particular institutions to control and regulate the privatisation process like the state property department. Privatisation enterprises were created for the process of liberalization and creation of the market oriented economy. There are certain clear laws for privatisation which highlight the impact of Neoliberalism (Sanguinetti and Mastrapa 2014). An example of this is the privatisation agency did exactly what the market and the Western countries wanted it to do like following exactly the Western model of privatisation of these countries had no institutional experience. Almost 90 percent of the state owned enterprises were sold to foreign companies and there were no concrete measures for controlling the entry of FDI. In the economy, almost two third of the GDP came from the privatisation process, ie., the revenue the government got from the selling the state enterprises. So the country was completely dependent on foreign capital. Most of the economic expansion happened only in the service sector. The country, therefore, lost self-reliance just a few years after independence. (Thorhallsson and Kattel 2012).

The political elites also played a key role in this transition process. In this period, there was no strong and single government in the parliament. As a result, there was great instability at the political level. For example, within nine years there were seven governments. The fact that despite this the process of privatisation happened itself shows that the motivation of pursuing the neo liberal policies was shared by all the parties. There were serious scandals and corruption in the period of economic transition. As the government was selling the state enterprises the level of corruption increased, especially in the time of auctioning.

The foreign companies controlled and dominated the whole process of economic transition. Political objectives behind this process privatisation was to create vested interest groups which after ownership of resources passed to private hands would oppose going back to a planned economy. The political elites in Estonia changed the property rights by way of making laws, so that multinational companies holding most of the shares would in the face of potential opposition from the state or from any other political group could always threaten to pull out from the economy, thus posing a permanent obstacle to the restoration of a planned economy (Hoag and Kasoff 1999).

The entire policy regime was created under the guidance of the IMF and the World Bank. Their “technical advisors” were countries appointed by the policy makers who could control and manage the entire privatisation process. The privatisation of large scale enterprises for instance was done with the help of Sweden, Finland and Germany. The argument given for privatisation is that it is intended to improve the working of the economy. Scholars from Western countries argued that the privatisation process would bring new technology to these transition countries because the market is based on best service and best technology, with healthy competition leading to better economic conditions. These are some of basic arguments for privatisation worldwide. But these scholars forget to point out the fundamentally harmful nature of privatisation. (Purju 1996)

One of the key principles of privatisation is profit making and maximization of profit. For profit maximization, individuals or groups will bring new technology and methods of production, but the condition of workers' rights and employment will deteriorate, because the major objective of the individuals or groups is to make maximum profit. For that they will necessarily reduce the number of the workers in establishment, as has happened in all the transition countries. In the absence local competition, the privatisation process will only help the foreign companies, and the entire argument of competence, technology and better management will happen only if there is substantial local investment. The former Soviet Union countries, of course, it would be recalled, only had state owned enterprises. But in the neo liberal economy, the state cannot hold any asset apart from those that are necessary for shielding the market. So the argument of pro-Neoliberalism scholars may apply in the traditional liberal countries like U.S, but an advocacy of privatisation in the former soviet countries will led to seriously damaging consequences. In the fourth chapter analysed in detail about the social consequences of these neoliberal liberal policies in Estonia.

Chapter 4

Labour Market Reforms and Social Policies: Outcomes and Challenges

This chapter seeks to analyse the challenges and outcomes generated by labour market reforms and social policies. It also analyses the social consequences of neoliberal economic reforms in Estonia. For instance, issues like the unprecedented increase in unemployment, especially of the female workers, and the unceasing subjection of workers to wage discrimination has been intently studied in this chapter. An attempt has been made to minutely investigate the effects privatization of health care, market linked pensions scheme in Estonia under the IMF and World Bank guidelines and conditions.

Labour Market Reform

As discussed elsewhere in the study the economic reforms and transition happened in three phases: the first phase from 1991 to 2000 was the hard phase for entire post-Soviet space, the second phase is from 2000 to 2008 before world economic crisis and the last phase from 2008 to 2014 overcoming the hardships of austerity and economic crisis. During this period labour market reforms were carried out and Labour Codes were enacted as a priority agenda.

Before the transition from state planned socialist economy to liberal market economy, in the former Soviet Union countries labourers enjoyed full job protection and welfare schemes from the government because most of the industries were controlled by the state, so the state had the responsibility to protect and improve their life quality. The state ideology supported the right to work of all able bodied persons. Soviet Union declared that socialism completely abolishes unemployment, ensure right to work and full employment (Porket 1989: 197). The existence of Soviet Union and their welfare policies like proper pensions, health schemes and job and social security made drastic changes in the lives of workers.

But contrary to the Soviet full employment economy, liberal market economy doesn't assure the employment for all.

Estonia adopted neoliberalism claiming that the economic policies of Soviet Union ruined its economy. During the transition period, where countries which were part of the erstwhile Soviet Union had moved away and began to change their policies by following neoliberal economic policies because of which they also had to shift towards implementing labour market policies. Their motto of transition was to "reconstruct economy with social protection" (Zwass 1999: 114).

But under the new labour market policies, welfare measures were rolled back and fund-cuts were effected in the budget. This is the inherent nature of the capitalist system since the capitalist mode of production need reserved army of labourers, the capitalist system can't fulfil the full employment agenda. Giving full employment means allowing the labour to grow to their strength. The state had to implement certain welfare schemes as has happened in the West European countries in the 1960's when they followed Keynes's model of management economy, which favoured to implement extensive welfare measures.

When Estonia started implementing privatization policies they started selling government owned enterprises. Most of the government properties were sold out to foreign countries because the former Soviet Union (FSU) republics were controlled by the state and had not enough local capital resources to buy them. But selling almost all the industries to foreign capital created problems for the state economy because it questioned the sovereignty of the state. In order to attract people employed in local capital based companies, foreign owned companies offered better compensation packages than the workers could get in domestic firms. This reduced the competitiveness of these domestic companies (Vissak and Roolaht, 2005: 47).

The most important instruments concerning the regulation of labour market Constitution of Estonia, Conventions of International Organization of Labour,

Employment Contracts Act, Collective Agreements Act, Trade Unions Act and several enactments of the Government and Ministries of Estonia (Estonian Investment Agency 2016). Estonian labour markets are flexible from the beginning of the neoliberal reforms in the mid-1990s. Estonia's public sector is relatively very small. It has a low tax burden. Labour Market Services and Benefits Act was passed in 2005 "to achieve maximum possible employment rates among the working population, and to prevent their long-term unemployment and exclusion from the labour market. This Act regulates the maintenance of records concerning the unemployed and job-seekers, provision of labour market services, payment of labour market benefits, preparation of employment programme based on the needs of the labour market, settlement of disputes arising from the implementation of this Act and liability for the violation of this Act" (Riigi Taeteja 2005).

The economic crisis since 2008 is affected negatively the labour market. The unemployment rate increased wages and working hours Budget deficit was adjusted by austerity policies comprised of enormous cutbacks of government spending in the social welfare, healthcare and education systems, and labour market reforms that made employment relationships more insecure and reduced wages (Usha 2014). After 20 years of transition the Estonian government conducted a survey regarding the public opinion on government response of unemployment and social benefits in Baltic states and Estonia. More than 50 percent of the population responded saying that the government failed to provide adequate response and prevent further unemployment situation in respective countries (Estonia Human Development report 2011: 19).

Unemployment

Unemployment is one of the major challenges not only in countries that are undergoing transition, but also in all other developed, developing and underdeveloped countries. As a primary condition of neoliberalism, the state in most of the countries is made to withdraw from its basic responsibilities like creation of industries, jobs and labour protection measures. In turn a flexible

labour market is created where the state has to undermine and modify existing labour laws. As a result of this minimum wages according to existing laws are not given to the workers. Multinational companies are allowed to perform unabridged especially in the service sector, disregarding with the changes brought forward in and non-implementation of the labour laws. Most countries of the world have thus come to face difficulties of unemployment after the implementation of neoliberal policies.

The service sector job growth is unreliable because there is no time frame or job security. The recent neoliberal argument that employment rate is increasing in the service sector and so it will bring prosperity and economic progress in the developing countries is not true because the growing employment in the service sector is based on market expansion, which is unstable and can collapse at any time. The recent economic crisis is the perfect example of the nature of the very neoliberal economic model that is being argued for. In Estonia and Latvia the service sector represents sixty percent of the entire economy. It's the same in other Baltic states and a growing phenomenon in OECD countries (OECD report, 2003: 18). A reserve army of 36.4 million workers by 1996, according to OECD reports, was created with the official OECD unemployment rate being 7.5 percent (OECD, 1998; O'Connor, 2010: 698). With the emergence of neoliberalism thus there was widespread unemployment, more than any time before. Unemployment had increased from 30 million in 1983 to 35 million in 1993 (OECD, 1994).

More or less, the same mentioned above happened in Estonia, but not in the exact manner but with variations. The Western Countries had better technology so when they introduced new technologies, workers of the old industries lost their jobs. When state owned industries were sold to private hands there were no safety nets for the workers. They lost the jobs as no owners wanted more workers. The foreign companies needed cheap labours which meant part time labourers, without job security or any kind of interventions from trade unions. In Estonia, trade union membership was reduced by the new labour market policies. Trade union and collective

bargaining were slated to play reduced role in Estonia on employment and wage level of both public and private sector. As of 2000 while collective bargaining made for only 14 percent of wage contracts, only 16 percent of the employed were members of trade unions (Leping 2006: 424).

One of the reasons provided for unemployment by the OECD is that the new private companies need more educated and skilled labour. This implies that most of the workers who don't possess a specific skill are out of jobs. But giving employment is just not about skill and education, it's a social process. Only 76 percent of employable people were working in 1989. This percentage was found to be dropped to 62 by 1995 (Leping 2006). One of the most important achievements of the Soviet Union were the high levels of employment and education for professional industries, there were also many polytechnics for the workers. But the fallout of the neo-liberal policies shows that private enterprises cannot provide for full employment or fulfil the great legacy of the Soviet Union.

There is certain data and arguments given by different scholars regarding the sharp decline that happened in the public sector due to privatisation. Employment in the public sector decreased by 23 percent in the first whole decade in the transition period and by the end of the 2001 there was a decline of 76.5 percent in public sector employment (Leping 2006: 426-427). According to the Estonian Labour Force Survey (LFS) 32.3 percent of the working age population were inactive in 1997 (Eamets and Ukainski 2000: 468). That means around 32.3 percent of population were ready to work but they are not any kind of jobs left for the labour force.

The unemployment benefit is not sufficient for the workers because they got below 10 percent of their average wages. This benefit also has some rules and time line eligibility of six months with up to three month extension. According to the labour force survey there is 13 percent unemployment in the year 2001 but officially registered in office is around 8 percent. But only 4 percent receive unemployment benefits (OECD, 2003: 78).

In the case of the private sector, there was an increase of 1.5 percent in foreign owned companies, but this number increased in the coming years because of the rapid liberalisation and flow off FDI in all sectors, the increase in employment in the span of six years was 9.1 percent in 1995. The labour force in the private sector in Estonia increased considerably from 4.5 percent in 1989 to 47.6 percent in 1995 (Noorkõiva et al 1997: 6). The new Employment Contract Act was adopted by the parliament in December 2008. It came into effect in July 2009. The Act merged the Labour Market Board and the Unemployment Insurance Board, reduced the bureaucracy, as well as introduced the deregulation to the Employment protection legislation (EPL). The EPL reforms focused on temporary contracts and the Estonian Act the regular contracts. By thus the notice period for redundancy was reduced, depending on the length of employment, to 15-90 working days. By this reform, the severance payments are also cut, and the cost is shared between the employer and the Unemployment Insurance Fund. By this the EPL deregulation is expected to increase mobility through making it easy to dismiss and hire a worker (OECD, 2004). The newly adopted EPL changes must be fully implemented according to the Act.

According to a survey by Eesti Pank (Dabusinskas and Rõõm 2011), wages in Estonia were flexible downwardly during the crisis especially relative to other European countries. By summer 2009, around 46 percent of Estonian firms already reduced the wages of their workers. Further 40 percent were expected to do the same. As a result of all this, an overall 30 percent of the labour forces were affected by wage cuts, which happened to be a much larger share than in other countries. Further, until 2009, the EPL in Estonia appeared to be more rigid than it was in other Central European countries or the OECD average. This rigidity can be understood to be stemming from regulation of regular contracts; narrow definition of unfair dismissal; and the right to re-employment or high compensation for unfair dismissal. EPL was later eased in 2009 whereby regular contracts were deregulated by the new Employment Contract Act which included firstly a reduction in the notice period for

redundancy to 15–90 working days, depending on the length of employment; secondly, there was a cut in severance payments, costs of which are shared by the employer and the Unemployment Insurance Fund; and lastly, dismissals and hiring was eased, which facilitated overall mobility and job search of the new job market entrants (OECD, 2004); making Estonia's EPL slightly less stringent than it was in the euro area (Brixiova and Égert 2012 :4).

Despite the laws and regulation Estonia still lacked in several front, for example, the engagement of the unions in setting wages is among the lowest in the EU and central Europe. The unions negotiate wages even then, with respect to the nation-wide minimum wage, also in the public sector, as well as in the large industrial enterprises. Due to shortages in the labour and skill, collectively agreed public sector wage increases, were among the highest in the EU and also exceeded labour productivity growth in 2006 and 2007. Increases in public sector wages for that matter should be kept in line with private sector productivity growth. The private enterprises also gave lower wages as compared to the public sector (Rõõm and Kallaste, 2004: 15). In the OECD report, Estonia is third in the unemployment level and compared to other countries it is much higher in the OECD standard (OECD, 2003: 43).

In the second phase of the transition period Estonia started showing the result and come out from the early economic troubles shows signs of improvement. The unemployment rate of Estonia reached its lowest point in 16 years by dropping to close to four percent in 2008, making its labour market outcomes improve markedly from 2000 to early 2008 (Brixiova and Égert 2012: 2). This was significantly higher than in the EU-15, the OECD Central European members (Brixiova 2009: 6). However, the unemployment rate started to grow again once the economic crisis began in 2008. A widespread usage of performance-related bonuses can be seen to be the key factor contributing to the wage flexibility in Estonia. A 2007 survey revealed that the share of two thirds of firms in the wage bills ranged from 14 percent in industry to 23 percent in trade using bonuses (Dabusinskas and Room, 2008). Estonia's

labour market is flexible in many facets, but indication marks rigor and dissimilarities in several spaces.

In 2011 there were 180 000 young people aged from 15 to 24 living in Estonia. 60 percent of this group was not on the labour market. Education (87 percent of the non-active population) followed by pregnancy, maternity or parental leave (4.5 percent) and military service (2.2 percent) (4 percent) were the main reasons for this. Throughout the above period, unemployment amongst the youth was higher than general unemployment, and when unemployment was at its pinnacle in 2010, youth unemployment was double as high. The decline in unemployment as a result of economic recovery had a particularly heavy impression on youth unemployment which tumbled from 32.9 percent in 2010 to 22.9 percent in 2011. During the same period, general unemployment fell from 16.9 to 12.5 percent. Men were among the worst affected by youth unemployment, partly because the construction sector, which employs a relatively large number of young men, was particularly hard hit by the economic crisis. Educational levels were one of the major and prime determinants of youth employment. In 2011, 30.9 percent of young people who had only completed primary education were unemployed, compared to 15 percent of university graduates. At the same time, unemployment was higher among young non-Estonians than their Estonian counterparts (Purju 2013:6).

Wages and Unemployment Benefits

During the Soviet era the wages were centralised. Wages were not based on productivity rather based on ideological (Leping 2007:7). In spite of high economic growth radical market reforms Estonia wage and unemployment benefits lagged behind many European countries in terms of minimum wages all the Baltic countries lowest among EU countries minimum wages in Estonia 278 Euros Lithuania stand lowest with 232 Euros and Latvia topped among the Baltic Countries with 282 Euros (Estonian Human Development Report 2011: 73). Estonia doesn't have minimum wage policy; the argument given by the policy makers is minimum wages affects the labour market flexibility and go beyond "efficiency wage" based on supply and demand policy (Purju

2013:11). The same performance based criteria used in Estonia to lay off many workers and wage cut during the 2008 economic crisis (Estonian Human Development Report 2011: 79). Due to the flexible wage policy during the 2008 economic crisis labours suffered by the wage cut severely in 2009 nominal wages were dropped in several sectors: in construction sector wages dropped around 13.2 percent followed by 7.9 percent in the mining sector and 7.5 percent in public administration (Purju 2013:12).

Estonia's spending on labour policy is very low and was less than 1 percent of GDP during 1994-2008. Spending on labour policy was 0.24 percent of GDP in 1994, 0.16 percent in 1998, 0.15 percent in 2002, 0.15 percent in 2007, 0.23 percent in 2008. Since the economic crisis the numbers increased slightly in 2009 0.93 percent and 2010 0.86 percent (Eamets 2013: 9). An unemployment scheme was introduced in 1991 during the first phase of transition period later in 2002 it re-modified into 'Labour Market Services and Benefits Act' which came into force on 1 January 2006. Unemployment benefits are low in Estonia (Eamets 2013:10). In the first 100 days of unemployment unemployed persons receives 50 percent of their last salary. It is followed by 40 percent of the average income. Only if a person pays contributions for at least 110 months before losing his/her job, unemployment benefits are paid for a maximum 360 days (Purju 2013:13).

In 2009 Labour Market Board and Unemployment Insurance Fund were merged. The reason behind the merger is to handle the rising unemployment problem due to economic crisis in 2008. There is new unemployment beneficiary schemes introduced in Estonia. Job mediation between jobseekers and employers, travel grand for those who participate for more than 40 hours of labour market training and accommodation allowance and career counselling etc (Eamets 2013:11). Regardless of government takes several initiatives to solve the problem of unemployment; it continues to be one of the major problems in Estonian society. In 2010 58,550 unemployed people find jobs out of 155,922 people. This covers around 37.5 percent of the overall

unemployed persons. In 2011, 49 274, 40 percent people found job out of a total of 122,117 (Purju 2013:13).

Gender and Employment

Female workers lost their jobs in the transition period. Number of inactive people increased from 48000 to 340000 in 1989 (Eamets and Ukainski, 2000: 469). Before the transition around 51 percent of women were present in workplace (Orazem et al 2000: 284). When Estonian government implemented labour market reforms without any differences between men and women, women lost their jobs because there is no job security for anyone in the new labour market policy. But during the transition period their maternity leave was doubled in length and women with young children were offered up to 4 years of additional unemployment benefits (Orazem et al 2000: 288). The wages seem to be advantageous for women during transition. The wage difference between men and women, which was 31 percent in 1989, came down to around 25 percent in 1995 (Noorkoiva et al 1997: 17). In 1998-2000, women's wages amounted to 72.7 percent of men's wages on average (Room and Kallaste 2004: 11).

Unemployment of women is a bigger problem in Estonia since 1991, the year of independence, with 1.4 percent female unemployment. Later this number increased in tenfold due to privatisation and liberalisation of the government sector. The first decade of the economic transition period resulted in 13.1 of female unemployment in 2001, one percent higher than male unemployment 11.7. After joining EU female unemployment rate came down slowly in 2007 it was 3.9 first time since 1992 female unemployment rate come down to less than 5 percent. But this didn't last long within two years in 2010 the female unemployment rate reached historically high 14.3 percent within that youth female unemployment rate hit 30.3 percent (ILO 2014).

There is a huge wage gap between male and female workers in Estonia, among all the EU countries Estonia topped the list with 30 percent average wage gap which is almost double compare with EU average (Osila 2015:3). The wage

gap increased throughout years before the year 2000 pay wage gap was around 24 percent but the gap steadily increased year between 2000-2007 gap reached 31 percent (Anspal and Room 2010: 4). Although Estonia's economic performances are better than the neighbouring countries, in gender pay gap Estonia lack behind Latvia 13.6 percent and Lithuania 11.9 percent recorded less than EU average (news.err.ee. 12/10/2013). In terms of ranking Estonia was placed at the 59th position out of 136 countries, Latvia at 12th position and Lithuania at 28th rank (news.err.ee. 10/28/2013). There are several reasons for wage gap like different occupations different educational qualifications, but despite the differences women receives less wage than man, same occupation wage gap was 13 percent in Estonia. Age differences also mattered in wage gap 25 to 34 age women wage gap is 31 percent, 34-44 the wage gap increased further 33 percent and 45-54 age group people wage gap is 30 percent in general terms women in general faced gender discrimination in work place (Anspal and Room 2010: 18). Women working in foreign owned companies faced with more wage gap than men. In private foreign owned companies 38 percent wage gap exists for women and in domestic private companies wage gap is 29 percent (Anspal and Room 2010: 18).

But many number of women who had less education qualification lost their and jobs are forced to serve in the low wage sectors. Wage differences are different according to sectors. Women get fewer wages than men despite being in the same sector. There are differences between wages of married men and married women. There are wage differences between married women and single women. If a woman has one child it affects their wages by 3.6 percent lower than on average (Room and Kallaste, 2004: 16). Thus, certain kind of dissimilarities happened to the women's employment situation during transition period. Situation for women regarding unemployment and wage discrimination has worsened. So there is no improvement for women's condition in the transition period apart from some kind of improvement in the social maternity leave and unemployment pension schemes.

Eamets and Ukainski give three reasons for the gender differences in the labour market. First, in order to produce the necessary macroeconomic environment for the revitalization of uninterrupted economic growth, there should be adjustment policies for managing demand and supply; second, there should be notable restructuring of price liberalization, privatization and enterprise as a response to microeconomic reforms; third, labour market institutions and wage reforms would also play an important role in the same (Eamets and Ukainski, 2000: 468).

The above arguments contain some key facts showing how implementation of these neoliberal policies causes this economic tragedy in Estonia. Since following neoliberal policies is under cover of “Shock Therapy” political elites pursue fast reforms for speedy transition. Drastic changes happened in society without any safety net for the workers and public sector employs. All most all the sectors were controlled by the state in the pre 1991 era, so most of them were getting salaries and welfare schemes from the state. Pursuing rapid neoliberal policies undermined the nation state and free flow of regressive labour market caused huge unemployment.

Unemployment rates in Estonia throughout years from 1991 to 2004 in the sixth chapter i separately analysed about impact of the European Union membership and social consequences of the 2008 economic crisis including unemployment, poverty and wage cuts.

Table 4.1: Percentage of Unemployment Rate

Year	Unemployment Rate Percent
1991	1.5
1992	3.7
1993	6.6
1994	7.6
1995	9.7
1996	9.9
1997	10.4
1998	9.5
1999	11.6

2000	13.1
2001	12.4
2002	9.4
2003	10.7
2004	10

(Sources: World Bank 2014 and International Labour Organisation 2014 http://www.ilo.org/legacy/english/get/2014/GET_UR.xlsx).

In 1991 first year of independence Estonia its official unemployment rate was 1.5 percent. Then slowly unemployment rate is increased while officially the privatisation process completed in 1999, the next 2000 year unemployment rate was 13.1 percent highest in first decade of transition. After 25 years of transition unemployment is still biggest concern for the government only brief period of time 2005 to 2008 unemployment rate started to down slow. But 2008 economic crisis aggravated the unemployment, according to ILO prediction Estonia overall unemployment going be remains 9 percent till 2018 out of this youth unemployment rate is 19.7, going to be biggest concern for the government. Youth unemployment always concern for all the governments starting from 1993 till now youth unemployment always remains above 10 percent end of the first decade transition 2001 the youth unemployment touched highest of the decade 24.6 percent (ILO 2014).

Social Sector Reforms and Policies

Average life expectancy at birth of 70 years of age in Estonia according to recent estimates, is 64 years for males, 76 years for females. According to recent estimates, the infant mortality rate is 12.32 deaths per 1,000 live births. Also, according to surveys, nearly 100 percent of Estonians, age 15 and over, can read and write. However, the amount of the GDP spent on health and education in Estonia is about 4.3 and 4.9 percent respectively (Country Watch Estonia 2015:131).

Transition and Health Care system

During the whole transition, the health sector was also included in the “Shock Therapy” policies. The health sector also went through dramatic changes

during the first decade of the transition period. During the Soviet period all the sectors were under the centralized state control, so health facilities was free to all the citizens of USSR, hence, no question of private owned health sectors or health insurance. Health services were provided by the government appointed employees (Koppel et al. 2008: 4). One of the primary goals of the new Estonian government was to undo the centralized plan, and to decentralize the market oriented one, with the new system divided into three levels 1.National 2.County 3.Municipal (O'Connor and Bankauskaite 2008: 587). In spite of central planned health system Estonian government decided to introduce health insurance scheme, which was planned before 1991. Within one year of separation from Soviet Union, Estonia brought health insurance on January 1, 1992. Estonian health insurance relies on the principle of solidarity and is a social insurance. The cost of health services required by the person in case of illness is covered by the Health Insurance Fund regardless of the amount of social tax paid for the person concerned (Health-insurance-in-estonia, 2011).

In the budgetary taxation 10.9 percent from the budgetary expenditure in general in the 10.9 percent 8.7 percent from the state 2.2 percent from the municipal budget. Under this scheme, 22 non-competing funds were established across the country and were coordinated through the Association of Sickness Funds. Another means of resource is collected from the out-of-pocket payments of workers another kind of source was created from the workers out-of- pocket payments 14.8percent. The rate of the social tax is 33 percent of the taxable amount and the employers are required to pay this tax for all persons employed by the law. 20 percent and 13 percent of this tax is allocated for pension insurance and health insurance respectively (Haigekassa 2011). The funds collected through this tax however are not only meant for workers. They are spent on various welfare measures targeted at vulnerable groups with no clearly defined income. These groups include those less than 18 years old, full time students, retired persons, pregnant women and registered unemployed individuals. (Highlights on health in Estonia, 2001: 32) Apart from this there are some proper ministerial arrangement made. During

the Soviet Union there were separate ministers for health, social welfare and labour but these three ministerial merged into one ministerial called as the Social Affairs Minister (SAM) (Ginneken 2008: 182). A very clear message of the new government's policies is to make the workers pay for the insurance and to push through the market reforms where free health care becomes a payable one. The document produced by the Estonian government after twenty years of the transition Estonia is still behind many European countries in the spending to social protection the GDP is around 13.9 compare to France is the leading country in social protection spending among EU countries around 29.5, from Baltic statesLithuania spending around 15.8 in total GDP (Lauristin 2011:11).

Further, to strengthen the insurance policies after three years, in 1994, the health services organization act was made to provide more legal base and proper basement for the 1992 health insurance act (Ginneken 2008: 22). With this act another important body was created by the government to regulate the health care services. The State Health Insurance Council (SHIC) was created. It consisted of 15 members, mandated to serve for three years and was nominated by the organizations represented on the council. The role of the SHIC was to mainly perform as an advisory council. The function of the SHIC is to develop the price list for health care services and to approve the state health insurance budget. SHIC prevailed till 2001, and in the same year a new insurance organizational model was introduced (Ginneken 2008: 184). In 1995 Public Health act was made concrete, with responsibilities delegated to SAM, for health protection, promotion and disease prevention policy with the SAM (Ginneken 2008: 185). After this act, within two years, in 1997 SAM fostered primary care reform to cover all of Estonia with primary care providers until 2003. This is significant achievement for the Estonian health care system.

These policies were done under the guidelines of World Bank from 1995 to 1999. World Bank's Estonia health project helped to stabilize the new health reforms and it influenced the Estonian Health Care system in three ways.

Health insurance and retraining of family doctors, into a general health sector reform framework. It helped to structure health care reform within SAM. Second during the first decade of the transition there was political instability in Estonia so the World Bank's concern was because of the political instability there should be no obstacles for the privatization process in health sector. In fact, even without political stability World Bank officials were willing to go through full-fledged market driven policies. During this short time period World Bank brought more voluntary organization and donors for Estonia (Ginneken, 2008: 186). By the end of the first decade of the reform process, the Estonian government brought a very important act to push hospitals to private hands. The Health Care Services Organization Act enforced in 2001, required all public hospitals to be incorporated into private law as foundations or joint-stock companies. "According to this change, all public hospitals began to act under private law, having full managerial rights over assets and access to financial markets, but at the same time giving them full residual claimant status" (Habicht et al 2006: 3).

During the Soviet Union period the whole system was fully funded by the state, the citizens did not need any money or insurance to get treatment and everyone got free access to health care. However, after the 1991, right in the beginning in the very first change was brought in the health care system and people started to have to pay for the healthcare by the way of tax and the entire system gradually moved into the private hands by the 2001 year Acts. It was made very clear that the intention of the government was to push the state owned enterprises and sectors like health into private hands. Since 2001 hospitals have acted as the bedrock for joint stock companies under private law. In addition, joint stock companies have been acting under the Business Code, which has raised the question of whether these hospitals' preference is to maximize profit or to work in the interest of the public. The health care and health insurance became profit making one. In 1995 source of financing from private hands is 7.5 but the financing increased to 23.3 in 2000, but at the same time public financing was reduced from 89.8 in 1995 to 76.4 in 2000

(ministry of social affairs, 1995-2006). This makes it clear that the health care privatizing vision of the Estonian government. Health care insurance based residence and citizenship means there is already the problem of Russian speaking not getting resident ship, making it appear as a kind of discrimination to a particular community in Estonia. 40,000 to 70,000 Estonians are without health care coverage, which includes self employed residents. This number increased in 1999 to 5 percent to and 8percent (Highlights on health in Estonia, 2001: 32) back to the Europe is the prime slogan of Estonian people. After the independence new Estonian government changed previous government's rules and laws implemented all kinds of measures to get E. U membership but according to EU data from 1998 the health expenditure of total GDP was below the EU average of 8.5percent but compared to other reform countries Estonia was better in the GDP allocation 6.9 percent (Highlights on health in Estonia, 2001: 33).

Pension Reforms

During the transition period pension was included in the neoliberal reforms. Regarding unemployment and the already discussed employment ratio compared to the Soviet Union the new Estonian government approach is not satisfactory. The unemployment and wage differences are also reflected in the pension policy. There are different kinds of pension policy like old aged labours, retire pension and disability pension. Different kinds of pensions were provided by the Soviet Union government. But there was complete change in the pension policies due to the transition process. Under the Soviet Union pension was given by the government and there was state budget allocation of pension for workers. Estonia is among the first five former Soviet Union countries to change their pension schemes to three pillar system. The pension reforms started before 1991 in Europe but as Central and Eastern European countries were controlled by USSR they did not implement the neoliberal pension reforms. Between the year 1986 to 1990 25 pension reforms were introduced in the European countries. This process increased due to the Soviet Union disintegration. Within short time period around 36 reforms were passed.

By 2002 around 55 reforms were passed (Arza and Kohil, 2008: 5). This three pillar model pension system prepared under the World Bank guidelines is different from Soviet Union pension model. Many former Soviet Union countries went through dramatic changes in their social protection policies. Some of them voluntarily followed while some were forced to follow the World Bank policies (World Bank 1993: 35-36).

During the soviet period there were several pension schemes for the workers and farmers. The pension age for men was 60 while for women it was 55. There was 100 percent replacement rate after retirement for low income group people. Between high level income groups they get around 50 percentage of their income as pension. Pension was completely given by the government through pension allocation in the budget. There was no contribution from the worker's side (Fultz eds. 2006: 29).

In the neo liberal context Estonia also introduced new pension policies according to the World Bank guidelines. I already described about how Estonia went through very hard path of privatizing pension reforms. Estonia is fifth Central and Eastern European country and second Baltic state to adopt the three pillar pension system (Fultz, ed. 2006: 18) in the year of 1997 the Estonian government adopted the three pillar policy (Müller 2002: 734).

Before the three pillar policies Estonia government tried some new methods and laws for the pension and social protection. One of the first laws was introduced in parliament in the year of 1991. According to this law the pension for old age people is 60 percent of their minimum wages and 40 percent of their personal wages in the reference period (Müller 2002: 731). But there was a change in the disability pension; the qualification period for the disability pension was abolished which made matters easier for disabled people (Fultz eds. 2006:31) but this law was suspended in parliament within one month of effect.

The most important question is what the three pillar pension system is proposed by the World Bank. The World Bank three pillar pension scheme is given below.

- Pillar I, mentioned above: public, pay-as-you-go, usually defined-benefit and redistributive
- Pillar II: private, funded, almost always defined-contribution
- Pillar III: private, funded, voluntary, supplementary, preferably defined-contribution (Rutkowski 2010).

This is the prime division of the pension system. One of the important concepts of this model is famously known as PAYG (Pay As You Go) which means. PAYG, method, a current disbursement method, came to be used to pay unfunded pension plans. To cover immediate expenses or smooth contributions within given time periods, unfunded plans may still have associated reserves (OECD, 2009). In Estonia the pension reforms were done according to guidelines by the World Bank because they went to the full fledge liberalization and privatization process.). Estonia has succeeded from the Soviet times a PAYG system with benefits linked to former wage and with high replacement rates reaching 80percent. The statutory retirement age for women was 55 and for men it was 60. Furthermore, for persons with disabilities and selected occupations, there were several special provisions, reducing the average effective retirement age to about 53 for women and 57 for men (Fox 1994).

It has been argued the dependency burden on the working population was increased to be the main economic effect of this system (Fox 1998:372). The number of pensioners in Estonia was growing throughout the Soviet period as a result of the retirement age remaining the same over 40 years while the average survival age increased (Leppik 1998). But private hands faced some difficulties in replacing the soviet model pension scheme when handed over the pension scheme. For implementing the three pillar model pension Estonian state authorities made several acts. In the year of 1997 centre left government introduced the three pillar system. To successfully implement the three pillar policies they introduced the state pension insurance act, the new social tax act

and the pension funds act. These acts completed the first pillar process (Müller 2002: 734). The second mandatory funded tier was legislated in September 2001 and it came in to force from mid-2002 (Müller 2002: 734).

The renewed state pension scheme is the First Pillar is, the Second Pillar being a mandatory funded pension scheme and a voluntary supplementary pension scheme that is supported by the Government through tax deductions is the third Pillar (Estonia E.U, 2010). The first pillar is contributed by the employers through social tax, but this social tax is also paid by the current employers of the current pensioner. Second pillar is contributed by the workers in each month as they pay 2percent of salary while the government contributes 4percent. But the irony is that the 4 percentage provided by the government is taken from the 20percent percent social tax which is also contributed by the workers (Estonia E.U, 2010). The working group with a desire to construct the second pillar started their work in 1999. It drew from the experiences of Chile, Poland, Hungary and Latvia (Erlemann & Oone 2002).

The Funded Pensions Act, which is the main act to adapt the second pillar, came into force 1 October 2001. However, since the registration of the pension management companies and the pension fund took time, it was only possible to start joining the second pillar from 4 May 2002. As brought out in the explanatory note to the Funded Pensions Act and in the Progress Report submitted to the European Commission (EUS 2000) the aims of the second pillar are: to prevent a drop in the standard of living after retirement, to avoid the reduction in the average replacement rate due to unfavourable demographic developments, to make the pension system less susceptible to political pressures, thus to diversify the risks endangering the pension system. The person who has subscribed to the second pillar can freely choose between the different pension funds run by private pension management companies, and change the funds by transferring the assets from one fund to another. In order to keep down the administration and transaction costs, the Central Register of Securities administers the payouts and databases centrally. The

Register keeps track of the applications, the funds chosen, the contributions paid, the pension fund units acquired, and benefits paid (Raudlaa and KarstenStaehr 2003 :73 and 74).

The third pillar of the pension system came to be regulated by the Pension Funds Act and was privately managed voluntary funded pillar or the supplementary funded pillar (entered into force 1 August 1998). There are two different ways individuals can participate in the third pillar in (EUS 2000): they can either opt for pension insurance policies offered by licensed private insurance companies or for units of pension funds managed by private asset managers. Thus, the third pillar participants have a choice between the defined-benefit and the defined-contribution type schemes.

It is on individual voluntary pension contributions that the supplementary pension scheme is based. The third pillar has existed since when the necessary legal framework was enacted, that is since 1998. There are two forms that participation in the supplementary pension scheme can take. They are, firstly, the licensed private life insurance companies offering the purchase of pension insurance policies and managed purchase of voluntary pension fund units by the private fund managers (Fultz 2006: 120). But in the year of 1998 there was financial crisis which hit in the whole region. It came to be known as Russian financial crisis. After that there was no interest from the common people to participate in the private own market based pension scheme. Because of the financial crisis the third tier pension system did not succeed in Estonia. The old age pension was started during the end of transition period. According to OECD report around \$250 worth Purchasing Power Parity (PPP) was given as pension. But this is not even half of their average wages. It is only around 29percent to 37percent (OECD, 2003: 82). Government of Estonia changed the rules for disability pension recently. According the new rule persons with complete incapacity to work will be given pension (OECD 2003: 87).

There are some fundamental problems in the pension reforms of Baltic states this applies for Estonia also. When Estonia adopted parliamentary democratic form of government and a liberal economy they also changed their entire system into private owned market based economy. Everything was privatized including social security policies. Estonian official decision to bring and implement the World Bank agenda of three pillar pension systems to replace the state owned budget pension schemes to paid tax or ‘voluntary’ pension scheme is completely neoliberal project of withdrawal of state response to giving relief or social protection for the workers, disability persons. Increasing the age gape of the working people is indirectly increasing the working burden for the workers. And making the disability pension as complete incapable or percentage wise is some were shows the government hidden motivation to push the exclusionary policies to removing hands out of the state responsibility from the protecting is own people. I already disused about how the minimum wage is very low in new Estonia 60 percentage of their minimum wages they got as pension. “Given the high employment rates that prevailed in the Soviet period this means that relatively few of the current middle-aged contributors are likely to receive only minimum pensions when they retire” (OECD, 2006: 84).

During the Soviet Union period the water, energy, education, health and housing were provided by the state. Once the collapse happened in the post-Soviet system, there were market commodities with a real price which the people had to pay. At the same time, due to the low public income, pensions and salaries were reduced. As a result, large groups of people who had felt economically secure in Soviet society (such as agricultural and industrial workers, teachers, doctors, engineers, researchers, and pensioners) suddenly lost incomes and found themselves in poverty. Lack of resources to satisfy basic needs became a characteristic of a major part of the population (Laurstin: 602, 603).

The Western countries, international economic organisation and Estonian political leaders continuously campaign that economic growth would

automatically reduce poverty, and indeed, the level of poverty in the Estonian transition period has fallen. The number of those living under the poverty line of 50 percent of the income median fell from 13 percent in 1992 to 7 percent in 1997 (Kutsar and Trumm 1999). At the same time, the income gap between a majority of citizens and the small, economically affluent group rapidly widened. The effect of redistribution is marginal (only 2-3 percent) due to the proportional income tax and comparatively low level of public expenditure on pensions and other social protection (14.8 percent of GDP in 2001, compared with the 27.6 percent in the EU in 1999).

According to the survey conducted in summer 2001 by the Estonian Open Society Institute (Pettai 2002), 31 percent of the population classified themselves as in the lower strata, compared with only 10 percent in the higher strata. The salary of an average Estonian worker is less than 20 percent of the average Finnish salary. In comparison with EU prices and salaries, the costs of goods in Estonia are rising more quickly than salaries. In 1999, the Estonian GDP per capita was 37 percent of the EU average, whereas prices were 57 percent of the EU level (Laurstin: 605).

The transition from state planned economy to market economy was painful one but Estonia determined to shift her political and economic orientation towards West and eventually succeed in that one but came with heavy price. The first phase was complete chaos economic situation and political instability, massive unemployment and wage rate fell consistently. Estonia such a small economy manages to overcome in the first decade of debacle and regain the economic and political stability in the second off of the transition period.

Chapter 5

Political Economy of Social Exclusion of Minorities in Estonia

This chapter tries to examine how the economic policies, political practices and cultural transformation based on the vision of national identity have kept the ethnic minorities at the risk of social exclusion and discrimination in Estonia. In the process of formulating national identity, Estonia had to define who are the outsiders and insiders and who should be included and excluded in the definition of new national identity and for imagining a political community. Estonia's nation-building process aims to define nation-state, strengthen their authority and legitimacy through nurturing a shared national consciousness among people. The nation is defined in Estonia on the basis of history, ethnicity and language. The process of national identity construction looks as if the Estonian political elites want to free the people completely from the identity inherited during Soviet period. Promotion of national language becomes a legitimate means of establishing cultural independence from Russia and Soviet legacy. Therefore, this chapter argues that the ethnicity based vision of national identity supported by hegemonic nationalist political discourse and the subsequent political processes and practices resulted in the social exclusion of minorities and calls into question the democracy in Estonia.

Politics of Identity, Culture and History

Estonia built its independence movement on language and cultural basis. Despite numerically being small in number when it came to people speaking the Estonian language in erstwhile Soviet Union, these people were successful in building a strong movement against the Soviet occupation. In the post-Soviet Estonia language, ethnicity, culture and history were taken as the basis of defining national identity. Politics based on ethnic identity and coinciding mobilisation led to the emergence of further conservative policies to be adopted by successive governments in Estonia.

A retrospection of the history of the emergence of national identity in Europe demonstrate that the region had strong linguistic nationality movements throughout the 19th and the early 20th century, which led to some strong linguistic nationalities achieving their own nation states, like Germany and Italy. However, the rise of linguistic nationalism in the case of the erstwhile Soviet republic of Estonia was different in its essence. It was essential during the Soviet period that Estonian nationalism came to be strongly rooted in primacy to language and culture. When the Soviet introduced perestroika, the Estonians launched a very popular movement termed the ‘singing revolution’. Singing songs in Estonian language which were otherwise banned under the Soviet regime was one of the important methods of resistance and political mobilization. The symbol of nationalism in Estonia thus emerged through a linguistic base and it led to the independent statehood of Estonian Republic.

In Estonia language has been one of the key factors for mobilisation against the Soviet rule. The singing revolution is the very evidence of the same and it speaks volumes about the importance they give to language. They find Russian-speaking minorities to be the threat to their security with the apprehension that Russia might interfere if there is any problem for Russian-speaking population, because of which they avoid giving full citizenship to the Russian-speaking people. Estonian nationalism during the Soviet rule was language based because they felt Soviet Russia was imposing a foreign language on them. This feeling helped the Estonians to mobilise against the Soviet rule. Estonians believe that under Soviet occupation their culture, language and autonomy have been curtailed and therefore, have to be preserved.

It must be noted that in the period between the two world wars, Estonia had a short period of democracy from 1918 to 1934 and dictatorship from 1934 to 1940. The size of the national minority was very small in number, but there was distrust among the predominant nationalities towards minorities. In regard to minorities a disparity between democracy principles and reality could be viewed in its interwar period democracy. According to Kevin

O'Connor Estonia and other Baltic countries were recognized as being among the most democratic states in the world. Their citizens enjoyed universal adult franchise and had voting rights for women, equality before law and guarantees for minority rights. However, national minorities received little representation in parliament and therefore, had no political weight in the country (Kevin O'Connor 2003: 89-90).

Minority issue became important in after Soviet occupation because the decline in the demographic composition of majority population as a result of large scale migration from other parts of Soviet Union, predominantly from Russia. Before annexation to the Soviet Union, Estonia's population in 1938 shows that the percentage of Estonians comprised 88 percent of the country's population while the Russians formed about 8 percent of the population with other nationalities occupying 4 percent of the population in Estonia (Vetik 1993: 273). The numbers of non-Estonians increased from 23,000 in 1945 to 602,000 in 1989. At the same time, the number of Estonians had decreased from about 1,000,000 in 1940 to 965,000 in 1989 (Kolsto 2002: 74).

There are several reasons for this decline. Very firstly, about 10,157 of Estonians were sent to exile in June 1940. In the following years around 80,000 Estonians had emigrated to the West and other European countries. Following this, 100,000 more people were killed in the Second World War. Further 20,702 more people were deported in March 1949 (Vetik 1993: 273). Most of the non-Estonian population in the mean time had increased in Estonia due to immigration in the Soviet period. During Soviet regime, there were Russian-speaking industrial workers, military soldiers and bureaucrats who were sent to Estonia in order to build industries and improve the economic efficiency in post war USSR (Mettam and Williams 2001: 134). The first set of population immigrated to Estonia in 1950, most of who were industrial workers. The second set of non-Estonian immigration took place during the 1960s and 1970, bringing in military soldiers and Soviet bureaucrats along with the industrial workers (Vetik 1993: 273). During the Second World War period, the Soviet economy, especially the Russian was

destroyed by the Nazis, bringing with its urgency to rebuild the economy. New places were needed to build industries and Russian workers had more experience in the industrial sector. Thus, these people shifted from Russia and stayed permanently wherever they migrated to. Same was the case of Estonia.

Estonia was relatively homogenous, ethnically, before the Second World War, where around 94 percent of the population of about 1 million consisted of ethnic Estonians. After the War, things changed when the Soviet leadership systematically and forcefully started industrialisation in Estonia. A by-product of industrialisation was a constant migration of workers, mainly Russian-speaking, from other parts of the Soviet Union into Estonia. The net inflow averaged around 10,000 people annually and resulted in the population increasing to 1.57 million by 1989, about 40 percent of which were immigrants (Vetik 1993). Tallinn and the North eastern part of the country became the part of Estonia where most of the immigrants settled.

The arrival of Russian-speaking workers propelled from Moscow on a large scale led to increasing importance of the Russian language in the country, which is why since the 1970s the country has had two de-facto official languages. Certain areas in the economic and public spheres, such as the army, railways and the merchant fleet were completely dominated by Russian-speaking workers. These were the enterprises, most of which were directly controlled from Moscow, making Russian the internal language (Leping and Toomet 2008: 600).

When the new government started the privatisation process a lot of them lost their jobs and control over the market. But, since most of these workers were highly-skilled technicians from Soviet era, they shifted out of Estonia, taking jobs in other places (Aslund and Fløtten 2001). But, there was another big problem, which crept up in post-independence Estonia, and that was of differential wages between Estonian labourers and labourers coming from Russian-speaking minority community. This presence of Russian-speaking people forming the largest part of the minority population emerged as a

problem after the establishment of the Estonian republic as it was observed that the number of Russian-speaking people was high among the linguistic minorities.

According to recent European Union population data of Estonia, in 2014, among the total population of 1.32 million people, the percentage of population of Estonians is 68.7 percent, while the Russians consist of 24.8 percent, Ukrainian 1.7 percent, Belarusian 1 percent, Finn 0.6 percent, other 1.6 percent and 1.6 percent of the population falling under the unspecified category (Estonia EU population by nationality 2014). As it can be clearly derived from this data that numerically, the Russian-speaking population is the largest among all the minorities living in Estonia. Therefore, Russian immigrants are viewed as instruments of Soviet oppression and as a potential threat to be used against natives by Russia, in Estonia where nearly 27 percent of population are Russian speakers (Norgaard and Johannsen 1999: 157). Interpretation of Second World War history is another contested issue important for construction of national identity. While the Soviet official position about the incorporation of Estonia and other Baltic states was “voluntary”, the Baltic views the Soviet occupation as a result of invasion and coercive annexation. While Russia celebrates the Second World War as victory against fascism, Estonia commemorates it as their victimhood. Soviet occupation of nearly fifty years was a bitter experience for them as many were deported to Siberia, subjected to torture, prosecution and imprisonment. Such perception defines the majority nationality as “self” and minority as “other” (Usha 2015). Therefore, prejudices and distrust towards minorities developed. Russian speakers are treated as non-citizens and are issued passports marked “alien”.

Post-Soviet Transition and Status of Minorities

In post-Soviet Estonia minorities are largely a linguistic category than ethnic. The national minority of Russian speakers comprised of all Soviet settlers speaking Russian language although ethnic Russians are more in number. The first phase of transition was very difficult for the Russian-speaking population

in Estonia. Knowledge of Estonian language was made as compulsory criteria for naturalization granting citizenship for Russian speakers. In the beginning of the transition process, political elites in Estonia tried to build majoritarian rule over minorities. This slogan was vindicated, but not fulfilled in the Baltic democracies.

The concept of minority has different meanings and evolved after so many debates after the Second World War. United Nations and other organisation defined the minorities and their rights. In 1966 a universal minority regime was introduced through the International Covenant on Civil and Political Rights (ICCPR) under this definition Estonia having Ethnic linguistic minorities in their states. Article 27 of this instrument provides: In those States in which ethnic, religious, or linguistic minorities exist, persons belonging to such minorities shall not be denied the rights, in community with other members of the group, to enjoy their own culture, to profess and practice their religion, or to use their own language (Ramaga 1992: 410). Sub-Commission on the Prevention of Discrimination and Protection of Minorities (SCPDPM) expressly put forward the method to define minorities through numerical factors in determining so whereby a minority is "a group numerically inferior to the rest of the population of a State, in a non-dominant position, whose members-being nationals of the State show, if only implicitly, a sense of solidarity" toward the preservation of its ethnic, religious, or linguistic characteristic (Ramaga 1992: 104). An appropriate definition of minority to explain the situation of Estonia is given by Marina Best. Minority groups can be defined as:

a group of citizens of a State, constituting a numerical minority and in a non-dominant position of that State, endowed with ethnic, religious or linguistic characteristics which differ from those of the majority of the population, having a sense of solidarity with each other, motivated, if only implicitly, by a collective will to survive and whose aim is to achieve equality with the majority in fact and in law. (Deschanes:n.pag. quoted in Best 2013).

There are some basic guidelines and international law for protection of human rights of minorities that applies to all states in the international system. Article 2 of the United Nation defined clearly in 1948 the minority's rights and

minority means. According to this Declaration, everyone is entitled to all the rights and freedoms set forth, without discrimination of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it is independent, trust, non-self-governing or under any other limitation of sovereignty (United Nations High Commissioner for Human Rights). Since Estonia is a member of European Union, minority protection legislations and policies of EU are also applicable. EU states that “respect for the rights of persons belonging to minorities is one of the values of the EU” (Treaty on European Union 2008). However, minority issue remains an unsettled problem in Estonia.

Russian minority is struggling hard to achieve recognition and equality but due to their differences with majority population they are not able to achieve this goal and integrate in the society. There were several disagreements between Russia and Estonia over the citizenship status and Russian military presence in Estonia at the beginning. In 1994 there was an initial agreement between Russia and Estonia on withdrawal of troops from Estonia whereby Russia withdrew around 2000 military troops from Estonia and in exchange Estonian government guaranteed citizenship to 10,000 ex-Soviet servicemen and their families including ensuring their pensions (refwordl.org 2004). However, exclusionary tendencies prevailed as reflected in citizenship law, language law and education policy.

In 1989 the first language law was passed with the support of the Popular Front. Within two years of this law being passed, The Estonian language became compulsory for jobs, services and trades including in the private sector (Linz and Stepan 1996). In 1999 due to the Citizenship Act, 100 policemen were removed from their jobs in Estonia, because they had failed to pass the language test (chronological for Russians in Estonia refwordl.org 2004). This incident created fear among the non-Estonian speaking population. The

Russian-speaking minorities did not have political representatives in Riigikogu, Estonia's parliament (Baubock et al 2009).

It was in 1995, for the first time since independence from the Soviet Union that there were 5 representatives from the Russian-speaking minority in Riigikogu from the United People's Party of Estonia. The Russian minorities initiated changes in the Citizenship Act, their suggestions being crushed with a massive majority of Estonian majority party (Baubock et al 2009: 56). Later in 2002 the minorities' parties were unable to pass the threshold of 5 percent, but in the later years, Russian speaking minorities got few representatives. These MPs majorly focused on health, more relaxation in naturalisation and basic health care whose demands were not given enough attention from the Estonian speaking majority MPs (Baubock et al 2009).

State and Protection of Minority Rights

The Estonian Constitution of 1992 prohibited discrimination on the basis of race, sex, religion, or on political or other beliefs. Same fundamental rights have been guaranteed to both the Estonian citizens as well as non-citizens (Article 9 Estonian constitution). While it postulated the right to assemble freely, at the same time it prohibited non-citizens from joining political parties (Constitution of Estonia 1992). The non citizens however were allowed to form social groups. Also, despite the Law on Local Elections adopted in 1993 permitted the resident non-citizens to vote, they were restricted from running for political office. Regarding business or property ownership the Estonian law made no distinction on the basis of citizenship or the lack of so or any other such grounds (other than land). All residents of Estonia may participate equally in the privatisation of state-owned housing. The voting and political representation rights of non-citizens, however, continue to be an affair in Estonia. In 2004 the proportion of the Estonian population without Estonian citizenship was estimated at around 19 percent; according to official statistics published by the Estonian Ministry of Foreign Affairs in 2006, that figure has reduced to 16.4 percent.

In February 2005 further anti-discrimination laws were suggested by the Council of Europe's Advisory Committee on the Framework of Convention for the Protection of National Minorities. In addition further legal guarantees for non-citizens were introduced, alongside the lifting of the language requirement for elderly non-citizens. These recommendations were based in the Committee's conclusions that a large number of the population belonging to national minorities, especially young women, suffered from unemployment (Elsuwege 2008). The Committee speculated that possibly the existing language proficiency requirements is unreasonably high and as a result it might have a discriminatory effect. Even in the eligibility point where documents are to be submitted in minority languages to local government institutions even in places where the national minority populations formed an absolute majority were found out to be excessively high. The other provision concerning national minorities happened to be a constitutional provision which allowed for the establishment of cultural autonomy, was a take away from Estonia's inter-war constitution. This provision has remained on paper only, with the method of cultural autonomy has still remained undefined.

In 2005 the Estonian authorities phased out language proficiency requirements for electoral candidates and also extended the term of language proficiency certificates for employment purposes. In February 2006 the Council of Europe's Committee of Ministers approved advancements in Estonian conformity with the Framework Convention for the Protection of National Minorities (Elsuwege 2008). However, the Committee noted that the number of persons without citizenship in the country is still perturbingly high and that the planned change of medium of instruction in secondary schools to Estonian whereby at least 60 percent of instruction would take place in the language has not been sufficiently prepared.

Citizenship Law, Language Policy and the Question of Minority Integration

Citizenship is sole of making new state because being a citizen means getting recognition from the state or state authority. Receiving citizenship is the first

step of claiming welfare measures given by the state to her own citizens and it's symbolic of giving political and basic rights of the people. Some of the scholars have given stronger definition: Citizenship in a democracy (a) gives membership status to individuals within a political unit; (b) confers an identity on individuals; (c) constitutes a set of values, usually interpreted as a commitment to the common good of a particular political unit; (d) involves practicing a degree of participation in the process of political life; and (e) implies gaining and using knowledge and understanding of laws, documents, structures, and processes of governance (Enslin 2000).

Citizenship, at least theoretically, confers membership, identity, values, and rights of participation and assumes a body of common political knowledge (Abowitz and Harnish 2006). This definition spells out very clear view about being the citizen of the state but in the case Estonia it has not happened because the lack of inclusive policies and attempt to build the ethnic nation. There are some radical groups in Estonia who have formulated the definition of citizenship in terms of loyalty to the state being synonymous with knowledge of the Estonian language (Smith 2001: 73). In 1993 Estonian government introduced Alien Act, the Estonian government called the person who is not a citizen of Estonia.

These kinds of hatred and discriminatory attitude of the government made situation progressively complex in Estonia right in the beginning of 1990s. It brought severe criticism from outside Estonia including from international organisations. "In November 1995 the UN committee on Human Rights stated that a substantial segment of the population, especially the Russian- speaking minority, is unable to obtain Estonian citizenship because of strict requirements for knowledge of the language and because there is no possibility of challenging administrative decisions that deny naturalization" (Jeffries 2004: 132). The 1938 citizenship law was reintroduced in Estonia on 26 February 1992 (an earlier decision in principle to reinstate the law had been taken by the Supreme Council in November 1991). According to this legislation, only those were granted citizenship in Estonia, who was either

citizens of the Republic on 16 June 1940, or were their descendants. On the other hand others failing to achieve this eligibility were considered to be foreign nationals or stateless persons. Accordingly some 90000-100000 non-Estonians in Estonia qualified as citizens, while the majority of non-Estonians might only achieve Estonian citizenship through naturalisation (Jeffries 2004: 132).

The process of naturalisation and its requirement is quite liberal whereby anyone who has resided in Estonia for two years (starting from 30 March 1990) may apply for citizenship. The citizenship law came into effect in February 1992, so that the non-citizens who had already resided in Estonia two years before that were able to apply for naturalisation almost immediately. Applicants must take Oath of loyalty to the Republic of Estonia and its constitutional order, and demonstrate some knowledge of Estonian (Park 1994: 72). The initial version of 1995 citizenship does not consider the children born of stateless persons to be natural citizens of Estonia. This clause violated the international Covenant on Civil and Political Rights (art. 24(3)) and the Convention on the Rights of the Child (art. 7(1)). This clause later was however re-modified and new regulation stated that under 15 years born in Estonia terrain after 1992 on the bases of a declaration if their parents are stateless and have been legal residents of Estonia during the previous five years (Baubock et al 2009: 49).

Before breaking from the Soviet Union the first language law was passed in parliament in the year of 1989. In that law, the government clearly mentioned the future criteria for being a citizen in Estonia. The law specifically mentioned the knowledge of Estonian language to be a primary criterion for citizenship. The coming government will follow this exclusive citizenship policies. According to the citizenship law, the non-Estonian speaking people didn't have any voting right making the ethnic Russian residents of Estonia ineligible to vote in the September 1992 elections. It led to 99 percent of the ethnic Estonians to be elected in the March 1999 Parliament elections while

the non-Estonian speaking population did not have enough representation in the parliament.

The new Estonian government's bringing back the 1938 citizenship law showed that they wanted to restore the pre-second World War state model where 88 percent Estonian population consisted of people speaking The Estonian language. This move of getting back the old citizenship policies implied in a loud and clear manner to all other linguistic ethnic peoples that they are not considered as Estonian citizens. After the under-representation of the linguistic minorities the new nationality and citizenship law was introduced on 21 June 1993 this law drew sharp criticism from Russian-speaking linguistic minorities from within Estonia as well as from Western countries alike. According to this law non- citizens had to register and apply for citizenship which required two years residence from 30 March 1990, a language test and the undertaking an oath of loyalty (Jeffries 2004: 132).

The law of nationality and citizenship was evidently an exclusionary view about the citizenship of the new state of Estonia and was representative of its attempt to exclude more people of other linguistic background from the decision-making process of the country denying them citizenship status and an it was attempt to build an ethnicity based democratic state. European Council put the new citizenship law on hold because they felt this law may lead to more exclusion of the citizens from other linguistic minorities.

After a number of consultations and discussions outside Estonia, the country finally adopted a new citizenship law in 19th January 1995. This law had several relaxations compared to previous laws like setting six years to be the period of residence prior to naturalisation instead of three years. The law earlier stated that applicants had to have lived in Estonia for two years and could become naturalised citizens one year after submitting the application (Jeffries 2004: 132). This law laid down six creation rules to reject the naturalization process from the government of the applicant (1) those who have knowingly submitted false information in applying for citizenship; (2)

those who do not observe the constitutional state system of Estonia; (3) those who have acted against the state of Estonia and its security; (4) those who have been sentenced to imprisonment for a period exceeding one year for a criminal offence and who are not considered as rehabilitated with a spent sentence or who have been punished repeatedly for an intentional criminal offence; (5) those who were or are employed by the intelligence or security service of a foreign state; and (6) those who have served in a career position in the armed forces of a foreign state and their spouses (Asland and Flotten 2001: 1029). All these persons are not eligible for Estonian citizenship if not Estonian citizens by birth.

The above reason for excluding or eliminating from the naturalisation process in Estonia according to the 1995 Act, can be criticised on several grounds. It has the potential to sabotage the process of naturalisation of linguistic minorities by any one of these rules. For example, the regulation number one can be observed to be a very shallow point to reject someone's citizenship on the ground that one might genuinely make mistakes while applying. Rule number six is very naive whereby because Estonians consider the Soviet as a foreign state, people who have worked in the security or army of the USSR were excluded from citizenship opportunities. This point overlooks the fact that even the members of the erstwhile army might have been displaced during the Soviet period for several reasons. This point seemed to be directed towards people speaking languages other than Estonia, largely the Ethnic Russian speaking people who were living in Estonia (Asland and Flotten, 2001).

The implementation of new citizenship law thus made acquiring citizenship even more difficult for the non- Estonian-speaking population. Further, the written and oral examination for non-Estonian people led to even larger drop outs in the naturalisation process. Due to the pressure of the international community, the Estonian government established special agency Bureau of the Minister of Population Affairs. Further, the curious decree of naturalisation which complicated things more is that non-Estonian speaking people had to pass the language test to get citizenship which means that the only eligibility

criteria were taking oath in the Estonian language. It is an absurd criterion for approval of citizenship. Some of the non-Estonian speaking people expressed the unhappiness about the language test as they said its humiliating (Aslund and Flotten, 2001: 1029). This criterion was criticised by the several human rights organisation and European council. If a non-Estonian speaking citizen fails the language test he/she will not be allowed the right to vote in the parliament election but they had voting rights in the local elections. The citizenship is tied up therefore, with language, restoration independent statehood and consolidation of indigenous culture of native population as perceived during the singing revolution time. For instance, a prominent speaker at the founding congress of the Estonian Popular Front pointed out:

Over the years, language and citizenship have been artificially separated from other signs of national existence: the community of territory, the community of economic and political life for all people inhabiting this territory. And now we wish to close this gap (Mole 2012: 86). Under the framework of anti-Soviet discourse the Estonian elites argues in favour of “historical continuity” and rejected all the Soviet laws as illegitimate for Estonia (Mole 2012).

Estonia tried to build liberal model constitution but in the citizenship issue seen above they completely failed to understand the international situation. After the Second World War, nationality and human rights attained different dimensions in international level. Denying the right of people to their language or imposing some other language to speak or write is somewhere complete violation of human rights. A hidden agenda behind these moves might be apprehended because when Estonian government started the neoliberal policies these exclusionary policies helped to speed up the process of privatisation because when a government gives welfare schemes they might cut down on the funds for peoples who are not citizens of the country. This is consistent with the neoliberal emphasis on cutting welfare funds and giving preference to the market which might create bigger distress among the non-Estonian language speaking people.

Estonian language policy is one of the old classic case of divide and rule policy learnt from western countries. The irony of these citizenship policies is that in front of the law everyone is equal and everyone has to obey the law but they are unequal in the language test. This is a way of undermining citizens in Estonia where the naturalisation process was unfair to other nationalities and the goal of building democratic and a multi-party system was not fulfilled by these very biased policies towards other citizens. The table 5.1 depicts the number of persons belong to Russian speaking population who were granted Estonian citizenship through naturalization process.

5.1: Naturalisation process during 1991-2015

Year	Number of people	Year	Number of people
1992	5421	2004	6523
1993	20,370	2005	7072
1994	22,474	2006	4753
1995	16,674	2007	4228
1996	22,773	2008	948
1997	8,124	2009	1670
1998	9,969	2010	1184
1999	4,534	2011	1505
2000	3,425	2012	1331
2001	3090	2013	1316
2002	4091	2014	1589
2003	3706	2015	884

Sources: (Jarve, Priit and Poleshchuk, Vadim, 2009), (Estonian Citizenship and Migration Board 2008 August: 2), (Citizenship-estonia.eu April 6th 2016).

From 1991 to 2015; approximately 158532 people acquired the Estonian citizenship by various naturalisation process majorities of these people got the citizenship between the year 1991 to 2000 (Citizenship Estonia.eu 2016 April). After the 1995 citizenship law, there was a sharp decline in the process of naturalisation. Before 1995 Citizenship Act, most of the Estonian language speaking people got naturalisation. In the contentious four years of 1993, 1994, 1995, 1996 highest number of people was naturalised. After that, the naturalisation process got a very low number of citizenship like 133346 Russians got naturalised. Percentage wise they are the largest among other nationalities being 78.3 percent of it while others occupy 18.5 percent of the linguistic minority population (Estonian Ministry of Foreign Affairs 2010).

This table 5.1 clearly shows how the Estonian speaking people were the major beneficiary of the naturalisation process and highlights the discriminatory tendency towards other nationalities. The written and oral language test did not bring any major changes among the other nationalities in the case of citizenship. Owing to the deliberate attempt to isolate particular community in the name of a language, linguistic minorities did not get the welfare measures of the government which meant more exclusion consistent with speedy of implementation the neoliberal policies. Social Exclusion is one of the major concerns for the newly formed Estonia. Especially Russian-speaking linguistic minorities are sources of major concern for the authorities.

The 1992 new constitution referendum the government decided to re-adopt the 1938 citizenship act, and accordingly gave voting rights only to those holding Estonian citizenship. Thus, the minorities were excluded from all decision-making processes including the crucial decisions like the formation of the government. But, due to international pressure, especially from the European Union (which Estonia have always wanted to join), they had to adopt a new citizenship act in 1995, and a naturalisation process started. Although this naturalisation process was not very easy, it was carried out through a number of regulations, again by the pressure of EU (Järve and Poleshchuk, 2013).

Ethnic minorities are more affected by this transition compared to others. They are facing discrimination in the labour market also.

Labour Market Situation of Russian Minorities

During the Soviet rule, most of the industries were built by the Soviet Russia. Russia used the Russian-speaking minorities in the factories. After 1991 when Estonia started implementing the neoliberal policies they started privatisation process as the first step to market economic policies privatising most of the state-owned industries. In this whole privatisation process, Russian-speaking minorities who were earlier the head of the factories started losing their jobs. This kind of unemployment further led to the social exclusion of the minorities from the rest of the society.

In the last few years of the Soviet era, when private enterprises were allowed in the form of “cooperatives”, it propelled a major wave of privatisation began in Estonia in 1992, soon after the collapse of Soviet Union. Two years later, around 50 percent of the former state enterprises in Estonia were sold, and in 1995, large-scale privatisation had essentially been completed with the government still controlling majorly the infrastructure-related firms (such as power plants, railways and telecoms). In 1995, Estonia experienced the first year of economic growth after a long downturn following the collapse of the planned economy. The increasingly market-oriented economy led to rapidly increasing returns to human capital.

So many Russian-speaking minorities were left out of their jobs and also paid low wages compared to others. In Pre-transition period, foreign born workers got 3 percent less than average wages for an Estonian. But this situation drastically changed within 3 years. The gap regarding wages increased to around 11 percent and it touched nearly 22 percent due to discriminatory policies of government (Noorkõiva et al 1997: 17).

During Soviet Union period Russian speaking people worked in important sectors like military industries, chemical industries, and heavy industrial productions while on the other hand Estonian speaking people worked in

agriculture, cultural and education sectors. This segregation led to a massive disadvantage for the Russian-speaking minorities and once the privatisation process started they are the one subject to high unemployment and low-income earners (Hansson and Aavik 2012: 5). Till the mid-1990s the wage gap was very small but the more privatisation, more the wage gap increased. Till 1995 the wage gap between Estonian-speaking population and non-Estonian speaking workers wage gap was just 5 percent later. It increased to 15 percent and before joining EU in the year 2003 the wage gap was around 23 percent (Kallaste 2007).

According to the Amnesty international report 2006, nearly 13 percent people belonging from ethnic minorities are unemployed compared to 5 percent of ethnic Estonians (Amnesty International 7 December 2006). There are some major linguistic biases occurring in the labour market. It has been found out that an average non-Estonian who is unable to speak Estonian earn 21.8 percent less than Estonians. On the other hand, non-Estonians who are able to speak Estonian also earn 15.2 less than Estonians (Room and Kallaste 2004: 14). This increases the rift between Estonian-speaking and non-Estonian population. The naturalisation process for Russian minority, as observed earlier is difficult. Unless the non-Estonian population clears the examination in The Estonian language they will not get proper jobs in a labour market. Thus, Russian workers become cheap labours and work mainly in temporary jobs. Despite being higher educated a Russian speaking person would get lesser then the average Estonian speaking citizen as currently till in 2008.

According to the Statistic of Estonia in 2012, an average Estonian earns 7404 Euros while in comparison Russian-speaking minority men earn 6532 Euros. Russian speaking women earn 6128 Euros, which is less than even men (Hansson and Aavik 2012: 5). Under the OECD Economic survey 2015, the unemployment rate of non- Estonians 12.4 percent while for the Estonians it is only 6 percent in spite of having the same educational qualification. Along with that still 31 percent of non-Estonian lack basic language skill (OECD 2015: 87). Without sufficient language skill, Russian speaking people are

unable to get Estonian citizenship. Without citizenship, they are unable to either buy land or find jobs in private sector. Since Russian-speaking individuals do not have any citizenship they are unable to travel, find jobs, get an education in other EU countries (OECD 2015: 88).

Discrimination and Exclusion

From the 1990s onwards Estonia government had several agencies to implement the language laws part of which is the Language inspectorate agency formed by the 1998 government. The duty of the inspectorate agency is to monitor employees, citizenship certificate and language proficiency of Estonian language by the employees. Many a time Russian-speaking minorities, as well as Russian-speaking schools, face harassment by this Language inspectorate agency. In 2004, the Estonian language proficiency level of 513 teachers of Russian language schools was evaluated. The Inspectorate observed that 476 teachers failed to meet the officially established requirements (Amnesty International 2006: 30-31). The discriminatory approach of Estonian government and political elites led to massive alienation of minorities from the society.

The plan of imparting education in Estonia has since been limited to just five particular subjects like Estonian literature, history, geography, etc. The reform was supposed to begin in September 2007, but Russian schools have complained that the process is underfinanced and there is the lack of suitable and necessary teachers. Other drawback observed the requirement to change the existing Language Act as well as the need was also found for the drive to facilitate communication between school pupils from different communities and the adjustment of language proficiency requirements with situations on the ground in public sector employment. The Committee reiterated its worry with regard to uneven unemployment rates among young women especially from national minorities.

In 2006, Amnesty International appealed to the Estonian government to recognise Russian as an official minority language also in the other Baltic

States. The post-Soviet Estonian transition was basically considered essentially as 'state restoration' and not in terms of creation of a new state. This tendency and idea was utilized to justify the automatic citizenship awarding only to pre-1940 citizens and their descendants. This process was used to secure the demographic and political standing of ethnic Estonians against the non-Estonians, especially Russian settlers.

Response of Minorities

Historically the Estonian state built upon its strong ethnic based. When the Soviet Union occupied Estonia the latter used language as a strong tool to protect their culture expressed through various mediums like songs, literature magazines and also through Diasporas. However, once Estonia got independent from the Soviet Union they continued to follow the same ethnic oriented discriminatory policies.

When Estonia applied to the EU they were forced to follow the EU rule and regulations to get their membership in EU as a permanent member. As a result, they were compelled to change certain policies on minority issues. However, politically Estonian political parties continue to follow the politics of anti-Russia and anti-Russian speaking people. The conflict between Russia and Estonia started since the independence of Estonia in 1992 when the Russian president Yeltsin appealed to the United Nations General Assembly regarding the discriminatory citizenship policies. In 1992 December, the UN general assembly passed resolution against Latvia and Estonia and expressed concern over the treatment of minorities in their respective state (refworld.org 2004).

In 1993 the Estonian government brought important act on Alien Registration Law. Under this Act, the government disallows the ex-Soviet military personality unless they are born in Estonia before 1938. This act is the clear violation of basic human rights because many of the young military personals were sent by the Soviet government after Second World War in the mid-70s and 80s. To oppose this Act, the Russian government cut off the natural gas

supply. Later the Estonian government was compelled to withdraw the Alien Registration Law (refworld.org 2004).

This politics of anti-Russia in recent times has led to riots and massive protest against the government. In 2007, the Estonian government removed the Second World War monument, done under the supervision of Estonian Prime Minister Andrus Ansip. The "The aim of this government move was to prevent further similar gross violations of public order, which pose a real threat to citizens' health and property," (bbc.co.uk 27 April 2007) a government statement said. Also, the war monument is symbols of Soviet Union occupation of Estonia making the ethnic majority government remove it. This incident led to massive riots where one person died and several hundred were injured. The Estonian president, Toomas Hendrik Ilves brought a public statement "All this had nothing to do with the inviolability of graves or keeping alive the memory of men fallen in World War II". "The common denominator of last night's criminals was not their nationality, but their desire to riot, vandalize and plunder", said the President (NY times 27 April 2007).

The above statement clearly shows that the president of Estonia did not consider the Russian-speaking population as their citizens and called them criminals. Some of the protesters claimed that the government's intension is to erase the Soviet legacy and continued to treat them as second class citizens of the country. This particular incident increased the tension between Russia and Estonia. On the other hand, the Russian Foreign Ministry spokesman Mikhail Kamynin called this Estonian government act to be an inhuman and sinful act (Spiegel.de 27 April 2007). This incident affected the relations with Estonians and the non-Estonian speaking population especially the Russian-speaking minorities.

After a long time of intervention by international organisations and NGOs, the relations between Estonians and Russians were improved gradually in 2000 where, on simplified terms, only one-third of Estonians have agreed to grant nationality to Russians born in Estonia. This situation again improved due to

EU and other organisation consistent campaign and pressure on Estonian government in 2003 (Baubock et al 2009: 57). After the 2007 war monument incident and statement by the political leaders, the trust between the Russians and Estonians reduced. Around 24 percent non-Estonians lost their trust on Estonian political institutions. Among this 24 percent, 11 percent is youth (Baubock et al 2009: 57). This incident clearly shows the government's and political leaders' approach in Estonia towards the minorities and their symbols. During the economic crisis, the government continued to use such a politics to divert the current economic crisis and push the harsh austerity policies on common people.

The Estonian government and political parties consider linguistic minorities as second class citizen. The independence movement not only was based on anti-Soviet sentiment, but was also a linguistic one in character. Post-independence, the political elites build strong anti-Russian sentiment and pro-Estonian language sentiment soon turned into sentiment against the Russian language speaking minorities. The propagandas against minorities continued despite the international organisation intervention and NGOs demanding the successive Estonian government to follow stop and retract from their anti-minority's policies. Systematically the ruling elites discriminated against the minorities using language and denying citizenship. Without citizenship people speaking other languages can't get jobs including in the private sector as well as in the civil services and can't either buy land or get educated in universities. The Estonian successive government uses the anti-Russian and anti-minority sentiment to divert the actual existing socio-economic problems in Estonian society.

Whether in the 1990s or post 2008 economic crisis the ruling elites keeps alive the anti-Russian sentiment. Irrespective of EU and NATO membership, Estonian government continues to follow the same language test for the non-Estonian speaking population to grant citizenship. For an example, the living cost is very expensive in Estonia along with unemployment. The non-Estonian speakers have to pay to learn the Estonian language. In 2007 Estonian

government transformed Russian language schools into Estonian language ones, and eventually, around 60 percent of the course teaching today takes place in Estonian language (Amnesty International 2006: 19).

Chapter 6

Global Economic Crisis and Austerity Policy: Social Consequences

This chapter is a detailed analysis of the impact of global and Euro zone economic crisis, the policy prescription of austerity growth recovery and the social consequences of austerity measures in Estonia. The social cost of neoliberal reforms and the austerity policy gives a different picture of the success claims by the government. The austerity policy stands in contradiction with the goals of the European Union's 'social Europe' model and principles of representative democratic system in which the role of state to work for the well-being of its citizens is a priority. Austerity has resulted in increased national debt, mass unemployment and increased migration to other European Union countries, brain drain, declining birth rates, poverty, inequality, deterioration in health security, rise in suicide and depression rates, social unrest, negative change in demographic profile and misery to the common people. This chapter argues that despite increase in growth rates, the neoliberal reforms in Estonia produced negative socio-economic outcomes and the austerity policy adopted to meet the consequences of Global/ Euro economic crisis further aggravates the situation. Hence, it is necessary to understand the reality of people's vulnerability in Estonia.

Neoliberalism and The Economic Crisis

Neoliberalism is related to the process of globalization which emerged as a universal hegemonic policy prescription after the disintegration of the Soviet Union. Contrary to the promises of acceleration of economic growth, wealth creation and its trickle down to the bottom of the society and the enhancement of the well-being of people, neoliberal policies showed negative outcomes like increasing inequality, poverty, political instability, unemployment, misery and crisis. Global economy has entered a major downturn causing hard life conditions for the people across the world. The neoliberal economic model, which allowed unrestricted free flow of foreign capital has led to such a

massive crisis by 2008. The economic crisis which is one of the worst since the great depression of the 1930s hit the global economy and the Eurozone.

As of 2009 negative aspects of neo-liberal economic policies became more obvious and deep. The neoliberal policies have been under scrutiny by critics. Former World Bank governor and eminent economist, Joseph Stiglitz, makes a very clear remark on globalisation and the reason behind the 2008 economic crisis. He says, “It should come as no surprise in a world of globalization that it's not just the good things that move more easily across borders, but the bad things as well” (Stiglitz 2008). Stiglitz argues that in the era of globalisation the crisis is unavoidable unless the current financial system is corrected itself. Jayati Ghosh describes that the crisis is the problem which lies at the heart of the capitalist system itself. Further, she argues that the economic crisis has not only affected the financial sector but has also affected the basic economic foundation which has led to more unemployment (Ghosh 2009). For David Harvey, the financial crisis of 2008 called into question, for the first time in the history of capitalism, not only the economic model but also the institutions, ideologies and technological developments brought by the neoliberal model (Harvey 2014).

Prabhat Patnaik argues how the Third World countries have been affected by the crisis. He outlines how the economic crisis that started from the Western countries spread rapidly in the globalized economy. The effect was that Third World countries face stagnation due to the decline in the trade and increasing unemployment (Patnaik 2008). Therefore, these economists point out that the neoliberal model of economic development is the reason behind the 2008 economic recession. This model which comprised of the imperfect trade between countries, the unregulated inflow of foreign capital and the lapses in the monitoring of the local economy are some of the key reasons behind the recession in 2008.

While these are some of the fundamental parts of the neoliberal model which led to the crisis, one of the major and immediate reasons given for the 2008

economic crisis is the credit overflow, years before the crisis saw a flood of irresponsible mortgage lending in America. Loans were doubled out to “subprime” borrowers with poor credit histories who struggled to repay them. These risky mortgages were passed on to financial engineers at the big banks, who turned them into supposedly low-risk securities by putting large numbers of them together in pools. Pooling works when the risks of each loan are uncorrelated. The big banks argued that the property markets in different American cities would rise and fall independently of one another. Patnaik argues that the credit given to a large section of population without any security (Patnaik 2010) led to the creation of housing bubbles which when went bust, led to a massive recession.

Due to the interconnected world trade and Financialisation links in the globalized world of finance and trade, the crisis hit the entire developed world first. In terms of world output, the World Bank projection of world output was 0.9% in 2009 compare to 2.5 percent in 2008 and 4 percent in 2006 (Chandrasekhar and Ghosh 2008). The Organisation for Economic Cooperation and Development (OECD) estimated that the GDP of the developed countries fell from 3.1 percent in 2006 to 2.6 percent in 2007 and 1.4 percent in 2008. Other estimates point to a fall to 0.4 percent in 2009 (Chandrasekhar and Ghosh 2008). As of 2014, many developed countries were unable to achieve the pre 2008 crisis GDP growth rates.

Since most of the European countries share the same currency Euro, these countries are severely affected by the economic crisis. The European banks lost their money in bad debts in the US financial markets. The recession and credit crunch also led to a fall in European house prices which increased the losses of many European banks. Since the banks went bankrupt and real estate business crashed, threat of unemployment increased and social welfare policy faced massive cuts. IMF, World Bank and other monetary institutions suggested austerity as the policy prescription the ways of exit from the crisis created by globalization and neoliberal economic reforms across the world.

Since Estonia hit hard by the global and Eurozone crisis the country adopted austerity measures to recover growth.

Estonia and Economic Crisis

The Baltic States are the first former Soviet Union Countries to join the European Union. Therefore, when the crisis hit, three Baltic States (Estonia, Latvia and Lithuania) were affected severely by the economic crisis. In the pre- crisis period the economy of the Baltic states gained and their economy boomed by construction and credit growth. Accordingly, due to the economic boom, the wages also increased rapidly before the economic crisis, experiencing a historically high growth rate in the economy as well. During the period between 2000 and 2007 these three countries recorded annually, 8 percent growth which was the highest in the ‘enlarged EU’ (Staechr 2013: 294).

Particularly from 2004 to 2007 Baltic countries had outstanding economic growth rates compared to the rest of the EU countries. They were known as “Baltic Tigers” and “the shining stars of post-Soviet space”. To illustrate, Latvia had a growth rate of 10.3 percent, Estonia recorded a growth rate of 8.5 percent, while Lithuania recorded 8.2 percent (Kattel and Raudla 2013: 427-28). Parallel to such high growth rates was also the increment of foreign debt. Therefore, by the end of the 2007, 72 percent of Estonia’s GDP was foreign debt, followed by 75 percent in Latvia and 56 percent in Lithuania (Staechr 2013:294).

Estonia, since independence from the Soviet Union, always wanted to associate with Europe. The slogan of “back to the West” attracted many people in Estonia. The reasons for this was that Estonia saw moving towards Europe as helping them overcome their Soviet past and also get protection from any attempts of Russian intervention. All the three Baltic countries pursued the process to get membership in the European Union, the result of this being that Baltic countries like Estonia, Latvia and Lithuania became the first former Soviet Union countries to become members of European Union.

Since the accession to EU, Estonia's economy was boosted due to flat income tax, foreign investment friendly climate, flexible labour market policies etc. All this made Estonia as one of the most attractive places for the big corporates and foreign banks. Despite the Euro crisis deepening and spreading, Estonia joined the Euro zone in 2011, which made the Euro the official currency for Estonia. What the joining of Estonia to the Eurozone also meant that Estonia agreed to the conditions to join the Eurozone, which under the EU rules and policy guidelines meant that the national government could now only regulate the tax policy and the government budget but the fiscal policy was subject to external factors. Before the joining and the crisis, Estonia did enjoy high economic growth (Vargulis 2012: 4).

Martins Vargulis gives reasons behind the economic success of Estonia during the boom period, from 2004 to 2007. First, was the increase in the demand in the government sector, second was the enormous inflow of Foreign Direct Investment (FDI), thirdly, the export oriented growth which was based on inflow of foreign capital and not production and fourthly, the EU factor which meant that after the accession to EU investors gained confidence over investing in Estonia (Vargulis 2012: 4). From 1994 and 2008 an average of 8.6 percent FDI inflows contributed to Estonia's GDP (Mezo and Bagi 2012: 430). By the peak period of 2007, Estonia's economy was filled with uncontrolled foreign debt which increased as a share of GDP to 113 percent. On the other hand, by 2007 the proportion of foreign bank credit to GDP was 161.7 percent (Hubner 2011: 84).

Most of this credit came through real-estate sector. During this period of economic boom, amongst the few sectors that gained in terms of the employment prospects, the construction sector and the trade sector were two important sectors. In the construction sector, employment increased to 49,700 while in the trade sector it went up to 44,700 (Pfannkuche 2013: 13). Compared to other Baltic States, Estonia witnessed high growth levels of employment in the construction sector, increasing to 68.2 percent between 2005 and 2007. This can be compared to the 38.8 percent increase in Latvia

and 29 percent increase in Lithuania (Mezo and Bagi 2012: 431). The housing sector also increased to an unprecedented level, as housing loans increased from close to 60 percent to around 70 percent, predominantly between the years 2003 and 2006. This was helped by the very low level of interest rates on housing (Hubner 2011: 86). The heavy influence of the housing sector was reflected in the overall economy. While manufacturing sector contributed around 9 percent in GDP, the retail trade, financial and construction sector contributed around 63 percent in overall GDP (Vargulis 2012: 4).

Foreign banks lend most of the money to housing sector while they also dominated the banking sector in Estonia according to the European Cooperation in Science and Technology Report (2012). The report observed that in 2008, out of the 17 banks in the country, 15 were owned by foreign corporations with a total asset share of 98.2 percent. Most of these banks were Swedish and Danish Banks. Their credit increased from 526 million Euros to 5.9 billion Euros and there was an eleven-time increase of foreign debt credit between 2003 to 2008, increasing from 3.7 percent to 36.8 percent GDP (Pfannkuche 2013 : 12 and Bukovskis 2014 : 65).

During the boom period, the bank lending increased steadily in the years 2000-02 to 23.4 percent. Between 2003-05 it increased to 36.4 percent while in 2006, the peak year for the boom, the bank lending increased to 41.6. However, from 2007, the bank lending started to decline gradually as the lending came down to 33 percent. Continuing with this decline, in the year 2008, the lending came down in the first half to 7.2 percent and within a couple of months, the banking lending came down further, even reaching to a negative percent around 5.0 percent (Martin 2010: 222). Thus, the earlier boom soon turned into crisis because of overheating. “The real estate boom, double-digit inflation, a housing boom, appreciating real exchange rates, accelerating wage growth, a fast accumulation of net foreign liabilities, and soaring current account deficits (see Kattel & Raudla, 2013).” the impressive growth left alarming social consequence for common people.

Some data regarding the economic and social changes since Estonia joined the EU in 2004 and after the 2008 economic crisis is provided below. Table 6.1 provides the trend of housing market boom and collapse of construction sector

6.1: GDP Percentage of Construction Sector from 2004 to 2014

Year	GDP %
2004	7.4
2005	25.3
2006	8.3
2007	11.1
2008	3.4
2009	-34.6
2010	-3.7
2011	26.1
2012	6.9
2013	-8.1
2014	-4.2

(Source http://www.kushnirs.org/macroeconomics_/en/estonia__construction.html)

The above data clearly shows that with the housing boom, the construction sector grew enormously between the years 2004 and 2008. However, since 2008, Estonia has not been able to reach the previous year's growth in the construction sector. In terms of employment, construction sector alone employed 87,400 people with the construction sector contributing to 13.2 percent of the overall employment in Estonia (Pfannkuche 2013: 14). Naturally, with the crash of the construction sector, it created massive unemployment in Estonia. In its attempts to reverse this decline, austerity measures and more aggressive neoliberal policies were undertaken. However, after the 6 year years of the economic crisis, Estonia had not been able to achieve the pre- crisis growth rates or even the growth rates recorded ten years before it joined the EU.

In terms of prices, during the real estate boom the housing prices increased rapidly from the year 2003 to 2005. The housing prices increased to 23.9 percent within one year and in 2006 the housing prices went up to 51.8 percent. However, in the next year, 2007, there was a sharp fall to 10.1 percent and in 2008 when the housing bubble burst, Estonia's real estate sector was also severely affected as the housing prices fell to around -12.3 percent next year, while further declining to -39.1 percent by 2010 (Martin 2010: 222).

The Decline of Total Gross Domestic Product (GDP)

The economic crisis affected the overall growth of Estonia's economic performances as well. Estonia's real GDP growth fell down sharply after the short period of economic boom affecting the long term development of Estonia.

6.2: Percentage of Decline of GDP

Year	Real GDP Percent
2004	6.3
2005	9.4
2006	10.3
2007	7.7
2008	-5.4
2009	-14.7
2010	2.5
2011	7.6
2012	5.2
2013	1.6
2014	2.9

(Sources: Economy in numbers –estonia.eu and World Bank data 2016)

The data clearly indicates the drastic decline in the GDP and development process. Before the crisis Estonia is the only country had budget surplus in 2008-09 the economy shrank to 18 percent. After 1994 and apart from 1999,

Estonia's GDP saw negative growth, falling to -5.4 in 2008 and further declining in 2009 to 14.7. To reverse this, in 2009 the government implemented austerity measures and while the economy showed slight improvement in the short-term, Estonia's economy was not able to reach pre-crisis level. On the contrary, the economy shrank further and by the end of 2014, Estonia's real GDP growth reached 2.9 percent, after twenty years of implementing neoliberal economic policies.

Unemployment during the Economic Crisis

Unemployment is one of the major social problems in Baltic States since their independence from the Soviet Union. Before joining the EU, Estonia's unemployment rate was 10.7 percent in 2003 and during the economic crisis Baltic States were the second highest rate of unemployment in Entire EU after the Spain.

6.3: Percentage of Unemployment during 2004-2014

Year	Unemployment percent
2004	10.0
2005	7.9
2006	5.9
2007	4.7
2008	5.5
2009	13.8
2010	16.9
2011	12.5
2012	10.1
2013	8.5
2014	9.2

(Sources: http://www.ilo.org/legacy/english/get/2014/GET_UR.xlsx)

While joining the EU helped Estonia to overcome the unemployment problems for a short period of time, with Estonia's unemployment rate coming down to 4.7 percent due to the construction sector employment growth. But with the economic crisis hitting the construction sector hard, many people lost their livelihood leading to massive unemployment rates within two years of the economic crisis. The unemployment rate went up to a historically high of 16.9 percent in 2010. It was the highest unemployment rate in post independent period. From 2009 to 2012, unemployment rates continuously remained above ten percent. It is important to note that in the year 2010 for the first time in post independent Estonia, female unemployment rate reached its highest at 14.3 percent while male unemployment reached 19.5 percent (ILO 2014). Jeffres and others argues around 40.9 percent of people continue to remain unemployed in long term within the current unemployment rate (Jeffres 2014: 11).

International Labour Organisation (ILO) preliminary estimates also point out that the long term unemployment rates are going to continue despite the government's austerity measures. In this unemployment crisis, the most striking point is youth unemployment. It is the biggest problem in Estonia. In the year 2010 for example, the percentage of youth unemployed was 33.3 percent.

Estonia's economy is heavily dependent on export which involves large foreign capital flows. Most of the foreign capital investment comes through the retail sector, financial and service sector. While the manufacturing sector's contribution was merely 9 percent in GDP, the financial and service sector contributed around 63 percent in the overall GDP (Vargulis 2012: 4). Since Estonia's economy runs through foreign capital, once the foreign capital stopped, investments in Estonia were faced with enormous financial crunch leading to massive unemployment. Along with the massive unemployment, the salaries are also another problem in Estonia. In the year 2011, Estonia's per capita level was 26,000 Euros, one of the lowest in the Euro Zone (Bukovskis 2014: 78). However, before the crisis and due to the real estate

boom from 2004 to 2007, the average salary increased by 64 percent (Vargulis2012:4). Despite Estonia's impressive economic growth, when compared to Western Europe, Estonia's employees received lesser salaries than employees in Western Europe. Average full time employees received 22,240 Euros in the Western European countries while in the Baltic States, wages paid was half of the European average. In Estonia, it was around 11,004 Euros, in Latvia around 9,065 and Lithuania was among the lowest in Baltic States, where the wages was a mere 7269 Euros (Sommers and others 2014: 14).

The trade sector also took a severe blow during the economic crisis period. In 2006, trade reached a peak of 15.5 percent of GDP but within two years of this period the trade sector collapsed. In the year 2009, for the first time since 1991 Estonia's trade sector GDP went to the negative of -24.4 percent, the lowest ever (Trade (Value added) Estonia 1991-2014 (Kushnirs.org)). The other sector which was hit was the manufacturing sector. From 10.9 percent in GDP it fell around -23 percent GDP in 2009 (Manufacturing (Value added) Estonia 1991-2014 Kushnirs.org). All in all, what is clear is that the economic crisis pushed Estonia's economy twenty years back. Some of the sectors witnessed their worst crisis since 1991. Especially the employment, trade and manufacturing sector emerged as the most awful sufferers.

Austerity Policies, Post-Crisis Recovery and Social Consequences

In response to the crisis, Estonia chose austerity measures to overcome the economic crisis. The main aim of the austerity policy was to fulfil the Maastricht criteria to be eligible for Eurozone entry. Estonia met the necessary conditions for the adoption of Euro and become member of Eurozone; Estonia on 1 January 2011 Estonia adopted Euro as its currency. Austerity measures included fund cuts in public sector expenditure, wage cuts, more privatisation, increased taxes etc. Estonia followed all these measures. Austerity policies considered to be most radical and conservative economic policies. It is also called internal devaluations by some economists.

In 1930s during great depression period all the Western Countries followed and implemented Keynesian economic model where state intervened in economic activity and increased the public expenditures. In current scenario neoliberal model offers more cuts in the public sector opposite to what Western Countries did in the 1930s'. Prabhat Patnaik says implementing austerity policies to overcome the economic crisis is irrational because "capitalists undertake investment only when they expect demand to be increasing; and a reduction in demand through a cut in the fiscal deficit can hardly stimulate any investment" (Patnaik2015:79). The government wanted to improve the economy without any intervention or investment. Patnaik further explains why the state chose austerity over state intervention. This is because the fundamental principles of neoliberalism are against state intervention in economic activity to avoid the state's pro-active role to overcome the crisis. Therefore, the political elites chose austerity policies over state intervention (Patnaik 2011).

Paul Krugman Nobel award winner for economics describes how austerity is killing not only countries which are implementing it but it is also killing the world economy. Another point that he makes is that such policies of austerity, ends up favouring the social elites in Western countries (Krugman 2015). For Jayati Ghosh, austerity policies are bringing long time financial instability and leading to a worsening of the common people's lives. However, while the Western countries see government spending as a part of the problem, the actual crisis was caused because of the flawed neoliberal economic theory and models (Ghosh 2011).

In terms of the groups who have faced the attack of austerity, government employees were the first victims of austerity policies. In all three Baltic States, there was a massive wage cut in government employment salaries in 2009. The largest salary cut took place in the Baltic States; around 18 percent salary cut in Latvia followed by Lithuania. And in Estonia, around 8 percent wage cuts continued for three consecutive two years 2010 and 2011 (Kattel and Raudla 2013: 434). Importantly, government employees experienced more

wage cuts than private sector. Also overall wages declined in all Baltic States due to the cuts. In 2009, the wages declined around 5-8 percent and in 2010 2–6 percent of the overall wages declined (Sommers et al 2014: 10). Health sector was another casualty of the austerity policies. The Estonian government increased the Value Added Tax (VAT) on medicine from 5 percent to 9 percent (Gool and Pearson 2014: 20) while also cutting the bonuses for the doctor and nursing staffs. The government also made a cut of 24 percent in the Ministry of Health expenditure. In these cuts, they were through primarily made in the non communicable diseases programmes, followed by reduction of insurance fund reserves and the abolition of benefits of adult dental checks (Gool and Pearson 2014: 44).

In Estonia, the annual growth rate in the current health expenditure per capita, in real terms, declined drastically from 2000 to 2009. It was around 7 percent but declined between 2009 and 2011 to around -3 percent. The overall drop was around 10 percent growth (Gool and Pearson 2014: 48). The government cut the first day of sickness leave. More overdue the bonuses cut in 2011 around 2.5 percent special doctors left Estonia to find jobs in Finland or Sweden (Veebel 2014: 79). The waiting list of people seeking medical help increased in 2005, the numbers around 171,700 in 2011 went up to 250,000 and the number increased further in 2012 and went to around 290,000 people in need of help from government (Veebel 2014: 79).

The reason behind this increase is lack of doctors and government's drastic cut on medical benefits due to insufficient funds and benefit cut. The number of operations declined by the hospitals due to not having sufficient funds in 2008 was around 54 operations but within three years of period this number increased dramatically in 2011, when the number was 2000 (Veebel 2014: 79). These policies clearly shows the clear violations of basic rights of common Estonian people and the ruling political elites described the austerity policies as a bitter pills to cure the economic crisis. Estonian President Toomas Hendrik I lves said the other countries also follow the Estonian model to cut their funds in pays and further he added, "Growth policy" essentially

means doing “more of what we’re already doing wrong, which is borrowing money to pay for things.” (Forbes April 2013; BBC December 2011).

During the crisis period people emigrated from Estonia due to lack of jobs and falling life standards. According to the Estonia EU statistic of 2016 approximately 107,082 Estonia’s citizens were living abroad (Citizenship Estonia.eu 2016, 6th April). During the period between 2007 to 2012 period migration average was 7,000 people per year but later this number came down in 2014 when around 4,637 people emigrated from Estonia (Veebel 2014: 79; Statistics Estonia 22 May 2015). Roughly around 50,000 to 60,000 people migrated to Finland, Sweden and Norway on a temporary basis but they often did not return if they found permanent jobs in these countries.

Viljar Veebel provides an important insight about the reason behind emigration being growing dissatisfaction of Estonia’s socio-economic policies which, in 2007, was 56% percent, and in 2008 42 percent of the people were not satisfied with government polices but in the following years the numbers came down slowly (Veebel 2014: 81). The age group of 20 to 44 is the working age population that emigrates every year. Along with emigration the people immigrating to Estonia numbers increased in 2014 when around 3,904 people immigrated to Estonia. Most of the immigrants were from Russia and Central Asian countries (Statistics Estonia 22 May 2015) which created social tension in Estonia. Despite the austerity measures, Estonia’s coalition government increased the pension from 226 Euros to 278 Euros, keeping the election results in mind (Leventi 2010: 9).

Estonia’s austerity model was praised by Western countries, international organisations and European Union. In 2011 Estonia entered into the Euro currency zone despite the ongoing crisis. To adopt the Euro currency Estonia followed the strict EU regulations irrespective of the social consequences. Despite some of the EU rules that allow the governments to present 3 percent budget deficit, Estonia government was desperate to get the EU membership and followed the strict austerity policies. In 2008 Estonian government passed

budget reduction policies, and around 384 million Euros was reduced in budget spending which is almost 7 percent of the budget and most of the reduction happened in public sector (Veebel and Kulu 2014: 6).

The austerity policies are part of the neoliberal model. During the economic crisis the government clearly shifted its responsibilities to labour and poor people and planned to share the cost of economy recovery. Jeffres Sommers points out the reason behind the austerity policies-“today’s austerity amounts to a reconfiguration of labour’s employment rights at the national level and a massive attack on social and living standards across the European continent” (Sommers et al 2014: 5).

The austerity policies created long term unemployment in Estonia in 2009-2010 period. Approximately 120-130 thousands were unemployed in Estonia and this number comprised 20 percent of the labour force in Estonia. Moreover, this data is part of the official unemployment registration number and there many people who not part of the government registration data (Pfannkuche 2013: 25). According to ILO data projection, Estonia’s unemployment continues to remain 9 percent in long term (ILO 2014). The Estonian government increased the tax on common people and gave tax exemptions to corporates and reinvestment profits by corporates was tax free (Economy in Number estonia.eu 2015).

Joseph Stiglitz argues that the austerity model is a complete failure for Euro Zone as an economic crisis alternative. Further he elaborates in Greece and Spain the model produced adversity affect on society where one in four young people are out of jobs or searching for jobs and he calls the Euro crisis a man-made crisis (Stiglitz 2014).

Western countries faced massive anti-austerity protest but in Estonia that is not the case and EU projected Estonia as a model for austerity state, but comparing Baltic States’ so called ‘successful recovery’ with other countries is wrong comparison because the political and socio- economic system is

completely different. First of all the population is very less and their economy is small in number compared to other European countries. Politically unlike other countries Estonia political parties have always stood for the pro-neoliberal policies and there has been very less resistance from trade unions for the reason that there is weak trade union activism. Most importantly since Estonia's politics is always surrounded with anti- Russia and ethnic, linguistic issues, this helped the political class to divert the existing socio-economic problems (Sommers and et al 2014: 13).

Social Protest Against Austerity

In comparison to other countries Estonia had fewer protest against austerity policies. From 2008 onwards protest against the governments increased in large numbers. From 2006 January to 2013 September around 843 protests took place in 89 countries around the world (Ortiz 2013: 5). During this time around 488 protests happened against government's economic policies and austerity policies and 376 protests were held against corporate influence, deregulation and privatisation (Ortiz 2013: 5). In Baltic States on the other hand in 2008 around 10,000 people gathered in Riga Latvia's capital against the government austerity policies. This came to be the largest protest against government since independence (Åslund 2009). In 2009 in Lithuania around 7,000 people organised protest against austerity policy of the government along with its impact on wage cut and falling life standards (Economist Intelligence Unit 2013: 12).

In 2012 in Estonia protest took place from month of March to October where first the government teachers protested against the government's decision to cut wages and demanded for immediate increase in wages. In October a month long protest was organised by medical personnel with support of unions demanding increase in wage (Rebels without a cause 2013: 12). All of the three Baltic States witnessed massive protest since independence as stated above, but it did not necessarily reflect in their electoral results, for example in Estonia people voted for the same government which had implemented austerity policies. This was because people in Estonia preferred stable

government over their economic hurdles. The less amount of resistance in these three countries thus made them into examples depicting the success of austerity policies in the Baltic region. However these examples cannot be applied in other countries considering the size of the Baltic States' economy and very small population.

Chapter 7

Conclusion

This study is based on the broader framework of globalization and neoliberalism emerged as a hegemonic policy prescription after the disintegration of Soviet Union. Neoliberal reforms and policies, impact economic crisis and social consequences in Estonia are examined in detail. Estonia is a small country with a population of just above 1.3 million which is also small among other Baltic states. But Estonia was one of the first country to have had openly protested against the Soviet Union.

Estonia achieved independence in a non-violent manner especially while compared with other erstwhile Soviet Union countries. Estonia's national movement is rooted on its linguistic and cultural identity, which reflected the perseverance of the Estonians towards their language and identity after several centuries of foreign occupation. Singing revolution and Baltic human chain are symbols of this strong non-violent resistance against the Soviet Union. In this background, seven chapters have been laid out trying to analyse the political economy of Estonia.

The main focus of the study is the role of the Estonian government in formulating and implementing market oriented economic policies; the economic implications of nationalist policies; and the social consequences of neoliberal reforms in Estonia. The study investigates the Estonian capitalism on the basis of the background of the theoretical questions why the governments changed their economic policy from the Keynesian model to neoliberal economic model. Also, how the neoliberal policies didn't bring any prosperity in the countries in which they were implemented. Not only that, these neoliberal economic policies brought serious social and economic problems to the nations which adopted them. The study also analysed the role of the international financial institutions like the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO) in

helping the multinational companies to increase their profits in the developing and underdeveloped countries. So in this context it is very important to examine the nature and implication of the neoliberal policies since their introduction in Britain in the 1970's. In the context of the present research, such analysis is significant because these policies were implemented in the new states which separated from the erstwhile USSR under the influence of the Western countries and international organizations.

After the Soviet Union's disintegration all Former Soviet Union (FSU) countries had two economic models before them to choose- one was the gradualist approach and second one, "Shock Therapy". Since the inception of neoliberal policies, there have come about major instabilities in developing economies. The gap between developed and developing countries has increased since the end of 1960's. It was the product of the so-called structural adjustment programme. In the same way, before the Union of Soviet Socialist Republics (USSR) disintegrated, the Western countries proclaimed that there was complete insecurity of investments and thus went on to argue that real economic prosperity can be achieved only through market oriented policies- rushing into the implementation of the "Shock Therapy" model.

But after the USSR's disintegration, Russia faced serious economic instability and social problems. So the overall process of the neoliberal reforms has not succeeded anywhere. It has only helped big multinational corporates and the developed Western countries, particularly the U.S. The amount of transactions in international markets, which stood at 2.3 billion dollar in 1983, had risen to 130 billion dollar by 2001. The 40 trillion dollar annual turnover in 2001 compares to the estimated 800 billion dollar that would be required to support international trade and productive investment flows.

In recent time several studies suggest, more than four decades of neoliberal reforms few of Multinational Corporations and few individuals gained from the neoliberal policies and the income distribution shrinks further. According to Oxfam nongovernmental organization 62 global super-rich people own

more than half of the world wealth in 2016. Its number of super-rich was 388 in 2010, 80 in 2014. Irrespective of economic 2008 economic crisis the High net Worth Individuals (HNWIs) population increased significantly by 9.2 percent.

Labours are the worst sufferers of the neoliberal policies. Since flexible labour market policies have been implemented by many countries, hire and fire at the discretion of employer became easy. Such a situation made labours vulnerable to loss of jobs, wage cuts and reduction in the social security measures. In recent years several countries, especially in developed countries witnessed the massive resistance against governments neoliberal policies including developed countries. Particularly in third world countries witnessed the revolution against their government due to increasing unemployment and poverty like Arab spring and Occupy Movement.

In this context the study looks into Estonia's adoption of the neoliberal policies and investigates into how it has destroyed its capacity to manage and control the delivery of welfare measures. Estonia followed the footsteps of the Western countries and with the help of the IMF and the World Bank implemented neoliberal policies in the country. Estonia chooses neoliberal policies to escape from its past of Soviet legacy and chose to move from Eastern to Western zones. Estonia's First Prime Minister Mart Laar, who drew inspiration from Margaret Thatcher, implemented neoliberal reforms with the approach of the iron hand taking a visibly strong anti-Soviet posturing. 'Back to Europe' came to be one of the key slogans by the Estonian political elites during independent movement thus. Estonia therefore, as the study suggests, used neoliberal economic policies as tool to get away from the Soviet past.

Political transition from centrally planned socialist economy to market economy and single party communist system to multi party parliamentary system happened in Estonia. The foremost transition was bringing back the democratic institutions and building a strong multi party parliamentary system. But in Estonia the successful transition to the parliamentary system has mostly meant growth of ethnic based democracy. Estonia took next to no time to build

up her democratic institutions. The Estonian government hurriedly reinstated old Riigikogu (parliament) structure established during interwar period. In the new parliamentary democracy Prime Minister is the leader and executive authority and the President is the head of the state.

Followed by this several new laws were passed, including the Alien Act, to restrain the Russian population in Estonia. Even though some Acts were introduced to curb the corporate money in the election process, this however only was applicable on the political party candidates and not on independent candidates contesting elections. Along with that, the new party Act was enabled to stop the political parties from entering into any sort of alliances before the election and put threshold of 5 percent to enter the parliament. This move made small parties especially political parties representing the minorities suffered heavily. Several of them as a result were unable to pass the threshold at some point of time and were unable to represent the minorities in parliament despite the minority section constituting 30 percent of the population.

Along with new political institutions, civil society and media developed in Estonia slowly and steadily but most of the media came to be controlled by Swedish companies and companies from other countries. In the early years of transition, media supported economic reforms while sometimes exposing corruption of the ruling parties and scandals of political leaders. Even then in the first decade of the transition media primarily stood on the winner's side rather than the people who were affected by the harsh new economic policies.

In building the new state, the Estonian government gave citizenship only to Estonian speaking people, whereas non-Estonians had to pass a language test as part of naturalization. Citizenship in Estonia shifted to a "naturalization" discourse. The reason given by the government was that they feared Russian intervention by using Russian speaking compatriots in Estonia. However, this should not have been a criterion or reason for excluding people from participating or electing their representatives.

In September 1992 the first parliamentary elections happened after many decades, but because of the 1938 Citizenship Act, in the election around 99 percent of the representatives belonged only to Estonian ethnic people. This can be seen as the first sign of the weakening of democracy. This exclusion intensified the feeling of isolation among the Russian speaking minorities and helped build ethnicity-based political and pressure groups, thereby creating social tension; till 2001 most of the Russian speaking nationalities hadn't passed naturalization, and so after one decade of independence exclusion continued in Estonia.

Apart from the ethnic issue, there are serious issues related to the new party law of 1994 which is one way to prevent the emergence of small parties; where these parties may reflect small groups' opinion for vibrant democracy these kind of hurdles hampered the nature of the democratic spirit. But there is a need for study in the decline of people's participation in the political process. "In Estonia, turnout at parliamentary elections dropped from 68% in 1992 to 58% in 2003"(Ehin 2007: 1) and the nature of their voting process and whether the representation of minorities is there or not has to be taken account of. Political instability continued in Estonia in the first decade of the political transition that is from 1991 to 1999 when Estonia had 6 prime ministers and 3 parliament elections. From the second decade onwards however Estonia has shown some relative political stability.

Estonia successfully changed her economic system from being planned to towing the market line. Estonia introduced several new laws regarding privatisation and liberalisation of economy. Estonia included a particular article in her constitution regarding individual property and state role to protect their rights. Even before its independence, Estonia was committed to market economy and it became one of the first few countries to have implemented price liberalisation in 1989.

Establishing new currency for itself in 1992 was one of the most important milestones in the economic history of post-Soviet Estonia. Estonia had

introduced her new currency despite warnings from the IMF and World Bank and it showed Estonia's commitment towards the market economy. Estonia had run an independent bank since 1989 but it had become fully functional and received its full autonomy only from 1991 onwards. Within five years of independence Estonia fully established institutions to implement the neoliberal economic model, with several advices from the international organisation and followed the privatisation model of Germany.

Before the Soviet Union's disintegration, during the reform period, Estonia established joint ventures with foreign companies numbering around 150 (Brown 1993: 494) within 4 years of transition of their economy 60 percent Estonians came from private sector (Jeffries, 2004: 169) and allowing more and more privatization in the country created instability in the economic system. During the same time, GDP fell by 33 percent (Trumm, 2005: 20) which means Estonia's privatization was just motivated to create neoliberal economy under the name of Shock therapy.

Estonian privatization was fully dependent on foreign investors and because of this economic dependence the 1998 economic crisis hit Estonia, since "substantial inflows of foreign capital increase a host country's money supply and through that private consumption. This in turn leads to important growth and speeds up inflation. In 1996, the stock exchange came up in Estonia but due to the 1998 economic crisis the stock exchange crashed. The lesson from the economic crisis is that economic sovereignty became unstable in Estonia within seven years of disintegration of Soviet Union.

Tax reforms fulfilled the interests of the multinational corporations, with Estonia being among the first countries to jump into implementing the "flat tax reforms" by which they increased the tax for the common people and tried to protect the corporates' income i.e. pension, insurance tax was around 33% but the private income tax was lesser then this at around 26%. In 2000 income tax reforms showed how government stood with private companies since in this process they taxed only the profit distribution not the accumulation of income.

Banking sector was liberalized; very soon they got independent because liberalizing monetary system is prime advice from the IMF and World Bank. But such hasty reforms led to crises within two years of transition in 1998. Without any protection and by allowing unlimited FDI in the financial sector led to these two early crises. But after these two financial crises, Estonia didn't learn anything and continued to open and allow free flow of foreign capital in the financial sector. This free flow of foreign capital led to another economic crisis in the second decade of transition.

In spite of bringing growth, the Shock Therapy economic model brought continued decline in the whole economic transition. Without proper arrangement of any institutions and planning the Estonian state went to implement full scale neoliberal policies; this rash privatization and financial liberalization gave adverse results in the society. Despite the social consequences Estonia continued her neoliberal trajectory with financial advice from international economic institution.

The elites played strong role in implementing these policies later experienced massive economic crisis. However scholars from Western Europe and America continued to argue that the economic crisis happened not because of the policy but because of the problematic way of implementation, and they went on to say that GDP increased within five years of transition, but the situation was not getting better in Estonia as social welfare policies continued to be reduced.

In the current time Estonia is one of the most liberal countries according to several international organisations. To achieve this feat Estonia went through quite a lot of hurdles however continued to follow the radical economic reforms. It must be noted that the Estonian elites played a major role in not only promoting but implementing these neoliberal reforms. During the Soviet Union period several current political leaders in Estonia stayed in asylum in the neighbouring countries, returning once Estonia achieved its independence. They strongly promoted the neoliberal policies as an alternative to the

erstwhile Soviet Socialist model. IMF had given big loans to Estonia to implement the shock therapy economic model as a result of which Estonia climbed the economic ladder quicker than the rest of the Baltic States. It became an exemplary model for the other Soviet Union countries like a guide as to how to successfully complete the economic transition.

Social impact of Neoliberal reforms is very deep-rooted in all sections of society. The study takes note of very few issues like the condition of the minorities, unemployment, pension and health care. And the response of the state remains insufficient in tackling these problems. The whole process of creating a new state with a new constitution and change from a planned economy to a Market liberal economy necessitates strong political and welfare measures.

However, in Estonia the state response to the citizenship policies produced very negative impacts on society because isolation or denial of rights to a particular community does not help the prosperity. This is due to the reason that when people belonging to a particular group are left out of the labour forces it affects growth. The naturalization process made little impact but was not very successful. In the end of 1998, among Estonia's current population almost 80 percent held Estonian citizenship, 13 percent mostly Russian speakers were stateless persons. Political participation is one of the healthy signs of building democracy; with greater exclusion leading to more stress for the system to run smoothly.

Jobless growth and low wage employment and withdrawal of social protection are the phenomenon of first decade transition process in Estonia. The fall of employment rate started in Estonia before official separation, and since 1989 the employment started declining because the private companies needed very few employees and low wage workers thanks to the labour market policy of the government the response to the neoliberal policies didn't suffice to avoid the unemployment rate. The government failed to control the dropout in the employment sector because once the government implemented neoliberal

policies they withdrew their hands out of the all the sectors and the primary assault was on employment. The legal minimum wages are quite low compared with average wages in Estonia. Unemployment remains high in Estonia; by the futures predictions of ILO and World Bank till 2019 the Estonian unemployment rate will remain at 9 percent.

But the government failed to respond to the unemployment question and continued with wage cuts and reduction in the welfare schemes while Employment Protection Legislation (EPL) solely focused on contract jobs. The unemployment benefit was restricted only to 50 percent from the previous salary given. As unemployment benefit it was insufficient for many people who had lost their jobs during the 2008 economic crisis. In Estonia government doesn't have the notion of basic minimum wage and the wages are determined by the 'efficiency' of the worker. This formula also affected severally labours because many of the corporate houses exploited workers based on this. This became the main reason behind Estonia's low income wages in comparison to other European Union countries.

Pension and Health care also went through the market process. During the transition period, under the guidelines and advice of the IMF, Estonia introduced the so called three tier pension system where most of the funds came from workers through taxation. There is no improvement in the public spending in Estonia during the first ten years of transition. Pension allocation was not stable.

All citizens of USSR got free health care and there were separate ministries for health but the new Estonian government decided to merge the health, social and labour ministry into one; this merging gave clear indication about the government's future plan of selling out or withdrawing their responsibility from basic needs. Slowly the government reduced the budget allocation for health but the same time private funding on health was increased.

The decision of giving everything in the hands of the market led to very serious distress in society but these policies are not new phenomena for neoliberals because the neoliberal policies always favour the private corporates and multi nationals. “Shock Therapy” economic transition was not successful in Estonia in the first decade of the transition. All welfare measures disappeared and ethnic tension and political instability continued but the major achievement of transition was bringing back the multi-party parliamentary system and free and fair elections at all levels, which itself did not bring any prosperity to society.

Estonian independence was built and based on primacy to ethnicity and linguistic base whereby during the independent movement several organisations emerged based on strong ethnic political lines. Later on the anti-Soviet sentiment emerged into a strong anti-Russian sentiment. The political elites in Estonia channelized their entire politics against this anti-Russian sentiment, as a result of which the Russian speaking minorities were not allowed to vote in any election. Post-independence the right-wing political parties glorified the Vaps movement which was a movement where some organisations had tried to overthrow the government and had demanded a strong presidential form of government in collaboration with the Nazis during the Second World War.

However after the Second World War, the Soviet occupation pushed these old memories away from the public. Again later during the period of the independence movement the Vaps movement was glorified as being some sort of a defender of Estonia from the Soviet Union. Estonian National Independence Party (ENIP) happened to be one of the first strong grass-root right wing parties in the 1980s. The ENIP had conducted signature campaigns demanding citizenship only for the pre 1941 settlers. Later, this party aligned with Pro Patria in 1992 election making Mart Laar the prime minister and even later merged with Pro Partia changing its name into Pro Partia Union. Major section of the Estonian public came to view the Russian speaking

population to be a threat to their security based on its historical context but the Estonian political elites used this anti-Russian sentiment to control the population despite their economic and social problems.

Ethnicity based majoritarian policy was pursued by the Estonian government despite several warnings from international organisations. Russian minorities were subjected to continuous discrimination, and the 1995 Citizenship Act came to be severely criticized by Russia and other countries. Mistrust between two communities continued to increase in recent times particularly in 2007 Estonian government removed Soviet War statue riot was erupted between police and Russians end result one person died several of them arrested.

The response from the government officials made things worse, were Estonian president called the protesters as thief's and looters it's provoked Russians minorities further and Russia warned Estonia for her hostile attitude towards Russian minorities. The 2007 incident bring several facts about Estonia's political elites approach towards Russians and other minorities and keep people attention on Russian threat and divert attention from economic crisis and social problems.

Several studies show Minorities in Estonia faced discrimination not only politically but socially. Beginning of the transition period several Russians lost their job due to government privatisation policy and new language act made Estonian language compulsory to work in government jobs and citizenship, because of this act several Russian lost their jobs. Non- Estonian speaker's subject to wage discrimination for same jobs till 1995 the wage gap between Estonian-speaking population and non-Estonian speaking workers wage gap was just 5 percent later. It increased to 15 percent and before joining EU in the year 2003 the wage gap was around 23 percent.

Estonia's reforms based on its long time ambition of joining European Union and entered into Euro zone resulted in serious social consequences. Estonia joined European Union in 2004 along with NATO, this EU membership give boost to the Estonia's economy and her social progress. During this period

Estonia witnessed unprecedented growth and economic prosperity in the society Estonia economy experienced 8 percent growth per year from 2004 to 2008. But in 2008 economic crisis exposed hollowness of neoliberal model was uncontrolled and without regulations credit overflow and bad housing loans led to 2008 economic crisis.

To overcome the economic crisis the international economic organisation and developed countries used conservative harsh economic austerity measures. The result of austerity model worsen the living standards, welfare schemes cut by the governments, workers are the worst affected by the economic crisis unemployment increased in double digits in all the countries labour benefits were cut down. Currently as a result of neoliberal reforms Estonia is facing multiple challenges.

Finding of the Study

1. Neoliberalism widens the wealth gap between developed countries and third world countries. Disproportionate wealth distribution among people was one of the important negative outcomes of neoliberal economic policies.
2. Multinational corporations and businesses in Estonia have had influences on the political elites while making neoliberal policy choices, institutional reforms and economic outcomes. A few rich individuals and multinational companies largely benefited from neoliberal economic policies.
3. Although the neoliberal reforms in Estonia produced increase in growth rates, it also demonstrates negative socio-economic outcomes in terms of labour market and social security. The austerity policy adopted to meet the consequences of global and Euro zone economic crisis further aggravates the social situation.
4. The economic policies, political practices and cultural transformation based on the vision of national identity have kept the ethnic minorities at the risk of social exclusion and discrimination.

5. Estonian political elites were more focused on economic transition than political transition. Despite several laws and political institution, political instability and fragmentation still continues.
6. Unlike other countries Estonian political parties majorly focused on anti-Russian politics. Most of the political parties follow the same set of economic policies with a few differences.
7. Regardless of hardship, Estonia successfully transformed the economic system from state planned to market oriented one based the advice and condition dictated by the international organisations like IMF, World Bank and WTO.
8. New labour polices and privatisation policies created unemployment, poverty and gender inequality in the society. Unemployment continued to increase in Estonia irrespective economic growth. Pension and health schemes were privatised under the guidelines of the World Bank and IMF.
9. Estonian democracy was built on ethnicity and language, which lead to discrimination and exclusion of minorities. The Russian speaking minorities are subject to wage discrimination and Estonian government refuse to give citizenship to Russian speakers if they do not fulfil the naturalization criteria. Therefore, statelessness and non-citizens is a big problem in Estonia.
10. Estonia fulfilled the all the necessary criteria to join EU in 2004. After joining EU in 2004 Estonia experience high rate of economic performance growth and prosperity until 2007. Estonia economic performance was exceptional among other EU countries at that time.
11. The economic bubble burst in 2008 as a result of overheating and Estonian economy plunged into severe crisis, GDP declined, unemployment increased at an unprecedented level and people immigrated to neighbouring countries in search of better life conditions.

Several areas have been identified for further investigation and scrutiny. A few such areas include reasons and factors for the absence of strong trade unions and labour politics, the causes of less resistance against austerity policies in Estonia unlike in other European countries and America, the future implications of identity, culture, memory and security politics of Estonia, Russian speakers' civil society activism, the role of media in educating nationalism and facilitating social integration, impact of identity on foreign relations and the level of social cohesion and integration of minorities.

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Appendix I

Estonia Geography



(Sources : vecto2000)

Appendix II

Estonia Political Map



(Sources: World Atlas web image)

Appendix III

Lennart Meri (29 March 1929 – 14 March 2006)

Meri was a key figure during Estonia's independence movement against Soviet occupation. Later he became first elected President of post Soviet Estonia.



(Sources : rate.ee. Ireland largest media)

Appendix IV

Mart Laar started the radical shock therapy economic reforms at the time he was young Prime Minister at age 32.



(Sources: news.err.ee/Estonian public broadcasting)

Appendix V

Song Festival during Singing Revolution



Singing revolution 1988, in which around 300,000 people participated



. (source: Singing revolution.com)

Appendix VI

Baltic Way

The Baltic Way is a 600 kilometre human chain linking capitals of three Baltic states Tallin, Riga and Vilnius on 23 August 1989 commemorating the Hitler-Stalin Pact signed on 23 August 1939 based on which they had been incorporated into Soviet Union as a massive display of freedom.



(Sources: Baltic Reports 25th August 2009)

Appendix VII

The controversial Soviet war memorial statue in Estonia

In 2007 when the Estonian government removed the memorial statue, it caused strong protest from the Russian speaking minorities and one person died in the riot that followed.



Sources: ukhumanrightsblog.com, 14th April 2013

Appendix VIII

People protesting against government's decision to implement austerity policies



(Source <http://vahurkoorits.blogspot.in/31/12/2012>)

Appendix IX

Protest against the government during the 2008 economic crisis

Poster describing the Estonian government's decision to join the Eurozone



(Sources: the guardian 8th June 2012)

Appendix X

Right-wing parties protesting against government's decision to allow immigration. The below poster in particular depicts Islamophobia



(Source: *The Baltic Times* 14/10/2015)