

TARTU UNIVERSITY

Faculty of Social Sciences and Education

Institute of Government and Politics

Centre for Baltic Sea Region Studies

Kevin Axe

**FINNISH ADS, ESTONIAN TVS: EXTERNAL CULTURAL ROOTS OF ELITE  
NEOLIBERAL CONSENSUS IN TRANSITIONAL ESTONIA**

Master's thesis

Supervisors: Dr. Andres Kasekamp and Dr. Vello Pettai

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This thesis conforms to the requirements for a Master's thesis.

..... (Signature of a supervisor and date)

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This thesis is 24,989 words in length.

I have written this Master's thesis independently. All ideas and data taken from other authors or other sources have been fully referenced.

I agree to publish my thesis on the University of Tartu's DSpace and on the webpage of its Centre for Baltic Studies.

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*"From the 1960s, Finland represented Estonia's window to the West: we watched Finnish television, saw things such as democratic elections (!), realised that Lech Walesa had a moustache (his picture was forbidden), and from bad American television shows like Dallas we came to believe that people in the West lived like JR." -Estonian president Toomas Hendrik Ilves, 2004.*

## **ABSTRACT**

When the Baltic states returned to independence in 1991, they had similar problems, means, and goals, and yet, within a few years, Estonia had passed and sustained the most radical neoliberal reforms. While much has been written about the after-effects of reforms, the reasoning behind the reforms themselves has rarely been approached from a cultural angle, although various academics have noted that the cultural and ideological background of economic and political choices in Estonia is underestimated and under-analyzed. Similarly, while Estonia's unusually high level of contact with the West is frequently remarked upon, it is rarely discussed in detail, and the motives of Estonia's transition elites have also received little attention, a niche this thesis fills. Through the use of semi-structured interviews with elites in power during Estonia's transition, compared and contrasted with academic narratives, and with each other, this thesis establishes that this development was partially the result of years of contact with media and persons from beyond the Iron Curtain, especially Finland, to a degree unknown in the rest of the former Soviet Union. These contacts helped inform, radicalize, and build a consensus in favor of rapid neoliberal economic reform among activists who took power during the transitional period of "extraordinary politics" that followed Estonia's independence, providing ideal circumstances for radical changes to Estonia's economic structure. Although planned economies have become almost non-existent, the transitions that Estonia underwent in order to become an independent, pluralist democracy with a market economy based on private ownership are situations that are frequently encountered globally, showing that Estonia's experiences remain important and worthy of study today, even beyond the Baltic Rim. By exploring an oft-overlooked factor in one of Estonia's transitions, this thesis also lays the groundwork for future historians and political scientists who may seek to explain similar situations and experiences elsewhere.

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## INTRODUCTION

Although the Baltic states were remarkably similar politically, culturally, and socioeconomically upon gaining independence from the Soviet Union, they soon began to diverge significantly, particularly in regards to their economies, due to a range of factors, two of which will be analyzed in this thesis: elite-based understandings, and Finnish influence. With its unusually swift and sustained neoliberal market reforms and close physical proximity to Scandinavian investors, Estonia was an investor's darling by the mid-1990s. As noted by Ritsa Panagiotou, "It is generally accepted that Estonia has been more successful than its Baltic neighbors in its attempt to transform its economy from a centrally planned system to a market economy" (2001, p. 262).

By contrast, Latvia and Lithuania attained lower scores on many macroeconomic measures for much of the '90s, from GDP decline and restoration to the time until institution of national currency, and took time to (nearly) catch up with Estonia (Norkus, 2007; 2011; 2012; EBRD, 2014a). The focus of the following study is on the roots of Estonia's economic transformation, including explanations by transition elites for the transition-era neoliberal consensus, with a focus on the role played by Finnish connections preceding this period. I have chosen Estonia due to its unusually close ties with a capitalist state (Finland), which I see as an explanatory variable for why the economic policies Estonia chose following independence were more extreme in a neoliberal direction than its neighbors to the south.

This thesis is a single-case study focusing on precise aspects of Estonia's rapid progress in instituting and retaining radical neoliberal market reforms from 1991 to 1995, defined as the ending of price controls, privatization of public enterprises, and the liberalization of trade, all conducted as swiftly as possible. Although large-*n* studies (Hellman, Jones, & Kaufmann, 2000) and comparative studies (Norkus, 2007; Bennich-Björkman & Likić-Brborić, 2012), have been conducted in this field, this project employs a single-case study format because the example of Estonia is sufficiently extreme to make the



variables examined in this project especially clear, allowing a detailed investigation into precise aspects of Estonia's process of reform adoption. Although historiography and economic reports demonstrate that Estonia was an early leader in passing and sustaining market reforms, helping it accede to Western organizations before its neighbors, the exact mechanism for this phenomenon, and its root causes, remain unclear and a matter of much debate. This study uses information culled from extensive elite interviews to reveal a little-explored variable that played a useful role in this process. While much has been written about the after-effects of Estonia's reforms, the reasoning behind the reforms themselves has rarely been approached from a cultural perspective, although various academic pieces note that the cultural and ideological background of economic and political choices in Estonia has been underestimated and under-analyzed (Bennich-Björkman, & Likić-Brborić, 2012; Hansson, 2004; Norkus, 2011). Furthermore, Estonia's unusually high level of contact with the West is frequently remarked upon, it is rarely discussed in detail, while, the motives of Estonia's elites (also known as "alternative" or "transition elites") have also received little attention until now (Bennich-Björkman, & Likić-Brborić, 2012; Pettai, 2009, p. 74).

Three factors are commonly employed to explain the speed with which neoliberal reforms were passed and sustained in Estonia during the '90s, and the economic results that followed: its geographic location, economic structure upon regaining independence (for example, its relative lack of heavy industry dependent upon interconnection with the rest of the USSR), and macroeconomic choices following its return to independence. However, Norkus and Panagiotou have drawn attention to a fourth factor: "Social and cultural capital accumulated over the Soviet era was larger in Estonia than in Lithuania and Latvia ... a culturalist explanation" (Norkus, 2012, p. 213; Panagiotou, 2001). This thesis focuses upon this newest explanation, which combines with two other schools of thought in explaining Estonia's economic performance during its first post-transition decade, in order to find the roots of the third explanation, which focuses on independent Estonia's uniquely strong, early, and stable consensus in favor of neoliberal macroeconomic policy. Although Norkus's theory focuses on Estonia's pre-20th century history of Pietism, and Panagiotou writes about policy choices within the late Estonian Soviet Socialist Republic, I will use personal

and cultural ties among elites with Finland (connecting this thesis to theories involving Estonia's geographical location) to explain these differences. Through the use of semi-structured interviews compared and contrasted with conventional academic narratives, and with each other, I will demonstrate the reasoning behind Estonia's neoliberal consensus as seen by the individuals responsible for its adoption. Ultimately, I will demonstrate that intra-Baltic contact beyond the Iron Curtain, especially via Finnish television, played a valuable role in informing and motivating Estonia's transitional elites to adopt and sustain radical neoliberal economic policies.

My primary research question is as follows: what is the root cause of the consensus in favor of the neoliberal economic policies enacted in Estonia's early years of independence by Estonia's transition elites? My hypothesis is that the unusually high level of contact with Finland among Estonia's transition-era elites influenced their collective decision to pursue radical market reforms. Although Finnish influence did not result in the adoption of the Nordic social-welfare model, a model that has never been exported from Fenno-Scandinavia, I assert that it encouraged Estonians to be bolder in their economic plans. While few centrally planned economies remain, the three transitions that Estonia underwent during the transition era, totalitarian socialism to a pluralist democracy, planned economy to a market economy based on private ownership, and occupation to independence, are experiences comparable to those of many new democracies planning or undergoing structural economic changes, and even newly independent states seeking a fresh start. Exposing conflicts between academic and elite transition narratives may also provide new territory for historians and political scientists to explore in the future.

While growing levels of *de facto* sovereignty during a period of *de jure* centralized control make it difficult to establish a clear demarcation between the period when Estonia was wholly controlled by authorities in Moscow, and today's sovereign state, I will define Estonia's transition period as extending from its formal declaration of independence on August 20, 1991, until April 17, 1995, the day that the coalition voted in during the second free parliamentary elections took power. Although many of Estonia's economic reforms were enacted or planned during the governments of Edgar Savisaar and Tiit Vähi, Mart Laar's period of governance also saw many key reforms passed by open proponents of

“shock therapy.” Those interviewees who served in the governments which followed Laar’s first regime stated that the most important reforms were passed by the time Laar’s successor, Andres Tarand, took power, attaining inertia that could not be reversed, even after the opposition took power in 1995. I have included Tarand’s government in the transitional period because it shared many similarities with Laar’s government, and because, by including 1995 in this period, more of the effects of Laar’s governance become visible in EBRD scores. 1995 is also the year Estonia applied for admission to the European Union, which is seen as a milestone and symbol of its successful transition to a free democracy with a market economy. While Estonia established its first contacts outside the Eastern Bloc in the 1950s, this thesis primarily focuses on contacts made during the ‘80s, as it was during this time that many transition elites became educated, established outside contacts, and, as a result of the intensification of the Brezhnev Stagnation and newfound freedoms enabled by Gorbachev’s reforms, radicalized, entered politics, and began to plan the economy of a free Estonia (Alenius, 1998 p. 170).

This thesis is divided into several chapters. Chapter 1 provides historical background and a historiography, identifying Estonia’s transitional elites, the situation they faced at independence, and the steps they took. Chapter 2 explains the theoretical concepts employed in this project, beginning with the main schools of thought generally used to explain Estonia’s post-transition economic policy, and proceeding to theoretical concepts that explain the unusual circumstances of economic transition, and the outsized role that elites play on such occasions. Chapter 3 contains an explanation of the methodology utilized in this thesis, followed by a discussion of the resulting empirical data. Chapter 4 comprises an analysis of the collected data, followed by the conclusion. Finally, this thesis provides appendices presenting information on interviewees; the structure of, and topics covered during interviews; and the modified EBRD dataset used in this project.

## **CHAPTER 1: BACKGROUND**

### **1.1. The Soviet Era**

In order to understand the rapidity of the Estonian transition, as well as the roles played by the responsible institutions and interviewees, we must first consider how Estonia differed from the remainder of the Soviet Union, even before transition. Despite Soviet oppression, the Baltic states retained a separate character, due to their having spent more time independent of the Soviet Union relative to the other Union Republics, and their resultantly high levels of materials, social, and cultural development, and wealth in comparison to the rest of the USSR. The Baltic states, especially Estonia, also served as an economic and social testing ground, hosting economic experiments from the 1950s until the collapse of the Soviet Union. This experience provided them with some familiarity with a market economy, even before their official transitions from command economies, and arguably making Estonia "the cradle of private entrepreneurship in the Soviet Union" by the time of its independence (Misiunas & Taagepera, 1993, p. 233; Lauristin & Vihalemm, 1997, p. 76; Park, 1994 p. 70; van Arkadie, B. & Karlson, M., 1992, pp. 103-104).

Estonia was openly used as a testing ground for experiments in planning and management, in an attempt to create "a representative miniature, a 'reduced model' of the future economy" of the USSR, in part due to its diversified economy, small population and area, and because few Russophones could speak Estonian, allowing Western ideas "to be tried out on a limited scale before being allowed to enter Moscow or Leningrad" (Vardys, 1976, p. 158, 167). Panagiotou writes that, "Estonia was the only Baltic state ... with a serious background of experimentation with economic reform. This attempt to reform and restructure the economy within the framework of the Soviet system ... was unique to

Estonia; it gave the country experience in the domain of reform, which was to be of tremendous importance in the early days of the transition period" (2001, p. 270). In July 1987, workers' cooperatives, which served as a step towards private entrepreneurship, were four times more common per capita in Estonia than in the Soviet Union as a whole. Moreover, by April 1989, Estonia had more than thirteen times as many foreign-owned companies registered than the Soviet average, although both of these developments remained uncommon, even by independence (Liuhto, 1996, p. 122). Thus, even discounting outside contact, the "cultural resources of resistance [were] available in the Baltic countries to a greater extent than in the other parts of Soviet empire," making Estonians more receptive to outside contacts and new means of acting (Lauristin & Vihalemm, 1997, 75). Being more receptive to outside influences and allowed an unusually high (albeit still limited) level of economic and media freedom, Estonia was unusually open to Finnish media, and ultimately to economic reform.

## **1.2. Socio-linguistic Connections**

The language barrier proved little problem, as Finnish and Estonian share many grammatical structures and much of their lexicon, rendering them mutually intelligible with little training. Despite its large population of native Russian speakers, especially compared to Lithuania, Soviet censuses found Estonia to have a lower level of Russian-speaking ability than the other Baltic states, an ability that actually fell from 27.8% to 23.3%, unique among Soviet Socialist Republics (59.6% of Latvians and 52.4% of Lithuanians reported Russian fluency at that time) (Misiunas, 1990, p. 209). Meanwhile, in 1979, the Soviet census found that many Estonians reported Finnish to be their language of second-best capability (Panagiotou, 2001, p. 269, 274-275; Rebas, 1990, p. 421). Panagiotou takes this as an indicator "that as far as Estonians were concerned, their point of reference was Scandinavia, not Russia," although this may simply be an example of mass protest, or the result of Estonians confusing passive understanding of Finnish with Finnish fluency (2001, p. 269). Finnish literature and dictionaries were published in unusually great numbers, but

still reliably sold out. This is especially true in the case of the first Finnish-Estonian pocket dictionary, which sold its initial printing run of 50,000 copies in its first year of publication (1965), then remained popular throughout the '60s and '70s. In the north of Estonia, several hundred Finnish words entered Estonian slang, while Finnish words entered the official Estonian lexicon on a smaller scale. Many observers noted, like Alenius, that by the late '80s, there were "not many among the Estonian population of Tallinn—250,000—who do not have at least some knowledge of the Finnish language," while several interviewees mentioned an ability to speak Finnish, or stated that learning the language was popular, and greatly aided by television (1998, p. 178; Sildmäe, interview; Lepp & Pantti, 2012). As radio and television were the only means for the great majority of Estonians to make use of their Finnish skills, the increasing interest in Finnish comprehension is a significant sign of the popularity of Finnish media.

Largely disseminated by Finnish television and traders, Western fads first spread to the Baltic states, where, especially in Estonia, "Youth culture visibly imitated the West," before diffusing to the rest of the Soviet Union (which otherwise had to depend on trade with Yugoslavia for contact with Western cultural items). During the early 1970s, "At school dances, leather jackets, Beatle outfits, [sic] weirdly-dressed bands, and rock instead of polkas tended to prevail ... unable to expel the 'Texas pants' (blue jeans), and unwilling to give up on having a school uniform, Estonian schools finally made the jeans compulsory" (Lepp & Pantti, 2012; Misiunas & Taagepera, 1993, p. 218). One interviewee noted that Estonian popular culture was directly influenced by the West, and that many films, fashion styles, and musical recordings were available in Estonia, if somewhat belated (Vahtre, interview). Misiunas & Taagepera write that, in the '60s, "Applied and decorative arts rapidly rejoined pre-war Scandinavian lines, helped by the widening contacts with Finland" (1993, p. 160). Although this effect was felt to a similar degree throughout the Baltic states, it was strongest in Estonia, and demonstrates direct effects resulting from ties to Finland.

### **1.3. Finnish Media Contacts**

While the resumption of Soviet occupation in 1944 effectively isolated the Baltic states from the outside world, Estonians were subsequently able to come into contact with the West, mainly through slowly growing contacts with Finland, which allowed them a way around the Soviet monopoly on information. Tarand writes, "At the time of the upheaval of the system, Estonians as a whole were generally better informed of what was going on in the world than people elsewhere in the Soviet empire" (2004, p. 145). As noted by Marju Lauristin and Peeter Vihalemm, "More than the other parts of the Soviet Empire, the Baltic republics were open to the cultural influences coming from the West and North," which was made visible in part by Baltic perceptions of the world: "In contrast to the wide-spread anti-Western attitude in Russia, the native population in the Baltic countries sympathized with the West" (1997, p. 76). Open to the outside world, and used as an economic laboratory, Estonia's economic destiny made itself faintly visible long before independence.

#### **1.3.1. Television**

Alone among Soviet republics, northern Estonia, home to the republic's capital, had access to Western TV, beamed in from Finland starting from the early '60s, which was popular for its escapist qualities, but which also bred resentment (Vihalemm, 2007, p. 784; Schwoch, 2001). It remains unclear to what extent Estonian exposure to Finnish TV was intentional: the documentary "Disco and Atomic Warfare" claims that the massive television tower erected in Espoo near Finland's southern coast in 1971 had half of its power and broadcast area directed south. While this claim has never been confirmed (and would have been a carefully-kept secret to prevent antagonizing the Soviet Union) it is known that a large proportion of early Finnish television coverage consisted of free films provided by the United States Information Agency, which was devoted to public diplomacy (Kilmi & Aarma, 2009; Keinonen, 2012). Ironically, Finnish public television was established in part to compete with a powerful television transmitter built in Tallinn in 1955

and transmitting in Finnish by 1956. The Soviet Union also pressured Finns to buy its television sets, and attempted to smuggle such sets into Finland,<sup>1</sup> causing the Finnish government to fear that its populace would start using the Soviet television transmission standard—instead of the standard used in the West—a sign of early recognition of television's soft power (Schwoch, 2001; Sumiala-Seppänen, 1999; Keinonen, 2012; Enden, 1996).

Estonia was not the only part of the Eastern bloc watching Western television during the Cold War. Aside from those living in the “Island/Valley of the Clueless” in the northeastern and southeastern corners of the GDR, the majority of Eastern Germans covertly consumed West German television, one-third of Hungarians could watch Austrian television, and the Polish government gave up cracking down on satellite dishes during the ‘80s. While Communist Party members in Albania watched officially relayed Italian television, the rest of the populace was building antennae to covertly watch Italian and Yugoslavian television, and Romanians were able to pick up television signals from as far away as Turkey (Mustata, 2012; Schwoch 2001; Jakubowicz, 1994).

Although outside TV required the use of converters and special antennae, a sizable black market, supplied in part by Finnish smugglers masquerading as tourists, enabled many to access the outside world, and made Finland “a role model for Estonians” (quotation from Sutela, 2007, p. 160; see also Kilmi & Aarma, 2009). Most, if not all, *kolkhoz* workshops in the Estonian North had at least one technician who could build antennas and modify televisions to view Finnish signals in color and with sound. The black market related to Finnish television included not only technical services, but also photocopied TV guides, music recorded directly from television sets, and photographs of images displayed on televisions, which were often sold to schoolchildren (Lepp & Pantti, 2012; Kilmi & Aarma, 2009). In Tallinn, one could reportedly see “special antennas facing Helsinki on every roof,” making Finnish television “a regular item on the cultural menu of ordinary Estonians,” and weakening the Soviet Union's monopoly on information,

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<sup>1</sup> Keinonen records an incident in 1955 when the Soviet Union asked to import 88 TVs to its embassy, which at the time had only “29.5” officers, ostensibly for testing television reception (2012, p. 180).



rendering Estonia less isolated from Western influence and information than the rest of the Soviet Union (quotation from Weiner, 2010, p. 310; see also Park, 1994, p. 70; Tarand 2004, p. 146; Norkus, 2007, pp. 5-36).

Despite the fact that signals could only be received in the north,<sup>2</sup> Estonia's rapid urbanization meant that by the '80s, Finnish television was available to 40% of ethnic Estonians, and 70% of the Russophonic population, while the small size and population of Estonia meant that Finnish television played a role even in areas that could not directly view foreign media (Paaslinna, 1995, p. 160, Kilmi & Aarma, 2009). Finnish television's draw was so great that "television tourism," the act of traveling north to watch television, became common, especially when highly anticipated episodes or movies were set to air, such as a Dallas season premiere or the French film "Emmanuelle" (Vahre, interview; Lepp & Pantti, 2012; Kilmi & Aarma, 2009).

And indeed, people were watching. In 1985, despite their limited range, Finnish television newscasts are estimated to have enjoyed a 26% share among ethnic Estonians, twice that of Estonian television, and nearly twice that of newscasts from Moscow (Tallinn could pick up Estonian state television, three Russian channels, and three Finnish channels) (Paulson, 1990, p. 7) In 1985, 77,000 residents of Tallinn were estimated to watch the local evening news on a nightly basis, while 180,000 were thought to have been viewing its Finnish counterpart (Graf & Roiko-Jokela, 2004, p. 176). Annika Lepp and Mervi Pantti describe watching Finnish television as a "'normal' or 'compulsory' part of everyday life" for ethnic Estonians living in Tallinn, although the language barrier made Finnish television unpopular with Estonia's Russophones (2012, p. 79).

By exposing Estonians to alternate communication channels, Finnish television undermined the Soviet Union through exposing its weaknesses and distortion of information, while drawing attention to capitalism's strengths, motivating future transition elites to make Estonia a "normal" state through economic and political means, and providing information about the means to do so. As noted by Peeter Vihalemm, Estonian

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<sup>2</sup> According to interviews, the limits of television reception in Estonia were about 150 kilometers from Espoo, an area that included Tallinn, and, at times, towns as far as Haapsalu, Rakvere, and Rapla (Jürgenson, interview; Kranich, interview).

access to Finnish television made “Soviet control over Estonian cultural space less ‘perfect’ than it was in other Soviet republics. This accessibility... played a very important role in the formation of the Estonian alternative vision of the world” (2007, p. 784). Unlike in Finland, Soviet news censored, and covered belatedly, if at all, events such as the Prague Spring, Solidarność, Korean Airlines Flight 007, Chernobyl, the "Whiskey on the Rocks" incident, and the deaths of Alexei Kosygin and Leonid Brezhnev. Estonians interviewed by Lepp and Pantti claimed that Finnish television served as a basis for comparison, helping them "read between the lines" and develop their own opinions. After noting that Finnish and Soviet news rarely coincided, one of their interviewees said, "I knew that my brain could no longer be washed ... I raged inside as I knew that the world, which is shown on Finnish television, actually exists ... the more I watched Finnish television, the bigger [anger towards Russians] grew" (2012, p. 85). Lepp and Pantti report that, "In addition to connecting Estonians to democratic values, Finnish television, importantly, was seen [by interviewees] as an educator for the market economy," and argue that, for those old enough to have experienced democracy prior to the Soviet occupation, Finnish television was a reminder of how Estonia could have been had it remained free. For those who were younger, including Estonia's transition elites, Finnish television took on a role as a window to democracy, capitalism, consumerism, and escapist and exotic popular culture (2012, p. 85).

Although Estonians were largely looking for escapist fare, interest in Finnish news is reflected not only in the above statistics, but in changing viewership statistics in 1989, when the quality and reliability of domestic Estonian news greatly increased due to the effects of Glasnost and the Estonian national re-awakening. Not only did the audience share of Finnish news drop to 16% (and Moscow's to 4%), but the share of Estonian news rose to 59%. At the same time, conversely, interest in Finnish entertainment rose, likely due in part to the low quality of its Estonian counterparts (Paulson, 1990, p. 7). Even as Estonians began to turn to their local media for information, Finnish media remained crucial to Estonia's independence efforts, as it distributed Estonian national demands to both Finns and Estonians, broadcast events occurring in the Soviet Union and the Baltic states, and showed Western reactions, thus helping Estonians keep abreast of developments in and

related to their own space. Heikki Roiko-Jokela explains that, “By following ... the Finnish media the political leaders of the Baltic independence movements could keep pace with the attitudes the Western leaders had towards their independence efforts” (1998, p. 124). While Finland's motivational effects on Soviet Estonia will be explored later, it is worth noting that one of the most famous programs on Finnish TV among Estonians was an advertisement for meat sold by a national grocery store chain. This became a symbol of Finnish prosperity and Estonian deficit, and was referenced by one interviewee as an example of the “normal world” transition elites strove for<sup>3</sup> (Sutela, 2007; Kilmi & Aarma, 2009; Sildmäe, interview).

Ethnic Estonian television viewership habits were known to the Soviet authorities, who noted with alarm in a secret report that a “significant portion” of the populace of northern Estonia was regularly consuming Finnish broadcast media (Weiner, 2010, p. 316). While authorities attempted to make their own television programs more attractive to entice their audience away from Finnish television, and engaged in jamming (which was conducted with limited success until halted by the Helsinki Agreement in 1975), more direct attempts to crack down on consumption failed and were quickly aborted (Kilmi & Aarma, 2009; Tarand, 2004, p. 146). However, in keeping with Estonia's status as a social laboratory, audience research was quietly conducted within the country, with the effects of Finnish media on the ideological loyalty of Estonians being of primary concern (Kilmi & Aarma, 2009; Paasilinna, 1995). As feared by Soviet authorities, the primary effects of Finnish television were two-fold: it provided irrefutable evidence of acts that Soviet authorities attempted to cover up, and, more subtly, showed capitalism to be a thriving system, far from being on the brink of collapse as authorities claimed, thus providing a means of gaining basic knowledge about a market economy's workings, and a motivation to become “normal,” a goal that included economic transformation.

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3 For an example of the popular “Väiskin lihatiski” advertisements, see [https://www.youtube.com/watch?v=8Lh9IDb2\\_x8](https://www.youtube.com/watch?v=8Lh9IDb2_x8) (tap10000, 2007).

### 1.3.2. Radio

Early on, Estonia was aided in its efforts to locate media sources free of Soviet censorship by its unusually high number of radios relative to the rest of the Soviet Union. In 1941, one-third of Estonian households had a radio, a significant proportion of which could pick up long-range transmissions. Despite confiscatory campaigns by authorities, a majority of Estonians had radios by 1955 (Mertelsmann, 2013, p. 161). Even during the interwar period, educated Estonians habitually consumed media, including radio, in non-native languages, as the small number of native Estonian speakers, and the existence of local media in several languages (usually German, English, Finnish, or Russian), made knowledge of foreign languages typical. This was particularly so in cafes, which typically had newspapers and magazines available in several different languages. In 1966, Estonia's Central Committee found that, at certain hours, 70% of the general population was likely to be listening to foreign radio (Weiner, 2010, p. 301). Although jamming frequently made listening to many stations an uncomfortable or even futile process, it was physically impossible for authorities to constantly jam all stations. As the population often listened to the radio for music, especially after 1956, authorities worked to make official stations more entertaining by attempting to echo Western fads, albeit after a significant delay (Mertelsmann, 2011; Mertelsmann, 2012; Mertelsmann, 2013). While failing to attract the same size audiences as television, foreign radio remained a means of escaping the Soviet informational sphere, and learning about the West.

With its relatively low level of repression, and high interaction with outsiders, Estonia was especially fertile ground for Finnish media influence. In discussing the effects of Finnish television, Norkus writes, "Western influence ... enhanced the vitality of Estonia's own cultural traditions and slowed down its erosion by the daily experience of life under state socialism," which is "why, for example, the exposure of the Russian population to Western cultural influence on a large scale during the early 1990s did not lead to revolutionary changes in Russian economic culture" (2007, pp. 35-36). Furthermore, as Panagiotou explains, its "familiarity with western cultures and ways of life ... implied that upon independence Estonia was better placed to shed the Soviet cultural legacy and deepen

and enhance its links with Western countries” (2001, pp. 274-275). Indeed, according to Paasilinna, Lauristin and Vihalemm “have argued that the collapse of the Soviet system and the independence of Estonia may have been to a great extent brought on by the media” (1995, p. 161).

#### **1.4. Interpersonal Contacts**

As far back as the nineteenth century, the short distance between Estonia and Finland helped make regular passenger traffic between the two commonplace. Although travel between Helsinki and Tallinn was suspended in 1939, regular ferry traffic resumed on July 7, 1965. In the following two years, 15,000 Finns took advantage of this opportunity, although total figures for Soviet-era traffic remain unclear.<sup>4</sup> As noted by Laurén, this connection played an important role in Finnish-Estonian convergence, economically and culturally, while with some hyperbole, former president Lennart Meri called this reopening a social phenomenon beyond comparison in European history, even if the flow of tourists was largely one-way (2002, p. 1124, 1131; Misiunas & Taagepera, 1993). A fairly large number of Western visitors to the Soviet Baltic were returning exiles—in 1968, at least 600 Estonians managed to do so, sometimes staying for up to several months (Misiunas & Taagepera, 1993). These émigrés brought “not only material benefits but also living examples of the lifestyles of non-Soviet societies” (Misiunas & Taagepera, 1993, p. 298).

In 1956, a group of Finnish writers visited Tallinn. This was followed by a Finnish film festival in Tallinn, and a reciprocal Estonian literature exhibit in Helsinki (Alenius, 1998 p. 170). By the late ‘60s, this rapprochement resulted in mutual art festivals and twinned towns, as well as sports meetings in Tallinn, and permission for Estonian athletes

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<sup>4</sup> Graf and Roiko-Jokela estimate that a total of 200,000 Finns visited Tallinn, while only 20-30,000 Estonians travelled in the opposite direction. This roughly fits Misiunas and Taagepera's estimate that there was likely a 10:1 ratio of Western visitors to Balts visiting outside of the USSR during the ‘70s. Tarand estimates that 10,000 Finns crossed the Gulf of Finland in 1965, and 100,000 “in the middle of the seventies” (Graf & Roiko-Jokela, 2004; Misiunas & Taagepera, 1993, p. 242; Tarand, 2004, p. 148).

to perform abroad. Various friendship organizations intended to build ties between Finland and Estonia were founded starting in the '60s, a phenomenon that accelerated in the late '80s (Roiko-Jokela, 1998, p. 82). During the '60s, Finnish universities also started recruiting Estonian lecturers (Alenius, 1998, pp. 169-170). Most famously, Finnish president Urho Kekkonen visited Estonia in 1964, the first visit by a Western leader since the Soviet occupation had begun, and attracted crowds of thousands (Misiunas & Taagepera, 1993, p. 181; Roiko-Jokela, 1998, p. 104). Several hundred Finnish construction workers also came to Estonia between 1969 and 1972 to build the Viru Hotel, a high-rise operated by Intourist<sup>5</sup> (and thus intended for use by foreigners). Several returned with Estonian brides. However, no similar projects were conducted until the preparations for the 1980 Summer Olympics in Moscow, when several thousand Finnish workers were imported for construction projects in Tallinn, which was slated to host the sailing competitions. This time, several hundred Finns returned with Estonian brides (Misiunas & Taagepera, 1993, p. 232, 242; Sildmäe, interview; Alenius, 1998, p. 177). During the '70s, more Estonian received permission to visit relatives abroad for as long as several months, while academics received permission to stay abroad for up to a year and to attend academic conferences, often taking spouses along, but leaving children behind (Misiunas & Taagepera, 1993, p. 242).

In 1983, when Soviet law was changed to allow state enterprises to seek partnerships with Western companies, Estonia was the first Union Republic to respond, establishing over 150 joint ventures, and becoming one of the first Soviet Socialist Republics to establish its own foreign trade association: ESTIMPEX (Brown, 1993, p. 493; Panagiotou, 2001, p. 271). Foreign businesspeople introduced Estonians to Western business norms and practices, with many companies hiring former foreign suppliers as consultants following independence, or co-opting their former clients' distribution networks (Panagiotou, 2001, p. 273). According to Jakobson et al., many Estonian businessmen in the Soviet Union would say they had a "domestic/home Finn," (*kodustatud soomlane*), "A friend or patron" often befriended as a tourist, would provide news from abroad, a chance

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<sup>5</sup> The Soviet tourism bureau.

to practice Finnish, and foreign goods for consumption and sale (2012, p. 171; Lepp & Pantti, 2012). During the transition era, numerous Finnish businesspeople used these contacts to identify business opportunities through social networking, while helping their Estonian counterparts find work in Finland (Jakobson et al., 2012, p. 182).

Estonia's proximity to Finland allowed both legal and forbidden items, including media, to filter into the state, keeping it cosmopolitan by Soviet standards. Despite censorship, letters and parcels from Finland could still be received in Estonia, even during Stalin's regime (Mertelsmann, 2012). Following Stalin's death, Estonian publishers received permission to resume printing Finnish literature, and Estonia became one of the few Soviet republics to start and maintain a periodical that published global literature, *Loomingu Raamatukogu* (Tarand, 2004, p. 145; Alenius, 1998). Although ties with the Estonian diaspora were strained by fear of authorities, Western literature, including publications written by Estonian exiles, was distributed alongside samizdat in some circles. With thousands of foreign tourists entering Estonia annually by the mid-seventies, the KGB was unable to confiscate all forbidden materials (Allik, 2004, p. 170; Tarand, 2004, p. 148). Finns visiting Estonia established a black market in jeans, cassette tapes, and other illegal products, despite KGB surveillance. These goods also left their mark on Tallinn (Alenius, 1998; Jakobson et al., 2012).

### **1.5. 1987-1995: From a “Miracle” to “Normal Politics”**

In September 1987, interviewee Tiit Made and three others published a plan for economic independence, a free market economy, and increased political autonomy. This plan, *Isemajandav Eesti* (A Self-Managing Estonia), also known as IME (which translates to “miracle” or “wonder”), encouraged Estonians to discuss greater autonomy (Misiunas & Taagepera, 1993, p. 305-306; Kasekamp, 2010, p. 161-162, 165). IME marked Estonia as the first Baltic state to with distinct plans for sweeping reforms, although still within the framework of a proposed fully-autonomous Soviet state, had motivational effects that will be discussed later, and formed the basis for many reforms following the reestablishment of

independence. Panagiotou sees IME as proof that Estonia was the only Baltic state where the struggle for independence was linked to economic autonomy, which left Latvia and Lithuania "at a lower level of readiness than Estonia when they gained their independence" (2001, pp. 271, 273). As will be discussed later, IME was a sign of cultural ties to Finland resulting in the early radicalization of those who would later push Estonia to conduct swift market reforms. In March 1990, the Popular Front of Estonia (*Rahvarinne*), a political organization founded in 1988 by Edgar Savisaar and interviewee Marju Lauristin, won the majority of seats in elections for the Supreme Soviet, making its leader, Savisaar, the new prime minister of the Estonian SSR. Finally, a day after the (ultimately failed) coup by Soviet hardliners began on August 19, the Supreme Soviet and Congress of Estonia<sup>6</sup> jointly declared independence (Kasekamp, 2010, pp. 168-169). Now the task of enacting economic reforms was to begin in earnest.

As Savisaar's government began the process of economic reforms required by the new state, many key reforms (such as the introduction of a new state currency (the *Kroon*), price liberalization, and bills beginning the processes of privatization and restitution) were passed by the interim government run by Tiit Vähi from January 20, 1992 until Mart Laar's government ascended to power in October of that same year. As discussed later, this period was one of "extraordinary politics," in which policies that normally face lengthy political battles could be passed swiftly and with little public debate. Following a national referendum in June 1992, a new Estonian constitution was ratified. This made Estonia the first Baltic state to do so, triggering elections in September 1992, which were won by the "Pro Patria" (known in Estonian as *Isamaa*, which translates as "Fatherland") voting bloc, which was led by the historian Mart Laar and characterized by its youth (several ministers, such as Laar, were in their twenties or early thirties), and three émigré ministers. The new government immediately focused on privatization, economic liberalization, and other neoliberal reforms to a far greater degree than in the other Baltic states, especially Lithuania (Kasekamp, 2010, p. 173).

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<sup>6</sup> The Congress of Estonia was a parallel governing body founded by Estonian independence activists, several of whom were interviewed for this thesis, and viewed by most ethnic Estonians as the *de jure* representative body of Estonia. Prior to the coup, the Soviet changed its names in Russian and English to the Supreme Council.



As Mart Laar's government took over, it received a great deal of technical assistance from the West. While Estonian elites ignored foreign advisers to some degree, introducing the *Kroon* earlier than recommended, Laar's government (especially Laar himself) was greatly receptive to the stipulations of a shock therapy economic program. There were several reasons for this: as noted earlier, Laar's government had a distinctly neoliberal bias, its (generally neoliberalist) Western advisers had more expertise in market reform than local experts, the World Bank and IMF used financial aid to force states to adopt radical reforms, and Isamaa's lack of economic experience or knowledge made outside experts more attractive (Savchenko, 2000; Pridham, 2000, p. 193; Kranich, interview; Purju, interview).<sup>7</sup> Laar's government imposed a flat income tax, balanced the state budget through cuts to subsidies and a reduction in the number of ministries, increased the retirement age, helped stabilize the economy, further removed government controls and regulations (including most tariffs), and conducted the lion's share of privatization. Laar's personal ideology was made clear when he stated that "the government may only help those who wish to help themselves" (Laar, 2006, p. 272).

In 1994, Laar was forced to step down due to a political scandal. While the reshuffled government which followed continued Laar's neoliberal reforms, falling living standards and GDP, together with rising unemployment, helped propel the opposition to power in 1995. Its campaigns had focused on the social costs of economic reforms and called for relief for farmers, and a progressive income tax (Nørgaard & Johannsen, 1999, p. 73). However, in a clear sign of consensus among Estonia's elites, few economic changes were made, and Laar's reforms remained largely intact. This was in part because Vähi, who had passed many of Estonia's most crucial pro-market economy reforms, was once again appointed Prime Minister, and partially because the least liberal coalition member, the Center Party, was removed from the ruling coalition and replaced by a more liberal party after half a year due to a scandal involving the party's head, Savisaar (Bennich-Björkman & Likić-Brborić, 2012, p. 58; Pettai, 2009, pp. 82-83). By this point, the era of sweeping

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<sup>7</sup> In writing about politically inexperienced transition elites (which he labels "policy virgins,") Pridham says that "it is not unsurprising that they leaned heavily on Western policy advice in navigating the unfamiliar waters of economic change" (2000, p. 193)

changes had ended, and “extraordinary politics” were replaced by “normal politics.” According to a member of Laar's party, Vähi was critical of Laar's policies in public, but "he understood very well that it's a very stupid decision to go back ... he said, in private discussions, 'you did right. We had to criticize you because we were in opposition, but in principal, you did right.' He was saying he'd do the same" (Nutt, interview).

## 1.6. Measures of Estonian Reforms

Estonia's rapid and sustained macroeconomic reforms relative to the other Baltic states are supported by many sources, especially datasets produced by the EBRD and reports from the European Commission. The EBRD's 2014 transition report features a set of indicators (once nine, now reduced to six), which have been used to track progress and developments in macroeconomic reform since 1989. The measurement scale runs from 1 to 4+ (coded as 4.33), with 1 representing a rigid, centrally-planned economy, and 4+ representing the standards of an advanced industrialized market economy, a pole chosen out of recognition that there are no “pure” market economies. No country has yet attained the highest possible score (EBRD, 2014b; Norkus, 2012, p. 86). The six categories assessed are: large-scale privatization, small-scale privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system, and competition policy. This measure was chosen for this thesis due to its simplicity, easy quantification, clear methodology, inclusion of a wide range of countries, and time period stretching from 1989 to 2014. As 6 is the lowest score, and 26 the highest possible, points have been adjusted for the sake of clarity.<sup>8</sup> Although this dataset includes 29 post-socialist states,<sup>9</sup> I have restricted this set to the Baltic states, and its data range to the years 1989 to 1995. This is because Estonia's period of "extraordinary politics," when the majority of its transition economic reforms were passed, is commonly believed to have ended by the time of the

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<sup>8</sup> The formula used is:  $(x - 6) * 5$ , where  $x$  is the crude combined annual score. This enables scores to run from 0 (the scores of all three Baltic states in 1989), to 100 (a score which has not been attained by any country). Thus, an increase of .3 points (a change from a score of 1 to 1+), is adjusted as an increase of 1.5 points.

<sup>9</sup> The Czech Republic is conspicuously absent, which may be due to its change in status from recipient of funding to financier.

1995 election, when the opposition took over (although one interviewee argued that this period extended to 1996) (Lauristin & Vihalemm, 1997, p. 78; Sildmäe, interview).<sup>10</sup>

In the EBRD's dataset, early progress by both Estonia and Lithuania in passing reforms is visible in 1990, when both states gained 6.66 points in the "price liberalization" category, as opposed to Latvia's score, which does not increase until 1991. Estonia's advantage in reforms is actually lost in 1992, as Latvia and Lithuania's scores pass its own, but Estonia's score passes Latvia's the following year and ties with Lithuania's, and by 1995, Estonia had a score of 76.66, versus 61.66 for Latvia, and 65 for Lithuania. This advantage has narrowed since, but is still visible in the most recent Transition Report, in which Estonia has an adjusted score of 96.66, versus 88.3 for both Latvia and Lithuania (EBRD, 2014a).

The 2001 EBRD Transition Report shows that although Estonia had a higher rate of real GDP growth in 1989, it entered a decline in real GDP as reforms began in 1990. While this decline was steeper in 1991 and 1992 than in the other Baltic states, less GDP was lost than in Latvia and Lithuania (EBRD, 2001, p. 59). According to the 2010 EBRD Transition Report, in 2002, Estonia and Lithuania were the first Baltic states to overtake 1989 real GDP, while Latvia took until 2005 to reach this level (EBRD, 2010, pp. 113, 125, 127). Estonia was the first former Soviet state to adopt its own permanent currency, exiting the ruble zone earlier than advised by Western experts. This move was seen by many as an important advantage, in part due to its immediate success in curbing inflation, restoring goods to markets, curtailing the black market, and protecting Estonia from the instability of the ruble, as the new currency was pegged to the Deutsch Mark by a currency board (Kasekamp, 2010, p. 181; Nørgaard & Johannsen, 1999, p. 128).

The speed of Estonia's macroeconomic reform is reflected in the European Commission's Agenda 2000 reports on the Baltic states, which at that time (1997) were accession candidates to the EU. Although both Latvia and Lithuania were noted as having made "considerable progress in creating a market economy," they were denied membership, as they were thought to "face serious difficulties to cope with competitive pressure and

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<sup>10</sup> The modified dataset can be found in Appendix III.

market forces within the Union in the medium term," and neither was seen as having truly developed a market economy (European Commission, 1997b, p. 107; 1997c, pp. 111, 114). Lithuania was identified as needing to make more progress "in the areas of relative price adjustments, large-scale privatisation and bankruptcy proceedings," and to be missing "the enforcement of financial discipline for enterprises," substantial enterprise restructuring, and a stronger banking sector (European Commission, 1997c, p. 104). Latvia was seen as lacking progress in implementing economic legislation, having non-existent or poorly functioning regulatory bodies, incomplete privatization, a need for industrial and enterprise restructuring, and a stronger and more developed banking sector (European Commission, 1997b, p. 111). The Commission also had serious concerns about Latvia's ability to join the Eurozone (European Commission, 1997b, p. 113).

By contrast, the European Commission twice declared that, "Estonia can be regarded as a functioning market economy," noting that it liberalized foreign trade and privatized the public sector and prices "to a very large extent," even if land reform was proceeding slowly and pension reforms had not yet begun. Unlike its Baltic counterparts, Estonia was described as "able to make the progress necessary to cope with competitive pressures and market forces within the Union" (European Commission, 1997a, p. 113). Primarily as a result of meeting macroeconomic criteria not met by Latvia or Lithuania, Estonia was the only Baltic State allowed to begin accession negotiations with the EU in 1997.

## **CHAPTER 2: CONCEPTUAL FRAMEWORK**

### **2.1 Literature Review: The Four Main Schools of Thought**

As the Baltic states pursued the same goal—transition to a market economy—via different policies, with varying speeds and initial outcomes, the roles played by their internal and external factors are the subject of intense debate. There are three main schools of thought exist for why Estonia’s economy prospered at an earlier point than that of the other Baltic states. All are noteworthy, but this thesis advocates the existence of a fourth school of thought, and a less well-known means by which Estonia differentiated itself from its neighbors. In order to provide context before discussing this theory, I will first explore the three more popular explanations: Estonia’s geographical location, economic structure upon independence, and macroeconomic choices after independence. Here a caveat is in order: these theories are not necessarily exclusive, and usually appear in different combinations. Indeed, sources cited as examples of arguments in favor of the popular theories in the following section often appear repeatedly, as their proponents frequently advocate more than one theory.

#### **2.1.1 Geographic Factors**

The first school of thought is perhaps the most obvious: Estonia's geographic proximity to the West, especially Sweden and Finland. The arguments here generally stress the advantages of geographical proximity in bringing trade and FDI, due to Estonia's long history of trade and tourism with Sweden and Finland, its low wages compared to Fenno-

Scandinavia, linguistic connections to Finland, and its greater ease in reorienting its trade to the West (Hansen & Sorsa, 1994; Hansson, 1994; IMF, 1999; Kala, 1994; Kallas, 1996; Norkus, 2011; Norkus, 2012; Raid, 1996; Weber & Taube, 1999). By contrast, Lithuania and Latvia were more isolated from the West, Lithuania having looked to Poland as an economic model, and Latvia having lacked close ties to countries outside the Baltic states. It should be noted, however, that although Estonia, Latvia, and Lithuania had poor relations during their initial periods of independence, their mutual ties had improved over the course of their Soviet occupations, thereby increasing pan-Baltic conformity, and decreasing the impact of factors that might otherwise have explained post-independence differentiation. Nonetheless, in isolation, the geographic school has several weaknesses. Economic policy is more than just a matter of strong historical trade links. Despite its proximity, a lack of interest and the financial and institutional framework and state capacity needed to attain the Nordic economic model led Estonian elites to look to other areas for advice, while economic crises in Sweden and Finland also limited their abilities to influence Estonia's economic health and policies in the early '90s (Norkus, 2012, 214).

### **2.1.2 Initial Economic Structure**

The next popular school of thought stresses the advantages brought by Estonia's existing economic structure as of independence, especially relative to the other Baltic states. Many academics note that Estonia had less heavy industry than the other Baltic states, resulting in less "socialist over-industrialization," and "negative added value," as well as a lower proportion of closed factories following independence.<sup>11</sup> Moreover, its oil shale resources rendered it more energy-independent than Latvia, and potentially Lithuania after its nuclear power plant was shut down (Hansen & Sorsa, 1994; Hansson, 1994; Norkus, 2011; Norkus, 2012; Nørgaard & Johannsen, 1999; van Arkadie & Karlson, 1992).

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<sup>11</sup> Soviet heavy industry, which employed obsolete equipment and was dependent on raw materials from throughout the Soviet Union, was one of the first victims of the transition to a market economy, as were its mostly Russophonic employees and managers.

Such differences among Baltic economies may be overstated, however, as they shared the same climate and transport infrastructure, and had similar levels of natural resources (while blessed with oil shale deposits, low energy prices at independence largely negated this advantage). Furthermore, many economic distinctions were largely evened out by the end of the Soviet era, and the differences in industrialization were fairly minor by independence (Norkus, 2012, p. 214; Van Arkadie & Karlsson, 1992). A factor analysis of variables illustrating various aspects of late socialist economies by De Melo et al. shows little difference between the Baltic states (2001).<sup>12</sup>

Some interviewees spoke of Estonia's role as an economic and cultural testing ground, but most downplayed the significance of Estonia's economic structure at independence. The EBRD data analyzed for this project also calls the importance of Baltic economic structures at independence into question, as the EBRD assigned identical development scores in 1989, and nearly identical scores in 1990 (Estonia and Lithuania received an equal increase in points due to their early price liberalization) (EBRD, 2014a). Although some interviewees spoke at length about reforms which were conducted or planned prior to independence, the majority downplayed them, viewing Estonia as more advanced than the other Baltic states in many measures, but roughly similar economically, and stating that the differences which existed at independence were related to politics, planning, and speed (Üürike, interview; Made, interview; Terk, interview).

### **2.1.3 Post-independence Reforms**

The third major school of thought focuses upon the macroeconomic policies passed in the period following shortly after Estonia's declaration of independence, though definitions of this period of time differ. Academics focusing on this approach argue that the

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<sup>12</sup> The variables measured in this study were GDP per capita in 1989; the distance of national capitals from Brussels; the share of unemployment in industry, agriculture, and services; the number of years under central planning; macroeconomic imbalances; the value of trade with Comecon states proportional to GDP in 1989; the initial private sector share in GDP; and urbanization.

selection and implementation of neoliberal economic policies are the primary explanation for Estonia's economic achievements, as they enabled the rapid creation of an environment favorable for a strong private sector, a debt-free government, a free market, and unusually high levels of FDI (Berengaut et al., 1998; Budina, 1997; Feldmann & Sally, 2001; Hansen & Sorsa, 1994; Hansson, 1994; Hansson & Sachs, 1994; IMF, 1999; Nørgaard & Johannsen, 1999; Saavalainen, 1995; van Arkadie & Karlsson, 1992; World Bank, 1998).

In contrast, Latvia was more cautious, and its higher proportion of Russophones with citizenship (it had more ethnic Russians prior to its first Soviet takeover) and prolonged debate over naturalization policy slowed its rate of reform. Although Lithuania had taken the lead in the pan-Baltic independence struggle during its last phase, becoming the first Soviet Socialist Republic to declare independence, it voted in a party run by ex-Communists who emphasized gradualism during its first post-independence (and second free) parliamentary election, and which practiced less complete lustration than Estonia, keeping more of the older government apparatus intact, which increased corruption (Norkus, 2011; Norkus, 2012). However, this school of thought also explains little in isolation, as economic reforms were not implemented in a vacuum, nor were who enacted them identical in background or belief.

#### **2.1.4 Cultural Factors**

While this thesis draws heavily upon the first and third schools of thought presented, it seizes upon a problem found in the literature that seeks to explain Estonia's transition: the assumption that, aside from economic structure and geographic location, the Baltic states emerged from the Soviet Union with the same legacy, experience, capabilities, and knowledge (Bradshaw et al., 1994; Nørgaard & Johannsen, 1999; van Arkadie & Karlsson, 1992). This may be due, to some extent, to the self-presentation of Baltic independence movements as a united front. However, some argue that the experiences and events that occurred within Estonia during the Soviet occupation were sufficiently unusual compared to the other Baltic states that they help explain Estonia's different path once it



gained independence, and that this focus has been under-developed. For instance, Norkus writes, "In most of the works that analyze post-communist transformations, the significance of cultural values, ideological visions, social, imaginary, and popular beliefs as causal factors in post-communist development is heavily underestimated" (Norkus, 2011, p. 29).

The reasoning behind this theory is cultural: proponents argue that Estonia's transitional elites had attained higher levels of social capital, knowledge, and experience than their counterparts in the other Baltic states (Bennich-Bjorkman & Likic-Brboric, 2012; Mattusch, 1997; Mygind, 1997; Norkus, 2012; Panagiotou, 2001). As an example, Panagiotou argues that although IME was largely made obsolete before it could be carried out, preparations for its implementation gave Estonian elites a higher level of economic planning competency than the other Baltic states (Panagiotou, 2001, p. 272). Others connect Estonia's success to Protestantism, drawing upon Max Weber's famous thesis connecting Protestantism to the "Spirit of Capitalism," or draw attention to identity politics, with the threat of Russian hegemony pushing Estonian voters to support right-wing parties, despite the costs of the shock therapy policies those parties supported (Matusch, 1997; Norkus, 2011, p. 29; Mygind, 1997, p. 144). However, Ted Hopf's "naturalization theory" provides a means for popular support of elite-sponsored policy, and will be investigated in greater detail later in this chapter (2002). It is my position that Estonia's divergence is partially due to unique circumstances that resulted in greater knowledge of economics and life in the West (especially Finland) than could be found in the other Baltic states.

## **2.2 The Importance of Elites**

This thesis focuses on political elites because, as noted by Vello Pettai, the transition from communism in East and Central Europe "has been characterised by the dominance of political elites in making decisions and steering society in a direction that the elites see as necessary for the development of society and the good of the people" (2009, p. 69). Indeed, elites are generally more powerful in recently-established democracies, and Estonia's transitional elites managed to stay in power for an unusually long period, further increasing

their impact (Pettai, 2009, pp. 71-72; Adam et al., 2009, p. 71). As found in a study by Carsten Hermann-Pillat, the values and cognitive models of transition elites, including economic theories, social philosophies, value-systems, and expectations, are important determinants in transformation processes (1993, p. 113). Therefore, seemingly small decisions made during this period can have a profound effect on future policies, and make deviation from political decisions and policies made and established during this period difficult, in a clear example of path-dependence (Nørgaard & Johannsen, 1999, p. 4).

Weyland argues that "theories focused on institutions don't explain leaders' decisions and their acceptance by citizens, and don't work as well during extraordinary politics" (1998, p. 646). Estonia stands out from the other Baltic states in that organized networks with clear cultural, historical, and nationalistic aims began to form in the early 1970s. As Bennich-Bjorkman writes, "Estonia differs greatly from the other two Baltic states regarding the extent to which civil society formed itself already under Communism, producing a number of interconnected groups and persons who, when democratization started, possessed some previous experience and a strong enough moral identity so as to constitute an actual alternative elite. That ... was Estonia's good fortune" (2005, p. 13, 23). The importance of elite mental models was recognized by one émigré interviewee, who opined, "People at the top can really set the tone." He went on to explain that the beliefs and "style" of leaders made a difference, and Estonia's parliamentary elections in 1992 resulted in leaders who were more "radical, willing to push quickly, take risks, and so on," resulting in measures which provided Estonia with advantages over its peers, such as conducting currency reform in one step, instead of slowing the process by introducing a temporary currency, as was done in the other Baltic states (Hansson, interview). The temporary inability of the vast majority of Estonia's Russophonous population to vote in early elections due to strict citizenship laws muzzled the primary source of opposition to neoliberal economic policy, while other social classes, groups, and influence groups were still forming, and thus unable to play much of a role in the political debate over economic reforms, preserving the outsized role that elites played. (Savchenko, 2000, p. 73).

Even after the transition period came to an end, and the attitudes of the Estonian public began to clash with those of its political elites, Estonia's leadership maintained its

economic policies. As an example, although only 20% of Estonians initially favored of large-scale privatization, large companies were privatized early and swiftly (Nørgaard & Johannsen, 1999, p. 147). This disconnect between Estonia's voters and its government remains today, to some degree, in fields such as social spending and EU membership (Lagerspetz & Vogt, 2013, p. 54). As will be noted later, however, the Estonian public, especially ethnic Estonians, remained more supportive of a market economy with relatively little social spending than their counterparts in the other Baltic states (Lauristin & Vihalemm, pp. 122-127, 1997). Even as public dismay at the negative effects of shock therapy on living standards resulted in the defeat of the ruling coalition during the second parliamentary election, its policies were largely kept intact by the center-left/agrarian coalition that followed, in contrast to many of its election promises to roll back some policies and increase social relief funding. While this can be explained to some degree by a reluctance to increase partisanship and divisiveness by canceling many of the previous government's efforts, it helps explain the strong market mentality and high level of consensus among Estonian elites (most key members of the second government had worked with members of the first government during the Singing Revolution). Support for shock therapy among elites was "maintained through a wide value and policy consensus of the main political actors, despite the absence of a dominant political entity and the relative fragmentation of the political space" and the "homogenisation of Estonian elites on the basis of a national and neo-liberal ideological platform" (Adam et al., 2009, p. 71).

When asked about the differences between Estonia and the other Baltic states during the transition era, interviewees cited differences in elites, and focused on Estonia's speed and lack of caution compared to its counterparts to the south, especially Latvia. As it is natural for leaders to credit themselves for an organization's success, I have attempted to account for this by focusing in this section on comments made by émigrés who generally played an advisory role. In one interview, after having said that Laar had moved quickly, while Latvia and Lithuania lagged behind, one émigré was asked for an explanation, and responded, "I think it was really the personalities, the individuals at the top leadership, the PMs and the key politicians, the central bank governors and so on. I think individuals mattered a lot" (Hansson, interview). The other two émigrés interviewed likewise focused

on elites, the former citing Latvia's poor lustration, and the latter Lithuania's aged ministers (who had an especially poor understanding of market economics) and empowered nomenklatura (Rebas, interview; Üürike, interview). Almost all Estonian elites claimed that they had had no choice but to pass the policies they did, but Latvia and Lithuania suffered economic crises nearly as severe as Estonia, and over a longer period, and yet made different economic decisions, a sign of the importance of elite mental models and expectations, and one of the key reasons they are studied here.

### **2.3 “Extraordinary Politics” and Transitional Mental Models**

Estonian political elites were able to pass radical market reforms with little opposition or protest in part due to their timing: when Estonia became independent, it immediately began a period of "extraordinary politics." During this time, incumbent elites lost power to new elites, who faced ineffectual opposition and a public willing to make radical and painful changes. Thus, the structure of state and government is not decided by the relationships between social forces, as is usually the norm, but rather social forces are structured by the government. During this unusual period, the "prejudices, idiosyncrasies, and material interests" of elites can more easily affect decisions made, while the new institutions formed lack the social means (and to some extent bureaucratic inertia) to resist decisions made by transition elites (Rose, 1999; Nørgaard & Johannsen, 1999, p. 4).

As is usually the case with authoritarian collapse, the Soviet Union's breakup was linked to policy failure, resulting in economic crisis and urgent and severe policy demands. Transition elites took this as a clear mandate in favor of shock therapy, which caused "some exaggeration in [their] presentation of policy choice" (Pridham, 2000, pp. 180, 194). However, this same crisis gave Estonia's first governments "a unique opportunity to lay down policy directions," due in part to what Geoffrey Pridham labels a "honeymoon effect," and because "the sheer severity of economic crisis and breakdown" occasioned "a widespread acceptance outside policy-making circles that an immediate ... radical policy response [was] absolutely required." (2000, pp. 185, 192). This effect was visible in

interviews of Estonians conducted by Henri Vogt, who noted, "In Estonia it is presumably much easier to accept the pain [of transition-era economics], as the sense of regained independence appears to have raised the self-esteem of all ethnic Estonians" (2005, p. 147).

While "extraordinary politics" helps set the conditions for radical change, Weyland's reading of psychological "prospect theory" states that is prospect of losses felt during crises such as the hyperinflation and economic collapse seen in the Baltic states, that results in enactment and support for drastic reforms by elites and the general public in order to make up for recent losses, instead of the usual policies aimed at risk aversion. As Weyland explains, "After suffering losses, people thus tend to leaders who face severe crises tend to prefer daring countermeasures ... and many people endorse these bold efforts to save the country," resulting in economically rational, but politically irrational decisions being carried out (1998, p. 649). The role that outside media can play during transitions is clear when Graeme Gill refers to "the demonstration effect ... when the image of democracy, usually presented in terms of an affluent Western lifestyle, is projected into non-democratic countries and undermines the basis of the existing regime," and which "relies overwhelmingly on the media," as a force pushing transition elites to act more radically than would otherwise be the case (2000, pp. 65-6). Therefore, "extraordinary politics" gave elites a window of opportunity to make the drastic changes that their contact with Finland, with some influence from a profound economic crisis, biased them towards making.

In Estonia, this period of "extraordinary politics" lasted from independence, which discredited and removed the old Communist elites from power, while uniting ethnic Estonians against an outside enemy (Russia), continued through 1992, when the great majority of Russophones lost their ability to vote prior to the election for a new parliament, and ended as organized interest groups, which normally provide opposition to the elites in power, grew in number and became more organized and less fragmented (1999, p. 4, 153). This era lasted longer in the Baltic states than in most other post-Communist states, and longer in Estonia than in either Latvia or Lithuania. Nørgaard and Johannsen state that the political reaction to the social costs of instituting a free market regime "did not appear in Lithuania until the autumn of 1993, and in Estonia until the spring of 1995," while Toomas

Sildmäe said the period lasted in Estonia until at least 1996, if not 1999 (Nørgaard & Johannsen, 1999, p. 147; interview).

In the Baltic states, citizens with voting rights were mobilized by transition elites around common goals, which contributed to a sense of community. These goals were often securitized, so that even economic reforms were seen as a means of defending the nation from Russian aggression. A feeling among Baltic populations that, "We are all in the same boat," and a lack of clear alternatives or the economic expertise needed to develop alternatives in all parts of society, coupled with weak party development due to the young age of democracy, and the sheer amount of time passed since the pre-Soviet democratic period, helped prevent organized protests (Nørgaard & Johannsen, 1999, p. 153, 4; Savchenko, 2000, p. 73). As stated by Nørgaard and Johannsen, "The economic policy pursued in [the Baltic states] ... has almost exclusively been a matter for technocrats and government politicians ... in collaboration with foreign consultants (1999, p. 147). As shock therapy is a top-down approach, it requires elite consensus in order to begin, and to be sustained until its conclusion. Estonia, with its unusually closely-linked and united elites, provided a perfect opportunity for this approach, even though its elites did not set out with this objective in mind.

The role of Estonian elites during the transition period is further explained by tutelage theory. According to Pettai, this concept argues that elites in transition societies are enabled by "extraordinary politics" to take on a "tutelary" role—a caretaker capacity that helps them justify and explain their policy choices "in terms of imperatives other than direct popular preference or input." The phrase "tutelage" is used because it refers to a caretaker who is "entitled to make decisions on behalf of [the public], which do not necessarily derive from the immediate wishes of [the populace]." Situations such as radical political or economic transitions enable "extraordinary politics." Societies "in a self-acknowledged period of transition from some previous, failed era to a new future," as was the case in the Baltic states after the Soviet breakup, grant greater freedom to their leadership, providing them with an unusual opportunity "to make and sustain sweeping decisions." (2009, p. 72, 74).

The importance of culture, elites, and an interest in attaining the lifestyles of

neighboring states in transitional change is partially explained by Michael Kennedy's theory of "transition culture ... a mobilizing culture organized around certain logical and normative oppositions, valuations of expertise, and interpretations of history," which "provides a basic framework through which actors undertake strategic action to realize their needs and wishes, which in turn structures transition" to capitalism due to "the exhaustion of [socialism] and the normative superiority of [capitalism]." This culture "values broad generalizing, [and] expertise around the workings of market economies." While it is focused on "elite agency and institutional design," the roles that popular culture and history play in informing elites and their plans are also important (2002, p. 9). Those actors who play the biggest role according to Kennedy's framework are professionals connected to "international financial organizations, ministries of national finance, and scholars whose work is animated by the opposition between plan and market," which accurately describes many of the transition elites interviewed for this thesis (2002, p. 94-95). Transition culture is reliant upon "a eutopic utopia, based on that which already exists everywhere" and "a dynamic but directed tale, one implying movement and a goal," and a vision of an idealized but attainable lifestyle visible elsewhere, a role played by Finland in the minds of many Estonians, as well as stated means to attain that lifestyle. This theory is focused on socialist states that sought to become capitalist, as "transition culture would not exist if the choice between anachronistic socialist and suitably capitalist practices were not an important, if not dominant, cultural schema" (Kennedy, 2002, p. 116, 11, 117).

At this point, we have established that elite consensus does not come about or function in a vacuum, but in a free and pluralistic democracy, it must pervade the popular realm, especially if the consensus is in favor of painful or controversial measures. Hopf's "naturalization theory" argues that Estonians were especially tolerant of radical economic reform as they viewed it as "legitimate and 'natural,'" (2002, p. 426, 428-430). For transitory policies to be seen as legitimate, the voting populace must have some appreciation for the effects that the transition has already brought about, and some rejection of alternatives in favor of a relatively promising liberal capitalist future. When Hopf describes popular acceptance of transitory policies as being seen as "natural," he is arguing that they are seen as inevitable and without legitimate alternatives, regardless of economic

performance up to that point, and have been internalized by much of the populace. Although transition can proceed purely on the basis of its being "legitimate" or "natural" alone, Estonia's transition was aided by the prevalence of belief in both categories (2002, p. 404).

The same contact with Finland, especially through its media in this case, helped establish measures deemed “legitimate” and “natural” in the minds of many voters, so while Laar’s government was ousted due in part to the effects of shock therapy, those politicians who followed suffered little political fallout for continuing the policies established by Vähi and Laar. "Naturalization" theory also helps explain subsequent voter support for otherwise unpopular policies. Despite Estonians having been frequently surveyed to be, along with Latvians, the population most skeptical of EU membership among East European accession candidates, all but one of the major parties sold EU membership as an inevitability (and matter of security), resulting in a majority of Estonian citizens voting to join the EU (Lagerspetz & Vogt, 2013, p. 54; Pettai, 2009, pp. 87-88).

The result of this faith in the legitimacy and utility of radical neoliberal transition—a high level of support for market economics, which increased as the economy improved—is visible in the University of Strathclyde’s Baltic Barometer public opinion surveys, which have been conducted since the early 1990s. Although Estonians initially rated the Communist economy superior to the contemporary Estonian economy in 1993 (when the economy was passing its nadir) the two were rated equally by April 1995, and by November 1996, a strong majority supported the current Estonian system. However, starting in 1993, Estonians showed consistently high levels of optimism in their country’s future economic growth. By contrast, support for the current economic system in Latvia and Lithuania changed little between 1993 and 1996, while Latvians and Lithuanians reliably had less faith in the future state of the economy, and had better memories of life under Communism than Estonians during this period. Ethnic Estonians were also reliably rated as far more patient than their ethnically Latvian and Lithuanian counterparts, based on a question asking participants to declare whether a new system of government should be tried if positive economic results are not seen soon (Lauristin & Vihalemm, pp. 122-127, 1997). This is a sign of the motivational aspects of Finnish contact in action, driving



Estonians to be more optimistic and devoted towards a capitalistic vision than their Baltic counterparts, and proof of the accuracy of Hopf's "naturalization theory."

As can be seen, various influences, among them Finnish contact, came together during the Estonian transition to a market economy. While Estonia's geographic location and economic structure were important (the former more than the latter), elites could not have rendered such dramatic and swift change without certain factors being in place conditioning them to act, then granting them the opportunity to do so. Independence brought with it a period of "extraordinary politics," in which the populace expected radical changes from new elites and were willing to tolerate unusual amounts of pain and confusion, in part because they were, as Weyland's "prospect theory" notes, already facing the prospect of severe losses due to the collapsing Soviet economy. As argued by Pettai, "extraordinary politics" allowed Estonia's transition elites to take on a "tutelary" role in which they could operate in terms of imperatives, rather than the stated and immediate wishes of voters, who had in any case been mobilized, according to Kennedy's theory of "transition culture," in favor of a democratic market economy based in part on the "idealized but attainable lifestyle" in Finland that was promoted by Cold War contacts with that state. These cultural factors allowed Finland's cultural influence on elites to thus play a role in Estonia's transition, aided by a sense of "naturalization" among the Estonian populace, allowing for the swift and radical economic changes examined in this thesis.

### **2.3 Neoliberal Reforms: "Shock Therapy" Versus "Gradualism"**

The "shock therapy" or "Big Bang" approach to market reformation is intended to stabilize, liberalize, and privatize a transition economy as radically and rapidly as possible, in order to avoid the economic pains and lowered living standards engendered by this approach, which can lead to a reversal of transitional policies and prevention of a radical break with the past. According to Nørgaard and Johannsen, if all goes well, such a series of major but necessary changes will cause "a steep, but relatively short decline in output and living standards before recovery begins" (1999, pp. 10-11). In contrast, gradualism spreads

out these reforms to limit the overall decline in output and living standards, at the cost of prolonging an overall recession. Its reforms are slower and more measured, and conducted in a carefully planned, sequential manner, beginning with institutional rebuilding and the rapid privatization of small enterprises, followed by the more gradual privatization of large enterprises.

While shock therapy advocates maintain that their approach best takes advantage of the transitional "honeymoon effect" and "extraordinary politics," gradualists argue that "shock tactics face a strong risk of transition chaos turning into disaster and encouraging a backlash ... attenuated economic pain is politically more bearable and that dual transformation is more likely to succeed eventually through consensus and negotiation" (Pridham, 2000, pp. 210-211). Reforms associated with shock therapy usually include currency reform (often involving devaluation or the establishment of new currency regimes); deep spending cuts (especially to social services); the abolishment of subsidies duties, tariffs, and price, capital account, and currency exchange controls; and privatization at all scales. As a result, wages fall, unemployment rises dramatically, and, even as the need for welfare increases, social welfare spending is cut, lowering standards of living and substantially changing social routines.

Shock therapy is associated with a break with the old elite and their power structures, leaving new elites free to conduct a top-down, radical program, while gradualism is conservative, incremental, and associated with pre-transition elites remaining in power to some degree. Estonia is a clear example of the former category, while Lithuania is closer to the latter model in the Baltic context, although it still hews far closer to the shock therapy approach than its non-Baltic counterparts in the former Soviet Union. Both approaches have the creation of an efficient, prosperous market economy with low levels of rent-seeking as their ultimate goal (Nørgaard & Johannsen, 1999).

True gradualism is rare—perhaps the only clear cases of post-Communist gradualism in Europe have been Hungary, and Slovenia. While they were relatively wealthy and able to begin reforms before escaping Communism, the rapid collapse of the Soviet Union made such measures impossible in former Soviet space, as interviewees frequently noted. Instead, as Norkus writes, the only real possibilities were shock therapy, partial, or

minimal market reforms. While all three Baltic states implemented shock therapy, this series of policies was conducted at different speeds and levels of commitment, allowing us to contrast the Baltic states, although they may seem similar in a global context. Lithuania's reforms were incomplete, and due in part to poor lustration, increasing rent-seeking behavior and slowing privatization (2011).

According to Marie Lavigne, "There was no theory of gradualism," just "recommendations to the effect of softening the initial shocks." (1995, p. 120). However, in academia, the debate over the relative merits and utility of gradualism versus radicalism continues unabated. A recent meta-study found 135 studies arguing for "radicalism or gradualism as transition strategies from a planned system to a market economy" published between 1989 and 2013, of which 69.6% advocated for gradualism (Iwasaki & Suzuki, 2014, pp. 3-4, 10). While many have praised Estonia's shock therapy for enabling its early macroeconomic successes, academics frequently note that, despite their initially slow progress, the Baltic states have now reached near-parity in economic terms (Nørgaard & Johannsen, 1999; EBRD, 2010). Acknowledging the successes linked to Estonia's economic radicalism, Nørgaard and Johannsen argue that "it carried a politically hazardous price [and] involved consigning a significantly large share of its population to a life in poverty, accepting greater social inequalities [sic] than the other two countries and—particularly—destroyed a larger part of the economy than a less radical strategy would have done" (1999, pp. 107-108).

### **CHAPTER 3: METHODOLOGY**

This thesis depends on academic sources for background and context, and employs EBRD data and European Commission reports to establish the speed of implementation of economic reforms within Estonia. However, in order to explain and understand the degree to which Finnish media influenced Estonian transition elites, and how that influence translated into policy, extensive use was made of interviews. To that end, I interviewed 18 Estonian decision-makers from the late 1980s and early '90s, focusing on politicians and other parties in positions of authority during the transition period defined above. In particular, a special effort was made to locate and interview those involved with economic policy who worked with or in the first four governments of Estonia (from the beginning of Savisaar's government in 1990 to the end of Tarand's time in office in 1995), and those involved with planning for Estonia's future during the Singing Revolution. I first compiled a list of people who played key roles in forming transition-era economic policy, including the first few ministers of economics and finance, then added to this list based on Bennich-Björkman's interviews of transitional elites from 2003-2007. Several persons were also added due to the usefulness of their scholarship to this project. Once contacting and interviewing such elites had begun, I took advantage of the "snowball method" to locate and contact additional people for interviews, requesting the names and contact information of potential interviewees involved with the fields explored in this thesis. Fortunately, most turned out to be active both before and after independence, and reasonably fluent in English.

While the patterns I discovered became clear after the initial few interviews, I ultimately compiled 18 interviews out of a desire to attain breadth and because interviewees would occasionally recommend that I seek out a specific person to better answer some questions. Even though this project is concerned with pre-independence contact, three

interviewees were émigrés who had spent most of their lives outside Estonia before independence, and thus were unable to provide much personal information on Estonian personal contacts with the outside world before the transition. However, such persons were chosen for interviews based on the recommendations of other interviewees, and for their often pivotal roles, as well as their fresh “semi-outsider” perspective. Further information on interviewees may be found in Appendix I.

While interviews by telephone generally provide data equal to interviews in-person, I aimed for the latter approach whenever possible in order to build rapport and increase meeting time, and with the permission of interviewees used my laptop to make audio recordings in order to ensure accuracy. However, as some elites prefer telephone interviews for convenience, I brought up this option, and the possibilities of conducting Skype interviews and email exchanges, when making initial contact (Harvey, 2011). Interviews averaged 75 minutes, resulting in 22.5 hours of recordings, which were partially transcribed by myself, with help from notes taken during the interviews.

Political elites lend themselves well to research for the purpose of this thesis. As many were unusually young during the Singing Revolution, transition period, and first few years of independence, most remained politically active for a long period, and are still alive. Thus, many of those active during the early years of the independence effort remained deeply involved in politics a decade later, allowing them to cover more topics and events during one interview than would otherwise be possible. As a plus, their relative youth and tendency towards academic backgrounds means that many speak English fluently, and a majority are currently employed in universities or government offices in Tallinn and Tartu, making them easy to reach. Another reason for the adoption of elite interviews was an interest in enabling Estonia's transition elites to explain how they themselves perceive the roots of the neoliberal consensus and view the conventional transition-era narrative, and also to potentially find new ground for future historians and political scientists to visit.

When starting each interview, I requested a brief overview of the subject's life (except when interviewing Mart Laar, whose life is well known, spoke slowly, and was short on time). This had the effect of making interviewees relax, causing them to open up,

providing the interview with a chronological structure, reinforcing my knowledge of their past, and giving me a great deal of material for the questions that would then follow. I focused on letting subjects talk, subtly moving the discussion topic towards the transition period, and contacts with the other side of the Iron Curtain while building rapport (Mikecz, 2007; Panagiotou, 2001). This semi-structured format helped me control for my own biases, as it allowed participants to steer the conversation towards useful areas I might otherwise have ignored or underestimated, such as contacts with outside sources other than Finland. I also asked about discussions within parties, voting blocs, organizations, planning groups, task forces, and parliaments, seeking the sources of economic information and of consensus, debate, and opposition, as well as personal and institutional knowledge of economics, during the relevant time period. Many questions also focused on the extent, timing, and degree to which economic plans were made and followed. These questions were meant to determine how the neoliberal consensus came about, and how it was influenced by outside sources.

The role of Finnish media, especially television, frequently came up organically at some point during each interview, leading me to ask for personal examples of its impact, and for opinions about its possible importance. In cases where this was not brought up by the interviewee, I would ask several questions about this topic towards the end of the interview. At the conclusion of all but the last three interviews, I requested the identities and contact information of others who might be willing to submit to an interview (the aforementioned “snowball method.”) The exact structure and areas covered in interviews are set forth in Appendix II.

As the events in question were often more than two decades ago, memories may be inaccurate, or modified, a problem familiar to all oral historians. As one of Bennich-Björkmann's interviewees noted, ““In retrospect, so many heroes appear”” (2005, p. 8). In situations where oral and written history clash, I have prioritized written historical accounts, keeping in mind that, years after taking part in a social movement, people often play up their roles, sometimes unconsciously. A more obvious problem with interviews is the language barrier. English is the only language I felt comfortable in using for this level of research, but was not commonly taught in Estonia until independence. Fortunately,

Estonia's transition-era elites are distinguished by their high levels of education, as can be seen by Bennich-Björkman's success in conducting English-language interviews of elites (2005). Only two potential interviewees were rejected due to poor English, but poor or non-existent English may be a factor in several interview request emails which went unanswered. While many interviewees claimed to have poor English, all were able to communicate points clearly and without over-simplification. Despite careful research, my position as an outsider born during the Singing Revolution obscures my understanding of life during Estonia's transition, and yet, that very status as an outsider without past loyalties may have resulted in greater openness and less suspicion, as well as less bias on my own part (Cunningham-Sabot, 1999).

## CHAPTER 4: FINDINGS

### 4.1 Finnish Connections

#### 4.1.1 Media

The crux of my research is an aspect of the swift and radical economic reforms implemented following Estonia's return to independence: the motivations that drove the country's transition elites. To investigate this topic, I interviewed Estonian decision makers from the transitional period, then searched for patterns. Interviewees make clear that Estonians were avid consumers of Finnish television. Toivo Jürgenson noted that Estonians were "in the same cultural region as Finland, all jokes, anecdotes, we understood the Finnish language very well," while Erik Terk explained that Finnish television was more popular than Soviet television, and a regular topic of discussion (interviews). According to Lauri Vahtre, "All Tallinners spoke [Finnish] at least passively. They understood Finnish because it was always the first choice. 'Click, click,' and YLE TV started." Although "in South Estonia ... we didn't have Finnish television ... somehow it radiated to the others, too." He went on to recall that, "When I was in the university, it was a great problem: I had to reach Tallinn, because Dallas was shown at this time," and that in a Young Pioneer camp gathering youngsters from throughout Estonia, one attendee said, "I have to write on my forehead that I don't see Finnish television, because they come to me, 'did you see this movie, did you see this series, what happened on ... Star Trek, Dallas?'" Vahtre also said that Finnish television was "part of folklore, so when someone came from Tallinn [to Tartu], he or she told us about what was on there ... much was recited," in a manner described in "Disco and Atomic Warfare" (interview; Kilmi & Aarma, 2009).



Even in locations at the edge of Finnish television reception range, such as Haapsalu, at the northwestern edge of the Estonian mainland, Finnish television was popular, despite the special equipment required to decipher signals (Lipstok, interview). When interviewed, Lauristin said that Finnish TV's popularity in Estonia was so great that people in the 1/3 of the country that couldn't view Finnish signals would travel to Tallinn in order to watch Finnish TV, and purchased recordings of programs (interview; Kilmi & Aarma, 2009). Although the informational aspects of Finnish media's influence in Estonia are perhaps the most obvious, its motivational aspects played a greater, if more subtle and indirect, role in Estonian transitional policy. These effects were twofold: showing what was possible and pushing people to reach that possibility.

Finnish media helped enable concrete steps. For example, Made, who corresponded with many foreign experts in economics, often found people to contact by watching Finnish television: "We had Finnish TV ... some name came up, and I went to the library and found their address" (interview). Finnish television also helped prepare Estonians for some of the effects of independence. Lauristin explained that Estonians observed Finns solving their own problems "in different ways," and many were fervent observers of Finnish elections. Most important, Finnish media presented "a more realistic picture of the future, the market economy ... how people were, how businesses were," which ultimately "meant we were mentally well prepared, not only in elite circles, but [in] every family." In an interview, Ignar Fjuk stated that Finnish TV programs had a "quite big influence," as they gave Estonians knowledge about how the "free world and free economy must act," a sign that Finnish media helped show transition elites how to act in a market environment, a level of understanding that Norkus found to be greater in Estonia than in other Baltic states (interview; 2012, p. 234). Similarly, as Nørgaard and Johannsen write, "The economic experiments during the 1980s, the discussion about the IME proposal...and contacts with Finland have left the politicians and the population [of Estonia] better prepared than in the other two [Baltic] states for the implications of economic readjustment" (1999, p. 149).

In describing the desire to achieve a lifestyle closer to that of Finland, and what many interviewees and academic sources referred to as "normal," in contrast to everyday

life in the Soviet Union, which Vahtre has deemed "The Empire of the Absurd" (2010).<sup>13</sup> Ivar Raig noted that "our people ... had the power to watch Finnish TV everyday—this [was] the big difference [between Estonia and the other Baltic states]—we were more informed" (interview). Vahtre's description of the effects of Finnish television was especially memorable: "We were not so separated. Finnish television's influence was very great, and no matter it was very moderate, it just showed us that there is another world ... much more colorful, [far] more smiling, [far more] goods, but it was still a shock when we arrived. The first Finnish shock, it was a really hard experience. Some people started to cry, some started to laugh, some went silent, sat down, thought, 'What have I done? What have I done wrong, that I was not allowed to have this?' Even having seen with a TV, to see in your own eyes, was a shock" (interview).

Lauristin's description of the role played by Finnish television is perhaps the most vivid, as she describes Finland as representing a "parallel reality" for Estonian audiences, explaining that:

Every Estonian had this second thought: "if we weren't occupied, we would look like [Finland, that] could be Estonia" ... they developed in a way that we could follow. For us, they were a control group, an "if" group ... what could have been ... if we weren't in the Soviet Union, [showing] every household what we were capable of ... it was in everybody's soul, every moment of their life, because of Finnish TV, which reminded them every day ... it made this knowledge visible, and you can identify yourself with that, so it wasn't so much about this message or information, it was identity, how you saw yourself in this world ... people watched lots of Finnish TV, different programs ... they saw the light, they saw how people behaved (interview).

After describing the joylessness and paranoia of Soviet life, Lauristin continued, "When you are living in this world, and you saw on Finnish television how people of your kind with language like yours with accent like yours are smiling differently, behave differently,

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<sup>13</sup> Other interviewees who made the same claim were Fjuk, Hansson, Kukk, Lauristin, Rebas, Sildmäe, Terk, and Vahtre.

are talking differently, are dressed differently, they are normal people. You are not.” Perhaps most importantly, Lauristin noted that Finnish media was “not just informational, but motivational” (interview).

Another common theme in interviews was the inspiration and sense of delayed but still obtainable opportunity that contacts with Finland, principally through TV, but also through smuggled materials, radio, and personal contacts, brought to Estonia. While news programs were popular and played an important role, most Estonians looked to Finnish television as a form of escapism, offering distraction and exotic entertainment. Television worked in a subtle manner, reminding viewers of the absurdity of their daily lives, and exposing them to images from what many termed a “normal” society. The ability of seemingly innocuous television programs, such as soap operas and advertisements, to influence people within closed societies is visible even in North Korea, as Barbara Demick demonstrated in her interviews with North Korean defectors (2009). Thus, it was not so much the news programs that motivated Estonians as the Väiski butcher shop advertisements.

Alari Purju believes that Finnish TV raised Estonian expectations of life under capitalism too high, opining, “Expectations were too high, because we looked at this, how things were going on [in Finland], and from the outside, it seemed very simple.” Most interviewees saw this effect in a more positive light, however (interview). In an interview, Liia Hänni explained that, “Finnish influence, understanding that there are these different worlds outside ... [gave an] initial push that [made] many people become active” (interview). The following excerpt from an interview with Made provides a further example of this belief. After noting that Estonians had more contact with the West through Finland than did Latvia and Lithuania, Made continued,

*Made:* "We started to act because we knew more than they did, we were better informed about what happened."

*Interviewer:* "What do you think you were better informed about? Living standards, how things worked, what was happening outside?"

*Made:* "All. Everyday life ... everybody had blue eyes [i.e. naïve OR everybody saw things as a child would], it was quite enough to [see], how the others lived, and how you lived. It was clear."

*Interviewer:* "So do you think this pushed people forward?"

*Made:* "Of course" (interview).

Lauristin noted that Finnish TV produced "a very strong feeling of identification" among Estonian audiences in part because when the Finnish anthem aired—a daily occurrence—the melody was identical to that of their own anthem: "It was like an everyday experience of being in the wrong place, in the wrong world, and time to get out of it, to get back to a normal way of society, not only in this narrow political sense, it was very much cultural ... [and] social." She went on to explain that "it was very much part of this everyday imagery of people, which brought people into [the independence movement] ... brought Estonia this idea of how to go on [after independence] and helped us also" deal with the effects of the transition. It also assisted Estonians in putting themselves into a different mental framework, and "to imagine what could be."

Meanwhile, Finnish media also led to some naiveté, as people eagerly anticipated the positive effects of the transition, and were caught unprepared for the negative aspects. As Lauristin notes, "People could imagine generally, but not what would happen to them after the market economy arrived" (interview). Fjuk echoed Lauristin's language when asked why Estonia adhered closer to shock therapy's precepts than the other Baltic states, explaining, "First, I think this is an example of Finnish TV." During the Soviet era, "There was, on the ... screen ... another opportunity, another world, and you lived in a parallel world ... and [Finnish TV] was superficial but at the same time it gave some kind of knowledge and some kind of understanding, how to act in a different way," which helped when the borders opened and more Finnish investors began to arrive (interview). After discussing the connections his architectural school had with Finnish architects, Fjuk said that while important to him, "The main link to Finland was not these architects ... but Finnish TV, which was [a] window to [the] free world," (although he admitted to not enjoying television himself, explaining that he only saw it once a year, when he would visit a friend in Tallinn). He also stated that Finnish television "gave us some of feeling or

understanding that there exist[ed] another world with [other] rules and another constitution," partially providing the need "to find that world and to establish that kind of world in our country." He stressed that it was not a "direct influence to do so or another way, just ... one possibility to see how the free world is" (interview).

Sildmäe also found Finnish television to be key, emphasizing that it "helped very much to raise the cultural level of Estonian people," and "was a very big influence" in policy-making, explaining that, thanks to this form of outside contact, "People became aware of what's happening." Soviet media said "our living standard is the best in the world, but when you saw ... [interviewer: 'the [Väiski] meat ad?'] ... yes, in the outer world, something normal ... people started to think on another level, in other terms." Finnish television provided the "possibility to see much further on than other people in the Soviet Union. You didn't have to be some agent of the KGB to become aware of international life. It was possible to do it on a normal basis" (interview). Laar saw the effects of Finnish television as primarily motivational, as it "showed that people could live very differently," and "that you could see ... that people are free, which motivated" (interview). Vahre in turn saw Finnish television as purely motivational, explaining that "it was just proof that if [Finns] can, we could. That was it. Everything is possible without this damn Soviet rule" (interview).

Television turned out to be the primary form of media contact with Finland, and potentially with the wider world, for much of the pre-transition era, with one interviewee even stating as much (Raig, interview). Made noted that although people continued to listen to foreign radio stations, such as Voice of America and Radio Free Europe, their information was mostly political, and of little use for setting up the future Estonian state (interview). According to Andres Lipstok, while foreign radio was an important source of information on the outside world, its direct impact remains unknown (interview). Elites differed greatly in terms of access to Western literature, whether samizdat from Finland, restricted literature in special library sections, or American and Finnish publications. This situation ended when Perestroika greatly loosened restrictions, allowing some elites to openly translate books, and even subscribe to Finnish newspapers and other Western publications, albeit still within limits (Nutt, interview). However, one interviewee noted

that, by this point, the elite consensus in favor of “a market economy, like before the Second World War,” had already solidified (Raig, interview).

Some caveats in order here, however; there was no universal consensus on the impact of Finnish media, as some interviewees noted no direct connection between contact and policy. Laar, for example, downplayed the effects of Finnish television on economic understanding, saying that he looked elsewhere for information, although he did see it as a useful source for “understanding the political picture” (interview). Lauristin also believed that Finnish media did not have much direct impact, as Finns rarely discussed Estonia carefully in their own media. This point was also made by Fjuk, who stressed that Finnish television was not a “direct influence to do so or another way, just ... one possibility to see how the free world is.” He then reminded the interviewer of the effects of “Finlandization,” noting that the Finns “were our brothers and sisters but at the same time, they were under Soviet control in some way ... and they were very careful ... cautious” (interviews). However, Finnish contact is a distal variable, obscuring its influence and rendering its effects less visible.

#### **4.1.2 Personal**

Despite the phenomenon of the “Home Finn,” a Finnish businessman, trader, or tourist whose visit to Estonia became a source for Estonian contact abroad, most interviewees with pre-Perestroika contacts with Finland focused on academics, although one transition elite interviewed for this project actively worked with Finnish smugglers (who had met him on a visit to Tallinn) to attain Western publications in microfilm format (Jürgenson, interview). Lauristin supplemented her outside knowledge with materials from conferences, and the management institute in Tallinn from which Terk graduated had good contacts with Finland and a library of Western literature (mostly related to management) (interviews). After visiting scientific conferences abroad, academics at Hänni’s observatory “had gatherings...a show, with slides, of what people had seen outside Tartu, what life was like...music,” which meant that its faculty “knew very, very well what’s going on outside,”

which made clear “that what is going on in Estonia is terrible,” while the “Club of Young Economists” of which Purju and most economists in his generation were a part had similar experiences, organizing meetings with foreign economists (interviews). While, as noted by Sildmäe and Made, it was not very difficult for many elites to visit abroad after Perestroika began, Estonia’s transition elites included several who were able to study abroad quite early. Made, was even able to study in Helsinki for two semesters in 1967, reportedly the second Estonian permitted to do so (interviews).

The importance of geography for post-independence Estonia was made abundantly clear in interview after interview. Interviewees spoke of looking in many directions for advice and expertise. Some argued that Sweden (with its large émigré population and investors in search of new markets), Hungary (an early source of market reform knowledge and Western economic information), and Germany (which sent many advisors and whose neoliberal reforms were a model) were more important influences. However, all agreed that Finland’s proximity was a boon to Estonia’s post-Soviet transition, especially with respect to motivation. Even though its government was of little help, Finland’s visitors and media helped give Estonian elites the tools, intellectual and motivational, to build and execute an economic consensus.

## **4.2 How Economic Policy was Made**

### **4.2.1 Consensus**

The crux of my research is an aspect little-explored by academics—the motivations behind decisions made by Estonian transition elites. One frequent claim found in interviews and materials written by transitional elites is that radical neoliberal reform was the only possible choice. None of the transition elites interviewed for this study held a belief in alternatives to shock therapy, although a few mentioned mistakes and regrets. As Purju noted when asked about Estonia's lack of social spending, "We didn't have any other choice. We had to stop inflation," while Hansson made similar points about state capacity (interviews). Paul-Eerik Rummo, the minister of culture and education for Laar's

government, has said that Estonian elites shared "a common goal:" making Estonia into a European state with a free market economy "and a strong emphasis on individual liberty" as quickly as possible, explaining, "Everybody was convinced that without shock therapy it was impossible to do anything." Similarly, according to Lauristin, "It was clear from beginning [sic] that we had no choice—we could not be half socialist or half capitalist (Bennich-Bjorkman & Likic-Brboric, 2012, p. 58). This belief is prevalent in Laar's own writings.

Laar famously claims that Milton Friedman's *Free to Choose* was the only book on economics he had read when elected prime minister, and believed that many of the policies recommended by Friedman, such as a flat tax, were standard in the West.<sup>14</sup> He has since justified his choices with a greater degree of economic analysis. (Laar, 2010). Writing in retrospect, Laar explains that, "In order to emerge from the difficulties, Estonia had to choose between two possible paths: to advance with slower, gradual reforms or to decisively tear itself away from the past and start on a road of radical reforms." He further believes that the answer to this dilemma was clarified when his party, which advocated the latter approach, was elected in 1992 (2006, p. 270). Laar also later defended the results of his actions, claiming that the popular view that his policies resulted in a "deterioration in the situation of elderly and disabled people, as well as young families with children, and the collapse of rural areas" is the result of poor economic understanding. He believes that the Soviet economic decline of the '90s resulted, not in a choice between gradualism and shock therapy, but rather one between "continuing, accelerating decline," or "market-oriented reforms that ... temporarily aggravated income problems but offered an opportunity for healthy growth in the future." To make this argument, he cites a study by Jan Winiecki (2010, p. 155).

While many elites considered themselves neoliberal and took Friedman's economic advice to heart, most interviewees stated that they were simply aiming to do the opposite of what the Soviet Union had done, and that no other ideology had played a role in their

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<sup>14</sup> Laar admits to not having realized that many of Friedman's recommendations, such as the flat tax, had rarely, if at all, been carried out before (Laar, 2006).



decisions. Supporting this ad hoc approach to economic reform, Mart Nutt stated that most people had little understanding of economics, just a deep understanding that planned economics did not work and a willingness to "eat potato peels to join the West," while Lauristin recalled that, "It was very clear, it was very strong and common will to break off, to go as far as possible from the Soviet Union, as quickly as possible, and that wasn't only a rational decision, it was people's overwhelming feeling, get rid of it, immediately, turn your back to it" (interviews). Indeed, several interviewees referred to measures they planned and executed, which they only later discovered had been carried out in other areas. Purju disagreed with the idea of elite consensus, saying that reform "was much more step by step, and a much more pragmatic approach," with different choices being debated within privatization committees, and reforms conducted not as part of a system, but according to practical need (interview).

Elites were also partially driven by their fear of Russia, securitizing economic policy debates out of sincere belief, and increasing the already high tempo of reforms. Lauristin said that many elites felt that they had to act swiftly and radically to avoid falling back under Moscow's influence, as eventually happened to Ukraine (interview). Pettai writes that, although "the drive for a Western-oriented and developed Estonia had a lot to do with a very basic desire to improve the living standards and well-being of Estonian society ... the tempo or zeal with which this effort was undertaken belies a likelihood that more profound stimuli were under the surface," stimuli that included the fear that Estonia had only a limited period of time before Russia resumed its usual aggressive stance. This concern was strongly related to the first period of Estonian independence, when the state initially emerged from the previous period of Russian imperial breakup, only to be subsumed by its resurgent neighbor (2009, p. 74).

## 4.2.2 Planning

### 4.2.2.1 “Miraculous” IME

IME was a pioneering plan for economic self-sufficiency within the USSR, and considered a form of “market socialism.” Interviewees were split about its usefulness for post-independence economic planning, but generally viewed it as an important first step: while it was a plan for autonomy within the Soviet Union, a goal quickly replaced by more audacious plans, it pushed people forward and provided a basis for discussions about Estonia's economic future. According to Made, however, Rahvarinne did take some steps to implement IME starting in May or June 1988 (interview). Vahtre noted that IME was the result of some naiveté, explaining that it “was based on the overall understanding that we were robbed [by the Soviet Union]. At the first stage the idea was very simple: we are occupied ... annexed ... [and] treated like a colony. So getting rid of this must be profitable for us, if they take more than they give ... we must get richer. That was quite logical, because we didn't actually see or understand that there were really things that were cheaper than [our goods] on the world market, [Soviet] energy was cheaper [than market price], and much of” cattle feed was imported in return for Soviet oil and gas, as growing large quantities of crops was relatively inefficient in areas as far north as Estonia. Vahtre also explained that Rahvarinne's economic plans were mainly based on IME, “Which were not as moderate as they can seem now. They were moderate, but between the lines, it was written down there the idea of our own money,” and many things logically follow such a step, such as a national bank, and even political independence (interview). Laar writes that although “preparations for radical economic reform started in Estonia parallel to independence demands,” and included IME, these plans were too optimistic to be useful, and “economic reforms in Estonia began without a clear ‘master plan.’” (2010, pp. 89-90).

Fjuk saw IME as the first of Estonia’s economic reforms (interview). Kalev Kukk believed it to be key because it was the first time people began to discuss autonomy, not just fixing the Soviet system, and provided the means for institutional changes, although he was quick to stress that it had “no connections” to a market economy (interview). Made, one of its authors, went a bit further, saying that while it was merely a “political manifest[o]

on the ground of economy," it did form the basis for thinking about Estonia's future economy, calling it a type of "people's university," where Estonians could "study things about which they knew absolutely nothing before" (interview). Raig also saw it as a means of producing ideas, identifying it as one of Estonia's advantages over the other Baltic states (interview). Ardo Hansson agreed, believing it to be one source of "an enormous amount of debate," and suggesting that "people probably just got smarter by talking it all out" (interview). Lauristin saw it as a means of showing older people how a market could work, introducing the importance of balance sheets and accounting, determining the capacity of the Estonian economy in terms of market prices, and the like. IME was thus an important influence on the mental models of transitory elites, as, like Finland, it showed what was possible, "encouraging" Estonians to "go their own way." Lauristin explained that some post-Soviet states, such as Ukraine, failed to prepare for autonomy from the Soviet Union, and kept up old habits such as bargaining for oil, but "for us, IME was mental preparation for this cutoff" (interview). Such statements are consistent with Panagiotou's theory that IME helped bring about a more economically competent elite (2001, p. 271, 273).

As the previous quotes show, IME was both a sign of Estonian contacts with the West, and a means of turning that contact into effective action. IME stands out as the first independent economic plan meant to function autonomously from the Soviet economy, and harnessing the power of market economics, while remaining within a socialist system, an approach reminiscent of Hungary's "Goulash Communism" (which itself was another influence for Estonian economists and planners). Like the Finnish media that helped enable it, IME was both informational and motivational. While the plan was relatively vague and somewhat naive, with some steps unnecessary or impractical for a free and capitalist Estonia, some aspects of the plan formed the backbone for later Estonian reforms, making Estonia better prepared, economically, than the other Baltic states at independence. Even before the plan could be carried out, however, it served as a topic of debate, pushing people to discuss issues previously seen as too dangerous for debate, as well as exposing the populace to new ideas (often spread by journalists, columnists, and radio and TV hosts, some of whom became elites when Estonia entered its transition period). Thus, IME served

as a means of providing Estonians with some preparation for the transition, especially compared to their Baltic comrades.

#### **4.2.2.2 Post-IME**

At independence, Estonia's elites had no clear plan for the transition of its government, institutions, and economy, although interviews revealed that, while evincing a bias in favor of radical neoliberal market reforms, they lacked an organized plan to attain their vague goals. Some economic planning was conducted, such as IME, but these plans were made with little knowledge of market economics, and quickly became obsolete, making them more useful for motivational reasons, or as a basis for future planning, than as plans to execute once independence was attained. A common refrain among interviewees (and echoed by Savchenko) was that until independence was attained, freedom was the overriding priority, to which economic planning took a back seat in part to prevent the creation of any cleavages that might undermine elite convergence, and with it, independence. Economic reforms were seen as mere steps towards reaching this overriding objective (2000). When Lipstok joined the Ministry of Finance as a deputy minister in 1989, everyone "had quite the same understanding about what Estonia needs and what is our mission." While people talked about economic reforms, "Independence was our main goal" (interview).

While the Estonian independence movement had no shortage of highly trained economists, few had much understanding of how market economies functioned, much less how to transition to such a state, which would necessitate complex measures such as instituting a new currency and property restitution (Savchenko, 2000; Vardys, 1976). There was a unanimous and strongly held belief among transition elites in the desirability of a market economy based on private property. As stated by several interviewees, a consensus existed to do the opposite of the Soviet Union's centralized command economy, a sign that the radicalism of Soviet ideology had resulted in a corresponding surge in radicalism at the other end of the economic spectrum. Lauristin stated that one cannot start from one

economic pole, and not go to an extreme, rather than trying to take ideal portions from both extremes (interview).

Estonian elites appear to have conducted more planning than their counterparts in the other Baltic states. When asked about the differences between Estonia and Latvia and Lithuania, Made said that “the main reason we went first into the EU,” was that, in terms of economic planning, when the Baltic states regained independence, “We were already prepared” (interview). Although my research has shown that Estonia's elites, especially those with higher degrees in economics, were able to develop and maintain contacts with the outside world, especially with the beginning of the “Perestroika” era, knowledge of how to create and sustain a market economy based on private property was sorely lacking. Instead of following a plan, elites focused on heading off and ending a series of crises, like carpenters too busy shoring up a collapsing building to design and follow a blueprint.

While some economic planning in addition to IME was carried out prior to independence, the level of detail was a matter of dispute between interviewees. Hain Rebas stated that the Estonian National Independence Party (ERSP), which was part of Laar’s first government, had a minimal level of economic planning, as it was mostly composed of political dissidents focused on independence, democracy, and free elections. Other parties had little more knowledge about market economics. As he recalls, the ERSP “knew nothing about economics. They had one simple goal, and that was just get out of the Soviet system...there were no economists in that group,” but even if they had, “The great economic experts here ... didn’t have any ideas” (interview).

In addition to IME, Res Publica (a political association set up in 1989 which eventually became a liberal, center-right party) made one of the first attempts to figure out a plan for the future beyond "freedom." As one of the authors, Nutt pointed out that it was quite short, and consisted of "fundamental steps ... to create a fundamental market economy.” These steps arguably formed the basis for the electoral policies of “many later [political] parties,” including Laar’s. Though neoliberal ideals were strong within Res Publica (which called for the full privatization of all state enterprises, even those, such as transportation authorities, which have remained public), neoliberalism was poorly understood, and the plan was not recognized as being neoliberal. Much like IME, it was

also “very general—there were no details” (interview). Lauristin may have been referencing Res Publica’s plan, in addition to IME, when she said, “We had very high-level theoretical discussion, preparation before [independence, which ... was planned, really nationally discussed years before ... and so when it became a political reality, there were different institutions" set up (interview).

When Estonia's transition elites began planning in earnest following independence, the term "shock therapy" was new and almost completely unknown. According to Jürgenson, Rahvarinne spoke only of freedom, not economics or ideology, but per Terk, it started making economic plans as it ascended to power in 1990 (interviews). However, Fjuk claimed that these plans were taken from the program of the Council of Creative Unions, of which he was the founder (interview). In yet another opinion, according to Lipstok, the Estonian Congress had many specialists, who were in agreement as to the necessary economic steps following independence (interview).

At the same time, some interviewees called the level of planning prior to independence into doubt. Made argued that while independence was seen as likely, “Nobody” expected it to come for another 3-5 years; "We didn't know about the coup. On the 18th of August, we had nothing in mind [about] independence, but on the 20th of August, Estonia was an independent country ... how could we think about 2-3 years [in the future]?" As Made recalls, Estonians did not speak directly about what would follow independence until after the Singing Revolution. Instead, they spoke of self-governance, and necessary steps that could be accomplished without going too far. After saying, “Nobody discussed what kind of economic system Estonia needs, what is suitable...what kind of industry we have in Estonia,” he described establishing a new economic system “a great improvisation” (interview). While the Supreme Council held discussions on liberalization, according to Laar, as they were not very serious, little came of them (interview).

### 4.2.3 Execution

Following his terms as prime minister, Laar wrote that speed was one of the most important aspects of transitional situations, and repeatedly stressed the short period of time available for implementation of reforms, despite the risks inherent in quick decisions. This recollection was echoed by many other interviewees (Laar, 2002). Laar credits “extraordinary politics” with giving the Estonian “government the possibility to take decisions which it could not pass under ‘normal political and economic conditions,’” arguing that the same pension age increase passed in Estonia with little difficulty in 1994 caused protests in Latvia in 1999 (2010, p. 163). As Raig recalled, "There was a very big consensus about what Estonia should do ... market economy ... there was really no opposition ... All parties wanted to ... join the EU, there was no big debate like now," and people felt the same as political parties, which helped speed reforms: "Without this people's support, elites could not implement [reforms] so quickly" (interview).

Transition elites interviewed often said that their goal—a functional market economy—was clear, which enabled them to swiftly conduct reforms before the period of “extraordinary politics” ended. Terk recalled that, “There was such a general understanding which steps are needed to move towards market economy and we tried to do these steps as quickly as possible” (interview). Made used a soccer analogy to describe elite motivations, saying, “You know where the [goal] is, you know you have to put the ball into it, but how do you [do it]?” (Interview). Likewise, Sildmäe recalled the transition as involving “hundreds of quick decisions where you use your intuition, knowledge ... you know ... where you have to be in the end, but how do you get to it?” (Interview). According to Lipstok, "Everybody understood that our next step is to change as quickly as possible our economic system," because "of course everybody understood that market economy is our future," that the move from a planned economy to a market economy would require many steps, and "that we didn't have a lot of time for all of these steps." These initial steps had to be done "very quickly, and if some new understanding or some mistakes happened, we must liquidate these mistakes in the future, but first, we must present all basic laws very quick ... everyone understood this" (interview). Hansson recalled that although Estonia's

“first government was rather a broad-based coalition, center-left, center-right, liberals, conservatives, everybody together,” which led to very long discussions during cabinet meetings, Estonia’s period of “extraordinary politics” made itself felt via a strong shared sense of the national interest and low levels of special interest thinking. This helped the coalition make united decisions and allowed the elite consensus to continue (interview).

Interviewees such as Purju were well aware that there was “a very limited period in a political sense when we could do these big changes,” and sometimes spoke with nostalgia about the ease of passing legislation, with Fjuk recalling that while there was debate, “This was the best time for the [parliament], the best time for parliamentarianism in the world, because ... [what took] normal countries with normal history one century, we had to do in two years ... ‘extraordinary politics.’ And it was a real nice time” (interviews). While several interviewees described how easily and rapidly government ministers set policy, Sildmäe’s account of “extraordinary politics” is especially illustrative:

What is a democracy? ... In these days it was very complicated to say what [a democracy is]. Maybe the best democracy in some cases was completely personal ... undemocratic solutions were the best things for creating democracy, very badly said but meaning that in one stage you had to make not a compromise but an undemocratic basement solution so that democracy was able to start to develop ... when there was no VAT, in ‘93, we sat down ... with Mr. Laar, and we were arguing. “We should have the VAT, what will be the percentages?” Laar said “15,” I said “19,” and when we left, the next day, there was a decree: “Estonia had a VAT, 19%,” and that’s it. No democracy. If we were going to the parliament, or even to the government session, probably [after half a year, Estonia would still have no] VAT. But we were able to take this decision, Laar had the power, we adopted it, and the budget was fulfilled (interview).

Similarly, Hansson said that many issues were worked out informally, with elites sometimes splitting the difference between proposed taxation rates in order to quickly solve an issue and move to the next problem (Hansson).

Transition elites took pride in the speed with which they made decisions after the return to independence, compared to other Baltic states. Raig said that Estonia was



accepted as a leader among the Baltic states, while Nutt, Kukk, and Made claimed that Lithuania, and especially Latvia, waited until Estonia made a decision before deciding on their own reforms (interviews). Madis Üürike, however, argued that cooperation between the Baltic states during the Soviet era has been greatly overstated, saying that they were "very different societies" (interview). Vahtre attributed Estonia's relatively quick decisions to its speedy ratification of a new constitution. This allowed it to start passing new laws quickly, without uncertainty about a new constitution wreaking legal havoc, a fear that delayed crucial changes in the other Baltic states as they worked on their constitutions (interview).

Like Lipstok, other interviewees often noted that mistakes were made, but defended them as an unavoidable aspect of shock therapy. Terk explained that there was no other choice: the "only possibility [was] to do something very quickly. And [elites] did... sometimes correct solutions, sometimes not correct, but they wanted to go ahead and continue with reforms" (interview). Indeed, when asked about the crucial differences in Estonian and Latvian transitional decision-making, Sildmäe explained, with some exaggeration, "We knew that not all of our decisions were right, but we were not afraid to make decisions knowing 20% were incorrect, but 80 were correct ... Latvia [made] ten decisions and maybe eight of them were right, but we [made] 80. This was the difference." However, considering the speed of Latvia's reforms compared to the rest of East and Central Europe, this may have been more of a matter of reckless speed on Estonia's part than Latvian reluctance or timidity (interview). Made said that even by the time Laar took office, there was still much to do, which prevented him from slowing down to analyze the situation, and while mistakes were made in conducting ownership reform, it was necessary to implement it quickly in order to be able to start other reforms (interview). Vahtre used several metaphors to explain the importance of speed to reforms, explaining that, "We had to cut a log in two pieces, and just did it, but now we have a whole institute to measure the log and find the exact center...the more fair you are, the slower, and the more bureaucrats you have." After telling a fairy tale about bears who find cheese, only to be cheated in their quest for equal portions by a sly fox with a knife, Vahtre explained that it was best to "have [the cheese] cut and go on!" (Interview).

This emphasis on heedless speed, one of the trademarks of Estonia's transition, was partially the result of elite contacts with the West, especially Finland. The interviews quoted above clearly demonstrate Finland's motivational effects on Estonian elites. This impact helped create the mental models in which elite goals (especially a market economy) were made clear, allowing a consensus to be readily achieved. Even as other former Soviet Socialist Republics paused or moved more slowly, Estonians pushed ahead towards a future envisioned through Finnish media, and achieved via economic plans which allowed for a market economy, parliamentary democracy, and private property.

The initial moderate steps towards reform inspired many to push for stronger, swifter reforms. The initial transition government, led by Savisaar, tried to combine planned and market economies, a cautious approach that soured many on the possibilities of a gradual approach. This drove Hansson to opine that, in terms of economics, "Savisaar didn't get it," and led Laar to accuse Savisaar of worsening Estonia's economic crisis (2002, pp. 90, 96-97). For example, as described by Vahtre, price controls kept the price of butter so low that merchants held it in storage to await price increases. Savisaar responded by visiting a store with journalists in tow, and revealing that the butter had been hidden away, criticizing the merchants. Hansson also recalled Savisaar having held press conferences in full warehouses in order to bemoan the existence of speculators. Meanwhile, as Estonia's economic crash accelerated, the median salary fell swiftly. The ineffectiveness of this approach was clear to the Supreme Soviet, which chose Vähi as Savisaar's replacement with the understanding that he would push reforms, which Vahtre described as a "collective decision ... [towards] a free market economy." Thus, when faced with the choice between "cheap butter which is not on sale, or ... an expensive one which we can't afford as much as we'd like, but [which] is on sale," Vähi chose the latter, liberating prices, with a resultant increase in the quantity of goods for sale. While Vahtre described stores as filling with goods "immediately," Hansson warned that, although shops have become mythologized as filling with goods shortly after price liberalization, in reality, the process was slower, and "lousy" goods had always been available in abundance (interviews).

Not all agree with this interpretation, however. Fjuk, a former member of Savisaar's Center party, described Savisaar's reforms as successful and part of an ongoing series of

reforms beginning with IME, and conducted with “no big difference in ... tempo,” even before hyperinflation led to a crisis atmosphere, from Savisaar’s having joined the official Planning Committee in 1988, through his time as prime minister, to the second year of Laar’s government. Fjuk also stated that Savisaar was forced to leave office for political reasons, not due to a lack of support from the populace (interview).

As noted by Nørgaard and Johansson, politicians, "With their completely unrealistic views of the Baltic economies ... were unprepared for the difficulties that arose. The economic recession was thus both unexpected and drastic" (1999, p. 147). This resulted in a series of ad hoc decisions made rapidly and with little long-term planning. A common theme in the interviews conducted for this paper is that few saw the measures they were passing as "shock therapy," much less debated a more gradual approach; a sense of crisis prevailed, and elites acted with the primary intention of preventing a total economic collapse, as the poor state of the late Soviet economy became clear, and the effects of the Soviet breakup paralyzed heavy industry (Sildmäe, interview; Savchenko, 2000).

#### **4.2.4 Why “Shock Therapy?”**

Although interview accounts differ to some degree, there seems to have been little debate among transition elites as to the economic measures which had to be taken, regardless of whether elites were part of transitional governments, or in the opposition. While some had a markedly liberal attitude, most elites had little understanding about economic liberalism itself during the transition. Most ideology was linked not to liberalism per se, but to pivoting as far from socialism as possible, as explained earlier by Lauristin. Purju explained that people saw planned economics as a failure and felt a strong need to do something very different. This led elites to focus on increasing private ownership, with liberal economic policy being used as a means of attaining this goal (interview). Nutt demonstrated the transition mentality when he stated that "as Estonia was extreme left ... all that could help us were very radical reforms ... shock therapy" (interview). Indeed, interviewees were generally dismissive of the importance of ideology, with Vahtre noting

that planning was "not so ideological, not so much about the 'Invisible Hand,'" although it was generally agreed that the state should be relatively weak and seek to refrain from interfering in private affairs (interview). Terk also downplayed the importance of ideology, saying that mentality played a greater role, as the old guard was more careful to work more slowly and within the system (interview).

The need to solve basic crises involving shortages of food, energy, and other necessities took precedence over debate involving economic theory, according to Made (interview). Such a focus on crisis management, instead of having the luxury of being able to plan, came up frequently in interviews, and was the main justification given for "shock therapy," with ideological arguments playing a lesser role (Lauristin, interview). Raig said that, "We never thought much about the ideology, and what we were doing, we simply did it" (interview). Terk also had a great deal to say on this topic, calling elite radicalism pragmatic instead of ideological, and downplaying Isamaa's interest in Friedman, saying that Friedman's dogma was not a driving goal; there was no wide debate over economic models, but rather attempts to move towards a "normal market economy." Until independence, there were "no big differences in opinions, no big contradictions," and no talk of economic ideology (interview). Purju agreed, stating that there was never any formal debate between "social democratic versus liberal" measures "in this way," and that Estonia's liberalism was the result of elites hostile to state control and planned economics, and was "spontaneous," versus "theoretical" and "scientific," as is the case today (interview). As Heiki Kranich explained, "The Estonian economy was built [on beliefs]... we knew very well what we didn't want, because [we had] 50 years of it. So we turned it upside-down and believed [that would work] better," and sought a free market with "no limitations" (interview). Rebas noted that political organization was lacking, saying that "the first political parties here were nothing but gangs around certain political figures," which, along with "personal friendships ... constituted society in those days," a lack of party development that was also commented on by Kukk (interviews). After explaining that party platforms were florid, not succinct like modern platforms, and that people ran on their backgrounds, ideals, and personal connections rather than on clear plans and issues, Rebas stated that many of those closest to Laar during his time in power were university friends of

his, and that Estonian politics had only partially modernized, describing today's Center Party as remaining in the old model, centered around Savisaar (interview).

However, some level of ideology was involved—according to Laar, his own personal interest in Friedman came about in part because his books were forbidden, and because, by reading between the lines, one could understand from Soviet media that Margaret Thatcher and Ronald Reagan liked him, which was seen as a good sign. Thus, although he went to Hansson to see if the flat tax was a good idea, he defended it against critics by connecting it to Friedman. While Isamaa lacked economists and relied heavily upon the help of outside experts, it also based many of its reforms on those imposed during the German reunification, on a limited understanding of liberal economics, and on personal contacts with Western leaders (interview). Downplaying the importance of ideology in the overall debate, Terk acknowledged that, after Laar took power, it began to rise in importance as Isamaa, lacking economic experience, and seeking an ideological model to follow, settled on Friedman (interview). Raig agreed, stating that "we needed a model for our understanding, and there was no competing concept" (interview). Several other interviewees confirmed Isamaa's emphasis on Friedman's neoliberal doctrines (interview, Kranich; interview, Nutt; interview, Purju). As usual, Hansson's views were measured, with him recalling that "there was always a bit of ideology," which played some part in policy considerations (interview).

#### **4.2.5 Debate**

Interviewees were in near-universal agreement as to the lack of meaningful debate between those who supported passing neoliberal market reforms as quickly as possible, and those who advocated for slowing the rate of reforms, although Kukk recalled "three or four other economists ... who wanted to force gradual development ... to a market economy," in 1992. Other interviewees, such as Purju, downplayed this debate, suggesting that it was limited to actors such as the managers of large enterprises, or Russophones, or calling it non-existent altogether (interviews). Terk described talk about discussing shock therapy

versus gradualism as "meaningless" (interview).

While gradualism itself had few supporters outside of Center, the main opposition party, the Moderates (the smallest of the three parties within Laar's government, and the precursor of today's Social Democratic Party), did not always go along with its coalition partners. It wanted to slow the pace of reforms, "And also to put more emphasis on the social sector" in following an economic plan it had written, with social programming being its main concern. While its former coalition partners spoke well of its members, Rebas noted that its small size gave it less influence over collective decision-making (interview). Although its first manifesto was liberal, and Raig noted that there was little discussion between parties when the coalition for Laar's first government was created, Rebas described the Moderates as less influenced by the West, and more conservative and willing to work within the system (interviews). As an example of this intra-coalition disunity, the Moderates, like the opposition Center Party, were against the flat tax that Laar passed (Kranich, interview).

In order to better understand the strength of the general policy consensus among transition elites, interviewees were asked about the nature and power of the opposition during the transition. Kukk, a member of the opposition during Laar's government, said that it was difficult to speak of planned consensus, since so many decisions were ad hoc. However, while the opposition, which included his party, was officially against the flat tax, all but 10 MPs voted for the flat tax bill (interview). According to Nutt, the opposition claimed at times that privatization was moving too fast and that people were hurting as a result, but never said the policy was wrong, and itself lacked an alternative program (interview). While many Russophones opposed a free market economy, few were able to vote, they had no ethnic parties to vote for, and the parliament's few Russophonic MPs offered little opposition (Raig, interview; Kranich, interview). Fjuk said that, while there was always opposition, until the end of the 20th century, "There was no real will to change politics or policy. There was a loud and active opposition, but this was only a struggle for power ... [their suggested] programs were really similar [to those of the governments]." He also noted that while the early opposition spoke of making changes, when they did attain power, as during Vähi's government, "There were no changes in policy ... everything was

always the same” (interview).

As Terk recalled, from 1990 on, ministries offered no resistance to reformers, and although there were political contradictions regarding issues such as statehood and restoration, a majority agreed upon a common agenda of economic reform and saw radical privatization as needed, except in the case of big infrastructure such as utilities. For his part, Lipstok said that, when he joined the parliament in 1995, it supported changes made previously, such as privatization, "100%" (interviews). Raig said that, “We’ve been quite successful [because we had] symbolic opposition that was not in power ... in general, people agreed,” while Nutt said that the oppositional leadership was often in agreement with Laar’s government, understanding that it would lead to “a catastrophe if they turned [reforms] back (interviews).

Hansson recalled a “tremendous amount of debate over monetary policy,” which lasted for some time, but which was quickly resolved after independence by the need for a plan of some sort, and said that “many of the people that ended up in power [in Laar’s government] were not so much part of this.” However, much as Kukk described, during the currency reform process, “The distinction between opposition and government kind of melted away ... certainly there was a debate about these issues, but whether they impacted the details” was hard to say (interviews). Likewise, Üürike recalled different schools of thought about what to do and how quickly to move, although this did not affect final decisions (interview).

In contrast to most other interviewees, Laar recalled a "very active political fight" when it came time to pass reforms, which entailed less debate, and more "blocking of parliament," by the opposition, "Which made our life quite hard, because the opposition was quite clear," even despite "extraordinary politics," and even though the opposition had no alternative plans. However, according to Laar, the flat tax passed by "a miracle," with fewer than 10% of MPs voting against it, according to Kukk (interviews). Although Vahtré also recalled “very strong opposition in public opinion, in the press,” he described “no united opposition in” the parliament, and also faulted the opposition for proposing no alternative plans (interview).

#### 4.2.6 The End of “Extraordinary Politics”

Sildmäe described the “extraordinary politics” era as lasting from 1993 to 1996; “Afterwards, it became too democratic ... those people sitting in the parliament [during the transition] didn’t know what democracy was.”<sup>15</sup> Thus, while little attention was paid to political maneuvers initially, it slowly “became possible to argue with these decisions that were made ... politics became more important than the developments themselves” (interview). Vahtre agreed, saying that it became slower to pass bills, bit by bit—though Estonian legislators initially laughed at the slow speed of legislation in Sweden, complexity slowly increased, and as did “time wasting“ and the time required to pass legislation, causing the period of “extraordinary politics“ to wane (interview). For Hansson, extraordinary politics slowly ended “by the mid '90s. I don't think there was more than 2-2.5 years” of “extraordinary politics.” This length of time matched Fjuk's recollection that Estonia saw about two years of “extraordinary politics” (interviews).

By the time the “normal politics” era began, reforms were locked in place—not only major policies, but also more specific programs. Lauristin notes that by 1995, changes could not be turned back—the constitution and major business laws had been settled, although many other states, such as Lithuania, did manage to reverse reforms (interview). For Hansson, Estonia’s post-independence history “is characterized by a lot of continuity ... governments of various stripes have come and gone,” without major changes, adding, “I find it quite surprising that everyone who came to power said ‘we’re going to get rid of the flat tax,’ and then they kept it,” the payroll tax has remained unchanged, and despite 18 years of pressure to increase pensions, “We still have exactly those same rates” (interview). Laar explained this effect by asserting that, although Vähi's publically desired fairly great changes, Vähi himself was quite fond of market economics and could see that Laar's reforms were working, and thus kept in place the reforms of Laar's first government, which

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<sup>15</sup> This demonstrates the tendency noted by Pridham for transition elites to “border on transitional preference for quasi-authoritarian methods (2000, p. 211).



had built upon Vähi's own reforms (interview).

Moderate-to-low planning (if still high for a former Soviet republic), strong elite consensus, and an emphasis on speed, due to internal and external factors (including existent and anticipated economic crises, the knowledge that the period of “extraordinary politics” that had made sweeping changes possible was finite, and prescient fears of a resurgent Russia) led to a series of radical neoliberal reforms which fell within the shock therapy model of reform, even if this was not necessarily meant to be the case. Indeed, few elites were initially familiar with shock therapy, a model only just starting to emerge at the time of transition. After early policy decisions had solidified into norms, many elites retroactively justified their decisions with new evidence. In writings published after his terms as Prime Minister, Laar cites economists to explain the effects of his decisions, retrospectively explaining that “the countries that decided to postpone [economic reforms] simply declined more rapidly, while those that failed to make any market-oriented reforms at all declined into complete collapse (Laar, 2006; Laar, 2010, p. 155).

## CONCLUSION

*"[After my Finnish relative] left Estonia ... I felt like I had made a trip to Finland, because near her our mental space was not Soviet ... Even the jests she made were as a free person. It was my tour, how to be a member of a free society. And later I have wondered, the Iron Curtain, if it was really there? How many small holes there were! We were not as suppressed as we thought ourselves to be in those years. All the main movements, the fashion movements, developments in music and art were repeated here, perhaps a year later, but all this reached us too ... We had all those things on tape recorders ... everything." -Lauri Vahtre (interview).*

When the Baltic states returned to independence in 1991, they faced similar problems, and had very similar means and goals. Yet, within a few years, Estonia had passed and sustained the most radical neoliberal reforms. Rather than an accident of history, this development was partially the result of years of cultural and personal contact beyond the Iron Curtain, especially with Finland, to a degree unknown in the rest of the former Soviet Union. These contacts helped inform, radicalize, and build a neoliberal consensus among the activists who took power during the transitional period of “extraordinary politics” which followed Estonia’s independence. This providing ideal conditions for the implementation of radical changes to Estonia’s economic structure.

Even before independence was attained, Estonia had proven that it was open to change, having been used as an economic and cultural testing ground by Soviet officials. Although many scholars have written of Estonia’s post-Soviet economic prosperity, citing geography, pre-transition economic structures, and post-transition macroeconomic decisions as the reasons for its success, few have focused on the speed of reforms passed, and fewer still have sought to focus on the effects of cultural factors. Supported by the use of extensive elite interviews, I argue that several such overlooked factors played an outsized role in the decisions of Estonia’s transition elites.

Estonia's economic progress was facilitated and strengthened by its strong cultural ties with Finland, which was seen as a "kinship state," with which Estonia had long enjoyed intense cultural contacts and trade relations, eased by the similarities of the Estonian and Finnish languages. While few Estonians were allowed to visit Finland, the majority of the Estonian populace was able to consume Finnish media, especially television. Despite differing television standards, which required Estonians to modify or construct special antennae and television "blocks," and penetration of Finnish signals only as far south as Haapsalu, Rapla, and Rakvere, the majority of the ethnic Estonian populace lived within this area (which includes Tallinn), enabling Finnish television to reach many directly. So strong was the outside world's draw that those unable to watch Finnish television in their homes often travelled north as "television tourists," occasionally filling the roads in anticipation of eagerly-awaited television events. Simultaneously, audio and visual recordings of shows circulated through the grey market, and their stories were passed down by word-of-mouth.

To a lesser extent, other forms of Finnish media also penetrated into Estonia, whether radio signals or samizdat. Finland was also to increase ties through personal contacts, including businessmen looking to trade goods or establish ties should Estonia's market open up, academics presenting at conferences, artists giving performances, and even tourists looking for an exotic locale with cheap beer. Whether due to radio news programs or tourists escaping the Finnish state alcohol monopoly, such Finnish contacts had two effects on the Estonian populace, including the future transition elites: they informed, and they motivated.

One of the most obvious effects of contact with Finland was its breakup of the Soviet monopoly on information. Although Soviet news censored and even outright ignored events embarrassing to authorities, Finnish media provided an alternate means of gathering information, as did conversations with Finnish visitors. When the Singing Revolution began, this source of information served as a mirror, enabling Estonians to keep track of events within the Soviet Union, and how favorable the outside world was to these changes. While most Estonians sought Finnish contacts for their escapist value, they were able to absorb information on what constituted life in a "normal" country all the same.

Speaking with “normal people” and watching depictions of life in a “normal country” served to radicalize Estonians, and the future transition elites in particular, pushing them to further reject the Soviet system, adopt a “market mentality,” and begin to plan for an alternate economic system. While the Balts distinguished themselves amongst their Soviet brethren for their rejection of the Soviet system, Baltic Barometer surveys show that Estonians were the most extreme in this rejection and in favor of a market economy. This helped lead to the creation of the first autonomous semi-market economic plan, IME, and the election of a more radical coalition in the first post-Soviet elections than elsewhere in the former Soviet world. Although the Estonian populace had the same general goals as most transition elites, even in those cases where it was largely hesitant to take political or economic steps, elite consensus was often able to convince voters to act against their initial wishes, or ignore them in a paternalistic fashion.

Learning from the hesitancy of the first, short-lived transitional government of Edgar Savisaar, and forced to deal with a profound economic crisis, Tiit Vähi’s government quickly passed a series of key reforms, such as the establishment of a new currency in one step, that quickly put Estonia on a new heading. Radicalized, and acting with a self-perceived clear mandate, the elected government that followed, led by Mart Laar, rushed to establish a radically neoliberal economic system based upon the writings of Milton Friedman.

In passing their reforms, Vähi and Laar were greatly assisted by the period of “extraordinary politics” during which they governed. Here, a sense of crisis and a rejection of previous regimes allowed leaders to pass sweeping political and economic changes with popular support. Through the use of elite interviews, I uncovered the reasoning behind these changes, the speed at which they were conducted, and how the consensus behind them formed. The speed of these changes relative to other states is visible in annual “Transition Reports” published by the European Bank for Reconstruction and Development, as well as in the EU accession proposals published in 1997, which called for accession negotiations to begin for Estonia, but not the other Baltic states, and explained this inclusion using macroeconomic criteria. Ultimately, while their effects have largely been forgotten, Estonian contacts beyond the Iron Curtain, specifically with Finns and

Finnish media, played a crucial role in informing and motivating Estonia's transitional elites to adopt and sustain radical neoliberal economic policies.

Due to Estonia's unusual openness to economic change and outside influences<sup>16</sup> as a result of its late induction into Communism and tradition of economic experimentation, it was especially open to outside influences, especially Finnish media and personal contacts,<sup>17</sup> to which its future transition elites were especially exposed due to their societal status. Finnish contacts served two purposes: by circumventing the Soviet information monopoly, they brought Estonians information about the outside world's news and economics, while exposing Soviet weaknesses. Simultaneously, by demonstrating the relative prosperity made possible by a market economic model, through means as innocuous as butcher shop advertisements, it belied Soviet claims by showing that capitalism was a valid and even successful economic model, and pushed Estonians towards political autonomy and political reform. To a population already driven by memories of pre-Soviet capitalist prosperity and still feeling the effects of Soviet repression, seeing a successful Finland served to radicalize many. This pushed much of the populace, especially transition elites, to form a consensus in favor of neoliberal reforms conducted as rapidly as possible.<sup>18</sup> Even before independence, these factors made themselves visible through the IME proposal,<sup>19</sup> which provided a foundation for economic planning, and a basis for future economic reforms. Once Estonia regained its independence, it entered a period of "extraordinary politics," in which the populace expected radical change, and was initially willing to suffer in the short-term in order to bring it about, as proven by Baltic Barometer surveys. This effect was magnified by the prospect of looming economic losses, a crisis mentality, the explaining of decisions by elites with imperatives, a sense that capitalism was a "natural" and "legitimate" economic model, and through the portrayal Finland's economic prosperity as an idealized, but still attainable goal. Thus, an under-recognized distal factor, Finnish contact, was able

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<sup>16</sup> An antecedent variable.

<sup>17</sup> This thesis' independent variable.

<sup>18</sup> An intervening variable.

<sup>19</sup> Another intervening variable.

to play a role in Estonia's unusually rapid and sweeping neoliberal reforms following its return to independence.<sup>20</sup>

Although planned economies have become exceedingly rare, the transitions faced by Estonia in rapidly transitioning into an independent, pluralist democracy with a market economy based on private ownership continue to confront other states today. Therefore, Estonia's experiences remain important and worthy of study, even beyond the Baltic Rim. By exploring an oft-overlooked factor in involving cultural contacts with a foreign state in one of Estonia's transitions, this thesis has also lays the groundwork for future historians and political scientists who may seek to explore similar situations and experiences elsewhere.

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<sup>20</sup> This project's dependent variable.

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## **APPENDIX I: INTERVIEWEES**

1: Dr. Liia Hänni – 30/1/2015, Tartu

Astrophysicist, Regional Council of Tartu County chairperson (1991) Ownership Reform Minister (1992-5), E-Governance Academy program director, Congress of Estonia, Estonian Committee, Constitutional Assembly, Supreme Council, parliament (1992-1999).

2: Madis Üürike – 4/2/2015, Tallinn

Swedish émigré, Minister of Finance (1992-4), adviser to Prime Minister (1994-6), adviser to Ministry of Finance (1994-present).

3: Dr. Kalev Kukk – 4/2/2015, Tallinn

Minister of Transport and Communications (1995-6), economic adviser (1990-2), Bank of Estonia fellow (1992), financial adviser to the Prime Minister (2005-14), parliament (1992-2003; 2006-07).

4: Toivo Jürgenson – 5/2/2015, Tallinn

Minister of Economics (1994-5), Minister of Transport and Communications (1999-2002), parliament (1992-2003).

5: Dr. Ivar Raig – 5/2/2015, Tallinn

President of the Estonian Young Economists Club (1983-9), Constitutional Assembly, Estonian Congress, Supreme Soviet, parliament (1992-1995), professor.

6: Dr. Alari Purju – 5/2/2015, Tallinn

Professor, economics/ownership reform adviser



7: Dr. Tiit Made – 18/2/2015, Tallinn

IME co-author, professor, radio/TV presenter, Congress of People's Deputies of the USSR, Supreme Soviet of the USSR, Supreme Council of Estonia, Estonian Congress, Estonian Committee, parliament (1992-9).

8: Andres Lipstok—4/3/2015, Tallinn

Deputy Minister of Finance (1989), Estonian Congress, Governor of Lääne County (1989-94), Minister of Finance (1994-5), Minister of Economics (1995-6), parliament (1995-2005), Chairman of the Bank of Estonia (2005-2012).

9: Dr. Mart Nutt—5/3/2015, Tallinn

Parliament, (1992-2011), professor.

10: Heiki Kranich—5/3/2015, Tallinn

Parliament (1992-9), Bank of Estonia board (1993-8), Minister of Finance (1994), Minister of the Environment (1999-2003), head of Estonian Lottery (2009-Present).

11: Toomas Sildmäe—5/3/2015, Tallinn

Minister of Economics (1993-4), Finest Hotel Group limited company managing director (1989-93), Finest Hotel Group CEO (2006-Present).

12: Dr. Marju Lauristin—14/3/2015, Tartu

Rahvarinne co-founder, Supreme Soviet deputy chairperson, leader of the Estonian Social Democratic Party (1990-5), Estonian Congress, Estonian Committee, Minister for Social Affairs (1992-4), parliament (1992-5; 1999-2003), European Parliament MP (2014-Present), professor.

13: Dr. Erik Terk—20/3/2015, Tallinn

Deputy Minister of Economics (1989-1992), Bank of Estonia supervisory council (1998-2003), professor.

14: Dr. Ardo Hansson—20/3/2015, Tallinn

Second-generation Estonian-American, Ministry of Foreign Affairs advisor (1991-2), Economic Adviser to the Prime Minister (1992-1994; 1997), Monetary Reform Committee member (1992), Supervisory Board of the Bank of Estonia (1993-8), Governor of the Bank of Estonia (2012-Present).

15: Dr. Hain Rebas—21/3/2015, Tartu

Swedish émigré, Estonian Committee, Estonian Congress, Constitutional Assembly, first full-time foreign professor at the University of Tartu following independence, adviser to the Estonian Foreign Ministry, Minister of Defense (1992-3), professor.

16: Ignar Fjuk—23/3/2015, Tallinn

Council of Creative Unions founder, Constitutional Assembly, parliament (1992-2003), radio host, architect.

17: Dr. Lauri Vahtre—24/3/2015, Tallinn

Isamaa co-founder, Congress of Estonia, Constitutional Assembly, parliament (1992-2003; 2007-2011), professor.

18: Dr. Mart Laar—24/3/2015, Tallinn

Prime Minister (1992-4; 1999-2002), Isamaa co-founder, Minister of Defence (2011-2012), Bank of Estonia supervisory head chairman (2013-present), former professor.

## APPENDIX II: INTERVIEW QUESTIONS

Interviews contained the following categories in roughly the order presented:

### **Personal background:**

- "Let's start with your background,"
- (If pertinent) "Why did you enter politics?"

### **Contacts:**

- "What contacts did you have with Finland?"
- "Others outside the Soviet Union?"
- "What contacts did others you worked with have outside the Soviet Union?"

### **Information:**

- "Where did you get economic information or advice?"
- "What about others?"
- "How familiar were you or others with shock therapy?"
- "Market economics?"

### **Planning:**

- "When were post-independence economic plans made?"
- "How specific were they?"
- "To what degree were they followed?"
- "Were the economic reforms carried out mostly pre-planned, ad-hoc/improvised, or a combination?"

### **Consensus:**

- "What were discussions like in different institutions<sup>21</sup> you took part in?"

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<sup>21</sup> "Institutions" refer here to parliaments, planning committees, governments, parties, and ministries.

- "How did discussions differ between institutions and at different times?"
- "What differences did members have?"
- "What role did economic theory or ideology play?"
- "How strong was the opposition?"
- "Who made up the opposition?"
- "Were alternatives discussed, and if so, what were they?"
- "How was reform discussed?"
- "When did the opposition gain power/'normal politics' begin?"

**Media:**

- "What was your personal experience with foreign media?"
- "Finnish television?"
- "What role did foreign media play for others?"
- "What role do you think it played in educating Estonians?"
- "What role do you think it played in economic or political decisions made by Estonians?"

**Conclusion:**

- "Why do you think Estonia conducted more radical neoliberal reforms than the other Baltic states?" (Sometimes rephrased as: "Why did the other Baltic states act differently, economically and politically, than Estonia?")
- "Is there anyone you recommend that I should interview?"

Émigrés interviewed were asked questions about their initial contacts with Estonia instead of their initial contacts with the West, and trained economists received more in-depth economic questions, such as, "To what degree did politicians understand concepts like the flat tax when they were deciding on proposals, and where did they receive information about these concepts?"

### APPENDIX III: EBRD DATA

States	Categories	EBRD Scores													
		Annual scores							Annual totals						
		1989	1990	1991	1992	1993	1994	1995	1989	1990	1991	1992	1993	1994	1995
ESTONIA	Large scale privatisation	1.0	1.0	1.0	1.0	2.0	3.0	4.0	6.0	7.3	8.7	11.7	17.3	20.3	21.3
	Small scale privatisation	1.0	1.0	1.0	2.0	3.0	4.0	4.0							
	Governance & enterprise restructuring	1.0	1.0	1.0	2.0	3.0	3.0	3.0							
	Price liberalisation	1.0	2.3	2.7	2.7	4.3	4.3	4.3							
	Trade & forex system	1.0	1.0	2.0	3.0	3.0	4.0	4.0							
	Competition policy	1.0	1.0	1.0	1.0	2.0	2.0	2.0							
LATVIA	Large scale privatisation	1.0	1.0	1.0	2.0	2.0	2.0	2.0	6.0	6.0	7.7	14.0	16.3	18.3	18.3
	Small scale privatisation	1.0	1.0	1.0	2.0	3.0	4.0	4.0							
	Governance & enterprise restructuring	1.0	1.0	1.0	2.0	2.0	2.0	2.0							
	Price liberalisation	1.0	1.0	2.7	4.0	4.3	4.3	4.3							
	Trade & forex system	1.0	1.0	1.0	2.0	3.0	4.0	4.0							
	Competition policy	1.0	1.0	1.0	2.0	2.0	2.0	2.0							
LITHUANIA	Large scale privatisation	1.0	1.0	1.0	2.0	3.0	3.0	3.0	6.0	7.3	7.7	11.3	17.3	19.0	19.0
	Small scale privatisation	1.0	1.0	1.0	2.7	3.3	4.0	4.0							
	Governance & enterprise restructuring	1.0	1.0	1.0	1.0	2.0	2.0	2.0							
	Price liberalisation	1.0	2.3	2.7	2.7	4.0	4.0	4.0							
	Trade & forex system	1.0	1.0	1.0	2.0	3.0	4.0	4.0							
	Competition policy	1.0	1.0	1.0	1.0	2.0	2.0	2.0							

Source: EBRD, 2014a.