Political Economy of Neoliberal Reforms in Estonia, 1991-2001

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DECLARATION

I declare that the dissertation entitled ***Political Economy of Neoliberal Reforms in Estonia, 1991-2001*** submitted by me for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

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

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Dedicated

To

My Appa, Amma and Comrades

CONTENTS

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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 of America
UN	United Nations
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization

Chapter 1

Introduction: A Theoretical Framework of Political Economy of Neoliberalism

The disintegration of Soviet Union led to the transition from state socialism to capitalism in Estonia. Since Estonia regained independence from the Soviet Union in 1991, the country has undergone radical economic, political and social transition. The economy has undergone transition from planned state controlled to market oriented economy through the three-pronged neoliberal reforms of privatization, liberalization and globalization. Political system experienced transition from communism to liberal democracy. These economic and political changes produced varied outcomes for the society. For a better understanding of the phenomena of neoliberal transition and reforms in Estonia, it requires to formulate a theoretical framework of neoliberalism in the contemporary global context drawing from the contemporary political economy debates.

Generally speaking, political economy is the interaction of economics, law politics and society. It is about how institutions develop in different social and economic systems such as capitalism. It also examines the way public policy is formulated and implemented. According to Marxists political economy refers to how the ownership of the means of production influenced historical processes. Marxists regard man's production activities as the most basic practical activities which determine all other activities (Wang, 1977: 4). But in the 20th century many of the scholars emerged in the political economy sphere. They gave different description for political economy. For instance, Lionel Robbins says "economics is the science which studies human behaviours as a relationship between ands and scarce means that have alternative uses" (Robbins, 1932: 16). There are other scholars who clearly elaborate the relative link between politics and economics, like Barry Clark who explains that "Economics is associated with efforts to achieve the highest possible material standard of living from available recourses. The primary economic goal of prosperity has truce dimensions: efficiency, growth and stability. Politics, on the other hand, is linked with efforts to establish and protect rights, so citizen can receive and hold that to which they are entitled" (Clark, 1998: 4). Clark clearly mention about all-inclusive view and interlinked between political economy theories. Some other scholars share the same kind of the view example Jeffrey S. Banks and Eric A. Hanushek articulate similar view about interlink of political economy "political economy concentrate precisely on the interactions of politics and economics through institutions" (Jeffrey, S and Hanushek, 1995: 3).

Allan Drazen gives a comprehensive view of the subject matter of political economy in the contemporary global context. He argues that political economy begins with the nature of political decision-making and is concerned with how politics will affect economic choice in a society. Political economy begins with the observation that actual policies are often quite different from optimal policies (Drazen 2001: 5). So it is about examination of the interrelation between politics and economics and how they operate within the social system, and the role of political institutions like parliament and other political institutions work for economic efficiency for carry out the people's economic objectives of everyday life.

Political Economy of Neoliberalism

Neoliberalism is a subject matter of political economy. According to Drazen two major characteristics of neoliberal programmes are (1) privatization of profit generating activities and (2) transfer to the state that is to sat tax payers of the social cost of neoliberal programmes (Drazen, 2001: 5). Neoliberalism has its roots in classical liberalism which was abandoned because of the Great Depression in 1929-1930. During the depression period, the development model initiated by John Maynard Keynes was introduced as an alternative.

Keynes argued that there should be state control over the capital, which means improving the product and growth, state should focus on full employment, economic growth and the welfare of its citizens and that state power should be freely deployed. Keynes argued that the state should intervene to the extent that it ensures full-employment. Any government expenditure higher than what is required in this context was a recipe for inflation. "What all of these various state forms had in common was an acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens, and that state power should be freely deployed, alongside of or, if necessary, intervening in or even substituting for market process to achieve these ends" (Harvey, 2005: 10)

Keynes's view that governments should play a major role in economic management marked a break with the liberal economics of Adam Smith, which held that economies function best when markets are left free of state intervention. After the World War II, the economic condition of Europe and the entire world faced serious economic and social crisis, so the states had to interfere in the economic activity of the market and privatization process, and the state should ensure full employment and bring welfare measures. The capitalist economic system will not allow full employment because the capitalist system needs the reserved armies of labours to control and maximize profit, so that full employment is contradictory to the capitalist system. Giving full employment and implementing welfare measures - these policies challenged the upper class political elites domination because the state allowed the trade unions in the industries and gave full rights to the people for freedom of expression and the right to resist the government's anti-people policies i.e. student movements in France and Germany and across the Europe in the end of 1960 and 1970s; these rights and policies were the outcome of the impression of the Soviet Union. In the 1970s the U.S and England started the neoliberal policies. One of the major reasons behind implementing the neoliberal policies is to bring back the upper elites class and elite rule in the state with the support of the Multi National Companies (MNC) and big corporations. However, of Keynesian model of development also was not free from producing crisis such as unemployment. Therefore, by 1980s Neoliberalism got wider acceptance as a model that bring more prosperity and well being.

After the disintegration of Soviet Union and the end of cold war by 1991 Neoliberalism became the dominant economic model in the contemporary world. The western economists, especially from the US and west European countries proclaimed that there is no future for socialism and the planned economy model. Therefore, they strongly advocated neoliberal policies as an inevitable growth model for all the countries in the world for bringing more development, prosperity and well-being. Thus, for the first time Neoliberalism has got universal acceptance as a development model.

The main force behind this change is Western countries led by U.S and international financial intuitions like IMF, World Bank and WTO. The "Washington consensus" and "shock therapy" are the prescriptions for the neoliberal policy agenda. Before coming to the policy agenda of Neoliberalism, it is necessary to discuss the logical premises for advocating these policies. The support for Neoliberalism mainly comes from the classical liberal tradition.

Neoliberalism is a contested concept and lacks a comprehensive definition. There is no uniform or all agreed definition available on the concept of Neoliberalism. Scholars conceptualized Neoliberalism in various ways. They applied this concept for explaining a wide range of economic, social and political phenomena. According to Harvey "Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional frame work appropriate to such practices" (Harvey, 2005: 2).

Boas and Gans-Morse identify four distinct use of neoliberalism in the study of political economy: "to denote a set of economic reform policies, a development model, a normative ideology, and an academic paradigm" (Boas and Gans-Morse, 2009: 143). As economic reform policies neoliberalism highlights three important policy reforms: liberalization, privatization and stabilization. These could be implemented through eliminated price controls, deregulating capital markets, lowering trade barriers, selling of state owned enterprises to private owners, tight control of the money supply, elimination of budget deficit and curtailment of government subsidies and so on (Boas and Gans-Morse, 2009: 143; also see Wilson, 1994; Aminzade, 2003).

Neoliberal reforms are related to globalization. According to Kotz "Globalization is usually defined as an increase in the volume of cross-border economic interactions and resource flows, producing a qualitative shift in the relations between national economies and between nation-states" (Kotz, 2002: 65). A major aspect of economic globalization is the global push towards the combination of free trade and free movement of capital.

As a development model neoliberalism involves a comprehensive development strategy with economic, social and political implications. It offers strategies for growth and suggest proper role of key actors such as labour unions, private enterprise and the state. Since neoliberalism departs from the welfare state development model, it involves a restructuring of state-society relations also (Boas and Gans-Morse, 2009: 144; also see Kurtz, 1999; Riethof, 1999). As an ideology neoliberalism is based on Laissez-faire, the minimum or absence of state intervention and maximum individual liberty. As an academic paradigm it could be used a framework of studying evaluating countries' transitions from socialism to capitalism (Boas and Gans-Morse, 2009: 144). It can suggest what is good and what is bad for the society out of neoliberal policy outcomes.

The proponents of neoliberalism argue that this policy will bring more growth and development. The theory of Neoliberalism argues that individual freedom can be achieved through "market fundamentalism". (Stiglitz, 2002). Neoliberalization required both politically and economically the construction of a neoliberal market based populist culture of differentiated consumerism and individual libertarianism. Neoliberals vigorously profess the privatization of property. The absence of clear private property rights as in many developing countries is seen as one of the greatest of all institutional barriers to economic development and the improvement of human welfare. In the neoliberal states, sectors formerly owned or regulated by the state must be transferred to the private sphere and be deregulated and freed from any state interference.

"The justification of the adoption of structural adjustment policies which is a euphemism for bringing countries under the hegemony of international finance capital in the name of eliminating poverty is a salient feature of this phase of imperialism. The state sector assets are privatized in the name of improving efficiency which is supposed to bring about faster growth and eliminate poverty. Deflationary policies are imposed in the name of accelerating private investment and hence growth in the economy which would supposedly have favourable impact on poverty" (Patnaik, 2008: 21).

IMF acted as the agency through which the interests of Multi National Companies (MNC) and finance capital could be served. "The IMF, more than ever before, acts today as the guardian of the interest of metropolitan finance capital" (Patnaik 1994: 10). The deflation privatization-liberalization package which these policies encompass creates extremely favorable conditions for asset acquisition by metropolitan finance capital in the third world. But there is cretin contradiction in the neoliberal arguments. According to neoliberals individuals are supposedly free to choose, they are not supposed to construct strong collective institutions such as trade unions as opposed to weak voluntary associations. They certainty should not to associate to create political parties with the aim of forcing the state to interfere in or eliminate market. The freedom of the masses would be restricted in favour of the freedom of few (Harvey, 2007). As new institutional arrangements come to define the rules of world trade for example the opening of capital markets is now a condition of membership of the IMF and the WTO so the developing and underdeveloped countries are without any options they forced to go under the neoliberal fold.

As part of the neoliberal offensive, capital re-established unemployment as a device to curb wage growth and intensify the labour process, by re-establishing and expanding the reserve army of labour, joblessness and the fact of joblessness became key instruments in the drive to raise profitability. The unemployment increased in the 1980s over the emerging neoliberal period, more people were unemployed than at any time before "Both globalization and the extremely rapid growth of the labour force in many parts of the world have made policy- makers realize that unemployment is one of the most pressing social problems of today and tomorrow. The 1995 world summit for social Development in Copenhagen, at which the global employment crisis was one of the main themes discussed, highlighted this development" (Overbeek 2003: 13). There are certain number of joblessness increased before ever "over the emerging neoliberal period, more people were unemployed than at any time before, increasing from 30 million in 1983 to 35 million in 1993 (OECD, 1994). By 1996, the year before the Asian crisis, the official OECD unemployment rate was 7.5 percent creating a reserve army of 36.4 million (OECD 1998)" (Connor, O, 2010: 698)

"Over both the 1980s and 1990s the liberalization of F.D.I. law facilitated F.D.I. growth. From 1991 to 1999, there was 1035 changes world wide in laws regulating the inflow and out flow of foreign investment. According to the UNCTAD (2000), 94 percent of these policy changes increased the freedom of foreign investors, reducing government restriction and obstacles to direct investment flows" (Connor 2010, 699). Washington Consensus through both a territorial counter offensive and an ideological offensive of capital secured a context where it is free to move anywhere it wants in search of high profits.

In this project Neoliberalism has succeeded remarkably well in restoring, creating the power of an economic elite. For this restoration the capitalist elite power, Neoliberal doctrine was therefore deeply opposed to state interventionist theories (Peet and Hartwick, 2009: 81). Neoliberals were even more violently opposed to theories of centralized state planned economic modal. The IMF and the World Bank thereafter became centres for the propagation and enforcement of free market fundamentalism and neoliberal orthodoxy. In return for debt rescheduling countries were required to implement institutional reforms, such as cuts in welfare expenditures, more flexible labour laws and privatization. Support of financial institutions and the integrity of the finance system became the central concern of the collectivity of neoliberal state.

Privatization of productive enterprises is a necessary condition for the move to an efficient market economy in this respect for both economic and political reason the process of privatization should be speedy and comprehensive. From political perspective, a rapid transformation of the ownership of the means of production is considered to be necessary to ensure a complete break with the old regime. While recognizing the need for a rapid and massive change in the owner ship structure had led to massive unemployment.

"This neoliberal policy is the way of accumulation through expansion. Feature of the new phase of imperialism is a vast increase in the relative important of accumulation through encroachment all over the capitalist world and especially in the third world disinvestment of state sector equity and privatization of state Sector assets invariably at thruway prices, is pronounced phenomenon" (Patnaik, 2008: 12). All over the capitalist world especially the third world, public utilities like water and energy and public provisioning of social services like education and health, have increasingly become domains Accumulation through encroachment is in turn the direct result of the pursuit of Neoliberal policies. Neoliberalism operated in this respect in two distinct ways 1. Remove restrictions on the movement of goods and capital across borders. The second way is through the imposition of deflationary policies especially on government expenditure as part of the neoliberal agenda (Patnaik, 2008).

Many analysts view "foreign direct investment (FDI) as the most important form of cross-border economic interchange. It is associated with the movement of technology and organizational methods, not just goods. Much of this capital flow is speculative in nature, reflecting growing amounts of short-term capital that are moved around the world in search of the best temporary return" (Kotz, 2002: 9). The neoliberals strongly advocating for allowing the free flow of the FDI in the developing and under developed Countries, with out any rules and regulation, like free trade agreements i.e. agreements NAFTA (North American Free Trade agreements) or EUFTA (European Union Free Trade Agreement) in NAFTA, U.S is the largest investor and importer of these countries it means the amount of FDI in the under developing countries will only create short term growth but this speculative nature capital doesn't bring any industrial, social development or human development in developing and underdeveloped countries. Like some of the underdeveloped African countries and Asian countries like India, the FDI played key role to de-industrialize in this countries, the sizeable development happened in only services sector, i.e., "The rapid expansion of FDI is increasingly tied up with the explosive increase in mergers and acquisitions (M&S) in the world (Overbeek, 2003: 18). The total value of cross- border M&As in 1997 was approximately $342 billion (up from less than $100 billion in 1992) representing 58 percent of FDI flows. In 2000 these figures were $1,144 billion and 90 percent, respectively Both FDI and cross- border M&As are mostly concentrated within the development world, thus reinforcing tremendously the process of transnationalization within the OECD area, i.e. the rapidly intensifying interpenetration of the OECD economies (capital markets but also labour markets)" (Overbeek, 2003:18).

Hence we can see that the "daily turnover of financial transaction in international markets, which stood at $2.3 billion in 1983, had risen to $ 130 billion by 2001. The $40 trillion annual turnover in 2001 compared to the estimated $800 billion that would be required to support international trade and productive investment flows" (Harvey, 2005: 161). It appears that globalization in this period has made capitalism significantly more competitive, in several ways. First, the rapid growth of trade has changed the situation faced by large corporations. Large corporations that had previously operated in relatively controlled oligopolistic domestic markets now face competition from other large corporations based abroad, both in domestic and foreign markets. The major gainer of this globalization is Transnational Corporations. "In 1960 world wide sales by foreign affiliates of TNCs were smaller than world exports, but in 2000 they stood at 247 percent of world exports $15.68 trillion versus $6.35 trillion." (Overbeek, 2003: 18). Aggregate global growth rates at "3.5 percent or so in the 1960 even during the 1970s fell only to 2.4 percent. But the subsequent growth rates of 1.4 percent and 1.1 percent for the 1980s and 1990s and a rate that barely touches 1 percent since 2000" (Harvey, 2005: 154) indicate that Neoliberalization has broadly failed to stimulate world wide trade.

Just needless to say about the impact of the neoliberal policies. It has contentiously increased the poverty at the global level. "What could we do about the 1.2 billion people around the world living on less than a dollar a day, or the 2.8 billion people living on less than $2 dollar a day more than 45 percent of the world's population" (Stiglitz, 2002: 25).

Neoliberal reforms are intensified the process of globalization. "Globalization is usually defined as an increase in the volume of cross-border economic interactions and resource flows, producing a qualitative shift in the relations between national economies and between nation-states" (Kotz, 2002: 8). A major aspect of economic globalization is the global push towards the combination of free trade and free movement of capital, some important elements of globalization. "Cross- border transactions that are key to this concept of globalization (trade, financial flows, and direct investment) are concentrated within a limited number of core regions of the world" (Overbeek, 2003: 14). According to Robert Went globalization and Neoliberalism brought four major changes in international level an increase in the number of really integrated global market for product and trade, and especially for finance. 2. Growing weight of multinational in the global economy, companies tries to plan and organize the connection, production and distributions of their products and services preferably not only regionally but globally with important of their consensus. 3. Problems of governance and regulation on a global level, as a consequence of the fact that national states are becoming and making themselves less effective. 4. by the end of the 1970's the monetarist and neo classical paradigms are almost unchallenged in international institutions and in the political mainstream (Went, 2002: 455-474). As the policy package involving export oriented growth fewer social policies and a smaller public sector, free trade and free capital flows, deregulation, flexibilization, privatization and property to price stability, Neoliberalism brought uneven development in the world especially in the developing and under developed countries. Neoliberalism has proven effective at facilitating global capital accumulation but the major success of the Neoliberalism is to brining back the capitalist class power. Neoliberalization nature bound to fail because of the inherent nature of the unequal development. Neoliberalism is huge success from the point of view the upper classes; it has restored class position to ruling elites, the corporatization, commodification and privatization of hitherto public assets have been signal features of the neoliberal project.

State has taken the role of a facilitator of maximization of profit of corporates. According to the neoliberal theory the state must fallow some basic principles of Neoliberalism. First and foremost is that the state is merely a protector of the market; it must set up those military, defence, police and legal structures and function required to secure private property rights and to assure by force, if need be, the proper functioning of markets. If markets do not exist in the key sector such as land, water, education, health, social security or environmental pollution then state must create space for the market in any from like making separate laws for these key sectors. State interventions in markets once created must be kept to a lowest level because according to the neoliberal theory, the state cannot possibly possess enough information to second guess market prices because power individual or organization control the market. The neoliberal state should persistently seek out internal reorganizations, new institutional arrangements that improve its competitive positions as an entity vis-à-vis other states in the global market. The free mobility of capital between sectors, regions, and countries is regarded as crucial. All barriers to that free market such as tariffs, punitive taxation arrangements, planning and environmental controls, or other impediments have to be removed, except in those areas crucial to the national interest. State should therefore collectively seek and negotiate the reduction of barriers to movement of capital across borders and the opening of markets for both commodities and capital to global exchange. International agreements between states guaranteeing the rule of law and freedoms of trade such as those now incorporated in the World Trade Organization (WTO) agreements are critical to the advancement of the neoliberal project on the global stage.

To sum, the following are some of the major principles of Neoliberalism:

1. Fiscal discipline.

2. Reordering public expenditure priorities, completing the first-generation liberalizing reforms means the state must reduce the role or cut the spending for the public expenditure.

3. Tax reform, the aim was a tax system that would combine a broad tax base with moderate marginal tax rates. Introducing the flat tax for all the section in the society, like big business class to petty producers have to pay same tax.

4. Liberalizing interest rate, there should be no regulation or control for the interest of the market so that competition will happen smoothly

5. Liberalization of foreign direct investment, there should no barriers for the FDI; the rules must be modified in the favour of FDI.

6. Trade liberalization: Trade liberalization is the key pillar for the neoliberal state, so the state must remove all the tariffs and regulation in the trade sector allowing free trade exchange.

7. A competitive exchange rate trade, there should be trade rate exchange between two countries or multilateral trade rate will be same i.e. the trade exchange rate between U.S and one of the African countries, for example, will be same to facilitate competitive market trade.

8. Privatization: One of the major and primary steps for the neoliberal market, the privatization will happen in two ways in the neoliberal economy: one is through allowing individuals or groups to create private enterprises and the second is selling state owned assets.

9. Deregulation: Deregulating the market prices or state owned enterprises property will be deregulating according to neoliberal theory the state role to the minimum or merely to that of a spectator.

10. Property rights: making laws for individual or private property because if the property is owned by state or controlled by the state, then the market can't operate in a proper way so the private property must be ensured. (Williamson, 2004-2005: 196), (Peet and Hartwick, 2009; Rachel and Hartwick, 2009: 85-86).

These are the some major principles apply for both liberalism and neoliberalism. However, the important characteristic of neoliberalism is that it undermines nation- states and the state behaves accordingly to multinational or local corporate interests. Another feature is that neoliberalism not only creates more privatized companies but also force the state to sale the state owned assets to private owners. 'Neo-liberalism' as an ideology is the withdrawal of the nation state with the dominance of international finance capital. Western Countries gave another name to these policies, i.e., structural adjustment.

Former Soviet Union countries implemented the Neoliberal policies in different names like "Shock Therapy" and "Washington Consensus". Below table shows some common features of these policies

Serial number	Neoliberalism	Washington Consensus	Shock Therapy
(1)	Creating private property for the market	Privatization of state assets	Immediate privatization
(2)	Fiscal discipline	Fiscal discipline	Tax reforms
(3)	Liberalizing trade	Trade liberalization	Immediate introduction of free trade
(4)	According to the neoliberal theory the state role is merely protector of market	Deregulation of the prices will help the market efficiency	Implementation of the necessary reforms to establish a free market capitalist economy

Source: (Peet and Hartwick, 2009; Rachel and Hartwick 2009: 85-86; Williamson, 2004 2005: 196)

The collapse of the USSR and the Eastern Block has resulted in vast and sweeping changes in the social and political structure of east European countries. Most of these countries saw a dismantling of systems of planned economy and public social provisioning. Most of these countries saw an extensive erosion of essential services like economic, health and education. Further, it must be remembered that this was an extremely complicated process which involved changes of many different kinds. For instance, the introduction of parliamentary democracy marked a significant political transition for most of these countries. This period also saw a deep and rapid penetration of market forces and market institutions.

The focus of this study is this process of transition as it occurred in Estonia. The reforms which were initiated in 1991 in Estonia entailed far reaching changes in the polity, economy and society of Estonia. To understand the implications of these reforms, one must look at the totality of these changes. This study look at these processes and the kind of impact they have had on the quality of people's lives over the decade following the initiation of these reforms in 1991. The nature of democratic transition and neoliberal economic reforms in Estonia raises certain pertinent questions. What were the political and economic goals behind the introduction of neo-liberal reforms in Estonia? What is the role of State in context Estonia in the implementation of neo liberal economic policies? Why did the reforms produce negative impact despite of increasing growth? Why the negative consequence is perceived as a lack of political will to correct their problems or being by corporate interest.

For addressing these questions the study tested the following hypotheses:

- The corporate and multinational interests influence the political elitist the process of neo-liberal reforms.

- Despite increase in growth rate these reforms produce negative socio- economic outcome like poverty, inequality, unemployment, social exclusion declining health standards and access to health.

- The neo-liberal reforms have involved a great amount of privatization, liberalization and corporatization.

The study is structured into four chapters. Chapter one is the theoretical framework of the political economy of neoliberalism. Drawing from the debate on neoliberalism and globalization, this chapter presents various understandings about neoliberal economic reforms, its outcomes and the political context in which these reforms are introduced. The salient features of the general processes of globalization will be analyzed. The historical context marked by neo-liberal transitions in the first world, the collapse of the USSR, the thrust towards European integration, and tendencies towards structural adjustment in other parts of the world will be sketched out. This chapter will also present characterizations of processes of privatisation, liberalization and commercialisation as they have been unleashed by neo-liberalism, and the political processes underpinning them. Second chapter elaborates various reforms carried out in Estonia to transform the political system and economy during 1991-2001. The political and economic changes that have been effected as a part of these reforms in this period are analyzed. The introduction of parliamentary democracy and related political changes has been critically analyzed. Transformations in the Estonian political economy, widespread process of privatisation, the expansion of markets, economic decentralization etc. has been studied. Another key line of enquiry is the role played by the elites in the political-economic shifts. This will tie in, very closely, with a concrete examination of the role played by different political parties and forces. This chapter also carried out an analysis of the new kinds of institutions which emerged in the wake of the introduction of neo-liberalism in Estonia.

Chapter three discusses the social impact of neoliberal reforms and the response of state to solve negative consequences of reforms. An assessment has been carried out of the increasing levels of poverty and unemployment. Further, the increasing degree of inequality, which manifests itself in several forms, including growing wage disparities, is looked at. The impact of the reforms on health – which would include institutional reforms in the health sector – has been analyzed. The different kinds of social exclusion, which the neo-liberal reforms brought in their wake has also been examined. This, chapter, in short, studied the social dimensions of the model of development which was introduced and followed in Estonia between 1991 and 2001. Chapter four summarizes the findings of the study and suggests issues for further research. This chapter also states the validity of the hypotheses.

Chapter II

Democratic Transition and Neo-liberal Economic Reforms in Estonia, 1991-2001

After separation from the Soviet Union, like other Eastern European and the Baltic States, the primary agenda of Estonia was to transform the economy and political system into market-based and liberal democracy. For accomplishing such a massive transition from a planned and state-based economy to a market-oriented economy required an elaborate and systematic approach. The western countries proposed a new model of neo-liberal economic transition - "shock therapy". The political economy of the "shock therapy" is to create a liberal economic regime with a parliamentary framework. What is important to remember about the context of the "shock therapy" is that after the collapse of the Soviet Union the whole of the Eastern and Baltic States decided to go with the western countries in terms of all the crucial kinds of relations, economic and political. Their trade-dependence on the Western countries was used to create the impression that there is no third way between the planned and the market economy. In the absence of the centralized state, these countries were left with no alternative apart from accepting the "shock therapy". The new governments, therefore, had to take some very essential steps to implement the liberal policies.

Democratic Transition

The separate state republic was the most popular slogan in Estonia like other Baltic States; Estonia wanted its political independence with full republic and multiparty democratic parliamentary system. The separate statehood movements started in Estonia in the end of the 1980s; for instance, in 1988 there was some underground organization work towards the goals of republic. The transition in Estonia happened through the way of peaceful protest movements, one of the famous movements was the singing revolution where people started singing banned songs under the Soviet time. There were several movements held in Estonia in the end of 1980's for a sovereign state with a republican constitution. In the year 1988, there emerged several independent organizations in Estonia for a separate state, like The Popular Front of Estonia, (PFE) which started with some members of the communist Party of Estonia, (CPE) in the year of 1988 in the month of April. 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).

In the year 1989, elections for the Supreme Soviet triggered democratic aspirations among the people and it led to separatist demands and for having a full republic for Estonia. There were two major stages which the Estonian people passed through 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 the this two hard line they passed through with some difficulties the first phase was with the help of some small group of people with democratic aspiration and with the help of mass support like singing revolution 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). For any successful democratic transition was needed a strong political will of the people; the people of Estonia had experience of the democratic practice after the Soviet Revolution when Estonia had a little time for democratic practice till the second world period. The last elections 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, "Estonian new government decided to bring back the liberal model of 1938 constitution in 1992, a constructional assembly introduced amendments to the 1938 Constitution" (state gov/r/pa/ei/bgn5377.2010).

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 had any proper institution or political parties to establish the democratic norms; for example, there were no proper ideology-based parties, they mostly related to the Western European model i.e. Social Democrats, Christian Democrats; they did not had any political agenda for the new states and most of them believed only in bringing back 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.

In the August of 1991, a dramatic shift happened in USSR politics when the coup attempt made by Gorbachev to regain the republic failed, so finally Estonia declared full independence. 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.

New Constitution and Parliamentary Politics

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%). 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, Mikkel, and Taagepera 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 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 1992 parliament election 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 building new democratic institutions in the 1990's there were several changes which happened in the parliament and in the party system. In 1994, the government of Estonia adopted new party law; "the number of members required for the registration of a party has been quite high since 1996, set at 1000 more than 0.1 percent of adult citizens" (Sikk, 2006). 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. This 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 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 was towards bias for the some big party if the party failed to get certain number of vote or members their registration might be got cancelled by government so it will help the big parties during the election period to pull the small parties vote. In 1998 there was a vital electoral act passed in the parliament. According to this law, electoral coalitions were henceforth banned and only single political parties could now field candidates for parliament (Petai, 2005). This law came to be effective in the 1999 election for the Riigikogu. In that election only officially registered parties may 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.

While creating a vibrant democratic system in Estonia or in any other transition countries, they had major problems in dealing with the minorities in their states. 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. But in the case of Estonia, they implemented Pre Second World War citizenship law was reinstated its 1938citizenship law. It means majority of the non – Estonians was 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, and majority of them Russian-speaking minorities who had settled here 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); so this was the one major reason why they denied earlier citizenship for Russian-speaking minorities. 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).

Estonian Democracy: An Overview

"Capitalism is an economic system based on private ownership of the means of production and the determination of the prices and rewarded through competition between private producers. 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 mention the nature of the liberal constitutions it 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 but they 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 so it's created some sum of problems and tension within and out side the state especially with regard to linguistic minorities (Steen, 2000). And the democratic process must be exclusionary one neglecting right of the particular section in the society in the name of language its complete violation of human rights. But the incumbent Estonian state precisely deliberately handled this approach towards Russian speaking section because they consider them as the illegal citizens of the country they 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 of the 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 there 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 will 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 had a strong democratic institutions or mechanism established before 1991. So the process of establishing such institutions was the primary task of these counties, but the triple task of transition they have complete but some of them are failed to do because of their misjudgment of the transition process. In Estonia, after 1991 they first went forward with economic transition because more than democratic transition they gave more important to the economic change. But with out proper institutions for implementing economic policies they created irony, 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 based pro-market reforms and so their voice needed to be suppressed by this law. 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 peoples opinion in the public spaces. As the state just wanted rapid implementation of Neoliberal policies with out any political debate in the parliament so they made law for the neoliberal policies in the previous chapter where I've mentioned about law on privatization. So 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, as between 1991 to 2001 there was seven governments that were changed in Estonia (Petai, 2005). This reveals the motivation of the transition as just for market based economic reforms not for democratic institutions.

Privatization

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 for privatization. "shock therapy" was nothing but another term for neo- liberal policies advocated by the IMF, World Bank and Western Europe countries. And the new liberal regimes implemented the neo-liberal policies in their entirety and created the legal frame within which they made their laws for privatization.

Even before the disintegration of the Soviet Union, Estonia established around 150 joint enterprises with other countries (Brown, 1993: 494). So after the disintegration, Estonian Policy makers started implementing the neo liberal policies with the help of IMF and Western Europe countries. The first (Gillies, Leimann, and Peterson, 2002) measure they took was regarding property. They introduced the Property Reform Act because previously, all the property was under control of the State. So it was necessary to free property from the state so the privatization process could be done with a proper legal base.

The primary objective of the foreign policy was to build a strong relationship with Western countries so that they could create a strong market economy based on the Western Europe model. For this reason they signed numerous FTAs (Free Trade Agreements). Estonia signed such an agreement with E.U on1st January 1995, and another agreement - namely 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 on September 9, 1991, the World Bank and European Bank for Reconstruction and Development, and shortly after was admitted to the United Nations on September 17, 1991. At the same time the Western countries and the U.S appreciated the Estonia's neo liberal and to further encourage this process they give financial aid to Estonia; Estonia is the first country, among the former Soviet countries, to receive financial aid from Western countries. 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 remember that the membership of WTO was given only after the process of privatisation was successfully launched and substantially carried out.

The Estonian economic policies are based on certain fundamental features and principles. 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 code of laws and institutions to ensure respect of private property and the sanctity of contracts. Thirdly, it was essential that the new economy be integrated with the world economy. The creation of a market economy required that all barriers to trade and tariff be removed. It was, therefore, necessary to re-establish Estonian ports as significant centres. 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. Estonia announced that Estonia would be open for business and was anxious to become associated with Western market-oriented nations. Estonia set the above principles as a 'seven point agenda' (Gillies, Leimann, and Peterson, 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.

Legal Measures

The following legal measures had to be taken to create the market economy. Firstly, legislation for cutting all state subsidies was drafted. Secondly, measures for the rapid development of an entrepreneurial small business sector based on private ownership were enacted. Thirdly, controls on prices and wages were removed. Fourthly, new bank regulations were passed. Fifthly, the principles governing ownership were published. A privatization agency was created and privatization of small and medium sized firms was begun. Measures were enacted to encourage foreign direct investment. Further, all tariffs were removed. Finally, and most importantly, 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 reforms. When Soviet law changed in 1987 to permit state enterprises to seek western partnership and supplies, Estonia had immediately acted and established over 150 joint enterprises. 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 GDP (Brown, 1993: 494) decline between 35 percent and 50 percent. Estonia began their market-oriented economic policies with privatization. In the initial years itself almost 40,000 of 45,000 (Purju, 1996) businesses were privately owned. 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) the rise between February 1991 and February 1992 was 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 privatization. After establishing this agency, it started the privatization process, and carried it out over the time period between 1991 and 200. The Estonian privatization agency contracted 575Agreements which amounted to 8.3 billion EEK (Purju, 1996). Almost every privatization 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 privatization. The legal regime for the co-operative sector was established by the law on co-operatives passed by the Estonian parliament 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 firs joint ventures, this form of mixed ownership between a domestic state a co-operative and a foreign company increased rapidly during the following years. There were 11 joint ventures in 1988, but after the collapse of Soviet Union the numbers of joint ventures are increased rapidly because of the government privatization 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 Estonian transition to a market economy.

The first important law approved by the parliament during this period was the 'Law on Ownership approved in June 1990 (Purju, 1996: 6). The prime objective of this law is to change the ownership to state to individuals because the basic principle of the privatization is owned by individuals or group of individuals so the motivation behind this law is to take the state hands out of the properties. The same year the parliament passed "The Law on small scale privatization prepared by the government. In October 1990's the department of State property was founded. Creating this institution had significant important the primary objective of this organization is of small scale privatization and the supervision of the restitution process. On June 13th 1991, the supreme council adopted the Law on the basis property reform, (Mygind, Co-operation, and Programme 2000: 7) which stipulated that restitution and the use of vouchers as the main tool for privatization. At the same year month of October the parliament passed one of the important laws in parliament regarding land reforms Law on land reform. This Law regulated the transformation of land from state ownership 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 totaled 1212 entities. In the year of 1992 month of April the law on the privatization of Dwelling was adopted to regulate the privatization process. (Purju, 1996: 17).

The 'privatization law' adopted by parliament in June 1993, (Jeffries, 2004: 166) legally equalized small scale and large scale privatization. The main goal of the Law on privatization was to give a general legal and institutions frame work for small and large scale privatization, which had previously been treated separately. In Estonia the privatization done by legal base because doing mass privatization the state wanted proper institutions so based on this understanding the privatization law was adopted in Estonian parliament. The department of state property organised the small scale privatization utilizing one of the following methods (I) auctions (II) selling of shares (III) competition of business ideas tender (Savas, 1992). A pilot privatization of seven large enterprises was completed by April 1992.

Estonia had very little knowledge about the privatization processes so they needed so they called multinational experts so some of the multinational team of experts from Germany, U.S, Sweden and Canada, was assembled to manage the privatization of the medium and large business sector of the economy. The Treuhand method of privatization, as modified for use in Estonia was based primarily on the principle of selling firms to the highest bidder, regardless of their nationality. Between the fourth quarter of 1993 and the first quarter of 1995, a period of 18 months, 50 percent of Estonian government owned enterprises were sold to private owners and the process worked well in the selling. 472 medium and large scale privatization concluded by the end of 1997. Nineteen privatized enterprises went bankrupt. Majority of the offer came from foreign investors (Purju, 1996). By year of 2001, over 80 percent of Estonians state owned companies had privatized and it is estimated that 80 percent of all business revenues were generated in the private sector (Gillies, Leimann, and Peterson, 2002: 181).

The Estonian industry is the major sufferer of this transition because the most of the Estonian economy is came from industrial sector so the selling of this state owned enterprises is led to more unemployment in the Estonian society. They major task of the privatization programme in Estonia is based on selling these big industries to foreign investor in the auction. And Estonian government interested in building the joint venture with foreign companies like by January 1991, 232 joint ventures had been registered in Estonia, by October 1991, there were 313. Among the other countries Finland led the joint ventures 159, joint ventures was done with Finland it's higher than any other Western countries (Country studies, 2010). For getting more foreign investment Estonia needed proper legal based frame work so for that, 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 by land in Estonia, with some rules. In 1993 Estonian government allowed the foreigner to buy the land, but only through the purchase of privatized stare enterprises. (Jeffries, 2004: 163) At the same time the government put some of the rules for the joint ventures like non Estonian could not own more than 50 percent of the equity in joint ventures with out government permission. The transition from state owned from market economy need more experience and guidelines Estonian transition was helped by Western countries the major part of the economic advice and assistance given by IMF (International Monterey Found) and World Bank. For the processes of changing the market economy they got considerable money from both these institution. 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, 2010) but this loans given by cretin terms and conditions these memorandum obligated the Estonian government to balance it's budget, to limit wage increases, speedup the privatization process of the state enterprises and to maintain a strict monetary policy. At the same year Estonia also had became a member of the European Bank for rebuild the 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)

There are some key institution was created by Estonian government to manage the whole privatization programme. The governments first setup the Estonian privatization enterprises to begin dealing with the direct sale of large- scale enterprises to foreign and domestic investor. But there was a serious reservation about this enterprise but this programme back on track by 1993. In the year of 1993 summer, the Estonian government merged its two major privatization institution and created new the institution called Estonian privatization Agency (Smith, 2001: 129). The sale of state property done by Estonian Kroon during these periods 1991-92 the government 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, 2010).

In the year of 1993 there are three major property reform tasks remained. 1. Mostly unprofitable state enterprises had yet to be sale off. 2. The issue of providing compensation for pre war property claimant's remnants unresolved. 3. The major and very important privatization of housing. To solve these three problems the Riigikogu Estonia's parliament passed a law on privatization in the year of 1993 month of June (Smith, 2001: 129).

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 between 1991 and 1996 reached 700 million, giving Estonia 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, 2010). Estonia parliament made a law for foreign investment was passed; main object of this law was is to giving guaranteeing equal treatment to foreign investor and ensuring free repatriation of profits. By mid of 1996 Estonia, had sold the 450(Jeffries 2004, 166) state owned enterprises way of privatization agency after selling the property government earned around $ 227 million. The sector vise 70 percent of service was privatized and the manufacturing sector is 90 percent Privatized in the years of, 1991 to 1995. Private sector shares the major of the GDP around 70 percent. Rough estimates in mid- year of the private sector as a percentage of GDP are provided "by the EBRD: 1990, 10 percent; 1991, 10 percent; 1992, 25 percent; 1993, 40 percent; 1994, 55 percent; 1995, 65 percent; 1996, 70 percent; 1997, 70 percent; 1998, 70 percent; 1999, 75 percent; 2000, 75 percent; 2001, 80 percent" (Jeffries, 2004: 166).

The Problems of Privatization

"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. Privatization is one of the essential conditions for the establishment of the market. So the motivation for privatization is pretty clear in the case of Estonia. The political economy neo- liberalism involved the First World's advice to all the new countries to withdraw the hands of the 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 privatization and withdraw all subsides from agriculture, industries and the services 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 privatization process like the state property department. Privatization enterprises were created for the process of liberalization and creation of the market oriented economy. There are certain clear laws for privatization which highlight the impact of Neoliberalism. An example of this is the privatization agency did exactly what the market and the Western countries wanted it to do like following exactly the Western model of privatization 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 privatization process, ie., the revenue the government got from the selling the state enterprises. So the country was completely dependant 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.

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 privatization 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 privatization 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.

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 privatization process. The privatisation of large scale enterprises for instance was done with the help of Sweden, Finland and Germany. The argument given for privatization is that it is intended to improve the working of the economy. Scholars from Western countries argued that the privatization 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 privatization world wide. But these scholars forget to point out the fundamentally harmful nature of privatization.

One of the key principles of privatization 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 privatization 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 privatization in the former soviet countries will led to seriously damaging consequences.

Currency Reforms

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. 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. 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 reject 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 economical freedom from Russia.

On June 20, 1992, the Estonian government introduced the Kroon. It was valued more than the Ruble (10 RR= 1EK), and tied to the Dutch mark at a rate of 8 EK= 1 DM. (Gillies, Leimann, and Peterson 2002: 179). The Kroon was deliberately undervalued by 15 percent (Brown, 1993: 496) because of the interests of the Western countries. Estonia desperately needed foreign investment in their country for the privatization process. In the year 1991, all the countries of Soviet Union got separated, and so there was competition between these countries to attract the foreign investor and 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. So 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 had responded by saying that it needed to see a program for rapid privatization 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 marketisation of economy. The introduction of the Kroon is the one of the major reform of this process.

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 year of transition needs (Purju, 2010: 1). 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 privatization and macroeconomic stability.

The Income Tax Act of Estonia has been in force since 1 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). 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. Flat tax reforms only helped the multinational or foreign companies to make profits.

Banking reform

In order to liberalize the economy and control the economic and currency regulation transition Estonia needed strong banking reforms and regulation. They already had a little experience in running the central bank during in 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 takeover of by the Soviet Union , and the Eesti Pank was nationalized (Drevina, Laurinavicius, and Tupits, 2010: 10), and during the perestroika period in December, 1989, the Supreme Soviet of Soviet Socialist Republic passed a resolution to re-establish the Eesti Pank (Drevina, Laurinavicius, and Tupits, 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 July 1st, 1991, the monetary reform committee gave authorization to Eesti Pank to authorize licenses to private banks and foreign exchange licenses (Drevina, Laurinavicius, and Tupits, 2010: 11).

Early banking laws and banking crisis

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 included and a 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, and the next year banks also reduced to 15, 3 foreign banks also included but government share was cut down more to 6.6 percent, in 1997 around 12 banks was there included 3 foreign banks but states assets in the banks was completely 0.0 percent shares (Barisitz, 2002: 87) some of the banks merged and some of them liquidated.

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 is to stabilize the new national currency Kroon. Article 112 was to give guiding principle to Eesti Pank to must operate and work to its governing law and its activity must report to parliament, continuity of this articles next year 1993 parliament adopted law on Eesti Pank. (Drevina, Laurinavicius, and Tupits, 2010: 12).

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 was strong reason behind the government action because 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 6millon EEK because of these criteria the small banks can't offer touch the minimum requirements. In early 1993, around eight small credit institutions did not meet the minimum requirement, and are 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 (Drevina, Laurinavicius, and Tupits, 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 (S\ org 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 (S\ org and Vensel 2002: 46) In comparison to other Baltic states, Estonia 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 privatization process and if the bank liquidates, governments are required to save the banks so they have to spend common mans tax to save private banks.

Chapter III

Social Impact of Neoliberal Reforms and Response of State

With the onset of neoliberal reforms, the impact of these reforms on different sections of society has been intense. Fundamental aspects of the state apparatus are slowly being subverted or diluted, with wide-ranging negative impacts on education, employment conditions, pension system, and healthcare provision. The main areas that have been studied in this chapter, with respect to the changing nature of state intervention and the growth of private interests, are as follows: unemployment, linguistic minorities, pensioners, and healthcare. By looking at these different areas of society, one may be able to better locate the nature of change in terms of the response of the state, and the hapless condition of the marginalised with respect to these changes.

The Issue of Unemployment and State Response

"One of Marx's most profound insights into the functioning of capitalism was that the system could not do without a reserve army of labour" (Patnaik, 2007: 3). Unemployment is one of the major challenges not only in countries that are undergoing transition, but also for all other developed, developing and underdeveloped countries. After implementation of neoliberal policies as an economic model, most countries are facing problems of unemployment. Because of neoliberal policies, the state withdraws from its basic responsibility like creating more industries as investor or producer. Neoliberal policies strongly require a flexible labour market, which means that the state has to undermine existing labour laws, which results in workers not getting their minimum wages according to said laws and allowing multinational companies to function with out any regulation. Non-implementation of labour laws in the service sector only allows the multinational companies to disregard demands of the labour force and thus creates more unemployment.

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). The number of joblessness has increased more than ever before, "...over the emerging neoliberal period, more people were unemployed than at any time before, increasing from 30 million in 1983 to 35 million in 1993 (OECD, 1994). By 1996, the year before the Asian crisis, the official OECD unemployment rate was 7.5 percent creating a reserve army of 36.4 million (OECD, 1998; O'Connor, 2010: 698). But under the new labour market polices, 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 fulfill 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 it happened in the West European countries in the 1960's when they followed Keynes's model of management economy by which extensive welfare measures were implemented. The existence of Soviet Union and their welfare policies made drastic changes in the lives of workers, like proper pensions, health schemes and job security. 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.

Before the transition from State planned socialist economy to liberal market economy, in these 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. But since the disintegration of the Soviet Union, all countries have started implementing neoliberal policies. These economic policies were also called "shock therapy". I've already discussed about the nature of the neoliberal policies and its effects on the labour market and the governmental policies.

When Estonia started implementing privatization policies they started selling government owned enterprises. Most of the government properties were sold to foreigners especially from Western European countries because the former Soviet Union (FSU) countries controlled by the state didn't had 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 companies with foreign ownership, wages are generally higher than in domestic firms. Foreign owned companies offer better compensation package to attract people employed in local capital based companies, thus reducing their competitiveness and reducing their own employee's willingness to leave the enterprises" (Vissak and Roolaht, 2005: 47). The same more or less 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, with out job security or any kind of interventions from trade unions. In Estonia, trade union membership was reduced by the new labour market policies. "The effect of trade unions on employment and wage levels in Estonia is likely to be low as trade unions and collective bargaining to not play significant role either in the public or in the private sector in Estonia. In 2000 only 16% of the employed were members of trade unions and collective bargaining covered only 14% of wage contracts" (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. In 1989, 76% of employable people were working, whereas in 1995, this percentage had dropped down to 62. The reduction in employment is also reflected in over all progress. In 1989 the total surplus

GDP was 2.2 and declined in to 0.2 in 1998, there was also a sharp decline in the overall surplus GDP (cepr.org, 2010: 748). 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 fulfill 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 privatization. Employment in the public sector decreased by 23% in the first whole decade in the transition period and by the end of the 2001 there was a decline of 76.5% in public sector employment (Leping, 2006: 426- 427). According to the Estonian Labour Force Survey (LFS) 32.3% of the working age population were inactive in 1997 (Eamets and Ukainski, 2000: 468). That means around 32.3% 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% 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% unemployment in the year 2001 but officially registered in office is around 8%. But only 4 % receive unemployment benefits (OECD, 2003: 78). In the case of the private sector, there was an increase of 1.5% in foreign owned companies, but this number increased in the coming years because of the rapid liberalization and flow off FDI in all sectors, the increase in employment in the span of six years was 9.1% in 1995. The labour force in the private sector in Estonia increased considerably from 4.5% in 1989 to 47.6% in 1995 (Noorkôiva, Orazemb, Puura and Vodopivecc, 1997: 6). 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).

Eamets and Ukainski give three reasons for these differences in the labour market. The first being the demand management policies to produce the necessary macroeconomic environment for the resumption of sustained economic growth. The second being the response to microeconomic reforms, notably price liberalization, privatization and enterprise restructuring. And finally the role of labour market institutions and wage reforms. (Eamets and Ukainski, 2000: 468) these arguments contain some key facts showing how implementation of these neoliberal policies cause 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: Gender and Ethnicity Based Discrimination

Women also lost their jobs in the transition period .Number of inactive people increased from 48000 in 1989 to 340000 ((Eamets and Ukainski, 2000: 469). Before the transition around 51% of women were present in workplace (Orazem, Peter, Vodopivec, and Milan, 2000: 284). When Estonian government implemented labour market without any differences between men and women, women lost their jobs because there is no job security for any one in the new labour market policy. But during the transition period there maternity leave was doubled in length and women with young children were offered up to 4 years of additional unemployment benefits (Orazem, Peter, Vodopivec and Milan, 2000: 288). The wages seem to be advantageous for women's during transition. The wage difference between men and women, which was 31 % in 1989 came down to around 25% in 1995 (Noorkôiva, Orazemb, Puura and Vodopivecc, 1997: 17). In 1998-2000, women's wages amounted to72.7% of men's wages on average (Rõõm and Kallaste, 2004: 11).

It seems there is some progress in the transition period for women regarding wages. 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. if having one child it's affect their wages 3.6% lower than on average, and married women's get 4% different than men got around 9.3% and there is quiet different impact of privatization in men's wages around 9% but there is no such dissimilar for women, and additional wages for worked men and no different for women (Rõõm and Kallaste, 2004: 16). Thus, all kind of dissimilarities happened to the women's during transition period. Situation for women regarding unemployment and wage discrimination has worsened. So there is no improvement for women's in the transition period apart from some kind of improvement in the social maternity leave and unemployment pension schemes.

Ethnic minorities are more affected by this transition compared to others. During the post World War industrial development period many Russian specking industrial workers were brought in to Estonia for industrial development. Many of these workers are settled in Estonia. They controlled industries and other sectors compared to Estonian and non Estonian specking local population. So when state controlled companies were sold to private companies during transition they lost their jobs in huge numbers and many of them migrated to Russia. Russian speaking minorities faced some serious discrimination during transition. When government of Estonia made citizenship law in 1995 it made clear that whoever wanted the Estonian citizenship must pass oral and written test in Estonian language. Official language was made Estonian. 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% less than average wages for an Estonian. But this situation drastically changed within 3 years. The gap regarding wages increased to around 11%. it touched nearly 22 % due to discriminatory policies of government (Noorkôiva, Orazemb, Puura and Vodopivecc, 1997: 17).

There is some major linguistic biasness occurring in the labour market. Average non-Estonians who are not able to speak Estonian earn 21.8%less than Estonians while non-Estonians who are able to speak Estonian earn 15.2 less than Estonians (Rõõm and Kallaste, 2004: 14). This increases the rift between Estonian speaking and non Estonian population. The naturalization process for Russian minority is difficult. Unless the non Estonian population clears the examination in Estonian language they will not get proper jobs in labour market. Thus Russian workers become cheap labours and work mainly in temporary jobs.

State and the Issue of Linguistic Minorities

Historically Europe had strong linguistic nationality movements throughout the 19th and first part of the 20th century and some strong linguistic nationalities achieved their own nation's state like Germany and Italy which are the classic examples of linguistic nationalism. During Soviet period Estonian nationalism was strongly related and rooted with language. When Soviet introduced perestroika they had very popular movement called singing revolution as they sang the Estonian language songs which were banned during Soviet period. The symbol of nationalism emerged through linguistic base and it led to separate statehood and Estonian republic. In the period between two world wars they had liberal democratic constitution which had similar kind of citizenship laws that exit after the establishment of new constitution after foundation of own Estonian republic.

During Soviet rule there were Russian speaking working class people shifted from Russia to Estonia to build industries and improve the economic efficiency in post world war USSR, because during the World war period Soviet Union specially Russian economy was destroyed by the Nazis so there was an urgency to re build the economy so they needed new places to build industries and Russian workers had more experience in the industries sector. So these people shifted from Russia and stayed there permanently. This problem emerged after the establishment of their own republic as the number of Russian speaking people was high among the linguistic minorities. In Estonia language is one of the key factors for the mobilization during the Soviet rule as evident from the singing revolution as it speaks volumes about the importance they give for language. They find Russian speaking minority's threat for their security because Russia might interfere if there is any problem for Russian speaking population and because of this fear they avoid the full citizenship for Russian speaking people. Estonian nationalism during the Soviet rule was language based because they felt Soviet Russia was imposing the foreign language on them. This feeling helped to mobilize against Soviet rule.

During the Soviet rule most of the industries build by the Soviet Russia so they used the Russian specking minorities in the factories. After 1991 when Estonia started implementing the neoliberal policies they started privatization process as a first step of market economic policies so they privatized most of the state owned industries. In this whole privatization process Russian speaking minorities who were head of the factories started losing their jobs. So this kind of unemployment further led to social exclusion from rest of the society.

After disintegration of Soviet Union many new states emerged, in these states they had different ethnic communities so they had to include different language and cultural minorities while making new constitutions there should be particular attention for the different nationalities. In the beginning of the transition process political elites in Estonia tried to build majoritarian rule over minorities. The democracy in Baltic States this slogan vindicated, but not fulfilled.

The concept of minorities had different meanings and evolved after so many debates after the Second World War. United Nations and other organization 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 mentioned the numerical factor in defining minorities 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).

There are some basic guidelines and international law for human rights it's apply to all part of the world Article 2 of the United Nation defined clearly 1948 the minority's rights and minority means. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction 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.

Citizenship and Language Policy in Estonia

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 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 citizen of the state but in the case Estonia it has not happened because lack of inclusive policies and attempt to build 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). So these kinds of hatred and discriminatory attitude of the government made situation more and more complex in Estonia beginning of 1990s. It brought severe criticism from outside Estonia and international organizations. "In November 1995 the UN committee on Human Rights stated that a substantial segment of the population, especially the Russian-specking 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).

Before break from the Soviet Union the first language law was passed in parliament in the year of 1989, in that law the government clearly mentioned about the future and criteria for being a citizen in Estonia. In that law they specifically mentioned of knowledge of the Estonian language. The coming government will follow the exclusive citizenship policies. According to the citizenship law the non Estonian speaking people didn't have the voting right thus the ethnic Russian residents of Estonia were not eligible to vote in the September 1992 elections its means in that year parliament 99 percent March 1999 of the ethnic Estonians were elected non Estonian specking population did not have enough representation in the parliament.

Estonian new government brought back the 1938 citizenship law which shows that they wanted to restore the pre second World War state model where 88% Estonian population their own language specking peoples. The moves of getting back the old citizenship policies were given loud and clear to all other linguistic ethnic peoples are they not consider other as an Estonian citizens. After the under-representation of the linguistic minorities the new nationality and citizenship law was introduced on 21 June 1993. 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 taking of an oath of loyalty (Jeffries, 2004: 132). The law of nationality and citizenship was evidently an exclusionary view about citizenship of the new state of Estonia and its attempt to exclude more of the other linguistic people from the decision making and citizenship status and an attempt to build ethnic democratic state. European Council put hold on the new citizenship law 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 finally adopted new citizenship law in 19th January, 1995. This law had several relaxations from previous ones, establishing six years as the period of residence prior to naturalization instead of three years. The previous law stated that applicants for citizenship had to have lived in Estonia for two years and could become naturalized 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. So the above reason for excluding or eliminating from the naturalization process in Estonia according to the 1995 act, may have resulted in the negative manner because the whole process of naturalization might be sabotaged by any one of this rules the regulation number one is very week point to reject the naturalization some one can genuinely may make mistakes. Rule number six is very naive because Estonians considered Soviet as the foreign state and people who worked in the security or army may be settled or displaced during Soviet period; it seems to be implying other language speaking people mostly Ethnic Russian speaking people who were living in Estonia. The implementation of new citizenship law made acquiring citizenship more difficult for non- Estonian speaking population because the written and oral examination for non-Estonian people led to drop out in the naturalization process.

The curious decree of naturalization is that non Estonian speaking people had to pass the language test to get citizenship which means that the only eligibility criteria was 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 (Asland and Flotten, 2001: 1029). This criteria was criticized by the several human rights organization and European council. If a non Estonian speaking citizen fails the language test she will not be allowed the right to vote in the parliament election but they had voting rights in the local elections. Estonia tried to build liberal model constitution but in the citizenship issue they completely failed to understand the international situation because after the second World War, nationality and human rights got different dimensions in international level so denying the right of the people to their language or imposing some other language to speak or write is somewhere complete violation of human rights. There may be hidden agenda behind the these moves because when Estonian government started the neoliberal policies the more exclusion helped to speed up the process of privatization because when government gives welfare schemes they may cut down on the funds for peoples who are not citizens of the country. These is consistent with the neoliberal emphasis on cutting the welfare funds and give the preference to market which may have been a factor for creating 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 in equal and everyone have to obey the law but they are unequal in the language test.

After 1991 the naturalization process started, 1992-5421, 1993-20,370, 1994-22,474, 1995-16,674, 1996-22,773, 1997-8,124, 1998- 9,969, 1999-4,534, 2000-3,425, 2001- 3090 (Jarve, Priit and Poleshchuk, Vadim, 2009). After the 1995 citizenship law there was a sharp decline in the naturalization and before 1995 citizenship act most of the Estonian language specking people got a naturalization like the contentious four years, 1993,1994, 1995,1996 highest number of people naturalized and after that the naturalization process got very low number of citizenship given to people 133346 are Russians percentage vise they are the top among other nationalities 78.3 %, others 18.5%, are undermined citizens in Estonia means the naturalization process was unfair to other nationalities so the goal of building democratic and multi party system was not fulfilled by the kind of biased policies towards other citizens.

Out of the 170349 persons 133346 are Russians percentage vise they are the top among other nationalities 78.3 %, others 18.5%, Estonians 2.9 % (Estonian ministry of foreign affairs, 2010). Estonian specking people major benefiter of naturalization this table made clearly about the discriminatory 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 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 Impact of Health Care Reforms

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 is a social insurance and it relies on the principle of solidarity: the Health Insurance Fund covers the cost of health services required by the person in case of illness 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 14.8%. The employers are required by the law to pay social tax for all persons employed, whereby the rate of this tax is 33 % of the taxable amount, and of which 20 % is allocated for pension insurance and 13 % for health insurance (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 massage of the new government's policies is to push through the market reforms at any cost and make the workers pay for the insurance; with free health care becoming a payable one.

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. SHIC consisted of 15 members, nominated by the organizations represented on the council and mandated to serve for three years. The role of the SHIC was mainly as an advisory council, "council approve the state health insurance budget and develop the price list for health care services." SHIC existed 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 frame work. It helped to structure health care reform within SAM. Second during the first decide of the transition there was political instability in Estonia so the World Bank's concern was because of the political instability there should 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,Triin, Ain Aaviksoo Agris Koppel, 2006: 3).

During soviet union period where whole system was fully funded by the state citizens doesn't need any money or insurance to get treatment everyone got free access to health care but after the 1991 first and foremost change in the health care system is people have to pay for the healthcare way of tax and gradually moved into the private hands in the 2001 year acts made clear the intention of the government to push the state owned one to private hands. Since 2001 hospitals have been able to act as foundations or joint stock companies under private law. In addition, joint stock companies are acting under the Business Code, which has raised the question of whether these hospitals' top priority is to maximize profit or to work in the public interest. 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 % to and 8% (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 8.5% but compared to other reform countries Estonia was better in the GDP allocation 6.9 % (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, ed. 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 centre left government in Estonia 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, ed. 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. According to the World Bank

- 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. "Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods" (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. 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 First Pillar is the renewed state pension scheme, the Second Pillar is a mandatory funded pension scheme and the third Pillar is a voluntary supplementary pension scheme that is supported by the Government through tax deductions (Estonia E.U, 2010). The first pillar is contributed by the employs 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 2% of salary while the government contributes 4%. But the irony is that the 4 percentage provided by the government is taken from the 20% percent social tax which is also contributed by the workers (Estonia E.U, 2010).

The supplementary pension scheme is based on individual voluntary pension contributions. The third pillar has existed since 1998, when the necessary legal framework was enacted. Participation in the supplementary pension scheme can take two forms: The purchase of pension insurance policies offered by licensed private life insurance companies and the purchase of voluntary pension fund units managed by 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. Its only around 29% to 37% (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. Every thing 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).

Chapter IV

Conclusion

The study is based on the broader framework of neoliberal reforms and its impact on the society. The first chapter discussed the basic concepts of political economy, the political economy of the neoliberal reforms- why the western governments changed their economic policy from Keynesian model to the 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 analyzed the role of the international 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". Gradualist approach is to change the central planned economies into market oriented ones, thus slowly and gradually reducing the state's role in the economic and social sector. The "shock therapy" economic model advocates the immediate changing of processes in the whole economic and welfare system. "The shock therapy model was a neoclassical model of transition advocating the immediate implementation of the necessary reforms to establish a free market capitalist economy" (Marangos 2005: 70). "Shock Therapy" is another way of implementing the neoliberal policies like the Washington Consensus- the framework prescribed for Latin America.

In the first chapter I discuss the whole political economy of Neoliberalism. Several scholars have explained the political and economic nature of Neoliberalism. Why and how the Western countries led by America during the Reagan period and Britain during Margaret Thatcher's regime aggressively introduced the principles of Neoliberalism to the world economy. However Reagan and Thatcher were just individual actors playing out their respective roles in realising the historical agenda of big multilateral corporations. When in the 1970's a severe financial crisis hit the western countries they started thinking about the replacement of Keynesian demand-management. The Keynesian economic policies argued for full employment and welfare measures for the reconstruction of economies after the Second World War in the European and American countries. "Keynesianism, that is, the maintenance of high employment rates through state planning and social progress" (Peet, Elaine Hartwick, and Elaine Rachel Hartwick 2009: 59). The fundamental contradiction of Keynesianism is supporting full employment on the one hand, and advising the governments to work for building, managing and protecting industries within capitalism. "One of Marx's most profound insights into the functioning of capitalism was that the system could not do without a reserve army of labour" (Patnaik, 2007: 3). Hence the Keynesian model of economy could not fulfill the neoliberal agenda.

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. "Consider the relative income shares of the richest and poorest 20% of the world's people. Between 1960 and 1991 the share of the richest 20% rose from 70% of global income to 85%-while that of the poorest declined from 2.3% to 1.4%. So, the ratio of the shares of the richest 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" (Pieterse 2002: 1023). 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. "In 1989, only 2 percent of those living in Russia were in poverty. By late 1998, that number had increased to 23.8 percent, using the 2$ a day standard. More than 40 percent of the country had less than $4 a day. Other post–Communist countries have seen comparable, if not worse, increase in poverty" (Stiglitz 2003: 153). 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. For example, the amount of transactions in international markets, "which stood at $2.3

billion in 1983 had risen to $130 billion by 2001. The $40 trillion annual turnover in 2001 compares to the estimated $800 billion that would be required to support international trade and productive investment flows" (Harvey 2006: 36). In this whole process I chose to work on how Estonia's adoption of the neoliberal policies has destroyed its capacity to manage the control and delivery of welfare measures. I have looked at the social, economic and political consequences it has faced.

In Chapter two, *Democratic Transition and Neoliberal Reforms in Estonia, 1991-2001*, I have explored how the whole transition from central planned socialist economic single party 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 (Smith 2001, 11:74). In building the new state, they gave citizenship only to Estonian speaking people, whereas non-Estonians had to pass a language test. Citizenship in Estonia shifted to a "naturalization" discourse. The reason given by the government was that they feared Russian intervention. 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 (ECMI Report, 1998: 7). 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.

Second and one of the most important transitions that happened in Estonia is privatization which without doubt Estonia vigorously followed. 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. Before transition there was no individual or private company to run or own so most of the government assets were sold to the foreign companies; as an estimate, within five years of transition there were "around $ 838 million foreign-invested companies accounting for over 50 percent of exports" (Jeffries, 2004: 175). But investment happened in very few sectors like finance, transport, storage and communication in these sector share most of the FDI around 48 percent investment (Vissak and Roolaht 2003: 44). So 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" (Vissak and Roolaht, 2003: 46). 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, "total economic production in 1993 amounted to 34 percent of the level of 1989, many factories and enterprises lost their markets and closed down., between 1991 to 1993, GDP fell by 33 percent" (Trumm 2005: 20). The price liberalization and implementation of new currency led to more problems in society as common people suffered with inflation in the early transition period and "consumer prices rose 629 percent, the rise between February 1991 and February 1992 was almost 1,105 percent increased, and March to March rate was 1,169" (Brown 1993: 494). But some 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 polices continued to be reduced.

In the third chapter *Social Impact of Neoliberal Reforms and Response of State*, I show that social impact of Neoliberal reforms is very deep-rooted in all sections of society. In my chapter I take note of very few issues like the condition of the minorities, unemployment, pension and heath 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 (ECMI Report, 1998: 8). 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. "Economic break down reduced the employment rate from 80 percent to 65 percent in 1994" (Trumm 2005: 20) 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 not suffice to avoid the unemployment rate. In 1994 the unemployment rate was 7.6, and by the end of the decade it went further up, until 2000 when it reached its highest level, since the Soviet Union collapse, at 13.7% (Trumm 2005: 20). So 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 $106 (OECD 2003: 59).

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 in 1996: the government spending on health was around 6.1 in the whole GDP but the following years it went down further 1997-5.5, 1998 – 5.1, 1999- 5.2, 2000- 4.5, but in the same years private funding on health was increased. In 1995, source of financing from private hands was 7.5 but the financing increased to 23.3 in 2000 (Habicht,Triin, Ain Aaviksoo Agris Koppel, 2006: 4).

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.

Appendix

Privatization process in Estonia

Year	**Number of enterprises**	**Bids received**	**Agreements signed**
1992	38	103	0
1993	140	337	54
1994	161	391	215
1995	82	199	142
1996	18	47	40
1997	12	56	18

Source: *This fact sheet was published by the Estonian Institute in August, 1999 and is intended to be used for reference purposes. http://old.estinst.ee/historic/economy/privatisation.htm*

Tables on population of Estonia

1938 census

Language vise	Population vise	Percentage vise
Estonian	**992000**	**88**
Russians	**92000**	**8**
Germans	**16300**	**1.5**
Swedes	**7600**	**0.7**
Jews	**4400**	**0.4**

Source: Working Paper 16 Rannut, Mart. 2004. Language Planning in Estonia: Past and Present, http://www.ciemen.org/mercator/pdf/wp16-def-ang.PDF. p.6

According to the 1989 census, the ethnic composition in Estonia

Linguistic vise	**Number of population**
Estonians	963000
Russians	475000
Ukrainians	48000
Belorussians	28000
Finns	16000
Jews	4600
Tartars	4000
Latvians	3500
Poles	3000

Source: Working Paper 16 Rannut, Mart. 2004. Language Planning in Estonia: Past and Present, http://www.ciemen.org/mercator/pdf/wp16-def-ang.PDF. p.17

Citizens language vise	Number	Percentage
Estonia	1095743	80
Russia	86067	6.3
Ukraine	2867	0.2
Byelorussia	1438	0.1
Latvia	1412	0.1
Lithuania	1105	0.1
Finland	926	0.1
Others	1193	0.1
Persons with undermined citizenship	170349	12.4

Population census by Estonian government. Data 2000
Source: Estonian ministry of foreign affairs, http://www.vm.ee/?q=en/node/5689

Employed persons in Estonia by economic sector

Sector	1990	1995	1999	2001
Agriculture, forestry, fishing	20	10	8	7
Fishing	3	1	1	1
Industry	29	29	25	26
Construction	8	5	7	7
Services	43	56	60	60
Commerce, hostels, restaurant, transport, financial, real estate and other services	17	21	23	22
Public ad education, health and social care	16	20	20	20
Total	100	100	100	100
Of which private	26	61	69	71

Source: OECD, 2003. P.35. OECD Report on labour and social policies in the Baltic States

This table clearly gives the complete picture on Estonia's sector wise employments. There is drastic fall agriculture and fishing sectors because they move in to the new private sectors jobs. There is slight increase in the industrial sector because more trade happened in the industrial sector. During the whole transition period one sector which grows drastically in Estonia is service sector. But service sector development may not be the permanent solution for the unemployment issues as service sector is completely dependent on foreign countries. if a country decides to withdraw is investment or stop their outsourcing there will be complete chaos in the economy. There is growth happening due to privatization policies, but we have already seen how the workers lost their jobs and are forced to work in low wage jobs.

Gender and age	Men 15-64	15-19	20-24	25-54	55-59	60-64	65+
Labour force participation							
1997	79	25	80	93	78	43	12
1998	78	21	79	92	77	47	11
1999	76	15	78	91	74	47	12
2000	77	17	81	91	76	48	12
2001	76	17	78	90	74	46	13
Employment /population ratio	Men 15-64						
1997	71	16	72	84	70	42	12
1998	69	15	69	82	69	45	11
1999	66	9	65	79	67	44	12
2000	65	10	64	78	66	43	12
2001	66	11	66	79	67	42	12
Unemployment ratio	Men 15-64						
1997	10	34	10	9	11	3	1
1998	11	30	13	10	11	3	3
1999	14	40	17	13	10	7	4
2000	15	39	21	14	13	11	1
2001	13	38	15	13	10	8	4

Source: OECD, 2003. P.41. OECD Report on labour and social policies in the Baltic States

Labour force participation and employment as percentage of the population in each category; unemployment of the labour force in each category.

Labour force participation	Women 15-64						
1997	67	19	58	85	52	21	4
1998	66	16	62	84	54	24	5
1999	65	12	57	84	52	25	6
2000	65	16	56	83	52	26	6
2001	65	14	55	83	57	31	7
Employment /population ratio	Women 15-64						
1997	60	14	54	77	50	21	4
1998	60	12	55	77	52	23	5
1999	58	8	49	74	49	24	6
2000	57	9	46	73	49	24	6
2001	57	7	44	74	50	30	7
Unemployment ratio	Women 15-64						
1997	9	26	8	10	4	1	-
1998	9	26	11	9	3	1	2
1999	11	34	15	11	6	3	2
2000	13	43	18	12	6	6	6
2001	12	53	19	11	11	5	7

Source: OECD, 2003. P.41. OECD Report on labour and social policies in the Baltic States

Pensions spending as per GDP percent

	1996	1997	1998	1999	2000	2001
Over all	7.6	7.3	7.1	8.5	7.6	6.7
Old ages	6.4	6.0	5.9	6.9	6.3	5.9
Disability	0.9	0.9	0.9	1.1	0.8	0.6
Survivors	0.3	0.3	0.3	0.3	0.3	0.3
others	0.1	0.1	0.1	0.1	0.1	0.1

Source: OECD, 2003. P. 49

Above table was gave clear view about how much spending government doing to protect their old and disability persons. Thanks to the 1998 financial crisis the next year the public spending increased but within in one year it went down normally.

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